NORD/LB
Die norddeutsche Art.

Norddeutsche Landesbank Girozentrale

Hanover, Braunschweig, Magdeburg

Annual Report 2018

NORD/LB at a Glance

Income Statement	1 Jan. - 31 Dec. 2018 (in € million)	1 Jan. - 31 Dec. 2017 (in € million)	Change (in %)
Net interest income	1 279	1 417	– 10
Net commission income	52	112	– 54
Profit/loss from financial assets at fair value	– 282	341	> 100
Risk provisioning	– 1 893	– 991	– 91
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	31	459	– 93
Profit/loss from hedge accounting	9	13	– 31
Profit/loss from shares in companies	1	47	– 98
Profit/loss from investments accounted for using the equity method	21	38	– 45
Administrative expenses	1 011	1 156	– 13
Other operating result	– 45	29	> 100
Earnings before restructuring, reorganisation and taxes	**– 1 838**	**309**	**> 100**
Restructuring result	– 133	– 85	56
Reorganisation expenses	86	29	> 100
Earnings before taxes	**– 2 057**	**195**	**> 100**
Income taxes	297	60	> 100
Consolidated profit/loss	**– 2 354**	**135**	**> 100**

Key figures	1 Jan. - 31 Dec. 2018 (in %)	1 Jan. - 31 Dec. 2017[1] (in %)	Change (in %)
Cost-Income-Ratio (CIR)	94.8%	48.0%	98
Return-on-Equity (RoE)	-33.3%	3.4%	> 100

Balance sheet figures	31 Dec. 2018 (in € million)	31 Dec. 2017[1] (in € million)	Change (in %)
Total assets	154 012	163 825	– 6
Financial assets at amortised cost	114 041	121 218	– 6
Financial liabilities at amortised cost	133 433	138 823	– 4
Equity	3 404	6 217	– 45

Regulatory key figures	31 Dec. 2018	31 Dec. 2017[2]	Change (in %)
Common equity tier 1 capital (in € million)	3 105	5 804	– 47
Tier 1 capital (in € million)	3 510	6 230	– 44
Tier 2 capital (in € million)	2 308	2 227	4
Own funds (in € million)	5 818	8 457	– 31
Total risk exposure amount (in € million)	45 520	46 813	– 3
Common equity tier 1 capital ratio (in %)	6.82%	12.40%	– 45
Total capital ratio (in %)	12.78%	18.07%	– 29

[1] For individual items, the previous years´s figures have been adjusted, see Note (2) Restatement of previous year´s figures.
[2] Due to a correction of regulatory reporting data in 2018 as of 31 December 2017 the previous year´s figures were adjusted accordingly.

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

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

Introduction by the Chairman of the Managing Board

Dear reader,

For some time now, NORD/LB has been undergoing major changes. With the One Bank transformation programme started in 2017 we have already made considerable progress in the realignment of NORD/LB. We have fundamentally reorganised the entire Group and simplified a large number of processes and structures.

At the same time we have steadily reduced the problematic ship financing portfolio. We are now freeing ourselves from the final bad loans in ship financing. This has, however, resulted in a very painful loss for financial year 2018. This liberation from legacy risks and a capital-boosting programme by our owners will allow the Bank to make a new start, which is expected from us, not least by clients, investors and rating agencies.

We will continue to develop, so as to win over the market with a profitable business model in the long term. In future, NORD/LB will focus even more closely on its original role as a Landesbank (federal state bank) and partner to the savings banks in their home regions. At the same time we are also building on our special strengths in inter-regional business, such as corporate business and project financing in renewable energies and infrastructure. NORD/LB will also have a presence in the capital markets business for institutional customers and the private customer business. We will continue to offer our customers the expertise, reliability and quality they are accustomed to from us. These are the values NORD/LB stand for. And the new NORD/LB will continue to stand for these values in future.

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

Introduction by the Chairman of the Supervisory Board

Dear reader,

NORD/LB has been sailing through turbulent waters in recent years. The burdens from the shipping crisis required a capital-boosting programme for the Bank, which remains profitable and competitive in its other divisions – as these 2018 financial statements demonstrate. The owners of NORD/LB have reached a joint agreement with the Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Girobanks) on a concept to strengthen the Bank’s capital position. It is therefore clear: NORD/LB is remaining a public-sector bank. It will continue to perform its task as a reliable source of financing for medium-sized companies. Lower Saxony attaches importance to having a strong local bank in future.

At the same time, NORD/LB is facing major changes. It is being re-sized and will become more regional. It will concentrate even more on its special strengths. By shrinking and focusing the Bank on its core competences we are contributing to the restructuring of the public-sector banking system in Germany. Above all our objective is to put the Bank on a profitable footing for the long term. We will also pay close attention to risk management. A stable, profitable and robust NORD/LB is in the interests not only of the owners of NORD/LB but also of our clients and investors.

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

Thomas S. Bürkle
Chairman of the Managing Board
Managing Board staff / Investments / Strategy, Legal, Group Organisation / HR, Audit, Communication and Transformation, Compliance / Group Security and Relationship Regional Executive Bremen and Oldenburg

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

Dr. Hinrich Holm
Deputy Chairman of the Managing Board
Markets, Structured Finance, Treasury, Credit Asset Management, Investitionsbank Sachsen-Anhalt and Relationship Saxony-Anhalt and Relationship Asia with branch offices in Singapore and Shanghai

Christoph Schulz
Chairman of the Managing Board of the Braunschweigische Landessparkasse (BLSK)
BLSK Corporate Customers, Private and Commercial Customers at BLSK and NORD/LB, BLSK Retail Management, Network Customers, Corporate Services and Relationship BLSK

Olof Seidel
General Representative, CFO, COO
Finance/Taxes, Group IT, Financial Controlling

Günter Tallner
Corporate Customers, Maritime Industries, Aircraft Finance, Commercial Real Estate, Loan & Business Management and Relationship America with the New York branch office

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Combined Management Report

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 statements and the consolidated financial statements of NORD/LB (including the combined management report) are jointly filed with the operator of the German Federal Gazette 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.de.

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

Realignment of the NORD/LB Group

At the start of 2019 the owners took decisive steps for the future of the NORD/LB Group which will result in a redimensioning of the NORD/LB Group and a realignment of the business model. In February 2019 the Owners' Meeting of NORD/LB gave approval in principle to prioritising a capital-boosting programme at NORD/LB jointly with the Deutscher Sparkassen- und Giroverband e.V.(German Association of Savings Banks and Girobanks). A redimensioned business model and a business plan based on that will gradually be further developed in consultation with the regulator (European Central Bank, German Federal Bank, Federal Financial Supervisory Authority (BaFin)),

The Bank has set itself the goal of reducing the NPL portfolio as much as possible. The capital boosting will make it possible to accelerate the reduction of the non-performing shipping portfolio of around € 7.5 billion (gross, before fair value discount). The first stage was to sell a € 2.6 billion sub-portfolio of ship financing to an external investor. For a further ship financing portfolio with an exposure of € 3.8 billion, the establishment of an internal settlement unit is being examined as a leading option. For the remaining €1.1 billion in the NPL shipping portfolio the essential course of action is to sell individual assets.

The following basic information about the Group describes the business activity in 2018. The newly devised business model is not covered in these explanations.

Business Model

NORD/LB is a public-law institution with legal capacity. 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 (Sparkassenbeteiligungs-zweckverband Mecklenburg-Vorpommern).

The issued capital as at 31 December 2018 amounts to € 1,607 million, as in the prior year with the federal state of Lower Saxony holding 59.13 per cent (of which around 38.11 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 based in Hanover, Braunschweig and Magdeburg and operating beyond this core region with domestic branches in Bremen, Düsseldorf, Hamburg, Munich, Oldenburg, Schwerin and Stuttgart. The branches in the key international 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.

As the Landesbank 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 promotional business on behalf of the federal states through the Investitionsbank Sachsen-Anhalt, Magdeburg (an institution within 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 offers 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

The business activity in 2018 is described below. The changes arising from a redimensioned business model and the business plan based on this are not already covered here.

Private and Commercial Customers
The Private and Commercial Customers segment of NORD/LB covers corporate customers, retail commercial customers, private banking customers, branch advisory customers and service customers, primarily in northern Germany. 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 Braunschweig 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, including fund products (primarily DekaBank Deutsche Girozentrale) and all financial services including insurance, leasing, real-estate brokerage and home savings.

Amongst the wealthier customer groups the extended range of services stretches from award winning asset management and tandem support for corporate customers of BLSK and NORD/LB to banking for entrepreneurs. In Private Banking and in the Corporate Customers segment, the NORD/LB Group positions itself in the respective locations as the first choice in the market.

Asset and portfolio management in capital markets business and wealth management in Bremen are a competence centre in the Group.

Corporate Customers
The NORD/LB Group conducts its corporate customers business in its core North German 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, community-interest property and housing. Turnaround financing for companies with deteriorating credit ratings, financing of corporate acquisitions by private equity companies and leasing offerings complete the range. Since 1 February 2018, leasing, which used to be part of the Energy and Infrastructure segment, has come under Corporate Customers.

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 Group accesses the market for financial market activities requested on behalf of customers. It also has responsibility for distribution to institutional customers and product-specific responsibility for savings banks. This 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. Financial markets products advice and service in other customer groups and/or NORD/LB business areas takes place in Corporate Sales within the Markets segment.

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.

As part of its activities the Markets segment provides retail and capital markets products such as fixed income products including the associated services and lending alternative business to savings banks and regional banks.

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.

NORD/LB Asset Management Holding GmbH in Hanover was renamed Warburg Invest Holding GmbH at the end of 2018 after the sale of 75.1 per cent. Warburg Invest Holding GmbH offers financial instrument administration and management services for institutional customers, especially insurance companies and pension funds. The renamed company is carried at equity in accordance with the 24.9 per cent holding under investments, not in the Markets segment as in the previous year.

Savings Banks and Regional Customers

The Network Customer segment is shown separately for the first time in 2018; it serves the savings banks in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania (publicly-owned savings banks / network savings banks). It also covers transactions with corporate and syndicated customers and municipal customers that are managed in cooperation with the savings banks.

From the NORD/LB perspective the savings banks play three roles: they are customer, owner and provide access to a broad client base. The business with the network savings banks includes the clearing house function, proprietary business, development loan business, transactions with private customers and central services for savings banks. In proprietary business, NORD/LB is the house bank for savings banks for short-term and long-term funding and manages liquidity reserves. In the development loan business, NORD/LB acts as the central forwarding institution for KfW loans in the network region. In the private customer business, NORD/LB is the product supplier for the private customer business and the private banking customers of the savings banks. As part of its central services for savings banks, NORD/LB is active in payments, foreign business, securities transactions, provision of information services and other bundled issues. Syndications are used to place loans across the full range of NORD/LB services with savings banks.

The corporate customer business in the Network Customers segment concentrates on corporate customers served in cooperation and consultation with the savings banks and other syndicated customers in the network region and beyond in order to cover the market jointly. The joint lending business is a measure of the cooperation with the savings banks. The corporate customer business provides traditional banking products and services along with interest rate and currency risk management, the use of innovative financial instruments and foreign business products.

The municipal customers business covers transactions with municipal regional authorities and focuses on the network region and owner states, with a selective and opportunistic product-oriented and supra-regional service approach. In addition to traditional lending NORD/LB offers municipalities holistic advice on all issues relating to municipal financing, derivatives, asset investments, portfolio management and facility management.

Energy and Infrastructure Customers
The remit of this segment covers global business relationships with NORD/LB customers in the infrastructure and energy (in particular renewables) sectors. Since 1 February 2018 leasing, which used to be part of the Energy and Infrastructure segment, has come under Corporate Customers. The central locations of this strategic segment are Hanover, 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 funding.

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 around 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.

Ship Customers / Maritime Industry Customers
This segment, comprising asset-related ship financing and company financing in the maritime industry, 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 [primarily company financing secured with an export credit agency or ECA if necessary are complemented with a range of additional services that make it possible for NORD/LB to offer its customers integrated solutions from one provider. ECA security means a loan is protected by a government export insurer against default due to export risks, e.g. when goods or services are supplied.

NORD/LB has considerably cut back its exposure to shipping due to the long crisis in the sector. In particular, distressed and non-performing exposures where the financing structure was no longer viable have been heavily reduced. To assist in this process, the Shipping Portfolio Optimisation unit (SPO) was set up in 2017 to centralise skills and processes in restructuring and managing distressed, non-performing and potentially endangered shipping loans. SPO is also responsible for reducing the non-performing shipping loan portfolio, focusing on reviewing and implementing major portfolio transactions.

All remaining viable exposures have been grouped in Maritime Industries. This area acquired new business with good margins and relatively low risk in 2018.

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 segment for more than 30 years and has long since been one of the leading providers of commercial aircraft financing. This business segment is based in Hanover, and is supported by other sales units in New York and Singapore.

The range of products embraces both traditional and innovative financing types with a focus on operating leases and portfolio transactions. Alongside credit products, the segment provides structuring 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 Banking Customers
Commercial real estate financing by Deutsche Hypo is pooled with NORD/LB’s maturing holdings in the Real Estate Banking Customers segment. Deutsche Hypo is the competence centre for commercial real estate financing within the Group. Deutsche Hypo also sees itself as a German real estate bank with a European focus and supports its customers in the strategic markets of Germany, UK, France, Benelux, Spain and Poland as a professional and strategic financing partner. 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. Thanks to its standalone market presence, Deutsche Hypo projects itself distinctively in the real estate market and is responsible for new business activity in the NORD/LB Group's commercial real estate financing. NORD/LB generally no longer takes on any new commercial real estate business.

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 shares in companies, 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 department). 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 managed and optimised by the NORD/LB loan book. With the assistance of structured products, the Bank’s risk-reward profile will continue to be improved.

Outline of the Control System

In view of the far reaching steps for the future of the NORD/LB Group, management systems will also be revised. We provide below a description of the management systems in financial year 2018:

The NORD/LB Group's integrated control system offers a comprehensive overview of the Group'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 tool 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.

Profitability management is based on a multi-step contribution margin analysis at Group segment and Group company level. The 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). These key figures continue to represent the most significant financial performance indicators for assessing the performance of Group segments.

Return-on-Equity (RoE)	Earnings before taxes / Long-term equity under commercial law Long-term equity under commercial law = reported equity - OCI (until 2017: 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 assets at fair value + Disposal profit/loss from financial assets that are not measured 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 is a further key indicator of performance. Details regarding the variables used for equity management and the measures taken can be found in the "Equity management" section. 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 funding 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 supplementary to requirements under commercial law. However, more extensive regulatory reporting is provided in a separate disclosure report published on the NORD/LB website (www.nordlb.com/nordlb/investor-relations/reports/).

Risk reporting basically covers all companies in the scope of consolidation as per IFRS 10, also including special purpose entities (SPEs) that have to be consolidated. 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 a risk inventory in accordance with legal requirements. The risk inventory covers 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 financial position (including 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 the most significant category of risk. Market price risk, as an overall category for interest-rate risk, credit-spread risk, currency risk, share-price risk and volatility risk, is also important. Other material types of risk are 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 mostly presented in risk reporting after the application of risk mitigation measures.

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

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

As part of the current risk management structure at the NORD/LB Group, the managing boards of NORD/LB and Deutsche Hypo decided on 30 June 2013 to announce the use of the waiver option by Deutsche Hypo in accordance with § 2a (1) in the version of the German Banking Act applicable at this time. The pre-requisite for this purpose 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 of 2017, 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 internal transformation programme at NORD/LB.

Strategies

Handling risks responsibly is the topmost priority in the NORD/LB Group's business policy. The formulated Group risk strategy provides the strategic framework and sits above the risk strategies of the companies in 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 being of material relevance.

The individual institutional strategies for companies of material relevance are integrated in the NORD/LB Group risk strategy. 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.

The NORD/LB Group risk strategy sets the individual risk types in the business areas using a business area/risk type matrix and associated risk sub-strategies and the rules of allocating risk capital. The risk strategy therefore sets the risk appetite and the approach to material types of risk in order to implement the business model.

Based on the risk inventories 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.

NORD/LB has a Group-wide risk-bearing capacity (RBC) model which acts as a management instrument for the Bank as a whole and is the operating procedure for steering and limiting material risks. In combination with the set escalation procedures the RBC model supports ongoing verification of the adequacy of capital in the context of the Bank's risk appetite framework (RAF). In accordance with section 39 of the ECB Guide to the internal capital adequacy assessment process (ICAAP), the RBC model is based on the assumption of a going concern. To ensure corporate survival, limits to manage economic risks (the economic perspective) are set in such a way that even when they are fully utilised by the economic risk potential the

- external capital requirements under the normative perspective (minimum regulatory capital requirements including the Supervisory Review and Evaluation Process (SREP) plus buffer)
- and internal requirements (risk appetite, risk strategy)

will be met.

In line with this objective, both regulatory and economic risk potential as at period-end dates feed into the RBC model.

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

The purpose of the risk strategies is to ensure all material risk types are managed efficiently and presented in a transparent manner to the 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 or the corresponding documentation of the individual entities.

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 regularly reviewed and amended as required 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 of the institution in question.

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 features 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 respective heads of the specialist departments of NORD/LB and the subsidiaries Deutsche Hypo and NORD/LB Luxembourg.
- **Group Risk Committee:** The Group Risk Committee (GRC) is chaired by the Chief Risk Officer (CRO) of NORD/LB. Management responsibility lies with Direct Report Credit Risk Management (Direct Report = division management). The permanent voting members are the CRO and the Chief Operating Officer (COO) of NORD/LB, plus the Direct Reports Risk Controlling, Credit Risk Management, Special Credit Management, Shipping Portfolio Optimisation (SPO), the Market heads of NORD/LB and the CROs of the subsidiaries Deutsche Hypo and NORD/LB Luxembourg. Where required, representatives of the relevant market divisions participate in the GRC as voting members. By invitation of the chair, further guests may be invited to meetings of the GRC to cover specific issues. The Direct Reports Research/Economy and Compliance/Group Security of NORD/LB take part in the entire GRC meeting as guests. Guests do not generally have a vote. 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) advises the Managing Board on the management of the credit portfolio (including commercial real estate financing at 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. It also discusses and highlights potential implications for the strategy and future business performance. The head of Financial Markets chairs the Credit-ALCO meetings. Further permanent members include the head of Credit Markets, the Chief Risk Officer and the Direct Reports Credit Asset Management, Corporate Customers, Maritime Industries, Aircraft Finance, 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, for example, the One Bank Asset Liability Committee (which discusses investment strategies) and the Risk Round Table (which looks at issues of operational risk and governance and compliance questions).

One of the aims of risk management at the NORD/LB Group is to satisfy the requirements of the Single Supervisory Mechanism (SSM) and the relevant EBA guidelines, as well as MaRisk. The risk management process is subject to constant review and refinement. Any adjustments can include organisational measures, adjustments to procedures for quantifying risk and the continuous updating of relevant parameters.

Risk-oriented and process-independent audits of the effectiveness and adequacy of risk management are carried out by the internal audit units of the individual entities within the NORD/LB Group. As an instrument of the Managing Board, Internal Audit is an independent element of the internal monitoring process. Its primary objectives are to increase and protect the value of the Bank and the Group by adopting a particularly foresighted, risk-oriented and objective approach to auditing, thereby identifying important risks for the Bank and the Group, proactively triggering, monitoring and supporting change processes, and effectively mitigating risks. The internal audit units of the individual institutions have their objectives, tasks, functions and instruments set down in separate audit policies. Group Audit's activities complement those of the subsidiaries' internal audit units. The focus is on Group risk strategy, Group risk-bearing capacity and ICAAP, Group management of counterparty, market, liquidity and operational risk, Group reporting and the proper functioning of the internal audit units at material investments. 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 by New Product Processes (NPP) in the individual institutions of the NORD/LB Group of material relevance, taking account of overall conditions in each case. Consultation between institutions takes place as required.

The primary aim of these new product processes is to analyse and assess all potential risks for the NORD/LB Group before entering into 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 in use since 1 January 2017, known as RACE (risk appetite control engine) has been improved. At the heart of the RBC model for monitoring the risk strategy is regular quantitative comparison of period-end capital ratios with the required target ratios (the normative perspective) and the potential risk from material risks with the capital backing available to cover risks (the economic perspective).

As part of the comparison, and in addition to the aggregate risk analysis, risk-strategy guidelines are monitored in the form of limits at the level of the respective material risk types. The continuous ICAAP is geared towards securing the permanent survival of the NORD/LB Group. The aim is the qualitative and quantitative assessment and securing of capital adequacy using comprehensive short and medium-term assessments from various perspectives.

In line with principle 3 in the ECB ICAAP Guide, the normative and the economic perspective are implemented in RACE as follows:

ICAAP-Guideline	Normative perspective	Economic Perspective	
Implementation in RACE	**Regulatory system**	**Business Case**	**Resolution Case**
Risk potentials	Measurement according to CRR: - Counterparty risk - market-price risk - Operational risk	Counterparty risk: Present value measurement (IFRS view) Market price risk: (a) earnings-oriented risk measurement in respect of banking book positions b) Credit spread risks relating to FV-weighted positions Liquidity risk: Liquidity progress review over the entire term Operational risks: Present value measurement	Counterparty risk: Present value measurement (economic view) Market price risk: Complete present value measurement including all credit spread risks Liquidity risk: Liquidity progress review for 1 year Operational risks: Present value measurement
Risk-covering capital	Differentiated consideration according to CRR: - CET1 capital - core capital - total capital	Differentiated consideration: - CET1 capital - core capital plus dynamic modification items	Aggregated risk cover consisting of: CET1 capital + AT1 capital + T2 capital + Bail In capital plus dynamic modification items

From the interaction between the normative and the economic perspectives required under the ECB ICAAP Guide comes the operational need to incorporate the economic effects via feedback in the normative perspective.

Based on this objective, both regulatory and economic risk potential flow into the RACE model at their period-end values using a consistent 99.9 per cent confidence level and a one-year risk horizon. The optimisation model in RACE calculates the maximum potential risk for each type of risk, subject to the above internal and external constraints. As part of the optimisation process the risk-by-risk assessment is carried out, and compliance with the regulatory capital requirements and the risk strategy requirements is also considered. During the optimisation process the economic risk potential is simulatively steadily increased. This triggers two contrary feedback effects which have a simultaneous impact in RACE as part of the optimisation process.

Effects	Feedback effect 1	Feedback effect 2
Characteristic	reduction of the simulated capital ratios	increase of the simulated target capital requirements
Description	Rising economic risk potentials induce rising normative risk potentials. As a result, the RWA are rising and the simulated capital ratios are falling.	The rising economic risk potential compared with the rising normative risk potential increases the economic overhang as part of risk by risk assessments. This can lead to an increase in the P2R determined in RACE (Pillar 2 requirements of the ECB).

Appropriate organisation of the risk management process at Group level requires the use of consistent risk analysis tools and consistent criteria. Consequently, the methodological structure of RACE is mandatory across the Group.

Deviations by individual institutions (e.g. when parameterising risk factors) are only possible if no Group objectives are endangered and the risk management requirements for the individual institutions are satisfied. Risk-bearing capacity at Group level is a superordinate priority and must always be guaranteed.

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 material NORD/LB Group companies and of the NORD/LB Group.

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 subcategory 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 "Report on the Risk Situation" and the "Finance and Risk Compass", the Managing Board is informed quarterly about the risks associated with the Pfandbrief business. The report produced meets the requirements of § 27 of the Covered Bond Act (Pfandbriefgesetz).

Counterparty Risk
Credit risk and investment risk are combined into counterparty risk in a consolidated view. Both types of risk are simulated fully dependently in a joint counterparty risk model.

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 (advance) 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 in connection with these mitigating factors.

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 formulated an NPL strategy. Under this strategy, portfolios with a significant NPL volume are closely monitored. Currently, this only applies to the ship financing portfolio. The strategic priority for the NPL shipping portfolio was mainly to reduce the volume while preserving value via restructuring, selling ships or re-marketing. The sales of loan portfolios as an additional or alternative course of action to reduce the ship financing portfolio was also considered as a further strategic measure. The NPL strategy was updated in February 2019; the strategic thrust is now to accelerate the reduction of the ship financing portfolio under the responsibility of SPO (Shipping Portfolio Optimisation).

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. Credit Risk Management handles processing for financial institutions including central governments and foreign regional authorities, asset-backed securities (ABS) and corporate bonds. Loans with a rating of 11 on the rating master scale of the German Association of Savings Banks and Girobanks (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 require reporting in this way. The SCM/SPO decides whether it will assume full responsibility, whether coaching will take place or whether the exposure will remain in the Market or CRM Division with intensive support. From a rating of 16 (allocation to IFD risk category of “Default” [non-performing loans]), SCM 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 decision authorisations are classified in accordance with the total liability and rating of the borrower. Credit decisions are essentially taken by an authorised person in a Market division and an authorised person in a Back-Office division (bilateral authorisation). The second vote is taken in units independent of the Market divisions, in accordance with specified criteria. Besides fulfilling the regulatory requirement of functional separation for credit votes, this ensures that credit decisions of high quality are made on the basis of uniform standards.

The Managing Board is responsible for overall control of NORD/LB’s credit portfolio. To this end, the Board consults with the Group Risk Committee (GRC) among others, thereby linking individual credit decisions to portfolio management and ensuring a holistic approach across risk types. For this purpose, the GRC recommends various instruments to the Managing Board; these may include ordering an acquisition stop, limiting country, sector or counterparty-related concentrations or outplacement of exposures or 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.

Targeted management of income and risk in the ship financing portfolio is combined in the Controlling Shipping Portfolio organisational unit. 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.

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 needing turnaround are looked after by Special Credit Management in Deutsche Hypo. 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.

Collateral is assessed for value when a loan is granted and on an ongoing basis thereafter, at least once a year. The going-concern approach is used. When an exposure moves into liquidation, valuation uses a gone-concern scenario. 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. As in previous years, attention was paid to a sustainably good and stable quality of collateral when accepting and monitoring. Other collateral can be contracted with the borrower, but this does not reduce the unsecured part 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, the relevant legal jurisdictions are monitored permanently for changes in legislation or case law that might impact the effectiveness of 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.

During the reporting period, NORD/LB Group did not originate any new securitisations nor did it 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 based on the confidence levels set for the RBC model 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 of specific mutual interdependencies of borrowers, based (for example) on Group structures. In addition to default losses, losses that might be caused by rating migrations are also considered.

Risk quantification methods and procedures are coordinated among the Risk Controlling units of the Group companies of material relevance 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.

Risk Provisioning

Under the IFRS 9 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) are subdivided into three stages, depending on the change in their credit quality since initial recognition. When initially recognised, all relevant financial assets for which objective indications of impairment are not already evident must be allocated to stage 1, regardless of the credit rating of the debtor. The expected losses in this stage equal the present value of the payment defaults expected from potential default events over the next twelve months. If at a subsequent reporting date the Bank determines that the default risk has increased significantly since initial recognition, even though objective indications of impairment do not exist, the Bank must transfer the underlying financial assets from stage 1 to stage 2. In this stage, risk provisioning must be recognised for the present value of the lifetime expected credit loss, taking into account the corresponding probability of default matching the relevant maturity. Where there is an objective indication of impairment on the reporting date the asset is transferred to stage 3 and deemed credit-impaired. In this stage, risk provisioning likewise equals the present value of the lifetime expected credit loss. At NORD/LB, risk provisioning is calculated using an instrument-by-instrument approach.

NORD/LB generally determines risk provisioning in stages 1 and 2 for all relevant financial instruments as the expected credit loss calculated using a parameter-based approach. The statistical parameters input are exposure at default (EaD), probability of default (PD) and loss given default (LGD). As an IRBA institution, NORD/LB uses rating procedures developed in cooperation with other banks. These are, firstly, the rating modules from the RSU Rating Service Unit (RSU), developed by a consortium of Landesbanks, and secondly the procedures supervised by Savings Bank Rating and Risk Systems (SR), a cooperation with the Savings Banks Finance Group. The PD used as the basis for calculating the expected credit loss (ECL) is the internal rating in the credit data set produced by the corresponding rating procedure. For the expected loss ratio in the NORD/LB LGD models data is provided by RSU (non-retail) and SR (retail), from which the required loss ratio can be derived. The basis for the EaD are the expected cash flows in the credit data set (comprising expected interest and redemption payments). Expected loss is calculated at set dates and monthly for each financial instrument. For each credit data set the lifetime expected credit loss (LECL) and the 12-month ECL are calculated.

At stage 3 the expected loss is calculated as the expected loss over the remaining term of the financial instrument. For non-material transactions, calculations use parameter-based procedures; for significant transactions an expert-based estimate is made. For parameter-based procedures, the calculation uses PG, LGD and EaD; with expert-based estimates, loss scenarios and their probability are estimated by experts.

For drawing a distinction between stage 1 and stage 2, the relevant criterion is a significant deterioration in credit quality. At each measurement date a check is made to see if credit quality has significantly deteriorated since first recognition. This is done using quantitative and qualitative criteria.

The quantitative criterion for significant deterioration is measured by comparing the initial probability of default with the probability of default on the measurement date. This comparator, which is shown below, is one-year PD. In line with IFRS 9 B5.5.13 and IFRS 9. B5.5.14, NORD/LB uses a 12-month horizon as an approximation for the change in credit risk over the expected life. An analysis by the Bank looking among other things at the relationship between changes on one-month PD and changes in lifetime PD concluded that using a 12-month metric for transferring from one stage to another was appropriate. It is worth mentioning that lifetime PD does not contain any factors not already included in the 12-month PD.

Assessment of a significant deterioration in credit quality involves among other things comparing a forward one-year PD derived from the PD profile upon initial recognition on the measurement date with the actual one-year PD on that date. When comparing the current PD with the initial PD the PD profiles provided by RSU and SR are used.

To determine a significant deterioration in credit quality the following criteria must all be met:

- Criterion 1: The customer's current one-year PD is at least 30 basis points higher than their initial (forward) one-year PD (absolute change in PD).
- Criterion 2: The customer's current rating is at least 2 notches above the hypothetical rating based on their initial (forward) one-year PD (relative change in PD).
- Criterion 3: The customer's current rating is worse (higher) than it was on initial recognition.

If the above criteria are met and no default criteria apply, allocation to stage 2 takes place based on the qualitative criterion. Otherwise, subject to the consideration of the qualitative criteria, allocation is to stage 1 or, in the event of default, stage 3.

A significant deterioration in credit quality applies if at least one of the qualitative criteria apply. This includes whether payment is more than 30 days in arrears, whether an exposure has been classified on the credit watchlist as sub-standard or worse, or whether it counts as a forbearance or non-performing exposure (NPE) for FINREP reporting. If at least one of the conditions listed are met, transfer to stage 2 is necessary.

In the event of a default, an impairment and allocation to stage 3 are required. The definition of default used by NORD/LB to calculate risk provisioning is based on the requirements of Article 178 of Regulation (EU) 575/2013 (CRR) and the regulatory requirements based thereon. This states that an obligor is regarded as having defaulted if, firstly, NORD/LB considers that it is unlikely to pay its credit obligations to NORD/LB in full without the Bank having to have recourse to realising security or, secondly, if a material credit obligation by the obligor to NORD/LB is more than 90 days past due. The definition of default was chosen to ensure that the internal rating procedure based on it would be recognised by the regulator. This definition of default based on CRR is used consistently within NORD/LB to ensure credit risks are measured and managed uniformly and consistently. The method for transfer between stages implemented at NORD/LB is symmetrical. If a definition of default as defined in Article 178 CRR does not apply on a reporting date, the transaction is transferred back to stage 2, or if none of the above criteria for a significant deterioration in credit quality apply, to stage 1.

For financings, 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) and the risk of insolvency.

It can also happen that the position of NORD/LB improves during the restructuring or liquidation of an exposure (e.g. the restructuring goes well or additional collateral is provided). This may result in partial, or in the best case total, reversal and transfer from stage 3 to stage 1 or 2. The sustainability of the improvement is what counts for the size of the reversal or a transfer between stages. The signs of this improvement must be demonstrable, and in special cases must be documented in the ABIT application.

The specific valuation allowance is quantified as the difference between carrying amount and recoverable amount as the present value of all expected cash flows. This estimate is made for up to three scenarios and then aggregated to a specific valuation allowance taking the estimated probability of default of the scenarios. The expected cash flows may result from principal and/or interest payments plus payments from the liquidation of collateral less liquidation costs. Estimation of the level of loan loss provisions to be formed is frequently based on information that is partially provisional (e.g. planned restructuring of the borrower) or subject to fluctuation (e.g. collateral values of ships and real estate). This increases the uncertainty of estimates in respect of key parameters for loan loss provisions. The greatest uncertainty attaches to the estimate of expected cash flows, which depend on the macroeconomic environment, economic trends, the borrower and the sector. Assumptions made undergo regular review and are adapted to changes in circumstances as necessary.

A receivable is written off if it is regarded as irrecoverable. The irrecoverability therefore defines the timing of the write-off. The write-off must take place within the reporting period in which the receivable is classified as irrecoverable. For receivables that have been terminated and interest reduced to zero, one criterion for assessing irrecoverability is that even though payments are still being made they are so small and unlikely to increase significantly in the near future that recovery cannot be expected within a reasonable period (e.g. ten years). Where a borrower has been granted a waiver or a settlement confirmed by a court has been accepted the receivable must also be derecognised. Further criteria depend on the credit portfolio.

If receivables are assessed as having no value, they are irrecoverable and must be derecognised. It is always possible that such assets may turn out to be of value later. This tends to be the exception, however. In any event, regardless of derecognition and in accordance with the duty of loyalty, all efforts will continue to be made to recover at least a portion of the receivable. Such measures also include enforcement.

Expected losses must be recognised from the time a financial asset is initially recognised. When payment terms or contractual conditions are modified, the credit risk at the time of initial recognition must therefore be compared with the credit risk at the time of the change. This determines if the default risk has increased significantly since initial recognition. If the modification is market-driven, then as a rule no significant rating deterioration can be expected; credit quality may even have improved. This form of modification therefore has no impact on allocation to a particular stage.

When a stage 2 financial instrument is modified it can generally be assumed that the default risk remains high. A check must be made as to whether a significant deterioration in credit quality still applies. This is done by comparing the modified value of the asset on the reporting date with the original default risk of the unchanged asset at the time of initial recognition. All available historic and forward looking information must be used for the analysis. In particular, compliance with the obligation to pay after modification must be assessed. It must therefore be confirmed that the borrower has paid fully and punctually for a certain period before a reduction in default risk can be assumed. Only then is it possible to change stage towards the 12-month ECL. A single payment is not sufficient. As a result, a modified asset in stage 3 cannot be transferred straight to stage 1 after modification. It therefore can only be transferred to stage 2 or kept in stage 3. If a financial instrument classified as a POCI asset is modified but not derecognised, the asset continues to be classified as a POCI asset.

The variables used as inputs for the expected credit loss are determined taking account of the economic environment at present and as expected in the future. In the rating (probability of default) in particular, the credit analysts assess the client’s economic position. This is supported by the rating procedure, depending on the respective methodological approach. The rating information is reviewed annually and as required to ensure it is up to date.

A further component is a change to the PD profile as a result of special macro-economic situations. For a parameter-based estimate of loss under IFRS 9 the parameters must be checked to ensure they suitably reflect forward-looking macro-economic information and are sufficiently plausible. This can be done by including them directly in the economic model or by adjusting the parameters provided.

NORD/LB uses the option of adjusting the parameters provided. This is based on the cyclically neutral PD profiles and changes in the value of real estate collateral supplied by RSU and SR. Multiple probability-weighted macro-economic scenarios from NORD/LB research are used by Risk Controlling to do a quarterly check that the profiles held suitably reflect these forecasts. The check for suitable inclusion of the scenarios in the PD profiles and the changes in the value of real estate collateral is carried out using models developed with RSU and SR. Where they are not sufficiently included, the profiles are adjusted.

Further details can be found in the Notes to the consolidated financial statements in Note (12) – Financial instruments.

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 & Operations 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

NORD/LB has a broadly diversified investment portfolio built up over time with a large number of holdings in various industries. 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. The NORD/LB investment portfolio is focused on banks and financial services companies, along with real estate.

As part of its transformation process the Bank is aiming to focus on its core business, reduce redundancies within the Group, simplify processes and reduce complexity. The general priority of the Bank is reflected in the investment strategy. One of the main objectives is to reduce shareholdings of no strategic benefit for the new realigned business model of the Bank and that do not meet the corresponding expected return. A further aim of the NORD/LB investment strategy is also to secure and improve the market position of the strategic business areas, support the Bank’s business model and build up and extend the market position of certain affiliated companies in a targeted manner. Selective acquisitions may be made to this end and subsidiaries set up.

The investment portfolio is managed to generate value. This uses the concept of value-oriented investment management, actively managing certain companies (making recommendations based on an analysis of the market, peer group and financial data) and active management at the portfolio level (identifying potential candidates for sale and selective additions to the portfolio). Strategically important investments are managed using an integrated approach as part of the value driver strategy. The Group's interests in relation to investments are primarily safeguarded by centrally defined key business indicators or by specifically assigned tasks.

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 Strategy & Transformation, Financial Controlling, 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. The two major investments at NORD/LB (Deutsche Hypo and NORD/LB Luxembourg) had no equity investments as at 31 December 2018. Minor exposures are controlled and supervised by the divisions that initiated the exposure in each case, given their close relationship. This takes place in close cooperation with Investment Management. Information relating to equity investments is handled by Investment Management with support from Finance/Tax.

The 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 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.

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. In the counterparty risk model investment and credit risks are simulated in mutual dependency, in order to take account of concentration risks between risk types.

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

There are significant credit-spread risks across the Group from securities used as part of interest-rate and liquidity management and credit investments in securities and credit derivatives.

From the risk strategy perspective, market-price risk is divided into three blocks:

- The first block is “Trading and Investments” and consists of the market-price risks arising from customer-driven trading, strategic investments for RWA management and credit exposures intended to be placed. It also includes all transactions in the regulatory trading book and internal transactions with the second block.

- The second block is "Treasury and Bank Management" and comprises the market-price risk on interest-rate and liquidity investments and on investing assessment interest-rate positions. The risks in this block therefore lie solely in interest-rate risks in the banking book and the credit-spread risks and currency risks taken as part of interest-rate and liquidity risk management.
- The third block contains the remaining risks from central measurement effects arising from IFRS accounting. This contains measurement effects not included in blocks one and two from interest-rate movements not removed by hedge accounting, with a special focus on the measurement effects from cross-currency spreads and pension commitments. Block three also has credit spread effects from miscellaneous items recognised at fair value and credit valuation adjustment (CVA) risks.

Structure and Organisation

The trading divisions of Treasury, Markets and Credit Asset Management (CAM) are responsible for managing market-price 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-price risks is supported by the NORD/LB Group One Bank Asset Liability Committee (ALCO). The ALCO is an advisory body for Managing Board members in the Financial Markets units of NORD/LB Group that meets monthly. It supports strategic management of market-price and liquidity positions as well as management of investment portfolios with the aim of optimising profitability. 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 ALCO, the Direct Reports Treasury, Bank, Markets, Finance/Tax, Financial Controlling, Research, Credit Asset Management and the departmental management of Financial Market Risk Controlling, the Managing Board of Braunschweigische Landessparkasse (BLSK) and the Managing Board members and divisional heads responsible for the Treasury units at Deutsche Hypothekenbank and the NORD/LB Covered Bond Bank. As required, guests may be invited to attend the meetings while individual agenda items are discussed.

Market-price risks are monitored by Risk Controlling which, in accordance with MaRisk, operates independently of the divisions responsible for market-price 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-price 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.

Control and Monitoring

The management approach used at the NORD/LB Group to manage market-price risk focuses on both present value and income. Under the Resolution Case, market-price risk is calculated and measured using an economic present value approach, whereas under the Business Case perspective the aim is to measure and manage those market-price risks which can affect the capital ratios of the NORD/LB Group through the

IFRS income statement and other comprehensive income (OCI). The interest-rate risks in the banking book are an integral part of market-price risk, but are subject to special modelling, limitation and management requirements.

For the “Trading and Investments” block, risks are managed by IFRS categorisation using only a fair value-based, present value approach. For the “Treasury and Bank Management” block there is the present value approach in the Resolution Case, with modelling of pension and assistance commitments, and also the Business Case, with an income-based approach that considers net interest income over the next 12 months and the measurement effects from credit spreads and exchange rates. With the exception of CVA risks and loans recognised at fair value, the risks in the “Central Measurement Effects (IFRS)” block are also managed using a fair value-based present value approach but are only relevant in the Business Case.

Various operating limits and sub-limits are derived from the RBC limits of the NORD/LB Group specifically for the risks in the first two blocks; these are unambiguously allocated to NORD/LB Group Trading and Treasury divisions responsible for risk management and limit both present value risk in the form of value at risk (VaR) limits and income-oriented risk in the form of earnings at risk limits.

The limits for market-price risk are measured in such a way to guarantee support for customer business and overall bank management in line with trading strategy. The operating limits also cover the risks resulting from the equity investment strategy in block two agreed by the Managing Board, which is reviewed at least once a year by ALCO. The risks in block three are limited indirectly by RTC limits at the NORD/LB Group level.

Assessment

The VaR indicators are calculated daily using the historical simulation method across the Group. On the last day of each quarter, a 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. When setting operating limits for market-price risk the VaR calculation generally uses other parameters, e.g. a 95 per cent confidence level and a one trading-day holding period for daily monitoring of the trading book. The 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-price 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

In the companies of the NORD/LB Group of material relevance, the local risk control units, which are independent of the divisions managing the positions, report daily to the relevant department head on market-price risk in the “Trading and Investments” block, weekly/monthly on the market-price risk in the “Treasury and Bank Management” block and quarterly on the market-price risk in the “Central Measurement Effects (IFRS)” block.

NORD/LB’s Managing Board is informed in detail once per quarter about the market-price 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 funding risk, which is explicitly relevant for an institution's long-term liquidity situation and is crucial in case of liquidity gaps, there can also be a “reinvestment risk” if future liquidity surpluses are present. But this does not lead to a traditional liquidity risk (in the sense of a future risk of inability to pay), instead, under certain circumstances it can merely have a negative impact on future earnings if it is subsequently not possible to service costs under liabilities from assets. Risk drivers for reinvestment risk can also include the liquidity spread if it is assumed that this is passed over to assets. The focus here is on the entire range of maturities. Model assumptions are made for positions without any fixed maturities. By considering individual currencies in the liquidity risk, spread risks from cross-currency swaps are also taken into account implicitly in the liquidity-spread risk. Securities are modelled in accordance with their liquidity category, so market liquidity risks are also implicitly considered. Market-liquidity risk defines the potential losses to be borne if transactions need to be concluded at conditions which are not in line with the fair market value due to a lack of liquidity in individual market segments. NORD/LB's understanding is that placement risk is also part of liquidity risk. This describes the risk that own issues on the market cannot be placed at all, or only under worse conditions.

Strategy

Securing liquidity at all times is strategically essential for 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. Diversification of funding sources is also strengthened by Pfandbrief issues and retail deposits.

Structure and Organisation

In addition to Treasury, the Markets division and Risk Controlling are also integrated into NORD/LB's liquidity-risk management process.

Treasury is responsible for managing positions carrying liquidity risks and 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 ALCO. In addition, it reports to this committee on the liquidity-spread risk and issues recommendations for action regarding ongoing strategic 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 funding opportunities, assumptions are made in accordance with the market situation and are subject to regular validation.

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

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

Market-liquidity risks are implicitly considered by classifying securities according to market liquidity in the liquidity maturity balance sheet. On the basis of a detailed security category concept, securities are allocated – according to their degree of liquidity – to one of nine main categories with one to eight subcategories (e.g. by central bank eligibility and rating) and broken down by eligibility for repo (where required for collateral that cannot be discounted at a central bank). 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, including assumptions about new business and funding. These are stressed until they reflect a crisis. For example, reduced position liquidities and increased utilisation of credit commitments are presumed. The stress scenarios can present the impact of unexpected events on the Group's liquidity situation. This facilitates foresighted planning and preparations for emergencies.

The key importance of market liquidity for all securities held is factored into stress scenario analysis. In addition, the credit-spread risks for all securities are considered when calculating market-price 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”, “Report on the Risk Situation” and “Monthly Liquidity Risk Report” 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 quarterly 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 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, information security 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).

Three lines of defence model

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

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

Control and monitoring

Risk identification	Assessment	Reporting

// Detriment cases
// Self-assessment
// Risk indicators
	// Risk matrix
	// Scenario analysis
	// OpVaR-model
		// Integrated governance OpRisk & compliance report

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

An annual, integrated self-assessment is designed to help identify future developments at an early stage by utilising expert know-how. The assessment includes 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 analysis 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, 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 as a matter of priority. 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, information security, 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 a 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.

As a matter of principle NORD/LB has implemented accounting processes that are organisationally independent. These have their own accounting-related controlling activities.

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 analysis 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.

Reputational 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 shadow 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/Group Security 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 among others 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. A 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.

Group Economic Report

General Economic and Industry-Specific Environment

Global Economic Environment
Global momentum gradually slowed over the course of 2018, and towards the end of the year in particular sentiment fell significantly in the major economies. This came against a backdrop of various global risks, such as US trade policy, Brexit and the new government in Italy. For the year as a whole though, world economic growth was very solid, with a 3.7 per cent rise in real gross domestic product. In the USA real growth actually accelerated to 2.9 per cent, whereas growth in China and the eurozone began to slow down.

In 2018 the eurozone was unable to keep up the previous very dynamic trend and in fact the upturn became increasingly slow as the year progressed. Real gross domestic product in the single-currency area expanded by 1.8 per cent in 2018. This was the lowest rate of growth for four years. Support came from the sustained decline in unemployment and the matching rise in employment. At the mid-point of the year the unemployment rate fell to 8.2 per cent. The higher inflation rate, which exceeded 2.0 per cent at times, put a brake on the rise in real incomes, however.

In Germany the fall-off in economic growth was somewhat more pronounced. Real gross domestic product grew by 1.4 per cent over the year as a whole. That was the slowest growth for five years. The German economy suffered particularly in 2018 from the deepening gloom in the global economic climate as a result of the global risk factors. The impact of the trade conflicts and forthcoming Brexit hurt German exporters.

Domestic demand was the key support for growth, even though consumption was weaker than expected. The labour market also continued to perform well: the number of people in employment rose by 1.3 per cent in 2018 and the unemployment rate fell to 5.2 per cent. Investment was very strong despite the high level of uncertainty, but net exports made a negative contribution to growth.

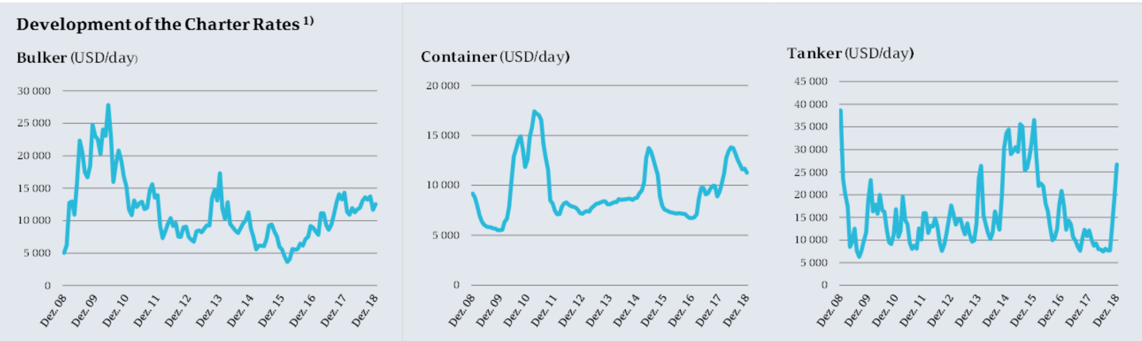
The increased global uncertainty was reflected in the capital markets. The German DAX equity index lost more than 18 per cent over the year, closing at 10,559. Monetary policy remained very loose. The Federal Reserve raised interest rates by 25 basis points four times in 2018, and also continued to reduce its balance sheet. In the eurozone the European Central Bank (ECB) stuck to its very expansive monetary policy. although it allowed its net purchases of bonds under the extended asset purchasing programme to expire at the end of the year. However, maturing issues in the programme will still be reinvested in full. Key rates remained at historic lows and even the forward guidance was only adjusted marginally over the past year. In the USA, Treasuries temporarily went over the 3 per cent level but did not stay there. European capital market interest rates trended downwards in 2018, having initially continued to rise in the first half of the year. The yield on 10-year German government bonds reached a high for the year of just over 0.80 per cent in February. In May and at the end of the year, though, the uncertainty drove investors to safe havens, pushing the Bund yield down to around 0.20 per cent.

Money market rates for the euro have remained almost constantly in negative territory. The dollar benefited from the greater tightening in US monetary policy and the larger growth differential in the previous year. The single European currency fell sharply and stood at 1.15 to the USD at the end of the year. The EUR/USD basis swap spread narrowed markedly over the year in all maturities to -10 to -15 basis points.

Finance Sector
The European banking sector has had to deal with deep cuts in recent years. 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. 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. Positive economic performance in the eurozone and looser lending standards meant that both new lending and credit volume overall rose. Only countries on the periphery of the eurozone (including Spain, Italy and Portugal) continue to see falling lending volumes, although the rates of decline are slowing down. This is due in part to the disproportionately sharp decline in risk-weighted assets (RWA). All in all, the main credit rating data for the European banking market improved. The Common Equity Tier 1 capital ratio, the NPL ratio and the coverage ratio all improved. Return on equity (RoE) also rose slightly. The drivers for this were improved commission income and reduced risk costs. The trend was supported by the better economic environment, but interest income fell due to the competitive market environment. The European banking sector continues to face major challenges. In addition to ongoing digitalisation forcing established banks to make major investments and hence increasing pressure on costs, there are also political risks (Brexit, governments critical of the EU (among others in Italy), intercontinental trade conflicts and protectionist tendencies) creating uncertainties for the banking market. In addition, funding costs will rise due to regulatory requirements and as ECB programmes come to an end.

Shipping



[1] Source: Clarkson Research Services Limited 2018; ClarkSea Index: Weighted average of major types of vessel

The shipping market once again saw divergent performance in the core sectors in 2018.

Global demand for containers improved year on year, despite the emergence of tensions between the USA and China. The charter market benefited considerably from this in the first half of the year. However, rising bunker costs, high numbers of deliveries (1.3 million twenty-foot equivalent units or TEUs, around 85 per cent of them large container ships with a capacity of at least 10,000 TEUs) and ongoing competitive pressure increasingly weighed on shipping lines. The significant fall in scrapping of old tonnage combined with weakening follow-up orders then led to excess supply from the middle of the year and charter rates corrected. This in turn resulted in rising numbers of semi-trailers. Towards the end of the year, 2.8 per cent of containers were not being used (previous year: 2.0 per cent). Charter rates moved more or less around the level at which they started the year.

The bulker sector saw a very similar performance to containers in 2018. At the start of the third quarter the Baltic Dry Index rose to 1,774 points after a sharp correction in the benchmark in April 2018. But it ended the year at 1,271 - slightly below the starting level of 1,366. Low orders in the past years of crisis again helped supply. New tonnage delivered was 28 million deadweight tonnes (dwt), the lowest level since 2008. Scrappage was only around 4 million dwt, the low level seen before the crisis, but even so the bulker fleet only grew by 2.9 per cent over the year. Demand stalled in the second half, however. Rising uncertainty about the impact of the trade disputes between the USA and China and lower demand for iron ore and coal in China had an impact.

The performance of the tanker sector was the opposite of that seen in containers and bulkers. The first half saw overcapacity, but from then on a recovery set in. The flood of deliveries slowed compared to last year and scrappage rose sharply. 2018 fleet growth was therefore much less overall than in the previous year. Higher US oil exports and increased Chinese imports supported the demand for tanker tonnage. Both the spot and charter markets benefited.

Aircraft

According to the calculations of the International Air Transport Association (IATA), global passenger numbers (RPK, revenue passenger kilometres) increased by 6.5 per cent year-on-year in 2018, despite increasing signs of a slowdown in global economic growth. The growth rates were 6.3 per cent for international traffic and 7.0 per cent for domestic traffic. There were clear geographical differences in these transport trends. Above-average performance was reported for passenger traffic in the Asia/Pacific region (+8.6 per cent). Africa (+2.4 per cent) and the Middle East (+4.0 per cent), by contrast, saw below-average growth.

The number of freight tonne kilometres (FTK) sold grew by 3.5 per cent year-on-year in 2018. The main growth drivers were air freight companies in North and Latin America. All in all, growth rates have fallen considerably following the strong showing in 2017.

Real Estate

The market environment in 2018 was marked by growing political and economic uncertainties. Even so, the total volume of commercial real estate transactions beat expectations and hit a new record of USD 733 billion. That was equivalent to a 4 per cent increase year-on-year.

European real estate markets benefited in 2018 from predominantly favourable economic conditions and sustained low interest rates. Commercial transaction volumes did not quite match the level of the previous year, however, at USD 293 billion (down 6 per cent). Performance in the European markets was very uneven. The United Kingdom saw falling volumes due to Brexit, while Germany and France enjoyed further increases.

Given the good economic conditions overall, the positive performance of the German commercial real estate investment market continued in 2018. Sustained low interest rates again ensured a high level of investor interest in real estate. The volume of commercial real estate transactions has been climbing continuously since 2010. A new record of roughly € 60.3 billion was achieved in 2018. This is equivalent to a tripling since 2010 and growth of around 6.2 per cent compared to 2017. The available supply declined further, while prices rose again. Investors continued to focus on the Big 7 (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart), which together account for more than half of all transaction volume. Office properties are still the most popular asset class, with a transaction volume of roughly € 29 billion (previous year: € 24.9 billion) and a share of 48 per cent. In second place came retail properties, where transaction volumes fell again to around € 10.5 billion in 2018 (previous year: € 11.4 billion) and the share was 17.4 per cent. Logistics properties once again took third place, with a transaction volume of roughly € 7.5 billion, the second-best result ever (previous year: € 8.7 billion).

Significant Events in the Financial Year

An agreement to transfer a shipping sub-portfolio to an external investor was signed in early 2019, with the aim of accelerating the reduction of the non-performing shipping financing portfolio. The expected loss to be recognised on the disposal of this sub-portfolio and adjusted risk provisioning on other ship financings resulted in considerable additional risk provisioning and hence a considerable annual loss for 2018.

Regulatory requirements regarding minimum capital

According to Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), NORD/LB must comply with legally prescribed minimum equity ratios for the 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 numerator is the relevant equity ratio and the denominator is the relevant total risk exposure amount according to Art. 92 para. 3 CRR.

In addition to the statutory minimum equity ratios, the European Central Bank (ECB), as the supervisory authority responsible for NORD/LB, imposes individual minimum equity ratios on NORD/LB at Group level as part of the Supervisory review and Evaluation Process (SREP). In 2018, this requirement applied to the total capital ratio and was 10.5 per cent. This requirement comprises the legal minimum total capital ratio as per CRR of 8.0 per cent and an additional 2.5 per cent consisting entirely of Common Equity Tier 1 capital (the so-called “Pillar 2 Requirement”, or P2R).

In addition, in 2018 the Bank was required to maintain a combined capital buffer of around 2.60 per cent, comprising the statutory capital buffer of 1.875 per cent, an institution-specific anti-cyclical buffer weighted for all lending of around 0.07 per cent and – because it is a systemically important bank – a capital buffer for other systemically important institutions of 0.66 per cent. Overall the individual minimum total capital ratio in 2018 was around 13.10 per cent.

Because both the P2R requirement and the combined capital buffer requirement have to be covered by Common Equity Tier 1 capital, in 2018 the Bank had to maintain an individual Common Equity Tier 1 capital ratio of around 9.6 per cent (= minimum capital ratio pursuant to CRR of 4.5 per cent + additional requirement of 2.5 per cent + combined capital buffer requirement of around 2.6 per cent).

The following table shows an overview of the NORD/LB Group’s minimum supervisory capital requirements in 2018:

(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)	2.50%	2.50%	2.50%
	7.00%	**8.50%**	**10.50%**
Capital conservation buffer (§ 10c KWG)	1.875%	1.875%	1.875%
Countercyclical capital buffer (§ 10d KWG)	0.068%	0.068%	0.068%
Capital buffer for otherwise system relevance (§ 10g KWG)	0.66%	0.66%	0.66%
Total requirement	**9.60%**	**11.10%**	**13.10%**
31 Dec. 2018	**6.82%**	**7.71%**	**12.78%**

Starting from 1 March 2019, the combined capital buffer requirement will increase to around 3.57 per cent, as the capital conservation buffer will rise to 2.5 per cent and the capital buffer for other systemically important institutions to 1.0 per cent. As a result, the minimum Common Equity Tier 1 capital ratio will increase to around 10.57 per cent and the total capital ratio to around 14.07 per cent in 2019.

In addition to the minimum supervisory equity ratios, NORD/LB was also set a minimum MREL ratio at Group level during the year by the Single Resolution Board, the EU authority responsible for winding up banks and securities firms. MREL stands for minimum requirement for own funds and eligible liabilities which banks in the EU are obliged under Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) to hold as a buffer for losses and recapitalisation in the event resolution is required. The minimum MREL ratio for NORD/LB is 9.13 per cent: this is obtained by dividing equity and MREL qualifying liabilities by the sum of equity and all liabilities.

Changes in regulatory equity and strategies to boost it
NORD/LB complied with the regulatory minimum equity ratios in 2018. As at the reporting date, however, the minimum equity ratios were not met, in some cases by a large margin (for details see also Note (69) Regulatory Data in the Consolidated Notes).

The main driver behind this shortfall was the substantial loss for the year after tax under IFRS, which under the rules in the CRR wiped out almost all Common Equity Tier 1 capital as at the reporting date. NORD/LB had already disclosed the level of this loss and its likely negative impact in the Common Equity Tier 1capital ratio in an ad hoc announcement on 2 February 2019.

This loss after taxes was mainly caused by additional risk provisioning for non-performing shipping loans. During the year under review NORD/LB held intensive discussions with investors about large-scale sales of non-performing shipping loans. The purchase agreements for a portfolio with a nominal value of € 2.6 billion were signed in early February 2019. The prices bid by the investors were however in some cases well below the previous carrying values of the shipping loans, making additional loan loss provisions necessary during the year equal to the difference between the carrying values and the purchases prices. Given the further reduction activities initiated, the risk provisions for the remaining non-performing shipping loans were also increased.

The banking regulator was therefore informed by the Bank that it was expecting to fall below the minimal capital ratios required and was involved in the planning by the Bank's owners for measures to boost capital and improve the regulatory equity ratios, which took place at the same time as the negotiations on the shipping loan sales.

As a result the current owners of NORD/LB and the German Association of Savings Banks and Girobanks reached an agreement in early February 2019 on capital-strengthening measures for the Bank. These will comprise a capital relief of at least € 3.5 billion to be conducted during 2019. The original intention had been to implement these measures before the end of the year under review and hence before it became necessary to take the additional risk provisioning, thereby avoiding falling below the minimum equity ratios.

Because the minimum equity ratios were not met on the reporting date, in accordance with § 10i KWG in February 2019 NORD/LB was obliged to demonstrate a maximum distributable amount (MDA) from the 2018 results and submit a capital preservation plan. Under § 10i KWG, because the minimum equity ratios are not met, it is arithmetically not possible to make any distributions that depend on profit, such as dividends or servicing Additional Tier 1 capital instruments. The capital preservation plan to be approved by the banking regulator contains a detailed schedule showing the counter-measures for again meeting the minimum equity ratios. At the time the capital preservation plan was submitted these counter-measures were largely in place as far as content is concerned, in the form of the above measures agreed to raise capital. The banking regulator has at present still not given its final formal approval to the capital preservation plan. Subject to approval, which the Bank expects, with the implementation of the measures contained in the capital preservation plan the Bank's regulatory equity ratios will again exceed the minimum equity ratios by a healthy margin. In 2019 the Bank is aiming for a Common Equity Tier 1 capital ratio of at least 14 per cent.

The MREL ratio in the year under review was only slightly affected by this development, as the major element in the MREL-qualifying capital at NORD/LB currently consists of unsecured and unstructured senior bonds and promissory notes issued in the past. MREL were over € 30 billion at 31 December 2018. Total liabilities and own funds (TOLF) were around € 153 billion. This gives a MREL ratio in a range of between 19.7 % and 19.9 %. The regulatory requirement of 9.13 % is therefore met comfortably.

Reduction of the ship financing portfolio

The receivables held on the balance sheet in the shipping portfolio fell again during financial year 2018 as borrowers sold more ships and workout measures were implemented. Allowing for planned portfolio transactions when measuring the shipping loans held results in a further material decline in the net carrying amount of the portfolio. In addition, some of the balance sheet shrinkage of the NPL portfolio compared to the end of 2017 was the result of fair value measurement under the initial application of IFRS 9 on 1 January 2018 of certain shipping loans previously recognised at cost.

The NORD/LB Group is focused on reducing the non-performing shipping loan portfolio in the short term. This was decided in the NPL strategy of the NORD/LB Managing Board in January 2018. The strategic priority for the NPL shipping portfolio was mainly to reduce the volume while preserving value via restructuring, selling ships or re-marketing. The NPL strategy was updated on an ad hoc basis in summer 2018. The sales of loan portfolios as an additional or alternative course of action to reduce the ship financing portfolio was included as a further strategic measure. The reduction of ship financing portfolios in the amount of € 2.6 billion and € 3.8 billion (gross before fair value discount) was further advanced in the second half of 2018 inintensive negotiations. The negotiations resulted in signing of the sale agreement in early February 2019 for a portfolio with gross exposure of € 2.6 billion. As the purchase price paid by the investor is less than the previous net carrying amount of the shipping loans, this valuation resulted in a need to recognise additional risk provisions. The NORD/LB Group set aside significant additional risk provisioning for the ship financing portfolio as at the reporting date equivalent to the different between the purchase price and the previous carrying amounts. Risk provisioning for the remaining NPL shipping portfolio was also increased considerably, in view of the reduction measures under way.

The NPL strategy was updated accordingly in February 2019; the strategic thrust is now to run down the ship financing portfolio managed by SPO (Shipping Portfolio Optimisation) as far as possible during the course of 2019.

Transformation Programme One Bank

The Group-wide transformation programme One Bank, which begun in 2017, continued according to plan in 2018. The programme involves the realignment of the business model which in future should focus even more closely than before on the Group’s core business segments. An operational model adapted to the new realigned business model aims to optimise processes and IT applications on a cross-departmental basis, with the focus on value-enhancing activities. In addition to the well advanced integration of Bremer

Landesbank into NORD/LB, the One Bank transformation programme also includes researching further cost-cutting potential within the Group structure. The programme aims to sustainably reduce costs by € 200 million by the end of 2020 and eliminate up to 1,250 positions in the NORD/LB Group. As far as possible, staff reductions are to be implemented on a socially responsible basis.

The full technical, staff and procedural integration of Bremer Landesbank (BLB) into NORD/LB as a result of the merger is being implemented gradually by means of an internal transformation process. This saw a total of 2,778 former BLB customers transferred to the NORD/LB systems through migration or new business. The migration of the ship financing portfolio was successfully implemented. In addition, OTC derivatives with a volume of € 15.4 billion were also successfully migrated. Work has also started on bringing technical infrastructure into line and archiving BLB applications. A key step was the implementation of the first interim organisation on 1 February 2018. The former BLB organisational units were integrated into NORD/LB's organisational structure. Further adaptations were made to these interim organisational structures to achieve full integration on 1 July 2018.

The design of further outstanding measures to capture potential synergies and reduce staff and material costs by € 200 million was almost fully complete by the end of the year. In connection with the restructuring, material costs are to be reduced and staffing measures will be utilised to leverage synergy effects. 2018 saw further voluntary severance agreements entered into on the basis of the 2017 safeguarding agreement concluded with the General Staff Council. The staff reduction target connected with the integration of BLB of 420 jobs in the first wave of cuts was almost achieved. The second wave of cuts started in November 2018 with the aim of reducing staffing by around 455 FTEs (full-time equivalents). The reduction of a further 400 or so FTEs in the NORD/LB Group has been backed up by a programme. The launch of the corresponding human resources implementation for 235 FTEs at NORD/LB AöR is planned for 1 April 2019.

Based on the existing project planning for the One Bank transformation programme, implementation of the majority of the measures to realign the Bank will start in 2019. The initiative to optimise the credit process in both the retail and the wholesale segments plays a central part. The design for both sub-strands has been completed successfully. Implementation is expected to take place in stages starting in the first quarter of 2019. Various IT dependencies and the need for corresponding digital support function mean that close integration with the measures due under the OneIT initiative is essential. The OneIT initiative is about realigning Group IT. Forward-looking decisions related to material costs and staff in this area were taken in the second half of 2018. The corresponding measures will gradually be implemented in 2019. The final design of this initiative will be completed in mid-2019.

In order to identify further cost-cutting opportunities within the Group, initiatives were launched in 2018 to analyse and capture potential synergies in the subsidiaries Deutsche Hypo and NORD/LB Luxembourg. Implementation has already started at Deutsche Hypo. Some of the measures are also already being implemented at NORD/LB Luxembourg, and the final design for others should be completed by mid-2019.

In order to achieve the cost reduction effects planned in the One Bank transformation programme, Group restructuring expenses were taken into account when setting aside provisions for reorganisation measures. The full impact of the synergy effects will only be felt when the measures in the One Bank programme have been completed.

Servicing and performance of capital instruments

In addition to reporting a consolidated loss after taxes under IFRS, NORD/LB is also reporting a significant loss after tax for the year at the individual institution level under the German Commercial Code. The losses after tax at individual institution and consolidated level have an impact on the servicing and valuation of some of the capital instruments issued by NORD/LB.

Instruments that permanently rank as additional Tier 1 capital (AT1) under the CRR will not be serviced from the results for 2018. This is firstly because the minimum equity ratios are not met under § 10i KWG as explained above, and secondly on contractual grounds due to insufficient available distributable items (ADI).

This has the following negative impact on silent partner contributions: The loss after tax at the individual institution level, taking account of the profit brought forward from the prior year, led to a net accumulated loss according to the German Commercial Code. As a consequence, the contractually agreed interest for silent partner contributions will not be paid for 2018. Furthermore, in accordance with the German Commercial Code, on the reporting date the silent partner contributions participated in the net accumulated loss on the reporting date based on their contractual relative share in all liable equity available under the German Commercial Code on the reporting date. For this reason the carrying amounts of the individual silent contributions on the reporting date have been reduced by the amount of the respective share of the loss. Conversely, the resulting amounts arising from the elimination of interest and write-downs were recognised in profit and loss.

IFRS applies a different methodology when the contractual servicing of capital instruments carried on the balance sheet as debt are not serviced, applying instead measurement of future contractual cash flows based on the effective interest rate. Consequently, all silent partner contributions carried in the balance sheet as debt have been measured as debt in accordance with IFRS at the reporting date. As a result, at consolidated level the valuation of silent partner contributions reported as debt have fallen by much more than the impact of not being serviced for 2018. The changes in value were taken to income, however.

Change of the "bail in" Liability Cascade

In July 2018 § 46f of the German Banking Act (KWG) was amended to transpose into national law an amendment to the BRRD. As a result of this law, all unsecured and unstructured senior bonds and promissory notes that had been issued under German law in the past (non-preferred senior debt) became subordinate to a new class of unsecured debt (preferred senior debt) which was created under liability law.

This change in the law impacts the priority of creditor liability in the event of insolvency as well as the precedence of the utilisation of the bail-in tool if the banking supervisory authority and/or the resolution authorities determine that a German bank must be resolved. By utilising the bail-in tool, regulatory equity tools and certain liabilities will be written down according to the legal ranking for loss absorption or converted to Common Equity Tier 1 capital. In the event of resolution, in the future the bail-in tool will be used first for the regulatory equity instruments, then non-preferred senior debt and finally for preferred senior debt and other liabilities.

Once the law changes, the non-preferred senior debt class will include unsecured and unstructured senior bonds and promissory notes that were held at the time the law went into effect as well as future acquisitions of unsecured and unstructured liabilities which are contractually subordinate or which have explicit information regarding subordination included in their terms of issue.

In addition, the amendment will have an impact in future on the extent of MREL-qualifying liabilities at NORD/LB. With a view to the changes already decided and planned for the future under BRRD and CRR, NORD/LB expects that in addition to the regulatory equity instruments, only non-preferred senior debt will continue to count as an eligible liability in the long term.

External Rating

On 1 August 2018, Moody's Investors Service rating agency published a new method for rating banks. This new method comes on the heels of the enactment of the BRRD into German law. The amendment required to § 46f KWG came into effect on 21 July 2018. This means that NORD/LB's bearer bonds issued before 20 July 2018 will be included in the non-preferred asset class and rated as "Ba1" from 21 July 2018. NORD/LB's issuer rating was raised to "Baa2" at the same time. Its new senior unsecured asset class (preferred) is also rated "Baa2". NORD/LB's unsecured senior funding will consist of bearer and registered bonds as well as promissory notes in the new preferred asset class. The rating for existing holdings is not due to any decrease in the Bank's financial strength - it is solely because the law has changed and consequently so have the rating methods. This change affects all German banks rated by Moody's, regardless of their financial position.

On 14 February 2019 Moody's placed all long-term ratings for NORD/LB under review for upgrade. This followed an ad-hoc announcement by NORD/LB on 2 February 2019 about the decisions by the owners to focus on a capital-boosting programme and realignment of the Bank jointly with the Savings Bank Finance Group. Moody's assumes that the review launched can be completed during the second or third quarter 2019. On 18 February the outlook for Pfandbriefs was also changed to review for upgrade.

On 4 August 2018 Fitch Ratings agency gave NORD/LB an "A-" rating for all of its unsecured debt securities (preferred and non-preferred, existing and new holdings). On 7 December 2018 Fitch issued a Rating Action Commentary (RAC) on NORD/LB putting all NORD/LB ratings on Rating Watch Negative (RWN). The reason were the current developments at NORD/LB. On 22 February 2019 Fitch issued another RAC on NORD/LB: all short-term and long-term ratings of NORD/LB were confirmed (including RWN) and the Viability Rating (VR) was downgraded from "bb" to "f" based on methodological reasons due to the use of "extraordinary support".

Since 11 June 2018, NORD/LB has also been rated by the Canadian agency DBRS. DBRS has issued an "A" rating for preferred and an "A (low)" rating for non-preferred bonds. On 31 January 2019 DBRS published a press release on NORD/LB. All NORD/LB ratings (apart from the financial strength and support ratings) were placed under review with negative implications. The reason for the change in outlook was uncertainty of the membership and support from the joint liability scheme it. At present the rating is based on membership of the joint liability scheme. DBRS will review the rating when the impact of the reduction of the shipping finance portfolio, the capital raising measures and the Bank's future franchise and business strategy can be estimated.

Brexit

Following the Brexit vote NORD/LB set up the Brexit Committee, whichalso includes Deutsche Hypo. Together with a law firm the committee has drawn up five scenarios for NORD/LB to act on, ranging for a free trade agreement between the European Union (EU) and the United Kingdom (UK) to a hard Brexit. Overall, NORD/LB Group expects no significant impact from Brexit. NORD/LB is currently working on the following issues:

- central derivatives clearing;
- UK reporting of derivatives (extending the "green zone");
- amendments to agreements ("repapering", especially ISDA Master Agreements);
- clarifying the visa/work permit arrangements for staff at the London branch;
- applying to the Financial Conduct Authority (FCA) to be a third-country branch; and
- whether UK assets are eligible for cover pooling under German Pfandbrief law.

Based on the positive experience with foreign branches in New York and Singapore, the NORD/LB doesn't expect any problems about a potential change in status to a third-country branch. The negotiations between the EU and the UK are being monitored closely. The NORD/LB Managing Board is informed as appropriate.

Changes in the Composition of the Executive Board

On 30 April 2018, Ms Ulrike Brouzi decided to leave her position as a member of the Managing Board of the NORD/LB Group. On 1 May 2018, Mr Olof Seidel, as General Representative, took over the position as board member with the approval of the Supervisory Board.

Report on the Earnings, Assets and Financial Position

In 2018, the NORD/LB Group changed the structure of the income statement, the balance sheet and other explanatory notes in order to provide more reliable and relevant information about the financial position, earnings position and financial performance of the Group in preparation for the first application of IFRS 9. The previous year's comparable figures have been prepared using the applicable IFRS accounting and measurement requirements as of 31 December 2017, which means IFRS 9 was applied to the new items in the income statement and the balance sheet (see Note (3) Adjustment of the reporting structure). Consequently, comparability is limited. In the following text the previous year’s figures for the period from 1 January to 31 December 2017 are shown and those from 31 December 2017 in brackets.

Earnings Position

The NORD/LB Group ended the year under review with a loss of € 2,354 million. This loss was mainly caused by additional risk provisioning for non-performing shipping loans. The income statement figures can be summarised as follows:

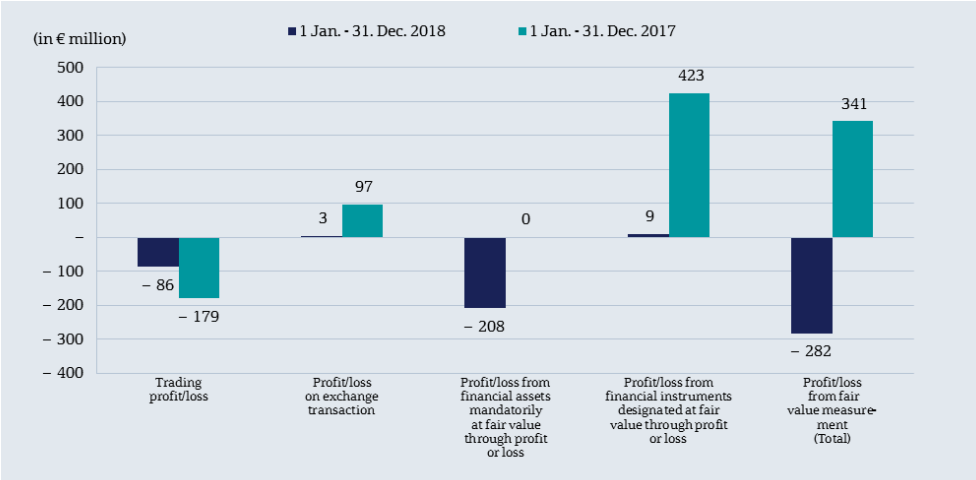
	1 Jan. - 31 Dec. 2018 (in € million)	1 Jan. - 31 Dec. 2017[1)] (in € million)	Change (in %)
Net interest income	1 279	1 417	– 10
Net commission income	52	112	– 54
Profit/loss from financial assets at fair value	– 282	341	> 100
Risk provisioning	– 1 893	– 991	– 91
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	31	459	– 93
Profit/loss from hedge accounting	9	13	– 31
Profit/loss from shares in companies	1	47	– 98
Profit/loss from investments accounted for using the equity method	21	38	– 45
Administrative expenses	1 011	1 156	– 13
Other operating profit/loss	– 45	29	> 100
Earnings before restructuring, reorganisation and taxes	**– 1 838**	**309**	**> 100**
Restructuring result	– 133	– 85	56
Reorganisation expenses	86	29	> 100
Earnings before taxes	**– 2 057**	**195**	**> 100**
Income taxes	297	60	> 100
Consolidated profit/loss	**– 2 354**	**135**	**> 100**

1) The presentation structure of the income statement was adjusted as a result of the first-time adoption of IFRS 9; see Note (3) Adjustment of the reporting structure.

Due to persistently low interest-rates on the money and capital markets and decreasly average receivables compared to the prior-year period, **net interest income** decreased by € 138 million to € 1,279 million (€ 1,417 million). European capital market interest-rates trended downwards in 2018, after initially increasy in the first half of the year. The decline in interest income was partly by of the reduction of the ship financing portfolio and also due to the sale during the previous year of holdings of promissory notes with higher interest-rates. Owing to the breach of the cash-flow criterion, with effect from the initial application of IFRS 9 on 1 January 2018 parts of the ship financing portfolio were classified as financial assets at fair value through profit or loss; consequently the interest income on these has been shown under interest income from financial assets at fair value through profit and loss. On the earnings side, interest income from financial assets at amortised cost decreased by € 378 million, mainly due to the development described above (including reclassification) while interest income from financial assets at fair value through profit and loss rose by € 89 million as a result of implementing IFRS 9. The remeasurement of silent-partner contributions recognised in the balance sheet as debt generated income of € 101 million. Expenses also decreased. Interest expenses on financial liabilities at amortised cost decrease by € 124 million; the reduction of interest expenses on financial liabilities measured at fair value through profit or loss was € 74 million.

Net commission income has more than halved from € 112 million to € 52 million compared to prior-year period. Loan and guarantee commissions fell by € 14 million, mainly due to declining new business. Moreover a € 35 million higher guarantee premium paid for securitisation transactions reduced to commission result.

At -€ 282 million, **profit/loss from fair value measurement** is € 623 million lower than the € 341 million seen the previous year. The trading loss was caused by significant expenses for currency derivatives due to the tightening of the EUR/USD basis spread to -10 to -15 basis points in all maturities over the year, whereas the net income from interest-rate derivatives was slightly positive thanks to sales margins. In the prior year, the trading profit/loss was weighed down in particular by the higher EUR interest-rate. The loss on financial assets requiring measurement through profit or loss was € 208 million, € 162 million on loans (a special effect related to the sale of ships) and € 31 million on bonds and other fixed interest securities. In the prior-year period, the change in fair value relating to the Group's own credit risk was recognised in profit/loss from financial instruments at fair value through profit or loss. With the application of IFRS 9 these changes in fair value, which were considerably lower during the reporting period, are no longer shown in this income statement item, but directly under Other comprehensive income (OCI).



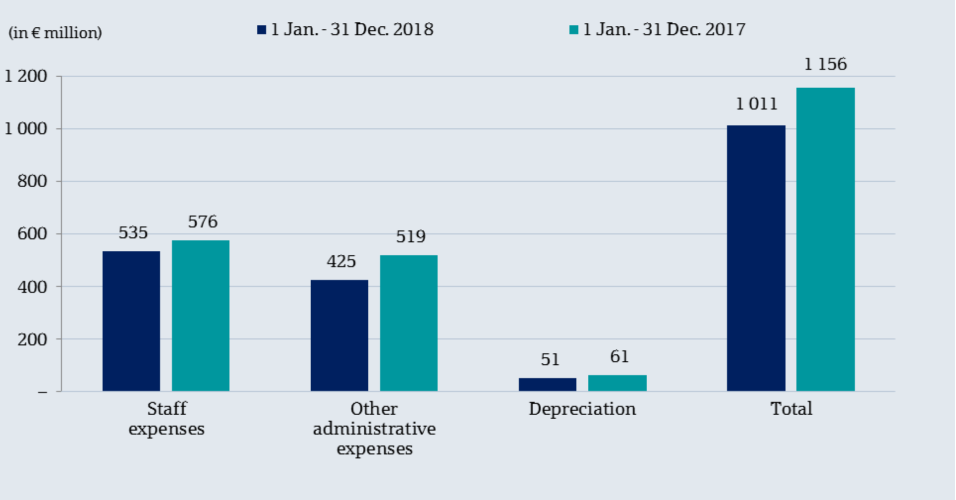
Expenses from **loan loss provisions** rose considerably by € 902 million to € 1,893 million. The main reason for the large addition to risk provisioning was due to the defaulted shipping loans with a total exposure of € 2.6 billion (gross before fair value discount), which were provisioned due to the sale to a financial investor at significant discounts to previous balance sheet values. In addition, provisions were made for further defaulted ship financings with a total exposure of up to € 3.8 billion, for which an internal settlement unit is expected to be set up in 2019. Overall the loss on risk provisioning was driven by shipping risks associated with the aim of accelerating the reduction on the shipping loan portfolio in large sub-packages.

The **result from financial assets not measured at fair value through profit or loss** of € 31 million (€ 459 million) includes € 47 million income from the sale of promissory notes as well as € 12 million expenses from the disposal of financial liabilities at amortised cost. Earnings of the previous year were mainly driven by the sale of promissory notes and other registered securities.

The **profit/loss from hedge accounting** amounted to € 9 million (€ 13 million). Measurement expenses of € 206 million resulting from hedged underlying transactions from micro and portfolio fair value hedging transactions were offset by € 215 million income of derivatives hedging instruments.

Profit/Loss from shares in companies amounted to € 1 million (€ 47 million). Write-ups of € 10 million and write-downs of € 10 million from fair value measurement of investments resulted in a net figure of zero. Disposal of investments generated a gain of € 1 million. The € 21 million (€ 38 million) in **profit/loss from shares in companies accounted for using the equity method** is due to the € 19 million from the proportionate profit/loss from investments accounted for using the equity method and the € 2 million net balance of write-ups and write-downs. The previous year's result also included the earnings from the disposal of one associated company measured at equity.

Administrative expenses decreased by € 145 million to € 1,011 million compared to the prior-year period. Other administrative expenses decreased by € 94 million to € 425 million versus the prior-year period. This was primarily due to a fall of € 36 million in appraiser and consulting expenses, € 24 million in IT and communication services expenses and € 7 million in levies and contributions. It should be noted, however, that consulting expenses incurred in connection with reorganisation measures are shown separately under reorganisation expenses. Staff expenses also decreased by € 41 million to € 535 million, reflecting the initial impact of the headcount reduction measures.



Other operating profit/loss came to -€ 45 million (€ 29 million). This includes expenses associated with the EU bank levy of € 56 million (€ 52 million). A balance of € 24 million (€ 10 million) was also recorded for allocations to and reversals of other provisions.

The **loss from restructuring** of €133 million (€ 85 million) results from the recognition of provisions for reorganisation measures which meet the requirements of IAS 37. The restructuring requirements are in connection with the NORD/LB Group's One Bank transformation programme and relate to personnel expenses. **Reorganisation expense** of € 86 million (€ 29 million) involves activities aimed at securing the future and maintaining the competitiveness of the NORD/LB Group; these expenses are reported separately due to their significance. The recognised items are non-recurring in nature and are not part of the operating business activities of the NORD/LB Group. These expenses results from consulting services for strategy, IT and legal advice. These advisory services covered, for example, the redimensioning of the lending business.

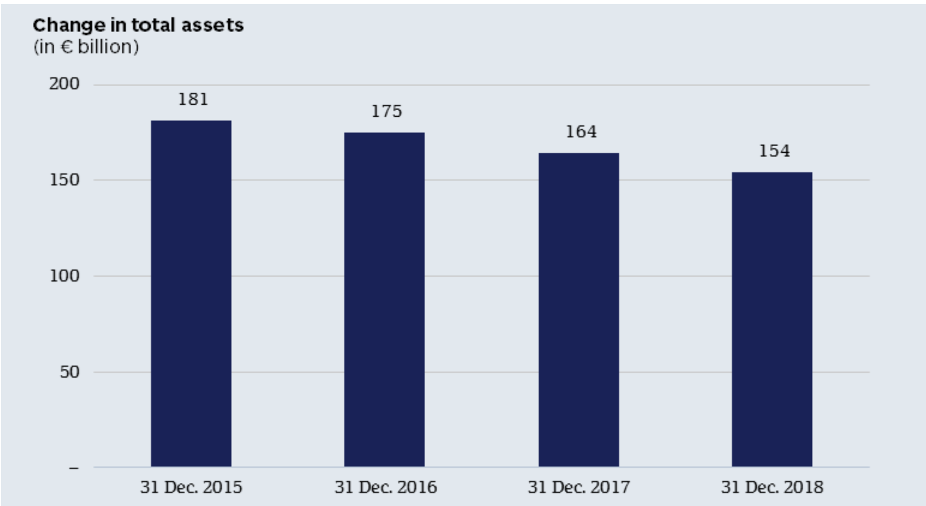
The **tax expenses** of € 297 million (€ 60 million) were mainly driven by current income taxes at foreign units and the write-down of deferred tax assets on temporary differences.

Assets and Financial Position

	31 Dec. 2018 (in € million)	31 Dec. 2017[1)] (in € million)	Change (in %)
Trading assets	8 872	9 650	– 8
Financial assets mandatorily at fair value through profit or loss	3 534	–	–
Financial assets designated at fair value through profit or loss	–	1 333	– 100
Financial assets at fair value through other comprehensive income	20 548	24 831	– 17
Financial assets at amortised costs	114 041	121 218	– 6
Shares in companies	338	402	– 16
Investments accounted for using the equity method	173	200	– 14
Other assets	6 506	6 191	5
Total assets	**154 012**	**163 825**	– 6
Trading liabilities	3 681	3 931	– 6
Financial liabilities designated at fair value through profit or loss	7 767	9 040	– 14
Financial liabilities at amortised costs	133 433	138 823	– 4
Provisions	2 869	2 731	5
Other liabilities	2 858	3 083	– 7
Equity	3 404	6 217	– 45
Total liabilities	**154 012**	**163 825**	**– 6**

[1)] For individual items, the previous year's figures have been adjusted, see Note (2) Adjustment of previous year's figures. The presentation structure of the balance sheet was adjusted as a result of the first-time adoption of IFRS 9; see Note (3) Adjustment of the reporting structure.

Total assets continue to decrease.



Trading assets of € 8,872 million (€ 9,650 million) consist of € 4,222 million (€ 4,702 million) in derivative financial instruments as well as debt securities and receivables held for trading. The development of this position is based in particular on volume, interest, currency and credit spread-induced measurement effects, which are also reflected on the liabilities side. The initial application of IFRS 9 has no material impact on the composition of the trading portfolios.

Financial assets requiring measurement at fair value through profit or loss includes financial assets that, following the introduction of IFRS 9 from 1 January 2018, are either allocated to the "Do not hold" business model even though they are not held as trading assets, or which regardless of the business model do not meet the cash-flow criterion. Financial assets requiring measurement at fair value through profit or loss primarily comprises debt securities and receivables and a marginal amount of equity instruments. With the initial application of IFRS 9 on 1 January 2018 parts of the ship financing portfolio had to be measured at fair value because the cash-flow criterion was breached. At € 3,534 million on 31 December 2018, this amount was € 254 million lower than on the date IFRS 9 was first applied. The decline was caused by changes to the portfolio and measurement effects; an € 85 million increase in debt securities was offset by a € 327 million reduction in loans and advances to customers.

Financial assets at fair value through profit or loss do not contain any holdings as the NORD/LB Group exercised its voting right to reverse its decision to use the option of fair value measurement as part of the initial application of IFRS 9.

At € 20,548 million (€ 24,831 million), **financial assets at fair value through other comprehensive income** are financial assets allocated to the “Hold and sell” business model if the cash-flow criterion is also met. The NORD/LB Group allocated to this category € 18,739 million (€ 24,679 million) in securities intended for short and medium-term liquidity management purposes and securities that are not generally intended to be held long term. In the lending business, this category was used for only a very narrow spectrum of products, primarily promissory notes.

At € 114,041 million (€ 121,218 million), **financial assets at amortised cost** is the NORD/LB Group’s largest asset category by amount. The principal parts of the traditional credit and lending business are reported in this category. It also includes a part of the NORD/LB Group’s securities portfolio. This category includes non-derivative financial assets allocated to the “Hold” business model if the cash flow criterion is also met. The expected credit losses of € 2.7 billion calculated under the impairment regulations and covered by risk provisioning reduced the balance sheet carrying amount.

Trading liabilities of € 3,681 million (€ 3,931 million) include derivative financial instruments with negative fair values. The change of this position is similar to the assets side and based in particular on volume, interest, currency and credit spread-induced measurement effects.

Financial liabilities at fair value through profit or loss came in at € 7,767 million (€ 9,040 million). This subcategory includes the financial liabilities otherwise measured at amortised cost which the Group has designated at fair value through profit or loss. The NORD/LB Group used the fair value option to minimise or avoid accounting mismatches. For the part of the deposits that were allocated upon initial recognition to the fair value option, the Group exercised its right to rescind the fair value option on initial application of IFRS 9.

At € 133,433 million (€ 138,823 million), **financial liabilities at amortised cost** is the largest category on the liabilities side by amount. 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.

The total amount of **provisions** increased by € 138 million versus 31 December 2017. Provisions for defined benefit pension plans rose by € 53 million. The main drivers were the allocations of period of service and interest expenses. This was offset by the slight increase from 2.15 per cent to 2.20 in the actuarial interest rate. The rise in other provisions accounting to € 105 million related to changes in provisions for reorganisation measures. The reorganisation requirements were in connection with the NORD/LB Group’s

One Bank transformation programme and related to personnel expenses. Provisions for the lending business increased by a net € 19 million.

Reported equity decreased by € 201 million from € 6,217 million at 31 December 2017 to € 6,016 million at 1 January 2018 due to the cumulative effects of the initial changeover from IAS 39 to IFRS 9. Reported equity as 31 December 2018 was € 3,404 million, primarily as a result of the consolidated loss.

Contingent liabilities and other obligations fell and amounted to € 10.9 billion (€ 13.1 billion) at the reporting date. The decline was almost solely related to irrevocable credit commitments.

Development of the Business Segments

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

- Private and Commercial Customers,
- Corporate Customers,
- Markets,
- Savings Banks and Regional Customers
- Energy and Infrastructure Customers,
- Ship Customers/ Maritime Industry Customers,
- Aircraft Customers and
- Real Estate Banking Customers.

Overall Bank

2018 (in € million)	Overall bank	Trend	Development
Earnings before taxes (EBT)	– 2,057	↓	Large pre-tax loss, hence substantially lower than the prior year. - Net interest income fell moderately, mainly due to volume reduction in the ship financing portfolio and lower profits on the liabilities business due to the level of interest rates. - Net commission income more than halved due to full-year impact of securitisation measures to release capital and restrained new business. - Fair value measurement produced a loss, down sharply from the previous year, caused by measurement effects on currency derivatives and financial instruments at fair value through profit or loss, where the credit value adjustment on own credit risk was still positive least year. There was also a negative impact from financial assets requiring measurement at fair value through profit or loss (mainly from shipping loans). - Sharp rise in risk provisioning caused by high valuation allowances from the adjustmentof the ship financing portfolio. Significant increase in risk provisioning on individual exposures in the Corporate Customers and Energy and Infrastructure segment. – Substantially lower losses on disposal of financial instruments not measured at fair value through profit or loss due to realisation effects on promissory notes the previous year. - Profit/loss from hedge accounting down at a low level. - Profit/loss from shares in companies down sharply following positive impact from sales of investments the previous year. - Profit/loss from at-equity investments down from the prior year due to the absence of income from the sale of investments. - Considerable decline in administrative expenses, both staff and other administrative expenses, partly due to the One Bank transformation programme. It should be noted, however, that consulting expenses incurred in connection with reorganisation measures are shown separately under reorganisation expenses. - Other operating profit/loss much lower, caused by the impact of consolidated shipping companies. - Significant restructuring and reorganisation expense associated with the Bank's cost cutting programme.
Cost-Income-Ratio (CIR)	94.8%	↑	- Major rise in CIR despite lower administrative costs. - This was caused by the large decline in income due to the absence of the special effects seen last year and lower net interest and net commission income. There was also a negative impact from financial assets requiring measurement at fair value through profit or loss (mainly from shipping loans).
Return-on-Equity (RoE)	-33,3%	↓	- RoE negative and thus considerably below the prior year. - Mainly impacted by the sharp year-on-year increase in risk provisioning on the ship financing portfolio and lower income.

Private and Commercial Customers

2018 (in € million)	Private and Commercial Customers	Trend	Development
Earnings before taxes (EBT)	50	→	- Operating profit in line with last year. - Net interest income saw a moderate fall in income from the liabilities business due to low interest rates. Income from business on the asset side of the balance sheet in line with last year. Sharp rise in income in net commission income from last year, especially from accounting maintenance fees and brokerage business (switch in the consumer credit business). - Profit/loss from financial instruments at fair value is of secondary significance for the segment (previous year heavily affected by impact of measuring derivatives). - Minor recognition of impairments in risk provisioning in the year under review; previous year saw reversals of portfolio valuation allowances and recoveries from receivables written off. - Profit/loss from shares in companies accounted for using the equity method shows the investment in Öffentliche Versicherung Braunschweig. - Small increase in staff expenses almost compensated by reduced internal cost allocation from back office areas, hence administrative expenses only saw a slight increase. - Other operating income considerably improved by reversals of provisions (media fund, immediate annuities, closed-end funds).
Cost-Income-Ratio (CIR)	77.2%	→	- CIR is slightly below the prior-year value. - The major influencing factor is the higher net commission income.
Return-on-Risk-adjusted-Capital (RoRaC)	12.5%	→	RoRaC almost on same level as last year

In 2018 the BLSK.direct customer service centre was further expanded, in line with big changes in customer behaviour. Direct.Advice was set up and services for business customers and associations were taken on. This enhanced this digital service offering of BLSK.direct by adding product advice and sales of selected products. Customer orders by telephone, email, internet and chat rose by around one third to over 200,000. The steady improvement in the service offering and a rapid and reliable service over all communication channels ensure exceptionally high customer satisfaction.

The real estate division of BLSK continues to profit from the positive market trend. The financing distribution business was further expanded by the successful implementation of a technical platform. Revenues in real estate brokerage remained high.

Changes were made to the fees for some private current account models on 1 February 2018 with the aim of generating income over the long term to make up for the fall in revenue caused by the long period of low interest rates and the rising costs from regulatory requirements and the need for tighter data security.

At the same time a considerable expansion of the digital current account offering was launched. Along with KWITT (a smartphone function for sending money), ClickSave, the account alert and photo transfers, the savings bank app was constantly improved and updated. New partners made the paydirect procedure much more attractive. Preparatory work was also carried out to launch further digital products such as YOMO (a mobile current account for smartphones) and YES (a login function with online banking data).

At the start of 2018 NORD/LB entered into a full cooperation agreement with the consumer loan specialist S-Kreditpartner GmbH. Since then both the S-Auto loan and the S-Private loan have been processed through the cooperation partner. The private loan business has performed well. Sales expectations were considerably exceeded in the first year.

In 2018 the annual pension campaign focused on products especially for women. Comprehensive measures were taken and events held for next generation customers to increase customer loyalty and bring in new customers (e.g. stock market simulations, KNAX events for specific occasions, "Be your own hero", training on social media, etc.).

After extensive modernisation S-Welt opened in Bad Harzburg (a branch offering advice in all segments) in 2018, making it the first digitalised branch.

In Private Banking, the product portfolio was expanded with three new SIP funds, Löwen+ Rendite, Löwen+ Wachstum, Löwen+ Chance (Lions+ Yield, Lions+ Growth, Lions+ Opportunity). The names reflect both the local affinity of BLSK customers and the fund management based in Braunschweig. The sustainability aspect applied when selecting the securities also takes social and ecological aspects into account. Both employees and customers were involved in developing the funds.

Inheritance and foundation management continues to be a mainstay of Private Banking in particular, making a significant contribution to the success of private banking by providing comprehensive advice to customers as well as organising client events on specialist topics.

The number of contracts under Individual Asset Management (IVV) increased compared with the previous year. The tough conditions on the capital market meant the volume declined slightly. In 2018, IVV focused on the topic of digitalisation. This ranges from the digitalisation of asset and portfolio management to the digitalisation of sales support (including podcasts, video conferences and electronic mailboxes) and the asset management app, which shows the current development of a customer’s personal portfolio at any time.

Asset management was recognised by Elite Report in 2018 for the 15th time. IVV emphatically cemented its sound position among top German asset managers with a "summa cum laude" award.

Corporate Customers

31 Dec.2018 (in € million)	Corporate Customers	Trend	Development
Earnings before taxes (EBT)	182	↓	- Earnings contribution much lower than prior year due to higher risk provisioning and lower earnings. - Lower earnings from deposit business owing to lower interest rates reduces net interest income slightly compared with prior year. - Net commission income noticeably below prior year, primarily because of lower one-off commissions. - Profit/loss from fair value measurement significantly below prior year due to lower valuation effects from derivatives. - Considerably higher allocations to risk provisioning. - Slight drop in administrative expenses (staff expenses and inter-company cost allocations). - Other operating profit/loss for this segment has no relevance for earnings.
Cost-Income-Ratio (CIR)	37.3%	→	- CIR almost unchanged on prior year. - Lower earnings paired with lower costs.
Return-on-Risk-adjusted-Capital (RoRaC)	13.6%	↓	- RoRAC much lower than in the prior year. - This is mainly due to lower profit/loss caused by higher risk provisioning and lower earnings.

Despite the difficult market environment characterised by tougher competition, volatile markets and margin pressure, the NORD/LB Group cemented its position in the corporate customer business in 2018 and its position as a core bank. This was also helped by the implementation of an expanded industry approach. In addition to the already established business lines of agricultural banking, community real estate and housing, acquisitions were diversified with a special focus on the following sectors: Automotive, Construction, Chemicals, Energy, Nutrition, Trade, Health Care, Leasing & Factoring, Logistics, Mechanical Engineering and Tourism.

NORD/LB, for example, played a leading role as Mandated Joint Lead Arranger in setting up an EMTN programme for Sixt Leasing SE. The EMTN programme also saw its first bond issue. The bond issue was presented to over 30 investors at a European roadshow in Frankfurt, Munich, Luxembourg, Paris, Zurich and Hamburg. Geographically speaking, most investors came from Germany and Austria, followed by France.

The main objective in the corporate customer business is to design appropriate and tailored financing structures. As lead arranger, NORD/LB structured and placed a syndicated promotional loan for Amprion GmbH with the help of NRW.Bank. This was a major boost for investment in power generation, storage and distribution facilities in North Rhine-Westphalia.

NORD/LB also emphasised its structuring and underwriting expertise in the area of acquisition financing in 2018. Here, for example, it is supporting the equity fund German Equity Partners IV (GEP IV) managed by ECM Equity Capital Management GmbH (ECM) with its acquisition of Albrecht & Dill Cosmetics GmbH (A&D). The early mandate given to NORD/LB for the overall financing meant that the time-critical acquisition process was successfully concluded together.

NORD/LB's underwriting expertise was also suitably impressive for Paragon Partners in relation to its investment in Unicepta. NORD/LB was mandated as lead arranger, agent and collateral pool manager for the acquisition. After NORD/LB underwrote the overall financing, the committed loan volume was syndicated in agreement with the private equity (PE) firms. This created strong consortia with other commercial banks, or - as was the case when financing the growth strategy of investment company AUCTUS Capital Partners AG for its customer Pharmalex - with savings banks.

NORD/LB received a sole mandate to structure and place a green and digital promissory note for enercity AG. The promissory note was the first successful transaction issued using the new digital platform finpair. The € 100 million raised will be used to finance investments in renewable energies.

In 2018, three real estate promissory notes were successfully placed with customers in Magdeburg, Hanover and Mainz under a sole mandate. The volume placed of € 200 million was oversubscribed several times and proved popular among investors. Our customers can use this credit in many different large-scale projects to create urgently needed living space in major German cities by means of new constructions.

The growth of our medium-sized customers often means we need to further develop and modify our financing structures. As the mandated lead arranger NORD/LB set up a new structure for working capital financing and the financing of new investments, such as a high-bay warehouse and various production facilities, for the large dairy company Uelzena eG. This was carried out via the tailored integration of the local network savings banks and other local banks into a syndicated loan arrangement with simplified and uniform contract structures.

Markets

31 Dec.2018 (in € million)	Markets	Trend	Development
Earnings before taxes (EBT)	54	↓	- Sharp decline in earnings before taxes. - Significant reduction in net interest income compared with previous year owing to lower interest income from securities. - Lower number of mandates in Dept Capital Markets segment largely responsible for marked drop in net commission income. The 2017 figure also contains one-off income from the sale of the custodian bank function. - Profit/loss from fair value measurement is zero owing to negative valuation effects on securities and interest rate derivatives, which compensate for the sales margins received. - Risk provisioning and other operating profit/loss are of minor relevance in this segment. - Significant decrease in operating costs, particularly as a result of lower staff and material costs (IT costs and consulting costs).
Cost-Income-Ratio (CIR)	65.5%	↑	- Significant increase on prior year. - Main reason for this is the much lower earnings with just a moderate fall in administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	13.4%	↓	RoRaC much lower compared with prior year owing to marked reduction in earnings.

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

Despite the still challenging market environment, the Markets segment once again demonstrated its expertise in placing both its own issues and third-party issues in 2018. As part of the strategic expansion of the Debt Capital Markets (DCM) business segment for financial institutions, government issuers and quasi-government issuers, more new issuers were once again acquired for lead mandates in 2018. With the primary focus of its 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. In 12th position, this is its best result so far in this ranking.

On the German Pfandbrief market NORD/LB was once again one of the top five arrangers. Internationally, NORD/LB was in the top three of the League Tables for euro covered bond benchmarks in various countries. For example, NORD/LB was involved in all benchmark transactions from Singapore in this year and therefore ranked in 1st place. Even with Scandinavian euro covered bond benchmark transactions NORD/LB was ranked third in terms of placement volume. The covered bond joint-lead mandates received by NORD/LB for the first time in the 2018 reporting year included, in particular, mandates from UOB and OCBC in Singapore, from Helaba and ING DiBa in Germany, LF Hypothek in Sweden, Scotiabank in Canada and from My Money Bank SCF in France. In June 2018 NORD/LB was awarded its first lead mandate by the European Union in arranging the reopening of a EUR benchmark bond. In the public budgets customer segment, NORD/LB acted as the lead manager on major transactions for promissory notes and bearer bonds for municipalities in Germany. For example, NORD/LB was one of two joint lead managers involved in the first “green” and “socially responsible” promissory note from the city of Hanover. NORD/LB also played a leading role with the German cross-federal state municipal bonds, which were issued by municipalities from Lower Saxony, North Rhine-Westphalia and Saarland.

Among the German states, NORD/LB was among the top three in the Global League Table, the most successful regional bank.

As part of its own funding activities and amidst a challenging market environment, NORD/LB placed a 10-year mortgage Pfandbrief with a volume of € 1 billion in addition to several private placements.

Savings Banks and Regional Customers

31 Dec.2018 (in € million)	Savings Banks and Regional Customers	Trend	Development
Earnings before taxes (EBT)	23	↘	- Earnings before taxes down moderately on the prior year. - Net interest income up on prior year due to higher volumes - Profit/loss from financial instruments at fair value through profit or loss down significantly due to lower earnings from institutional savings bank business (bonds/credit derivatives). - Significant increase in risk provisioning. - Administrative expenses slightly below prior year due to lower inter-company cost allocations.
Cost-Income-Ratio (CIR)	53.2%	↓	Marked decline in CIR due to lower administrative expenses and higher earnings.
Return-on-Risk-adjusted-Capital (RoRaC)	16.2%	↓	Significantly lower RoRaC due to decline in earnings and increase in committed equity capital.

The realignment of the Network Customers segment is characterised by the bundling of business activities relevant for savings banks. The objective for the reporting year was to establish this business segment and to segment customers in a way that focuses on cooperation with the savings banks. To this end, existing NORD/LB processes were realigned in a customer-oriented manner. The key drivers behind the solid earnings performance in the Network Customers segment are business with network savings banks, business with corporate customers and municipal costomers conducted in coordination or cooperation with the saving banks.

In terms of the business with corporate customers, the sales focus was on interest rate and currency management as well as on alternative forms of financing, in addition to the traditional financing business. Developments in the gross new business volume were very satisfactory across all locations despite the difficult general conditions. The savings banks were integrated into all of NORD/LB's services via syndication activities.

Earnings from Savings banks network are primarily generated by stable contributions from the promotional loan business with KfW loans, in which NORD/LB is the central intermediary. Further significant earnings were generated from proprietary business with the savings banks and central services for savings banks. The challenging market environment is characterised by tougher competition.

Another focus of business activities in the Saving Banks Network segment is the funding of the public sector, where demand remained stable again in 2018. NORD/LB is one of the leading players in municipal financing in Germany. NORD/LB focuses here on its catchment area and a selective supraregional approach to support. The joint approach with the savings banks ensures a high level of market knowledge and penetration. NORD/LB is also integrated within nationwide projects to advance the development of collaboration with municipalities.

Energy and Infrastructure Customers

31 Dec.2018 (in € million)	Energy and Infra-structure Customers	Trend	Development
Earnings before taxes (EBT)	84	↓	- Earnings before taxes down sharply compared with the prior year. - Net interest income somewhat lower than the prior year owing to a slight decline in margins and a weaker investment profit from committed equity capital. - Commission income up markedly thanks to high one-off remuneration in new business. - Profit/loss from financial instruments at fair value through profit or loss down sharply, partly because of the initial market measurement of a financing transaction under IFRS 9, and partly due to the loss of positive valuation effects on derivatives in the prior year. - Risk provisioning up significantly due to allocations in individual commitments. - Administrative expenses noticeably below prior year owing to lower intercompany cost allocations. - Other operating profit/loss much higher following reversal of provisions.
Cost-Income-Ratio (CIR)	40.4%	→	Modest improvement in the CIR as a result of moderately lower earnings and significantly lower administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	13.7%	↘	- Moderate decline in RoRaC. - Sharp reduction in earnings before taxes with a significantly lower capital commitment.

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. The successful integration of the "Renewable Energies" business from Oldenburg also strengthens the position of the segment in the German energy sector.

In 2018 NORD/LB financed its first offshore wind farm outside Germany with a total of 573 megawatts. NORD/LB was also able to implement the second financing transaction of a wind farm in Sweden with a total financing volume of € 375 million as the mandated lead arranger and sole lender. With 114 wind turbines, the wind farm has a capacity of 474 megawatts.

The market for wind energy projects in Germany in 2018 was shaped by the effects of the tenders launched in the previous year, in which the customers supported by NORD/LB faced great competition from other suppliers and won fewer tenders.

Nevertheless, NORD/LB was once again able to live up to its role as one of the market leaders in a strong competitive environment and support more than 20 projects from Oldenburg alone.

Long-term customer relationships in particular have paid off on the US market. For example, NORD/LB was able to close deals on a fourth solar park and an eighth gas pipeline with the same customer. NORD/LB was the syndicate leader and involved other lenders in the financing structure.

The NORD/LB Singapore branch was able to expand its successful market entry into Australia with a further two transactions, bringing the total to seven. The relevance of maintaining good relationships with our customers can be seen in the Asian market, where the third solar energy transaction in Japan was concluded with a German client.

The Infrastructure Financing segment also underwent successful development in 2018, and after 2017 it once again managed to win the "Gold Award" in the "Debt Provider of the Year" category at the Partnerships Awards 2018.

In the UK infrastructure sector, for example, the 18th project has now been financed based on a public-private partnership framework agreement since 2015. This project involved a public campus that will have space for up to 1,100 nursery kids and pupils in the future. Lettres de Gage Publique, issued via the Covered Bond Bank in Luxembourg, play a major role as a funding instrument for the infrastructure sector.

In addition to the afore-mentioned industry priorities in the Energy and Infrastructure Customers segment, a start was made in 2018 on harnessing existing structuring expertise and customer relationships to tap into new sub-segments. For example, the first transactions financing broadband networks were concluded.

Ship Customers/ Maritime Industry Customers

31 Dec.2018 (in € million)	Ship Customers / Maritime Industries	Trend	Development
Earnings before taxes (EBT)	– 1,926	↓	- Earnings before taxes in ship segment hit hard by additional need for risk provisioning in connection with reducing the NPL portfolio. - Very negative trend in net interest income due to SPO portfolio reduction. By contrast, the Maritime Industry Customers segment records stable net interest income despite a declining portfolio. - Net commission income in the segment is stable. - Profit/loss from fair value measurement clearly negative due to the initial market valuation of financing transactions under IFRS 9. - Risk provisioning almost double compared with previous year. - Administrative expenses much lower as a result of reduced headcount in connection with the decrease in volume. - Other operating profit/loss in this segment is insignificant.
Cost-Income-Ratio (CIR)	< -100%	↓	- Markedly influenced by significant decline in earnings related to reduction of the portfolio. - Earnings and thus the CIR of the segment both negative due to the adverse valuation effects in the profit/loss at fair value caused by the initial market valuation of financing transactions under IFRS 9. - The CIR for the Maritime Industries is 21 per cent.
Return-on-Risk-adjusted-Capital (RoRaC)	< -100%	↓	- Significantly influenced by risk provisioning for the portfolio reduction. - The RoRaC for the Maritime Industries is 32 per cent.

NORD/LB significantly reduced its exposure in the Ship Customers / Maritime Industry Customers segment. The marked reduction particularly affected non-performing loans and problem loans with financing structures that are no longer sustainable. The Shipping Portfolio Optimisation (SPO) unit was established for this purpose in 2017 with authority for restructuring and managing ship loans that are problematic and potentially under threat. The SPO continues to focus on significantly reducing its non-performing loan portfolio, and in this context also concentrates on reviewing larger portfolio transactions. The aim is to largely eliminate the SPO portfolio.

Similar to 2017, the NORD/LB Group continued to press ahead with the systematic realignment and diversification of its new business portfolio, particularly with regard to regions, customers, products and asset classes. One Group-wide focus here was to expand business activities in the special tonnage segment as well as in the cruise ship and ferry segment in a healthy mix comprising merchant shipping, shipbuilding and container boxes.

Three container box leasing structures were concluded in the 2018 reporting year with three of the leading shipping lines, establishing NORD/LB as a player in this segment. Full recourse financing with a very good risk/return ratio was concluded with two leading European shipyards in the cruise ship sector. In the ocean-going cruise segment, business relations were consistently expanded with top counterparties via full recourse loans and partially ECA-covered transactions. In the ferry segment, cross-selling has performed well with successful forward exchange transactions. Various full recourse financing arrangements under conservative risk and good pricing conditions were realised in merchant shipping. NORD/LB is also establishing itself as an expert in corporate financing, supporting shipowners in fulfilling legal requirements (emission reduction and ballast water filtering). Another highlight is the financing handled as part of remarketing measures with the SPO. The segment succeeded in selling 24 non-performing container feeder ships to a company with a sound credit rating from Asia, as well as developing a full recourse structure with a healthy rating.

Thanks to its many years of market experience and its selective process for choosing projects to finance, NORD/LB was able to acquire financing with a high level of economic stability and short to medium financing terms. By acting as a "first line of defence", the market division in KRM Maritime Finance has a relatively low rejection rate, which enables both areas to increasingly diversify their portfolios and continuously reduce the risk potential while maintaining a good earnings ratio.

Aircraft Customers

31 Dec.2018 (in € million)	Aircraft Customers	Trend	Development
Earnings before taxes (EBT)	77	→	- Earnings before taxes down marginally compared with the prior year. - Net interest income down sharply on account of declining holdings caused by less new business, and falling margins caused by higher refinancing costs. - Marked increase in net commission income owing to high one-off earnings from structuring transactions. - Significant reduction in profit/loss from fair value measurement due to lower demand for derivatives. - Reversals of risk provisioning have positive impact on earnings before taxes. - Administrative expenses slightly below prior year owing to lower intercompany cost allocations. - Other operating profit/loss has little relevance for this segment.
Cost-Income-Ratio (CIR)	30.9%	↗	Notable rise in the CIR as a result of moderately lower earnings and slightly lower administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	17.0%	↗	- Marked increase in RoRaC. - This comes against a background of a significantly lower capital commitment and slightly lower earnings before taxes.

Competitive pressure in the Aircraft Customers segment also remained high in the 2018 reporting year. NORD/LB has responded to this development by further developing its expertise as a responsible organiser of large-volume credit facilities and tailored financing structures. In this context, commission-based advisory and structuring services play an increasingly important role in NORD/LB’s aircraft financing alongside traditional credit products.

One example of this is the financing of a high-commission warehouse facility focusing on regional jets and turboprops. Here, NORD/LB helped with the arrangement for a European leasing company and also received the mandate as agent and security trustee.

In the reporting year NORD/LB successfully used its global position 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 several pre-delivery financing transactions for namable US airlines along with a large credit facility for a leading Asian leasing company.

Effort was also made to intertwine the interests of aircraft customers and institutional investors more closely. Working alongside the Credit Asset Management unit, the first financing transactions for the alternative investment fund were concluded. One example here is the financing of two aircraft for a leading European cargo airline. Going forward this will create a globally attractive investment opportunity for a broad range of institutional investors.

Real Estate Banking Customers

31 Dec.2018 (in € million)	Real Estate Banking Customers	Trend	Development
Earnings before taxes (EBT)	142	↘	- Moderate reduction in earnings compared with prior year since higher net reversals under risk provisioning partially compensate for a moderate decline in interest income. - The reduction of the NORD/LB portfolio contributed to lower interest income. In Deutsche Hypo's commercial real estate financing business, the portfolio was maintained at a constant level with a modest decline in margins. - Net commission income in absolute terms has insignificant impact on earnings. The majority of the commission income in the Real Estate Banking Customers segment is reported as an interest-like fee component in interest income. - The sharp decrease in profit/loss from fair value measurement is largely down to the valuation of the counterparty-specific default risk for derivatives. - As in the previous year, the Real Estate Banking Customers segment recorded net reversals under risk provisioning. - Administrative expenses, especially staff costs, fell sharply. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	30.9%	→	- The CIR is at nearly the same level as the prior year. - The relative decline in earnings slightly exceeds the relative decline in administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	26.7%	→	Small increase in RoRaC due to the relatively stronger decline in committed capital in the segment compared with the performance of earnings before taxes.

In the 2018 reporting year, Deutsche Hypo's business performance was characterised by intense competition in commercial real estate financing. In this still challenging environment and although numerous attractive financing transactions were completed, Deutsche Hypo was not able to fully achieve the volume of new business forecast for 2018, despite complying with the internal quality and profitability requirements for new loan commitments.

There are three exemplary projects. In March 2018, Deutsche Hypo provided a loan for a logistics centre in Garbsen near Hanover for BAUM Logistik Immobilien GmbH, a subsidiary of the BAUM Group. The financing volume was in the mid double-digit million range. The property has a total area of 34,000 m² plus 65,000 m² of yard and traffic area; with a functional and modern distribution concept it meets the current requirements of logistics real estate. The property is leased on a long-term basis to Amazon Verteilzentrum Krefeld GmbH.

The construction of the modern office building "The Oval" at the Kennedydamm site in Düsseldorf was financed by Deutsche Hypo for the GERCHGROUP in May 2018. The loan in the mid double-digit million range was made available over a total term of two years. A modern, ring-shaped office building with nine storeys is being built. The property will not only have flexible office space, it will also have an underground car park with 237 parking spaces on two underground levels.

Together with a financing partner, in September 2018 financing was provided for a property company of the INTERBODEN Group to purchase land for the "Ulmenstrasse project development" in Düsseldorf. Residential and office buildings in particular are to be built on the site. The financing in the mid double-digit million range was made available over a total term of almost two years. The property is located on part of the former Düsseldorf prison site "Ulmer Höh". The site is divided into four building plots, including a residential part with subsidised housing, student apartments, a day-care centre for children and office space.

Group Management / Others

31 Dec.2018 (in € million)	Group Management/ Other	Trend	Development
Earnings before taxes (EBT)	– 685	↓	- Sharp decline in profit/loss from fair-value measurement, the disposal profit/loss from financial assets not measured at fair value through profit and loss, and expenses for restructuring and reorganisation. - Contribution to net interest income by this segment up sharply, particularly because of net interest income from the valuation of silent participations. - Negative commission income from expenses for capital-relief securitisation measures substantially higher. - Significantly lower profit/loss from fair value measurement from valuation effects for currency derivatives and from financial instruments designated at fair value through profit and loss, where the change in value relating to own credit risk had a positive impact in the previous year on the profit/loss from fair value. Additional negative impact from financial assets that require measurement at fair value through profit or loss (mainly ship loans). - The risk provisioning in this segment is not significant. - Significantly lower disposal profit/loss from financial instruments not measured at fair value through profit or loss due to realisation effects from promissory notes in the previous year. - Sharply reduced profit/loss from hedge accounting. - Profit/loss from shares in companies down significantly as the prior year was boosted by proceeds from the sale of investments. - Profit/loss from investments measured using the equity method fell considerably after the omission of sales proceeds from investments in the prior year. - Significant decline in administrative expenses following cost-cutting and cost limitation measures at the Bank. - Other operating profit/loss much lower as a result of impacts from consolidated shipping companies. - Significant restructuring and reorganisation expense in connection with the Bank's cost-cutting programme.

In 2018 the NORD/LB Group was again successfully able to place large-volume issues on the capital market. Group company Deutsche Hypo issued its second green Pfandbrief with a volume of € 500 million and a term of 6.25 years in the reporting year. In addition, Deutsche Hypo placed a benchmark mortgage Pfandbrief in British pounds for the first time. The GBP 325 million issue with a term of three years was purchased mainly by asset managers, banks and government-related entities.

Target v Actual Comparison

31 Dec.2018 (in € million)	Planned amount	Actual amount	Accounting variance	Statement
Earnings before reorganisation and taxes	↓	-2,057	↓	- Earnings before taxes significantly below target, especially as a result of high risk provisions again for the ship financing portfolio. - The planned earnings figure was notably below target. - Net interest income down and noticeably below the planned figure. In particular, the result of interest rate and liquidity risk management (lack of interest income after the sale of promissory notes in the previous year) and the interest income from the lending business were below expectations (reduction of ship financing portfolio and moderate new business volume in almost all other segments), while the interest income from the lending business in the Private Customers and Markets segments and the interest income from the deposit business exceeded expectations. - Net commission income well below target overall as a result of lower fees in nearly all segments; network business and Real Estate Banking Customers were the only segments with service fee income above target. In addition, there were higher expenses for the capital-relief securitisation measures. - Loss from fair value measurement and thus markedly below target, especially because of negative valuation effects from currency derivatives and the negative influence from financial assets requiring measurement at fair value through profit or loss (primarily ship loans). Also, modest sales income from new business (mainly Markets segment). - Risk provisioning significantly above target for the ship financing portfolio. Risk provisioning from individual exposures also higher than planned in the corporate customer, network, energy and infrastructure segments. - Disposal profit/loss from financial instruments not measured at fair value through profit and loss much better than planned thanks to positive effects from sales of securities. - Profit/loss from hedge accounting well below target. - Earnings from shares in companies exert only a very minor impact on earnings in the reporting year. - Profit/loss from investments measured using the equity method significantly above target. - Administrative expenses noticeably below target. Staff expenses, other administrative expenses and depreciation below target, partly due to effects from the One Bank transformation programme. The consulting expenses incurred in connection with reorganisation measures are now shown separately under reorganisation expenses. - Other operating profit/loss well behind the negative target. - Restructuring and reorganisation expense in connection with the Bank's cost-cutting programme much higher than planned.
Cost-Income-Ratio (CIR)	↑	94.8%	↑	- CIR much higher than planned despite the lower administrative expenses. - This is caused by earnings being significantly below the target.
Return-on-Equity (RoE)	↓	-33.3%	↓	- RoE negative and thus considerably below the target. - This was influenced in particular by risk provisioning for the ship financing portfolio being high once again, and by earnings falling short of the target.

The NORD/LB Group clearly missed its goals in 2018. This development was significantly influenced by the allocations to risk provisioning from the ship financing portfolio, which were high once more. In addition, total earnings were well below expectations.

Almost all segments of the NORD/LB Group moved in the same direction; only Private and Commercial Customers as well as Real Estate Banking Customers were able to significantly beat their targets: While contributions to earnings before taxes in the Ship segment (risk provisioning and earnings), Energy and Infrastructure Customers (risk provisioning), Savings Banks Network (earnings and risk provisioning), the Corporate Customers segment (risk provisioning) and the Markets segment (earnings) were markedly below target, the profit/loss from the Aircraft Customers segment (earnings) was only moderately below the plan.

Target achievement with regard to key figures is as follows for the segments: Earnings performance combined with administrative expenses that were lower than the target means the CIR is noticeably better than the target in the Private and Commercial Customers business, almost on target for the segments of Energy and Infrastructure Customers, Real Estate Banking Customers and Saving Banks Network, moderately above the target for Corporate Customers and much higher than the target for Markets, Ship and Aircraft Customers. Due to earnings performance before taxes and the total risk exposure amount the RoRaC in 2018 is much higher than the target in the segments of Real Estate Banking Customers, Private and Commercial Customers, on target for Aircraft Customers, and significantly below target for Ship Customers, Energy and Infrastructure Customers, Savings Banks Network, Corporate Customers and Markets.

At € 46 billion the total risk exposure amount of the NORD/LB Group is noticeably below target. This development is due to defaults and the reduction in volume of the ship financing portfolio as well as to the volume of new business in the other segments, which was below target.

Overall Assessment

The financial and risk situation of the NORD/LB Group continues to be severely impaired by the ongoing crisis in the shipping sector. In February 2019 the owners and the DSGV basically agreed on capital strengthening measures.

The Bank has set itself the goal of reducing the non-performing ship financing portfolio. The capital-boosting programme will enable an accelerated reduction of the NPL portfolio. Firstly, a contract was concluded with an investor to transfer a ship financing portfolio with an exposure of € 2.6 billion (gross before fair value discount). For a further ship financing portfolio with an exposure of € 3.8 billion, the establishment of an internal settlement unit is being examined as a leading option. It consequently became necessary to create substantial new risk provisions in 2018.

The significant consolidated loss after tax results in a considerable reduction in the Common Equity Tier 1 capital below the minimum regulatory ratios. The Bank informed the banking supervisory authorities at an early stage. The regulatory capital ratios will easily exceed the minimum capital ratios again once the capital-strengthening measures are implemented. As a result, the current owners of NORD/LB and DSGV agreed on measures to strengthen the Bank's capital at the beginning of February 2019.

Despite the difficult general conditions the Group was able to achieve some operational success in the other business segments. The ongoing cost-cutting and staff downsizing measures are also showing progress. In addition, further measures to redimension and realign the Bank were agreed with the owners.

Details of the remaining challenges, expectations, opportunities and risks can be found in the Forecast, Opportunities and Risk Report.

Forecast, Opportunities and Risk Report

General Economic Development

Global Economic Outlook

The dynamics of the global economy are dipping this year compared with the previous year. The effect of the tax reform is now fading out for the US economy, but real growth should again be around 2.5 per cent. In China and the eurozone, on the other hand, economic growth has suffered more of a setback. Unemployment will drop at a slower pace in the eurozone. The inflation rate in the single currency area fell short of the 2.0 per cent threshold and is thus again well below the inflation target of the European Central Bank (ECB).

Economic Forecast for Germany and the Eurozone

The German economy is set to recover slowly from the economic downturn. With GDP growth coming to a standstill in the second half of 2018, the most important leading indicators for the first six months point towards a basic economic trend that is flat. The potential catch-up effects in industrial production are difficult to assess after production was significantly limited in some sectors of the economy due to special effects (WLTP[1], low water levels of inland rivers). These special effects certainly exaggerated the extent of the economic slowdown. Incoming orders do point towards a gradual recovery, at least for car manufacturers, so minor catch-up effects can be expected in the spring, albeit building on a much flatter basic economic trend. The mood among financial market experts and at German companies has recently darkened quite significantly. Although the ZEW Indicator of Economic Sentiment (Leibniz Centre for European Economic Research) did improve slightly at the beginning of the year, it did so against the backdrop of a much worse assessment of the situation. With global risks sitting high, the IFO business expectations index deteriorated considerably in January once again. Even if the global risks (hard Brexit, trade war) do not become crucial factors, the German economy finds itself in a downturn in the winter of 2018/19. However, domestic demand should be robust enough to keep growth just above 1.0 per cent and thus at least close to its potential.

The leading indicators also give little hope for a rapid economic recovery in the eurozone this year either. Italy's economy fell into recession at the end of 2018. The decline in unemployment will continue at a slower pace in 2019. For the whole year, NORD/LB anticipates real economic growth of 1.2 per cent year-on-year, followed by around 1.5 per cent next year. Monetary policy will remain very expansionary initially. The downside risks for the forecast primarily include geopolitical conflicts, US trade policy, the United Kingdom’s exit from the European Union (Brexit), the forthcoming European elections in the spring and the potential political instabilities in certain eurozone states (Italy, France).

Financial Market Development and Interest Rate Forecast

The US Federal Reserve will be more cautious this year and raise its key interest rates only twice. By contrast, the ECB is continuing its very expansionary monetary policy, and likely to postpone its initial interest rate hike until 2020. So the monetary environment will remain favourable. Under such conditions, movement in capital market interest rates is likely to be rather subdued. The yield on German government bonds with a 10-year residual term should only rise moderately to 0.50 per cent by the end of 2019. As regards the USD exchange rate, NORD/LB forecasts a rate of USD 1.20 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 10 basis points. The econometric forecasting models indicate that the yield curve should remain flat.

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[1] Since 1 September 2018, new vehicles will only be registered if emissions and consumption have been determined using the new WLTP (Worldwide Harmonized Light Duty Test Procedure).

Finance Sector

The positive macroeconomic developments within 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 to achieve a lasting improvement. That said, the banking market still faces significant challenges in light of the growing regulatory requirements, the ongoing digitalisation and the political risks (including Brexit and intercontinental trade conflicts).

Shipping

After the forecasts for global economic growth were raised at the beginning of 2018, the IMF subsequently revised them downwards in the current year. An increase in global GDP of 3.5 per cent (previously 3.7 per cent) is currently expected for 2019. The risks stemming from customs disputes between the USA and China are now rated higher, and the slowing momentum of economic development in Europe (Brexit, Italy and Germany) has also played a role. Accordingly, the macroeconomic environment for the shipping industry will be somewhat more challenging again in 2019.

The container sector got off to a relatively lacklustre start in the new year. The correction on the charter market continued at the beginning of the year with corresponding implications for the number of lay-ups. In 2019 with approximately 1.15 million TEU, only slightly fewer new construction deliveries are due than in 2018. Large container ships continue to be integrated into services as a matter of priority, thereby continuing the cascade effect. In contrast to the previous year, however, the upcoming regulatory changes (International Maritime Organization [IMO] 2020, Ballast Water Treatment) are expected to bring about a significant increase in scrappage. These new general conditions offer opportunities for the sector.

The seasonal weakness in the bulker sector at the beginning of 2019 was more pronounced than in previous years. On the one hand, Chinese New Year 2019 came earlier, which had an impact on demand. On the other, the somewhat lower forecasts of Chinese GDP growth and the problems in Brazilian iron ore production fuelled uncertainty. Nevertheless, steady growth in demand (3.0 per cent) is expected for the year as a whole based on an ongoing stable need for iron ore and coal in China. The bulk tonnage deliveries will increase again but the scrappage figures will not remain at the low level seen in 2018, but rise sharply due to the forthcoming IMO requirements, meaning that the fleet growth expected in 2019 will be low again.

In the tanker market, the recovery that began in the second half of 2018 entered correction mode at the turn of the year. The reduction in OPEC production announced in December (Organisation of the Petroleum Exporting Countries) and the service measures in refineries will continue to weigh on the market in the first few months of 2019. In the second half of the year, however, we increasingly expect to see impulses from the forthcoming changes to the IMO 2020 regulations (rising demand for refined fuels). For both the product tanker and crude oil tanker sectors, the increase in demand in 2019 is likely to exceed supply-side growth overall.

Aircraft

For 2019 the IATA expects growth in global passenger traffic (RPK) of 6.0 per cent. Nonetheless the growing uncertainty regarding global economic developments means this forecast is beset by downside risks according to the IATA. The net profits of global airlines are set to rise to USD 35.5 billion (2018: USD 32.3 billion) according to the IATA predictions, with an almost unchanged net margin of roughly 4.0 per cent (2018: 3.9 per cent).

The IATA forecasts a 3.7 per cent rise in demand for air cargo volume (FTK). But again, there are downside risks to this forecast owing to the weaknesses observed towards the end of 2018.

Real Estate

The global transaction volume for commercial real estate is likely to be somewhat more moderate in the current year after the record-breaking 2018. The fundamentals for the global real estate market remain robust, but investors are being more selective given the advanced real estate cycle. This means a transaction volume of around USD 680 billion is expected for the whole year.

The German real estate market should continue to benefit from a stable economic situation in 2019. The interest-rate hike not expected before the end of the year coupled with the lack of investment alternatives will keep demand for real estate investments high. The transaction volume for commercial real estate for the whole year is expected to reach around € 55 billion. The upward trend on the German real estate market will therefore continue, albeit at a slower pace.

Events after the Balance Sheet Date and Statements on the Going Concern Assumption

Risk coverage and capital strengthening measures

On 2 February 2019, the owners and the Managing Board of NORD/LB decided to transfer a significant part of the Bank's ship financing portfolio in a volume of approx. € 2.6 billion (gross amount before fair-value discount) to an external investor as part of a portfolio transaction. A corresponding purchase and transfer agreement for the portfolio consisting entirely of non-performing ship financing was signed on 4 February 2019. For a further ship financing portfolio with an exposure of € 3.8 billion, the establishment of an internal settlement unit is being examined as a leading option. On this basis, the Managing Board decided to build up extensive additional risk provisions for the transaction portfolio as well as for the entire additional NPL portfolio in the 2018 financial year in order to ensure a complete credit risk coverage. Risk provisions were mainly measured on the basis of portfolio transactions and estimated market values. All this resulted in a consolidated loss of € 2.4 billion in the Group's consolidated financial statements as at 31 December 2018 and capital ratios fell significantly below the regulatory minimum capital requirements.

The owners of the bank have agreed to take measures together with the Deutscher Sparkassen- und Giroverband (German Savings Banks Association, DSGV) to strengthen the capital and realign the bank. Among other things, these measures include strengthening the Bank's equity capital by € 3.5 billion, whereby the contributions will not be fully made in cash, but will also be made through suitable substitute measures.

For this reason, and taking into account the assessment of the future development of the Bank, the NORD/LB Group's accounting and valuation is unchanged on the assumption of going concern. The basis for the assumption made about the future development is the long-term corporate planning of the Group in connection with the following significant measures for the realignment of the NORD/LB Group initiated in the year under review or in the period between the end of the financial year and the preparation of the Group's consolidated financial statements:

a. Preparing the conditions for the implementation of the capital measures agreed by the owners

b. Strategic re-dimensioning and far-reaching reorganisation of the Group with a focus on future-oriented business segments

c. Implementation of a comprehensive restructuring plan for sustainable cost reduction

d. Significant RWA reduction through reduction of the non-performing loan portfolio and adequate coverage against further existing risks

Assumption of continuation of business activity

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

In order to reduce the non-performing shipping loan portfolio and lay the foundations for measures to strengthen the capital ratios NORD&LB and its ownersinitiated in 2018 a comprehensive concept to reposition the Bank and strengthen its capital, which includes measures to sell non-performing loan portfolios. This was intended to prepare the Bank for further increases in regulatory requirements and permanently strengthen its crisis resilience and competitiveness. The aim is still to reposition the business model. A bidding process to allow external investors to participate in NORD/LB was carried out to strengthen capital ratios. As part of this process, bids have been received from various investors for a possible investment in NORD/LB.

At the same time, NORD/LB worked on two portfolio transactions aimed at substantially reducing its NPL shipping loan portfolios.

On 2 February 2019, having considered in depth a joint offer made by two financial investors to strengthen the capital of NORD/LB as part of the bidding process, the owners of NORD/LB decided to put this option on the back burner and focus on a joint solution with the German Savings Banks Association (DSGV) in the public sector. This decision was preceded by a discussion with the banking supervisory authority regarding the key points of the solution proposed by the owners and the DSGV.

The key points of this proposed solution to strengthen the Bank's capital and realign the business model will be a total injection of new equity capital amounting to € 3.5 billion by the owners and the DSGV, of which € 2.4 billion pertains to the states of Lower Saxony and Saxony-Anhalt, and around € 1.1 billion to the Savings Bank Financial Group. Around € 1.7 billion of the federal states' share will be paid in cash, and around € 0.8 billion will be provided in suitable capital replacement measures. In a joint letter of 20 February 2019 the owners and the DSGV submitted the key points to the banking supervisor. The proposed solution will be given more concrete form in further discussions between the owners and the DSGV over the course of 2019 and will have to be coordinated with the supervisor and the European Commission to take into account the issues relating to state aid.

On the basis of these measures to strengthen capital, the Managing Board and owners of NORD/LB also decided on 2 February 2019 to transfer part of NORD/LB’s ship financing portfolio amounting to approx. € 2.6 billion to an external investor as part of a portfolio transaction with the aim of achieving a substantial reduction in the NPL ship loan portfolio. This portfolio comprises exclusively non-performing loans. The effects of this agreed transaction on the bank’s annual financial statements and consolidated statements as at 31 December 2018 as well as additional loan loss provisions required on the remaining NPL ship loan portfolio led to an overall loan loss provision of € 1.7 billion for financial year 2018. This was instrumental in leading to a loss for the Group for financial year 2018 of approx. € 2.4 billion after tax in accordance with IFRS. Under German commercial accounting rules, NORD/LB AöR incurred a loss for the year of approx. € 2.4 billion after tax. The above-mentioned loss for financial year 2018 will result in a shortfall on the regulatory requirements for minimum capital ratios as at the closing date of 31 December 2018 until the capital injection is carried out. The banking regulators have been informed accordingly by NORD/LB.

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

Based on the above measures to strengthen capital and its loan portfolio transactions, NORD/LB, at the request of the banking regulators, has prepared a capital strategy and business plan which was submitted to the regulators on 1 March 2019 and presented to them on 4 March 2019 together with the owners and DSGV. NORD/LB assumes that with the implementation of the capital reinforcement measures included in this plan and the realignment of the business model, the capital ratios will rise again significantly in the future and meet all regulatory requirements.

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

The measures for realigning the business model of NORD/LB provide for an extensive transformation of individual business areas and subsidiaries of the bank and Group in the coming years. The capital strategy and business plan upon which the Managing Board's forecast of the bank as a going concern is based, take account of the capital injection described and the realignment of the business model.

The going concern assumption made for accounting and measurement purposes as well as the continued existence of NORD/LB are subject to considerable uncertainty and are based in particular on the assumption that

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

If the measures envisaged to reinforce capital on the level of NORD/LB are not carried out as planned, NORD/LB could be wound up. In this case or in the event of a credit rating downgrade or other adverse developments, significant outflows of short-term funds could be triggered and NORD/LB's funding options fundamentally restricted.

It is also necessary that the acceptance by market participants and other relevant stakeholders needed for any successful implementation of the realignment of NORD/LB's business model is given.

Group Forecast with Oppurtunities and Risk Report

Key Planning Assumptions

Group-wide medium-term planning was carried out again for NORD/LB in 2019. However, this year's planning process was overshadowed by the investor process running in parallel. At the beginning of 2019 the owners set the course for the future of the bank, which will probably result in a redimensioning of the NORD/LB Group and a realignment of the business model. In February 2019, the Owners' Meeting of NORD/LB and the DSGV agreed in general on an increase in capital, guarantee commitments as well as further measures to increase capital for NORD/LB totalling € 3.5 billion. No formal planning for 2019 has yet been approved by the Managing Board and Supervisory Board. The status of discussions in the investor process is currently depicted in planning scenarios. The forecast below is based on the planning scenario submitted to the supervisory authority on 1 March 2019 and adopted by the Executive Board on 5 March 2019 . It still has to be signed off by the European Commission and the decision on any state aid has not yet been made.

This planning scenario is also based on the 2019 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 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 scenario. Interest rates in 2019 are expected to remain at around the previous year’s level. In addition, an average exchange rate of USD/EUR 1.19 is assumed in the planning scenario. NORD/LB Research anticipates GDP growth of 1.9 per cent and a rise in consumer prices of +1.9 per cent for Germany, along with steady development for the iTraxx, which will continue to be driven by market sentiment. Detailed information can be found in the section dealing with general economic developments.

The forecast of the total risk exposure amount, regulatory equity, regulatory equity ratios as well as other relevant capital ratios such as the leverage ratio and the MREL ratio of the NORD/LB Group for 2019 take account of the relevant statutory provisions derived from EU Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), including transitional rules, and EU Directive No. 59/2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD), as well as further binding individual requirements of the banking supervisory authorities and the resolution authorities with regard to providing regulatory equity or MREL-eligible capital.

The NORD/LB Group – Planning Scenario for 2019

After protecting the ship financing portfolio in 2018 to a significant extent, the main challenges for the 2019 financial year are the transfer of a ship financing portfolio to a financial investor and the creation of an internal processing unit connected to a guarantee structure as the complete reduction of the remaining NPL portfolio, the implementation of the capital measures agreed upon by the Bank’s owners combined with an improvement in the financial and risk situation, and the realignment of the NORD/LB Group.

On the earnings side, a significant improvement anticipated in net commission income is expected in the 2019 planning scenario. Moderate declines in net interest income as well as significant declines in companies accounted for using the equity method and in hedge accounting will also be expected.

The sale of investments is expected to make a significantly positive contribution to the profit from shares in companies in the 2019 planning scenario.

After protecting the ship financing portfolio in 2018, risk provisions are expected to be significantly lower in 2019. In all segments, the risk provisioning planned for 2019 is set at the amount of expected cover required.

In the 2019 planning scenario, administrative expenses are expected to be moderately lower than the previous year. Staff expenses are expected to rise slightly year-on-year due to inflation, while other administrative expenses are temporarily expected to increase significantly compared with the previous year.

Other operating profit/loss in 2019 is forecast to be considerably lower than in the previous year, as special effects from the previous year no longer appear in the planning scenario.

The significantly higher expense for reorganisation and restructuring in 2019 compared with the previous year is required for the measures taken as part of the realignment and redimensioning of NORD/LB.

Due to the expectation of rising earnings with a significant decline in risk provisioning, the NORDLB Group expects a positive and considerably better profit/loss before restructuring and taxes in 2019 overall. After the reorganisation/restructuring, earnings before taxes in the 2019 planning scenario are clearly negative, but much better than in the previous year. In the 2019 planning scenario the CIR will improve significantly compared with the previous year due to a considerable increase in earnings from a sale of an investment and a moderate increase in administrative expenses; the RoE is expected to be considerably better, but will still remain negative.

Overall, NORD/LB anticipates a noticeable decrease in the total risk exposure amount in 2019, primarily as a result of the reduction in the ship financing portfolio and the redimensioning of other portfolios. On the other hand, the restructuring of securitisation transactions will have a smaller positive impact. The total assets of the NORD/LB Group are expected to fall accordingly in 2019.

The planned scenario of the NORD/LB Group for 2019 includes several measures taken by the owners of the Bank and the Savings Bank Financial Group to strengthen capital, in particular an increase in the share capital plus a premium of approximately € 2.8 billion and other capital-boosting measures. Once these measures have been implemented it is expected that the regulatory requirements and binding requirements regarding regulatory capital and MREL-eligible capital will be met in full.

One 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 the key management indicators for NORD/LB. The Bank expects the Common Equity Tier 1 capital ratio to rise markedly from 2018 year-end to 2019 year-end, and thus it will remain above all statutory requirements and other individual banking supervisory standards. This targeted increase in the Common Equity Tier 1 capital ratio in 2019 is mainly due to the implementation of the planned capital measures and the resulting increase in Common Equity Tier 1 capital as well as an expected decrease in the total risk exposure amount as a result of the realignment and redimensioning of the Group.

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

The Private and Commercial Customers segment expects its contribution to earnings before tax to decline in 2019, despite higher earnings. This is largely because of the planned risk provisioning compared with net reversals in 2018 and the absence of provision reversals under other operating profit/loss. The CIR remained stable as administrative expenses fell too. The RoRaC dropped significantly as a result of the lower result and an increase in committed capital.

In the Corporate Customers segment, the earnings before taxes are expected to dip slightly in 2019. The main influencing factor was a significant rise in administrative expenses due to an increase in inter-company cost allocations. There is expected to be a visibly positive trend in earnings. Due to higher costs the CIR will increase significantly in 2019, while the RoRaC will decrease significantly given the lower operating result and higher committed capital.

The Energy and Infrastructure Customers segment expects a significantly higher CIR in 2019. This development is partly due to reduced income from services and trading because of a stronger focus on new business. Operating costs are rising at the same time due to an increase in inter-company cost allocations. The RoRaC is falling significantly due to an increase in the calculation for committed capital, despite a noticeable increase in earnings before taxes.

In 2019 the Aircraft Customers segment is expected to post a sharp decline in earnings before taxes. The main reason for this is a significant decline in earnings due to the resizing of the business segment. The deterioration in earnings has also resulted in a significant drop in the RoRaC. The CIR will increase markedly in 2019 due to lower earnings and rising operating costs.

The operating result in the Real Estate Banking Customers segment is expected to decline substantially in 2019. This is mainly attributable to the increased risk provisioning compared with net reversals in 2018. The CIR will rise substantially in 2019 due to higher costs. As expected, the RoRaC is much lower due to the reduced operating result.

Oppurtunities and Risks

There are general opportunities but also risks in implementing the new business model and in implementing the capital measures envisaged by the Bank’s owners with the resulting effects on the NORD/LB Group’s equity ratios. Achieving the targeted figures for 2019 is subject to the approval of the banking supervisory authorities and the European Commission regarding the measures in the pipeline and their implementation. There are also opportunities and risks inherent in the planned transfer of a ship financing portfolio and in the envisaged reduction of the remaining NPL ship financing portfolio, as well as a possible rating upgrade or downgrade or the absence of an upgrade for NORD/LB.

Likewise there are opportunities and risks with regard to regulatory requirements such as the impact on earnings of stress tests, other capital requirements, the amount of the bank levy and the expenses for deposit guarantee schemes.

In 2019 there will also be opportunities and risks regarding the earnings position in the event of deviations from the planning assumptions in the economic forecast, such as yield curves, exchange rate forecasts and the economic situation, the persistently low interest rates, valuation effects from key earnings figures, any temporarily unrestricted availability of long-term unsecured funding, effects from the new approach to Brexit, an easing or intensification of the sovereign debt crisis, the write-up or write-down of investments, the unpredictability of market disruptions due to political or economic developments, the danger of terrorist attacks and geopolitical tensions.

There will also be future challenges as a result of increasing competition. Competition, including institutional competitors, 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. In today's low-interest environment, there are also promising opportunities to boost the Group's income as well as 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 effects as a result on earnings before taxes.

Further opportunities and risks stem from the implementation of bank-wide projects to realign the Group in terms of business segments, costs, IT and internal bank processes.

If the targeted developments regarding capital, earnings and costs cannot be implemented, or can only be implemented to a lesser extent, the NORD/LB Group's continued existence will be endangered.

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:

The Private and Commercial Customers segment faces both opportunities and risks in relation to the ongoing digitalisation that is resulting in radical changes in the banking industry. Changing customer behaviour is creating risks for the Group's current market share and opportunities to attract new customers or expand market share. To make adequate use of the resulting opportunities, BLSK has transformed a programme for reactivating customer relationships into a permanent sales process.

Opportunities will arise in the Corporate Customers segment from the sector-based realignment of sales and the implementation of new turnaround financing for companies. Further potential is offered by the continued expansion of the segment's good market position with a stable customer base and broad risk identification as well as the good positioning of the special areas of agricultural banking, community real estate and housing.

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, primarily in Europe. New product initiatives and the further development of existing products will ramp up existing customer relationships and tap into additional earnings potential.

The challenges stem above all from the further potential changes in the market environment, which are characterised by declining margins, negative interest rates and a change in investor behaviour. Regulatory issues with an impact on customer business, such as an increased capital adequacy requirement, will also have an impact on the segment.

The utilisation of long-term expertise and the good market position as well as enhancing 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 by tapping into neighbouring sectors and regions. The major challenges in the future will come from increasing competition in a constantly evolving market environment, especially in the renewables segment.

The earnings performance in the Ship Customers/Maritime Industry Customers segment will be characterised by a further reduction of the overall portfolio, in particular the reduction of non-performing loans. Market fluctuations will give rise to risks with regard to the need for risk provisioning, which are no longer expected after the comprehensive protection in 2018.

In the Aircraft Financing segment there is a risk that new or enhanced aircraft models will put pressure on the residual values of models with older technology after reaching a certain level of market penetration. In addition, it remains to be seen whether aircraft manufacturers, despite the announced production increases, will maintain their past discipline in order to avoid supply overhangs and thus keep the value of the delivered fleet stable.

In the Real Estate Banking Customers segment the NORD/LB Group sees an opportunity in the fact that demand for commercial real estate remains high owing to a lack of investment alternatives 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.

If the earnings and cost developments outlined above cannot be implemented, or can only be implemented to a lesser extent, there may be negative consequences for earnings before taxes. If the capital measures described above and included in the planning scenario cannot be implemented, this will cast doubt on the going concern assumption.

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.

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

As the restructuring thresholds are likely to be missed, on 5 February 2019 the Bank decided to switch to a state of restructuring. In connection with this, risk appetite was temporarily increased in the restucturing phase. This means that the calculation of risk capital and the derivation of risk limits are based on the assumption of reduced internal requirements for the capital ratios CET1 and T1. The RACE modelling approach remains in force; the changed management parametrs are intended to stay in place until the capital raising measures have been implemented. The regulator has been informed of this.

The risk-strategic and regulatory requirements on capital to be held (CET1, T1 and Total Capital) as at 31 December 2018 were missed by a wide margin. However, assuming a temporary increase in risk appetite the economic risk exposures can be fully covered with internal risk capital.

From a normative perspective, the minimum requirements (CRR Art. 92 plus P2R - Pillar 2 requirements of the ECB) for CET1 and T1 capital ratios are not met. The traffic light status is red. However, the 5.25 per cent (CET1) and 6.75 per cent (T1) thresholds adopted for managing economic risk potential during the restructuring phase are complied with.

From an economic perspective, a maximum risk coverage amount of € 2,752.6 million is calculated, taking the increased risk appetite into account. The aggregated risk potential of € 2,405.1 million (based on a confidence level of 99.9 per cent) implies a risk capital utilisation of 87.4 per cent and is fully covered.

Risk limits are monitored based on the threshold values for controlling during the restructuring phase. The reduced overall limit of € 2,660 million is sufficient to cover the risk positions as at 31 December 2018. The risk capital available as of the reporting date exceeds the reduced overall limit; so the overall limit is covered by the internal risk capital. The internal risk-strategy requirements regarding allocation to the main risk types are complied with, taking the permissible bandwidths into account.

The considerable decline in risk potential is mainly due to the reduction in counterparty and liquidity risk. The trend of reducing overall exposure continued in 2018. The main driver behind the fall in counterparty risk was the shipping portfolio, partly as a consequence of the active reduction of NPLs. The fall in liquidity risk was the result of two methodological changes, namely making the presenttaion of the liquidity buffer according to MaRisk consistent and showing trading book securities according to their holding period, which relieved the liquidity maturity balance sheet.

The interaction between the normative and the economic perspective results in an additional CET1 requirement of 0.07 per cent.

Risk-bearing capacity[1)2)]	31 Dec. 2018	31 Dec. 2017
Normative perspective		
Common equity tier 1 capital (in € million)	3 105	5 804
Regulatory risk potentials (in € million)	3 642	3 745
Common equity tier 1 capital ratio (in %)	6.82%	12.40%
Tier 1 capital ratio (in %)	7.71%	13.31%
Total capital ratio (in %)	12.78%	18.07%
Economic perspective		
Total risk potential (in € million)	**2 405**	**3 019**
Counterparty risk	1 139	1 567
Market-price risk	886	925
Liquidity risk	54	213
Operational risk	325	313
Risk capital (in € million)	**2 753**	**5 239**
Risk capital utilisation (in %)	**87.4%**	**57.6%**
Market-price risk (resolution)	**1 182**	**1 222**

1) The tabular presentation has been adjusted to meet regulatory requirements.
2) Differences in totals are rounding differences.

Credit Risk – Development in 2018

The maximum amount of default risk exposure for on-balance sheet and off-balance sheet financial instruments stood at € 159 billion on the reporting date and fell by 7 per cent in the reporting year. The reductions were mainly related to financial assets that were recognised at amortised cost or at fair value directly in equity.

Risk-bearing financial instruments (in € million)	Maximum default risk 31 Dec. 2018	Maximum default risk[1)] 31 Dec. 2017
Trading assets	8 872	9 650
Financial assets at fair value through profit or loss	3 534	–
Designated financial assets at fair value through profit or loss	–	1 333
Financial assets at fair value through other comprehensive income	20 548	24 831
Financial assets at amortised costs	114 041	121 218
Positive fair values from hedge accounting derivatives	1 152	1 385
Balancing items for financial instruments hedged in in the portfolio fair value hedge	114	65
Shares in companies	338	402
Sub-total	**148 599**	**158 884**
Contingent Liabilities and other Obligations after deducting loan provisions	10 789	13 050
Total	**159 388**	**171 934**

1) The previous years' figures for individual items have been adjusted, see Note (2) Adjustment of previous year's figures. The presentation structure of the balance sheet was adjusted as a result of the first-time application of IFRS 9; see Note (3) Adjustment of the presentation structure.

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 or at fair value. The maximum default risk exposure (Exposure at Default - EaD) 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 2018, the NORD/LB Group's total exposure is € 178 billion and is thus slightly lower than at the end of the prior year (restated figure for prior year: € 181 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 Centre). This rating scale is intended to make it easier to compare the rating classes of the individual credit institutions. NORD/LB uses the 27 rating classes of the DSGV rating master scale aligned with the IFD categories.

The Rating Structure table shows the breakdown of the total exposure of the NORD/LB Group by IFD rating class, subdivided into product types.

Rating Structure[1)2)] (in € million)	Loans 31 Dec.2018	Securities[3)] 31 Dec.2018	Derivates[4)] 31 Dec.2018	Other[5)] 31 Dec.2018	Total exposure 31 Dec.2018	Total exposure[6)] 31 Dec.2017
very good to good	95 238	23 579	7 175	16 653	142 644	142 868
stage 1[7)]	92 326	4 901	2 638	16 638	116 503	–
stage 2	1 009	–	–	5	1 015	–
fair value	1 903	18 678	4 537	10	25 127	–
good / satisfactory	11 710	2 047	293	1 708	15 759	14 421
stage 1	11 132	–	65	1 694	12 891	–
stage 2	574	753	–	14	1 341	–
fair value	4	1 294	229	–	1 527	–
reasonable / satisfactory	4 780	72	54	891	5 797	6 063
stage 1	4 279	–	2	776	5 057	–
stage 2	489	26	–	115	630	–
fair value	11	46	52	–	110	–
increased risk	3 366	175	88	336	3 965	5 395
stage 1	2 619	92	48	239	2 997	–
stage 2	735	83	–	97	915	–
fair value	12	–	41	–	53	–
high risk	1 078	–	19	143	1 239	1 525
stage 1	608	–	–	72	680	–
stage 2	464	–	–	71	535	–
fair value	5	–	19	–	24	–
very high risk	1 042	2	12	80	1 136	2 319
stage 1	285	–	–	15	300	–
stage 2	721	–	–	65	786	–
fair value	37	2	11	–	50	–
default (=NPL)[8)]	6 954	–	31	68	7 054	8 771
stage 3	6 284	–	18	68	6 370	–
fair value	670	–	13	–	683	–
Total	**124 168**	**25 875**	**7 672**	**19 879**	**177 594**	**181 362**
stage 1	111 250	4 993	2 753	19 434	138 429	–
stage 2	3 992	862	–	367	5 221	–
stage 3	6 284	–	18	68	6 370	–
fair value	2 643	20 019	4 901	10	27 573	–

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 methodology used to derive the exposure values of the Group was revised in the year under review. As part of this methodological change, the figures for the comparative reporting date of 31 December 2017 were also adjusted. The previously calculated total for 2017 was €187 341 million.
7) The levels of risk provisioning are shown. IFRS 9 introduced a new "three-step" impairment model.
8) The net amount after fair value deduction is shown as follows.

The items rated in the “very good to good” rating class fell over the reporting period by € 221 million. Total exposure ranked in the best rating category (very good to good) rose slightly and was very high at 80 per cent (79 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. Apart from the rating category of good / satisfactory, the exposure dropped in the reporting year in all other rating categories.

The breakdown of total exposure by industry shows that business conducted with relatively low-risk financing institutions and with public authorities accounts for 54 per cent (restated prior-year value: 53 per cent) and still constitutes a significant share of the total exposure.

Industries[1)2)] (in € million)	Loans 31 Dec.2018	Securities[3)] 31 Dec.2018	Derivates[4)] 31 Dec.2018	Other[5)] 31 Dec.2018	Total exposure 31 Dec.2018	Total exposure[6)] 31 Dec.2017
Financing institutes / insurance companies	42 200	13 414	2 659	8 578	66 851	65 175
Service industries / other	47 968	11 081	1 533	1 666	62 248	65 662
Of which: Land, housing	16 827	3	389	395	17 615	18 278
Of which: Public administration	17 159	10 811	223	139	28 332	30 243
Transport / communications	13 071	362	802	468	14 702	17 328
Of which: Shipping	8 638	–	26	140	8 804	11 569
Of which: Aviation	1 550	–	18	–	1 567	1 916
Manufacturing industry	5 122	430	1 239	527	7 318	7 020
Energy, water and mining	8 844	510	863	6 825	17 043	18 033
Trade, maintenance and repairs	3 579	50	393	309	4 331	4 220
Agriculture, forestry and fishing	751	–	9	1 380	2 140	2 189
Construction	1 442	28	166	48	1 684	1 677
Others[7)]	1 192	–	7	78	1 277	58
Total	**124 168**	**25 875**	**7 672**	**19 879**	**177 594**	**181 362**

[1)] The figures are reported, as in the internal reports, by economic criteria.
[2)] to [6)] please see the preceding Rating structure table.
[7)] The level of detail of the presentation has been adjusted compared with the 2017 Annual Report.

The breakdown of the total exposure by region shows that the eurozone accounts for a hefty 82 per cent (80 per cent) of the total exposure and remains by far the most important business region for the NORD/LB Group. Germany's share of this is 67 per cent (66 per cent).

Regions[1)2)] (in € million)	Loans 31 Dec.2018	Securities[3)] 31 Dec.2018	Derivates[4)] 31 Dec.2018	Other[5)] 31 Dec.2018	Total exposure 31 Dec.2018	Total exposure[6)] 31 Dec.2017
Euro countries	101 710	20 063	4 034	19 452	145 259	145 688
Of which: Germany	85 320	13 123	2 496	18 300	119 239	119 729
Other Europe	10 253	2 297	2 668	395	15 613	16 702
North America	5 522	2 522	301	–	8 345	9 618
Middle and South America	1 948	6	10	–	1 964	2 348
Middle East / Africa	759	7	2	32	800	722
Asia / Australia	3 975	980	657	–	5 613	6 219
Other[7)]	–	–	–	–	–	66
Total	**124 168**	**25 875**	**7 672**	**19 879**	**177 594**	**181 362**

[1)] The figures are reported, as in the internal reports, by the country in which the borrower is legally domiciled.
[2)] to [6)] please see the preceding Rating structure table.
[7)] The level of detail of the presentation has been adjusted compared with the 2017 Annual Report.

The exposure in the countries of Greece, Ireland, Italy, Portugal and Spain remains unchanged at € 5 billion. Their share in the total exposure remains at 3 per cent. The amount of receivables from the respective countries, regional governments and municipalities slipped to € 0.9 billion (€ 1.1 billion). This translates to 0.5 per cent (restated prior-year figure: 0.6 per cent) of the total exposure.

31 Dec. 2018 **Exposure in selected European countries**[1)2)] (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
Sovereign Exposure	–	19	743	60	86	908
Of which: CDS	–	–	–	–	–	–
Financing institutes / insurance companies	–	256	26	–	609	890
Corporates / Other	2	2 479	421	63	232	3 197
Total	**2**	**2 753**	**1 190**	**124**	**926**	**4 995**

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. 2017 **Exposure in selected European countries**[1)2)3)] (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
Sovereign Exposure	–	20	829	87	190	1 126
Of which: CDS	–	–	–	–	–	–
Financing institutes / insurance companies	–	406	62	–	551	1 020
Corporates / Other	5	2 213	389	70	248	2 926
Total	**6**	**2 639**	**1 280**	**158**	**989**	**5 072**

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.
3) In the context of methodological changes for the derivation of exposure values, individual figures for the previous year were adjusted.

31.12.2018 **Sovereign Exposure in selected European countries by maturity**[1)2)] (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
up to 1 year	–	19	111	60	50	240
more than 1 up to 5 years	–	–	179	–	35	214
more than 5 years	–	–	454	–	–	454
Total	**–**	**19**	**743**	**60**	**86**	**908**

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.

31.12.2017 **Sovereign Exposure in selected European countries by maturity**[1)2)3)] (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
up to 1 year	–	–	215	87	159	462
more than 1 up to 5 years	–	20	150	–	31	201
more than 5 years	–	–	463	–	–	463
Total	**–**	**20**	**829**	**87**	**190**	**1 126**

[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.
[3)] In the context of methodological changes for the derivation of exposure values, individual figures for the previous year were adjusted.

The NORD/LB Group has an exposure of € 634 million in Cyprus in the Corporates/Other category. This primarily concerns the ship financing portfolio whose economic risk lies outside of Cyprus. In Australia the NORD/LB Group has an exposure of € 664 million (€ 334 million with Financing institutes / insurance companies and € 320 million with Corporates/Other). The investments in Australia include, for example, structured finance customers relating to solar farm installations that really reflect NORD/LB's commitment to renewable energies. In China NORD/LB has an exposure of € 548 million (€ 290 million with Corporates/Other and € 239 million with Financing institutes / insurance companies and a € 20 million Sovereign Exposure). The Bank is also represented in China as a partner of German companies, but the focus is on aircraft financing and credit institutions. In Poland NORD/LB has an exposure of € 471 million (€ 288 million with Corporates/Other, a € 183 million Sovereign Exposure, € 1 million with Financing institutes / insurance companies). NORD/LB also closely monitors and analyses significant developments in other countries. However, the Bank does not consider it necessary to make any valuation allowances at this stage.

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 with due 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)

IFRS 9 introduced a new "three-stage" impairment model. This model must be applied to all debt instruments measured at amortised cost or at fair value directly in equity, and to off-balance-sheet liabilities.

When initially recognised, all relevant financial assets for which objective indications of impairment are not already evident must be allocated to Stage 1 of the impairment model, regardless of the credit rating of the debtor. The expected losses in this stage equal the present value of the payment defaults expected from potential default events over the next twelve months.

If at a subsequent reporting date the Bank determines that the default risk has increased significantly since initial recognition, even though objective indications of impairment do not exist, the Bank must transfer the underlying financial assets from Stage 1 to Stage 2. In this stage, risk provisioning must be recognised for the present value of the lifetime expected credit loss, taking into account the corresponding probability of default matching the relevant maturity.

If there is an objective indication of impairment on the reporting date, the financial asset is transferred to Stage 3 and is considered impaired. In this stage, risk provisioning likewise equals the present value of the lifetime expected credit loss. However, in contrast to Stage 1 or 2, interest is recognised based on the net carrying amount, i.e. after deducting risk provisioning.

The risk provisioning for the off-balance-sheet item is recognised as a provision. Uncollectable receivables amounting to less than € 10,000 are written off directly. Payments for written-off receivables are recognised through profit and loss.

Preparations for reducing the defaulted ship financing portfolio via a portfolio transaction and the establishment of an internal settlement unit resulted in a significant need for additional risk provisioning in the 2018 reporting year. The risk provisioning of the defaulted ship financing portfolio thus rose to 64 per cent. At the same time, the entire ship financing portfolio was reduced by 15 per cent.

The ratio for the portfolio of impaired receivables to the maximum default risk from on-balance-sheet and off-balance-sheet financial instruments rose to 2.5 per cent in the reporting period (restated prior-year figure: 2.1 per cent).

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, 67 per cent (50 per cent) of the gross carrying amount of the NPLs requiring valuation allowances is covered by risk provisioning. In addition to the aforementioned impaired receivables, the NPL portfolio includes all other receivables with ratings of 16 to 18.

Total NPL exposure as a share of total exposure decreased during the reporting period and as at 31 December 2018 amounted to 4.0 per cent (restated prior-year figure: 4.8 per cent). The impaired exposure of € 6.4 billion (€ 7.3 billion) was reduced and amounts to 3.6 per cent (restated prior-year figure: 4.0 per cent) of the total exposure.

Industries[1)2)]	Total exposure of impaired receivables[3)]		Portfolio risk provisions (stage 3)	Specific loan loss provisions, lump-sum specific loan loss provisions and provisions for lending business
(in € 000)	31 Dec.2018	31 Dec.2017	31 Dec.2018	31 Dec.2017
Financing institutes / insurance companies	41 001	23 892	10 140	12 172
Service industries / other	357 957	525 283	132 940	298 826
Transport / communications	5 535 075	6 427 332	3 535 591	3 058 337
Manufacturing industry	68 851	66 073	64 414	41 320
Energy, water and mining	170 757	122 999	116 266	59 495
Trade, maintenance and repairs	54 516	55 161	22 041	33 540
Agriculture, forestry and fishing	93 053	46 031	60 738	13 923
Construction	20 950	22 887	15 558	18 626
Other	27 996	–	–	–
Total	**6 370 156**	**7 289 659**	**3 957 688**	**3 536 238**

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 € 5 889 million (€ 7 007 milllion).

31 Dec. 2018	Total exposure of overdue, unimpaired receivables					
Industries[1)2)]	Up to	1 up to	3 up to	More than	Total	Portfolio risk provisions
(in € 000)	1 month	3 months	6 months	6 months		(stage 1+2)
Financing institutes / insurance companies	58 377	15 660	11	4	74 051	10 965
Service industries / other	210 433	8 478	1 386	7 648	227 945	93 344
Transport / communications	105 524	23 193	99 117	6 532	234 365	47 081
Manufacturing industry	4 536	6 600	477	3 070	14 684	23 059
Energy, water and mining	26 567	2 094	1 080	3 151	32 892	24 026
Trade, maintenance and repairs	143 374	13 023	18	1 464	157 880	14 162
Agriculture, forestry and fishing	41 240	1 133	131	199	42 704	11 057
Construction	3 930	42	259	273	4 504	6 001
Other	–	–	–	–	–	17 362
Total	**593 981**	**70 224**	**102 479**	**22 341**	**789 025**	**247 058**

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 loan loss provisions
Industries[1)2)]	Up to	1 up to	3 up to	More than	Total	
(in € 000)	1 month	3 months	6 months	6 months		
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.

Regions[1)2)]	Total exposure of impaired receivables		Portfolio risk provisions (stage 3)	Specific loan loss provisions, lump-sum specific loan loss provisions and provisions for lending business
(in € 000)	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Euro countries	5 171 477	6 504 102	3 365 717	3 212 870
Other Europe	120 664	146 675	31 819	63 061
North America	46 605	38 175	11 728	14 409
Middle and South America	252 782	–	123 019	–
Middle East / Africa	187 416	115 081	103 416	67 085
Asia / Australia	591 212	485 625	321 990	178 812
Total	**6 370 156**	**7 289 659**	**3 957 688**	**3 536 238**

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. 2018	Total exposure of overdue, unimpaired receivables					Portfolio
Regions[1)2)]	up to	1 up to	3 up to	More than	Total	risk provisions
(in € 000)	1 month	3 months	6 months	6 months		(stage 1+2)
Euro countries	563 289	62 161	18 903	22 121	666 473	182 922
Other Europe	19 734	8 063	–	220	28 017	13 443
North America	735	–	–	–	735	17 127
Middle and South America	886	–	–	–	886	4 427
Middle East / Africa	9 336	–	24 326	–	33 662	20 484
Asia / Australia	–	–	59 251	–	59 251	8 654
Total	**593 981**	**70 224**	**102 479**	**22 341**	**789 025**	**247 058**

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

31 Dec. 2017 **Regions**[1)2)] (in € 000)	Total exposure of overdue, unimpaired receivables up to 1 month	 1 up to 3 months	 3 up to 6 months	 More than 6 months	 Total	General 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.

The exposure to overdue, unimpaired receivables sank considerably, mainly due to time periods of up to three months. Sixteen per cent (21 per cent) of the portfolio of overdue, unimpaired receivables comprises 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 75 per cent (65 per cent) of receivables that are overdue by up to a month, the NORD/LB Group generally assumes that they will be repaid.

Differences in the basis of consolidation are the main reason why the risk provisioning figures presented for the risk provision stages 1 to 3 amounting to € 4,205 deviate from the risk provisions including credit provisions in Note (60) Risk provisioning and gross carrying amount, which total € 4,050 million. The ship valuation replaces the risk provision for fully consolidated ship financing exposures.

Material Group companies directly wrote off bad debts on loans of € 282 million (€ 348 million) in the reporting year. The cash receipts on to receivables written off amounted to € 48 million (€ 28 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.

Collaterals[1)] (in € million)	Total exposure of impaired receivables Loans 31 Dec.2018	 Securities 31 Dec.2018	 Derivates 31 Dec.2018	 Other 31 Dec.2018	 Total 31 Dec.2018	 Total 31 Dec.2017
Stage 3	6 284	–	18	68	6 370	–
Mortgages	37	–	–	4	42	–
Financial collaterals	14	–	–	–	14	–
Sureties and guarantees	223	–	–	8	232	–
Others	–	–	–	–	–	–
Total	**275**	**–**	**–**	**13**	**288**	**–**

1) The collateral values shown were calculated taking into account CRR eligibility and avoiding double offsetting. Items for which, for example, the collateral information was included in the LGD estimate were not included in the valuation.

As a result of collateral netting, risk-weighted assets of material Group companies as at 31 December 2018 fell by € 15 billion (€ 19 billion), which corresponds to a share of 29 per cent (35 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. With an exposure of € 236 million, no loss allowance was made due to the existing collateral. For financial assets written off during the reporting period and still subject to an enforcement order, the outstanding contractual amount is € 133 million.

Outlook

Following a strategic realignment, sufficient risk provisions were created last year to accelerate the reduction of the defaulted ship financing portfolio and the associated risks. Accordingly, no significant new risk provisioning requirement is expected for the ship financing portfolio accelerated. This assessment is based on the assumption the necessary consents to the restructuring of NORD/LB will be granted by the banking regulator and the European Commission.

Measures are planned for 2019 to further develop the models for quantifying and managing counterparty risks, both in the IRBA rating procedure and in the integrated internal portfolio model for credit and investment risks.

Investment Risk – Development in 2018

To increase earnings and reduce the capital commitment and potential risks from investments, the NORD/LB Group has divested itself of numerous investments in recent years by conducting a critical assessment of its investment portfolio. This strategy was continued during the reporting year. The sale of 75.1 per cent in NORD/LB Asset Management to M.M. Warburg & CO should be highlighted here. 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. The integration approach is designed so that investment and credit risks are simulated together to provide an integrated view.

The risk calculated for the investment portfolio on the basis of the integrated model for the reporting year totalled € 131 million (€ 102 million for unexpected loss and € 29 million for expected loss). This is an increase of € 60 million compared with the last reporting date. This is caused by the marked decline in the credit exposure, which leads to a higher share for the investment risk in the integrated model.

The parameters for the investment analysis concept of NORD/LB were validated during the reporting period, but no anomalies were identified. The materiality thresholds of the investment classification concept were adjusted as of 1 January 2018 to the Bank’s capital situation. New significant investments were not identified. An overview of the two significant investments in Deutsche Hypo and NORD/LB Luxembourg is provided. As at 31 December 2018 there were also nine significant investments that are relevant for the development of risk-bearing capacity for AöR.

Outlook

The objectives in 2019 still 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 a strong connection between investment controlling and risk controlling at the overall bank level.

Market-Price Risk – Development in 2018

The following changes took place during the reporting year in the markets that are relevant for NORD/LB. Credit spreads continued to widen in the course of the year, partly as a result of the trading conflict between the USA and China, uncertainty regarding the outcome of Brexit and the reduced purchases of securities announced by the ECB. The fourth quarter of 2018 also saw a decline in share prices and increased volatility on the stock market. The spread between the US dollar and euro interest-rates widened, particularly in the first quarter of 2018, while the EUR-USD basis spreads gradually narrowed over the course of the year.

Changes in market-price risks for NORD/LB stem among other things from the changes in the identification and monitoring of this type of risk implemented in the first quarter of 2018. Whilst a full cash-value measurement of market-price risks is carried out in the resolution case scenario of the risk-bearing capacity model, the business case scenario now focuses on market-price risks which impact the capital ratios of the NORD/LB Group in line with IFRS accounting standards via the income statement or other comprehensive income (OCI). The interest-rate risks in the investment book are thus integrated into total risk in the business case scenario via an income-oriented earnings-at-risk approach. As described in the section entitled "The Group - basic information" in the Risk Management chapter, market-price risks are divided into the three blocks of "Trading and Investments", "Treasury and Bank Management" and "Central Valuation Effects (IFRS)" from a risk-strategy perspective. In the resolution case, the second block dominates the overall risk, while in the business case the third block contributes the highest risk amount.

When determining market-price risks, the process of historic simulation is applied uniformly across the entire Group. The value-at-risk is calculated in the analyses of risk-bearing capacity at a confidence level of 99.9 per cent and a holding period of 250 business days.

As at 31 December 2018 a slightly lower VaR (99.9 per cent, 250-day holding period) of € 886 million (€ 925 million) and € 1,182 million (€ 1,222 million) respectively was calculated for the NORD/LB Group in the business case and the resolution case. The market-price risk ratios as at 2018 year-end reflect the current status of risk management at this time. There is no need for any subsequent adjustment to the additional valuation allowances for ship financing identified after the end of the year and included in the 2018 annual report. The foreign currency risks resulting from the additional valuation allowances were closed out in February 2019.

The correlated total risks from the three blocks break down for the NORD/LB Group into the individual types of risk as follows. Interest-rate risks and credit spread risks dominate. All other types of risk are of minor significance.

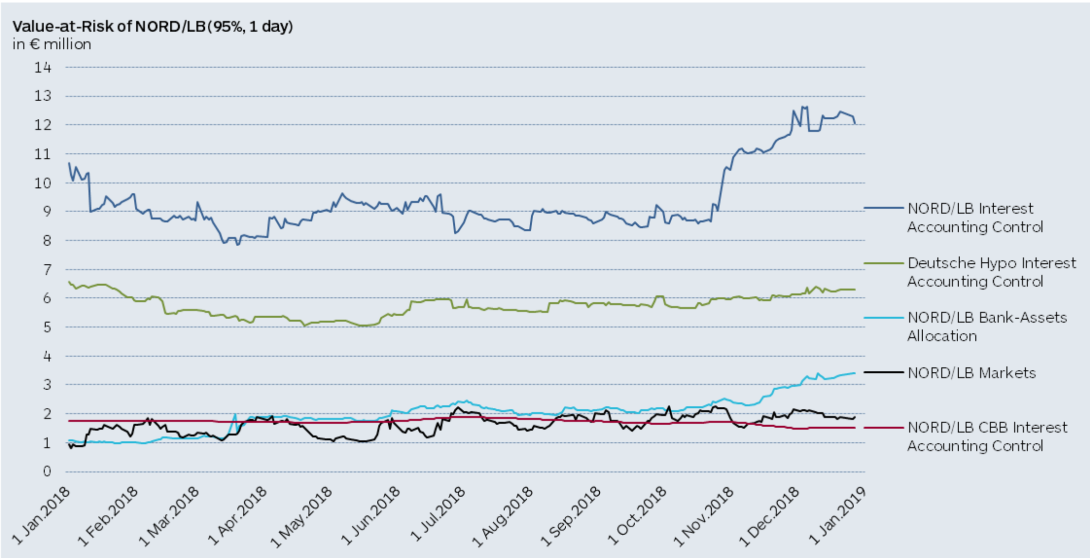
Market-Price Risks[1]	Business Case					Resolution Case				
in € million	31 Dec. 2018	30 Sep. 2018	30 Jun. 2018	31 Mar. 2018	31 Dec. 2017	31 Dec. 2018	30 Sep. 2018	30 Jun. 2018	31 Mar. 2018	31 Dec. 2017
Interest-rate risk	529	530	472	501	611	599	589	558	536	589
Credit-spread-risk	595	832	718	754	622	975	1 078	1 142	1 144	1 019
Currency risk	79	81	96	93	89	68	76	92	90	89
Stock price and fund price risk	27	28	26	19	26	27	28	26	19	26
Votality risk	19	28	23	7	8	21	27	24	11	8
Other add-ons	18	48	50	51	69	45	48	50	51	69
Total risk[2]	**886**	**1 087**	**1 273**	**1 229**	**925**	**1 182**	**1 284**	**1 230**	**1 279**	**1 222**

[1] Value at Risk (99,9%, 250d).
[2] Due to diversification effects, the overall risk is smaller than the sum of the individual risks.

The risks as at 31 December 2018 correspond to an 88 per cent utilisation of the corresponding limits in the business case and a 59 per cent utilisation in the resolution case.

The operational limiting of the individual sub-portfolios in the trade and treasury arms of the relevant units of the NORD/LB Group is implemented by way of corresponding sub-limits, which are derived from the total limits for market-price risks for the NORD/LB Group. The operational limiting of the corresponding VaR ratios is implemented partly with other parameters (confidence level, holding period) as in the risk-bearing model. For NORD/LB AöR, a confidence level of 95 per cent and holding period of one trading day is applied in operational limiting. The cash-value risk ratios of the key sub-portfolios in the NORD/LB Group are determined daily.

The following chart shows the development of the correlated value-at-risk, as calculated each day, in the cash-value perspective (resolution case) for the key sub-portfolios of the relevant units of the NORD/LB Group. In the trade and investments block referred to above, for NORD/LB AöR, this means the customer-based trade in the field of markets and the share and credit investments entered into within the framework of RWA management at the Bank Assets Allocation department. The “Treasury and bank management” block is broken down into the corresponding sub-portfolios of NORD/LB AöR, Deutsche Hypothekenbank and NORD/LB Covered Bond Bank (CBB). For reasons of comparability, the VaR ratios of the subsidiaries Deutsche Hypothekenbank and NORD/LB CBB are indicated in the chart based on parameters used by NORD/LB, even if the subsidiaries use other parameters in their operational management. The chart of NORD/LB CBB was interpolated based on month-end values.



The chart reveals an elevated risk for the “NORD/LB Interest Book Management” portfolio from October 2018. There are methodological reasons for the increase in risk, which stems from an optimised presentation of the basic risks from variable-rate loans. In the "NORD/LB Bank Assets Allocation" portfolio, increased market volatility led to an increase in risk in the fourth quarter.

Outlook

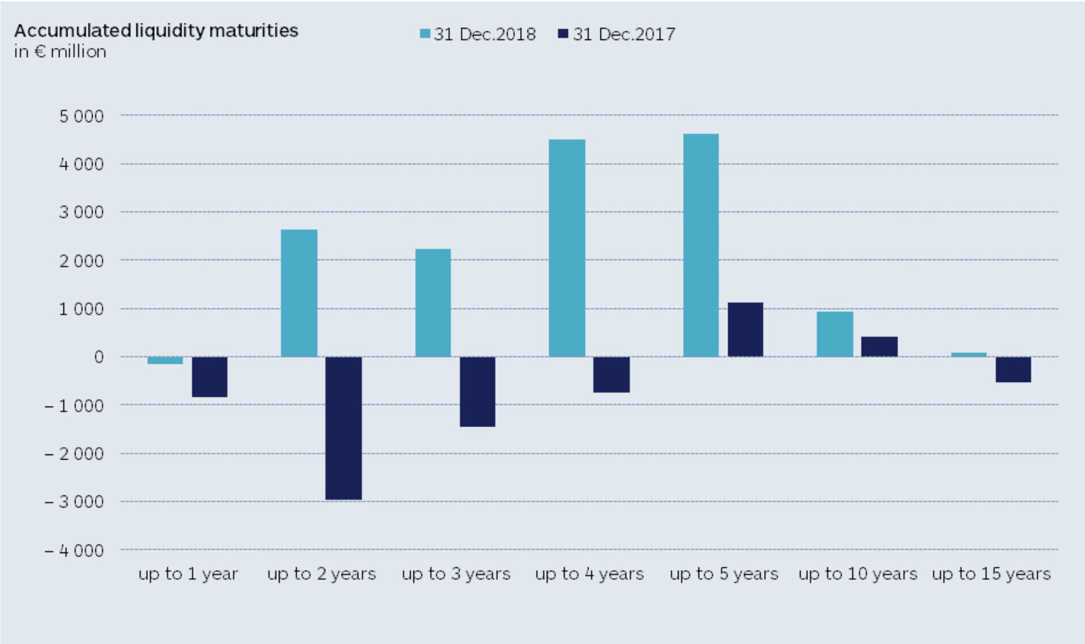
The NORD/LB Group will continue to monitor market developments for all relevant asset classes in 2019. Given its risk policy, the gradual enhancement of its risk models and the risk management process as well as its focused trading strategy, the NORD/LB Group believes it is well prepared for any turbulent market phases, e.g. as a result of global trade conflicts or Brexit. In the first quarter of 2019, the method used to depict unlimited deposits in the interest-rate risk will be adjusted. The reduction of the modelled base rates will initially lead to an increase in the present value risk in the resolution case.

Liquidity Risk – Development in 2018

The market-wide liquidity situation eased further during the reporting period, in particular as a result of measures implemented by the European Central Bank. For NORD/LB the focus is still the ongoing shipping crisis and the resultant capital requirement. This is taken into account in the daily liquidity stress tests. NORD/LB continues to have adequate liquidity at its disposal. On 21 July 2018, the bail-in liability cascade entered into force with the amendment of § 46f KWG. The significance and the implications of this are explained further in the section "Significant events in the financial year" in the Economic report of this publication. Further adjustments in line with the stricter stress scenarios from last year are not made.

The internal liquidity stress scenario relevant for management purposes was controlled in 2018 for the NORD/LB Group in the green phase and as at the reporting date the liquidity was satisfactory. The liquidity buffers were maintained for one week and one month, in accordance with the Minimum Requirements for Risk Management (MaRisk). The cumulative liquidity maturity balance sheet of the NORD/LB Group has only a liquidity gap up to one year, as shown by the sampling points. All other maturities reveal a liquidity surplus. Two model adjustments (new representation of liquidity buffer pursuant to MaRisk as well as new representation of securities in the trading book pursuant to their holding period) remove pressure on the liquidity maturity balance sheet for maturities of up to 10 years. The liquidity gap is 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 liquidity risk ratios as at 2018 year-end reflect the current status of risk management at this time. There is no need for any subsequent adjustment to the additional valuation allowances for ship financing identified after the end of the year and included in the 2018 annual report. The simulation of the effects from the agreed ship transaction results in an easing of the present-value liquidity spread risk of the NORD/LB Group by roughly € 22 million. The utilisation of the volume structure limits in EUR and USD are also improving.



The funding of the NORD/LB Group primarily comprises liabilities to banks at29 per cent (28 per cent), and to customers at 41 per cent (restated prior-year figure: 38 per cent) and securitised liabilities at 22 per cent (restated prior-year figure: 24 per cent). In addition to unsecured securities, NORD/LB also uses secured securities, including public-sector mortage bond denominated in euros and US dollars, real estate as well as ship and aircraft mortgage bonds. There is a total of € 36 billion (€ 38 billion) in mortage bonds in circulation (including mortage bonds issued prior to the entry into force of the mortage bonds Act and Lettres de Gage issued under Luxembourg law) of which public-sector mortage bonds 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 € 37 billion (restated prior-year figure: € 41 billion), of which 72 per cent (restated prior-year figure: 73 per cent) are suitable for repo transactions with the European Central Bank (ECB).

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 reporting year. The Liquidity Coverage Ratio (LCR) amounted to 150.3 per cent as at 31 December 2018 (previous year: 204.9 per cent).

Outlook

Liquidity management faced some challenges at the beginning of 2019 against the backdrop of the ongoing negotiations to boost capital and the associated public reporting.

The measures still to be implemented, and the realignment of the business model and the consents required from the regulator and the European Commission may result in investor caution in the longer-dates area, which could have a perceptible negative impact on the funding of the NORD/LB Group. Delays in raising new capital could trigger a corresponding reaction from market participants, with a negative impact on the Bank's planned liquidity position.

Potential rating downgrades would fundamentally restrict the ability to raise funding in the capital market, trigger outflows of short-term funds and increase funding costs. Adverse developments such as unplanned deteriorations in profitability or liquidity problems could negatively affect the rating or have a significant impact on funding and funding costs, trigger major outflows of short-term funds or fundamentally restrict funding abilities.

The liquidity and funding planning of NORD/LB is based on assumptions about customer behaviour, especially as regards the trend in short-term deposits. In critical situations in particular there is a risk that the assumptions used to simulate stress scenarios do not occur as expected but that major unexpected outflows of liquidity take place.

Regulatory ratios such as the LCR and distance to illiquidity would deteriorate regardless of conscious management measures, e.g. with short-term deposit volumes falling. The ECB's SREP process could require additional liquidity as part of discretionary decisions. It is also possible that the routine SREP process in the banking union could result in additional regulatory requirements in various areas under discretionary decisions by the regulator, e.g. concerning liquidity.

The monitoring and controlling of liquidity risk at NORD/LB, in particular the integrated management of internal and external risk ratios, will be expanded further. The increased regulatory and internal requirements placed on management and NORD/LB's reporting system will also be significant in 2019.

Operational Risk – Development in 2018

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 2018 amounted to € 392 million.

The NORD/LB Group incurred a loss of € 4.1 million in 2018, which is lower than the prior year (€ 15.9 million). The losses were mainly caused by “Employees”. 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. 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. As a result of the anticipated fall below the recovery threshold the Bank decided on 5 February 2019 to switch to a recovery situation. The decline in equity caused by risk provisioning related to the shipping portfolio meant that the Group's capital ratios have fallen considerably and are below the relevant minimum requirements under the normative perspective in the risk-bearing capacity model (CRR Article 92 plus the Pillar 2 requirements of the ECB) governing the CET1 and T1 ratios. The NORD/LB Group did not therefore comply with the applicable regulatory regulations on equity in 2018.

In connection with this, the risk appetite was temporarily increased for management in the recovery phase. This means that risk capital is calculated and risk limits derived assuming the internal capital requirements have been cut. This temporary management is with a view to the planned implementation of capital raising measures in 2019. As a consequence, economic risk exposures were covered at all times with internal risk capital within the reporting period, assuming greater risk appetite.

The total risk exposure amount for the NORD/LB Group was € 45,520 million (equity requirements corresponding to € 3,642 million), with equity totalling € 5,818 million as at 31 December 2018. Likewise, the requirements regarding large exposure limits in line with Art. 387 to 403 CRR and Luxembourg law were also met in full.

After protecting the ship financing portfolio to a considerable extent in 2018 a series of major challenges remain for the 2019 financial year: the complete reduction of the NPL shipping portfolio and the implementation of the capital measures agreed upon by the Bank's owners and the Savings Bank Financial Group combined with an improvement in the financial and risk situation, and the realignment of the NORD/LB Group.

In the 2019 planning scenario losses are expected to fall sharply year-on-year. This is mainly due to the large fall in risk provisioning compared to 2018. In addition, an investment is scheduled to be sold in 2019, releasing hidden reserves. As a consequence the NORDLB Group expects a positive and considerably better result before restructuring and taxes in 2019 overall. After the reorganisation/restructuring, earnings before taxes in the 2019 planning scenario are clearly negative, but much better than in the previous year. In the 2019 planning scenario the CIR will improve significantly compared with the previous year due to a considerable increase in the fair value result and a moderate increase in administrative expenses; the RoE after reorganisation/restructuring is expected to be considerably better than in the previous year, but will still remain negative.

There are general opportunities but also risks in restructuring the NORD/LB Group and in implementing the capital measures envisaged by the Bank's owners and the Savings Bank Financial Group, with resulting effects on the NORD/LB Group's equity ratios. Achieving the targeted figures for 2019 is subject to the approval of the banking supervisory authorities and the European Commission regarding the measures in the pipeline and their implementation.

Given the ongoing negotiations on raising capital and associated reporting, the NORD/LB Group is exposed to significant liquidity risk. The measures still to be implemented; the realignment of the business model and consents outstanding from the regulator and the European Commission may result in in investor caution in the longer-dated area that could have a perceptible impact on the funding of the NORD/LB Group. Should there be any delays in injecting the capital triggering corresponding reactions by market participants, this could have a negative impact on the planned liquidity position of the Bank. Potential rating downgrades would fundamentally restrict the ability to raise funding in the capital market, trigger outflows of short-term funds and increase funding costs.

Likewise there are opportunities and risks with regard to regulatory requirements such as the impact on earnings of stress tests, other capital requirements, the amount of the bank levy, the expenses for deposit guarantee schemes and the absence of the joint liability scheme,potentially placing the continued existence of the NORD/LB at risk.

In 2019 there will also be opportunities and risks regarding the earnings position in the event of deviations from the planning assumptions in the economic forecast, effects from the new approach to Brexit, an easing or intensification of the sovereign debt crisis, the write-up or write-down of investments, the unpredictability of market disruptions due to political or economic developments, the danger of terrorist attacks and geopolitical tensions.

If the targeted developments regarding capital, earnings and costs cannot be implemented, or can only be implemented to a lesser extent, the existence of the NORD/LB Group is at risk.

NORD/LB currently believes that the intended capital measures will be implemented as planned and approved by the regulator and the European Commission. On this assumption, NORD/LB feels the potentially foreseeable effects of these opportunities and risks are 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

Earnings Position

NORD/LB's earnings in the 2018 reporting year continued to be influenced by the ongoing shipping crisis, the restructuring measures as well as the merger completed in the previous year with Bremer Landesbank.

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

	1 Jan.- 31 Dec. 2018 (in € million)	1 Jan.- 31 Dec. 2017 (in € million)	Change (in %)
Net interest income	1 198	1 511	– 21
Net commission income	82	101	– 19
Earnings from financial transactions in the trading portfolio	30	121	– 75
Administrative expenses	905	1 032	– 12
Depreciation and value adjustments on intangible assets and property, plant and equipment	40	46	
Other profit / loss	– 32	– 58	– 45
Operating result before risk provisioning / valuation	**333**	**597**	**– 44**
Valuation result receivables, securities and participations	– 2 755	– 779	> 100
Assumption of investment losses	13	39	– 67
Operating result after risk provisioning / valuation	**– 2 435**	**– 221**	**> 100**
Extraordinary result	– 196	317	> 100
Partial profit transfer	–	24	– 100
Tax expense (previous year: tax income)	4	– 13	> 100
Income from loss assumptions	199	–	–
Annual net loss (previous year: annual net income)	**– 2 436**	**85**	**> 100**

In the 2018 reporting year the operating result after risk provisioning/valuation fell by € 2,214 million to € -2,435 million. This negative result was primarily attributable to the creation of further significant risk provisions for non-performing ship financing.

After accounting for the extraordinary profit/loss and the tax expenditure, there is an accumulated net loss (prior year: net profit) for the year of € -2,436 million (€ 85 million).

Net interest income breaks down as follows:

	1 Jan.- 31 Dec. 2018 (in € million)	1 Jan.- 31 Dec. 2017 (in € million)	Change (in %)
Interest income			
Interest income from lending and money market transactions	2 316	2 586	– 10
Interest income from fixed-interest securities and debt register claims	250	314	– 20
Interest income from trading portfolio	1 742	1 433	22
Negative interest income from lending and money market transactions	– 50	– 56	– 11
Income from investments	114	114	–
	4 372	**4 391**	**– 0**
Inteterest expenses			
Interest expenses from lending and money market transactions	1 074	1 014	6
Interest expenses from securitised liabilities	287	352	– 18
Interest expenses from subordinated liabilities	131	143	– 8
Interest expenses from trading portfolio	1 746	1 431	22
Positive interest income from lending and money market transactions	– 64	– 60	7
	3 174	**2 880**	**10**
Net interest income	**1 198**	**1 511**	**– 21**

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 € 313 million to € 1,198 million year-on-year. This stems primarily from the further reduction of the ship financing portfolio and from the moderate volume of new business. 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 ship financing portfolio. Margins in the credit business are largely stable though. Furthermore, because of low interest rates the contribution from interest-rate conditions on the liabilities side (due to reduced base rate advantages and the decline in the transformation result following the sale of promissory notes with high coupons in 2017) fell.

At € 82 million, **net commission income** is roughly € 19 million below last year's result. Expenses on securitisation transactions in particular rose in the reporting year. In the previous year, earnings were also generated from the transfer of the depositary function to another credit institution.

Net earnings from financial transactions in the trading portfolio fell by € 91 million to € 30 million. This result is mainly due to margins obtained in the trading business amounting to € 66 million. This is offset by the € 30 million expense on price losses from the change in credit spreads on fixed-interest securities.

Administrative expenses decreased by € 127 million in 2018 to € 905 million (€ 1,032 million). By reducing staff numbers as part of the 2020 future safeguarding agreement, the consequences of the tariff hike were more than compensated for. Payments for current wages were lower than in the previous year.

The **other operating profit/loss** improved by € 26 million in reporting year 2018 to € -32 million (€ - 58 million). This is due in particular to the lower losses from the repurchase of promissory notes and to the higher earnings from the reversal of provisions.

As in previous years, the **valuation result of receivables, securities and investments** during the reporting year was significantly affected by the ongoing shipping crisis. Expenses from the valuation result increased markedly by € 1,976 million year-on-year to € 2,755 million. The high level of new risk provisioning is due in particular to the defaulted ship financing with a total exposure of around € 2.7 billion, which - due to an intended sale to a financial investor - will be provided for based on significant discounts to the collateral values. Furthermore, provisions with similar discounts were made for further defaulted ship financing with a total exposure of up to € 3.8 billion. The risk provisioning result is determined as the sum of ship risks in conjunction with the aim of accelerating the reduction in larger sub-packages of the ship financing portfolio.

The **extraordinary result** of € -196 million related to planned reorganisation and restructuring measures.

The **tax expenditure** of € 4 million is the result of the income tax expense totalling € 12 million and the income for other taxes in the amount of € 8 million. The former is mainly derived from foreign units, while the latter stems from the reversal of tax provisions for previous years.

Net Assets and Financial Position

The following overview shows a condensed view of the balance sheet items as at 31 December 2018 and the corresponding figures for the prior year.

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Assets			
Loans and advances to banks	27 926	30 685	– 9
Loans and advances to customers	61 865	65 886	– 6
Securities	20 398	21 608	– 6
Trading portfolio	10 533	10 555	– 0
Participations and shares in companies	1 565	1 579	– 1
Other assets	8 720	8 085	8
Total assets	**131 007**	**138 398**	– 5
Liabilities			
Liabilities to banks	41 257	41 784	– 1
Liabilities to customers	49 770	49 697	0
Securitised liabilities	20 787	25 547	– 19
Trading portfolio	5 991	5 459	10
Provisions	1 306	1 173	11
Profit participation capital and subordinated liabilities	2 859	2 805	2
Liable funds	3 373	6 008	– 44
Other liabilities	5 664	5 925	– 4
Total assets	**131 007**	**138 398**	**– 5**
Balance sheet notes			
Contingent liabilities	11 389	9 582	19
Other obligations	7 156	7 538	– 5
Business volume	**149 552**	**155 518**	**– 4**

The total assets decreased compared to the prior-year reporting date by € 7.4 billion.

Loans and advances to banks decreased by 9 per cent to € 27.9 billion year on year. The decline is due largely to the reduction in loans and advances to Deutsche Bundesbank by roughly € 4 billion. This is offset by the rise in medium-term time deposits by around € 1 billion.

Loans and advances to customers are the most significant balance sheet item at 47 per cent. The change is attributable among other things to the reduction in the ship financing portfolio by about € 4 billion.

Within the **securities** position, holdings of bonds and debt securities at € 0.8 billion as well as money market instruments at € 0.4 billion were reduced by a total of € 1.2 billion. The main reasons for these reductions are that maturities were not fully replaced and additional sales were made as part of an ECB purchasing programme, while the purchase of short-term debt securities was reduced over the course of the year.

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.

The change in **liabilities to banks** is mainly attributable to the decrease in time deposits by around € 300 million and in long-term loans by around € 250 million.

The reduction in **securitised liabilities** to € 20,787 million reflects a reduction in the portfolio due to the lowering of the Bank's own issue portfolio due to maturing liabilities. Overall, the volume of new issues in the course of 2018 is well below the total maturities in the same period.

The change in the **trading portfolio** is due, among other things, to increases in the portfolio of securities owing to marketing activities. In addition, the trend in derivatives resulting from the merger of internal transactions as part of the migration of derivatives from the Bremer Landesbank books to NORD/LB led to an additional increase.

Provisions rose by € 133 million year on year. The increase is attributable in particular to the increase in restructuring provisions (One Bank transformation programme) as well as to the interest-related increase in pension provisions and the aid provision.

The **other liabilities** position includes fiduciary obligations, other liabilities, deferred income and the fund for general banking risks. The decline in this item is attributable to reduced fiduciary liabilities amounting to € -302 million.

Negative earnings after taxes for 2018 in accordance with the German Commercial Code will impact the interest payments and the valuation of the silent participations recognised in **equity** as per the German Commercial Code. On the one hand, the negative result for 2018 means the contractually agreed interest is not applied for the silent participations; on the other, the silent participations participate in the net accumulated losses on a contractual basis in accordance with their relative share in liable equity. For this reason, the balance sheet value of the individual silent participations has been reduced by the amount of the respective share of the loss (a total of € 199.1 million)

Additional 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 comply with this requirement, the NORD/LB Group reports separately outside this combined management report 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 2018" 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 2018" 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.com/nordlb/investor-relations/reports/

The information contained therein is not part of the combined management report.

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/

The information contained therein is not part of the combined management report.

Consolidated Financial Statements

Income Statement

	Notes	1 Jan.-31 Dec. 2018 (in € million)	1 Jan.-31 Dec. 2017 (in € million)	Change (in %)
Interest income from assets		6 154	6 593	– 7
Interest expenses from assets		55	64	– 14
Interest expenses from liabilities		4 900	5 191	– 6
Interest income from liabilities		80	79	1
Net interest income	**25**	**1 279**	**1 417**	**– 10**
Commission income		242	268	– 10
Commission expenses		190	156	22
Net commission income	**26**	**52**	**112**	**– 54**
Profit/loss from financial assets at fair value	27	– 282	341	> 100
Risk provisioning	28	– 1 893	– 991	– 91
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	29	31	459	– 93
Profit/loss from hedge accounting	30	9	13	– 31
Profit/loss from shares in companies	31	1	47	– 98
Profit/loss from investments accounted for using the equity method	32	21	38	– 45
Administrative expenses	33	1 011	1 156	– 13
Other operating profit/loss	34	– 45	29	> 100
Earnings before restructuring, reorganisation and taxes		**– 1 838**	**309**	**> 100**
Restructuring result	35	– 133	– 85	56
Reorganisation expenses	36	86	29	> 100
Earnings before taxes		**– 2 057**	**195**	**> 100**
Income taxes	37	297	60	> 100
Consolidated profit/loss		**– 2 354**	**135**	**> 100**
of which: attributable to the owners of NORD/LB		– 2 314	79	
of which: attributable to non-controlling interests		– 40	56	

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

The reporting structure of the income statement was adjusted as a result of the initial application of IFRS 9; see Note (3) Adjustment of the reporting structure.

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. 2018 (in € million)	1 Jan.-31 Dec. 2017 (in € million)	Change (in %)
Consolidated profit/loss	**– 2 354**	**135**	**> 100**
Other comprehensive income which is not reclassified to the income statement in subsequent periods on certain conditions			
Investments accounted for using the equity method - Share of other comprehensive income	– 1	4	> 100
Changes in financial liabilities designated at fair value through profit or loss due to changes in own credit risk	– 36	–	–
Revaluation of the net liability from defined benefit pension plans	– 23	117	> 100
Deferred taxes	– 61	– 37	65
	– 121	**84**	**> 100**
Other comprehensive income which is reclassified to the income statement in subsequent periods on certain conditions			
Changes in financial assets at fair value through other comprehensive income			
Unrealised profit/losses	– 154	– 133	16
Reclassification due to profit/loss realisation	2	81	– 98
Investments accounted for using the equity method - Share of other comprehensive income	– 33	– 22	50
Translation differences of foreign business units			
Unrealised profit / losses	– 1	– 1	–
Deferred taxes	59	30	97
	– 127	**– 45**	**> 100**
Other comprehensive income	**– 248**	**39**	**> 100**
Comprehensive income for the period under review	**– 2 602**	**174**	**> 100**
of which: attributable to the owners of NORD/LB	– 2 562	115	
of which: attributable to non-controlling interests	– 40	59	

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

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.2018 (in € million)	31 Dec.2017[1] (in € million)	Change (in %)
Cash reserve	38	1 519	2 436	– 38
Trading assets	39	8 872	9 650	– 8
of which: Loans and advances to customers		*160*	*2 127*	– 92
Financial assets mandatorily at fair value through profit or loss	39	3 534	–	–
of which: Loans and advances to banks		*104*	–	–
of which: Loans and advances to customers		*880*	–	–
Financial assets designated at fair value through profit or loss	39	–	1 333	-100
of which: Loans and advances to customers		–	*195*	-100
Financial assets at fair value through other comprehensive income	40	20 548	24 831	– 17
of which: Loans and advances to banks		*804*	–	–
of which: Loans and advances to customers		*1 005*	–	–
Financial assets at amortised cost	41	114 041	121 218	– 6
of which: Loans and advances to banks		*24 498*	*27 660*	– 11
of which: Loans and advances to customers		*85 168*	*91 608*	– 7
Positive fair values from hedge accounting derivatives	42	1 152	1 385	– 17
Balancing items for financial instruments hedged in the portfolio fair value hedge	43	114	65	75
Shares in companies	44	338	402	– 16
Investments accounted for using the equity method		173	200	– 14
Property and equipment	45	385	482	– 20
Investment property	46	86	87	– 1
Intangible assets	47	136	137	– 1
Assets held for sale	48	851	20	–
Current income tax assets	49	38	31	23
Deferred income taxes		431	716	– 40
Other assets	50	1 794	832	>100
Total assets		**154 012**	**163 825**	**– 6**

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

The reporting structure of the balance sheet was adjusted as a result of the initial application of IFRS 9; see Note (3) Adjustment of the reporting structure.

Liabilities	Notes	31 Dec.2018 (in € million)	31 Dec.2017[1] (in € million)	Change (in %)
Trading liabilities	51	3 681	3 931	– 6
Financial liabilities designated at fair value through profit or loss	51	7 767	9 040	– 14
of which: Liabilities to banks		*388*	*406*	– 4
of which: Liabilities to customers		*3 941*	*5 751*	– 31
of which: Securitised liabilities		*3 438*	*2 883*	19
Financial liabilities at amortised cost	52	133 433	138 823	– 4
of which: Liabilities to banks		*43 856*	*45 144*	– 3
of which: Liabilities to customers		*58 506*	*56 466*	4
of which: Securitised liabilities		*30 329*	*36 058*	– 16
of which: Subordinated liabilities		*3 406*	*3 531*	– 4
Negative fair values from hedge accounting derivatives	53	1 771	1 990	– 11
Balancing items for financial instruments hedged in the portfolio fair value hedge	54	734	729	1
Provisions	55	2 869	2 731	5
Liabilities held for sale		7	7	–
Current income tax liabilities	56	53	71	– 25
Deferred income taxes		43	43	–
Other liabilities	57	250	243	3
Equity	**58**			
Issued capital		1 607	1 607	–
Capital reserves		3 332	3 332	–
Retained earnings		– 1 096	983	> 100
Accumulated other comprehensive income (OCI)		– 412	316	> 100
Currency translation reserve		– 11	– 10	10
Equity capital attributable to the owners of NORD/LB		**3 420**	**6 228**	**– 45**
Additional equity		50	50	–
Equity capital attributable to non-controlling interests		– 66	– 61	8
		3 404	**6 217**	**– 45**
Total liabilities		**154 012**	**163 825**	**– 6**

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

The reporting structure of the balance sheet was adjusted as a result of the initial application of IFRS 9; see Note (3) Adjustment of the reporting structure.

Statement of Changes in Equity

The individual components of equity as well as the development of these components in 2017 and 2018 can be seen in the following statement of changes in equity:

(in € million)	Issued capital	Capital reserves	Retained earnings	Accumulated OCI	Currency translation reserve	Other equity	Equity capital attributable to the owners of NORD/LB	Additional equity	Equity capital attributable to non-controlling interests	Consolidated equity
Equity as at 1 Jan 2018	**1 607**	**3 332**	**983**	**316**	**– 10**	**–**	**6 228**	**50**	**– 61**	**6 217**
Initial application effect IFRS 9	–	–	283	– 484	–	–	– 201	–	–	– 201
Adjusted equity as at 1 Jan 2018	**1 607**	**3 332**	**1 266**	**– 168**	**– 10**	**–**	**6 027**	**50**	**– 61**	**6 016**
Consolidated profit/loss	–	–	– 2 314	–	–	–	– 2 314	–	– 40	– 2 354
Changes in financial assets at fair value through other comprehensive income	–	–	–	– 152	–	–	– 152	–	–	– 152
Investments accounted for using the equity method - Share of other comprehensive income	–	–	–	– 35	–	–	– 35	–	–	– 35
Changes in financial liabilities designated at fair value through profit or loss due to changes in own credit risk	–	–	–	– 36	–	–	– 36	–	–	– 36
Revaluation of the net liability from defined benefit pension plans	–	–	–	– 23	–	–	– 23	–	–	– 23
Translation differences of foreign business units	–	–	–	–	– 1	–	– 1	–	–	– 1
Deferred taxes	–	–	–	– 1	–	–	– 1	–	–	– 1
Other comprehensive income	–	–	–	– 247	– 1	–	– 248	–	–	– 248
Comprehensive income for the period under review	**–**	**–**	**– 2 314**	**– 247**	**– 1**	**–**	**– 2 562**	**–**	**– 40**	**– 2 602**
Changes in the basis of consolidation	–	–	– 42	–	–	–	– 42	–	35	– 7
Other changes in capital	–	–	– 6	3	–	–	– 3	–	–	– 3
Equity as at 31 Dec 2018	**1 607**	**3 332**	**– 1 096**	**– 412**	**– 11**	**–**	**3 420**	**50**	**– 66**	**3 404**

(in € million)	Issued capital	Capital reserves	Retained earnings	Accu-mulated other compre-hensive income (OCI)	Currency translation reserve	Other equity	Equity capital attribu-table to the owners of NORD/LB	Additional equity	Equity capital attribu-table to non-controlling interests	Consoli-dated equity
Equity as at 1 Jan 2017	**1 607**	**3 332**	**874**	**375**	**– 6**	**–**	**6 182**	**50**	**– 256**	**5 976**
Adjustments according to IAS 8	–	–	– 30	–	–	–	**– 30**	–	60	**30**
Adjusted equity as at 1 Jan 2017	**1 607**	**3 332**	**844**	**375**	**– 6**	**–**	**6 152**	**50**	**– 196**	**6 006**
Consolidated profit/loss	–	–	79	–	–	–	**79**	–	56	**135**
Changes in financial assets at fair value through other com-prehensive income	–	–	–	– 52	–	–	**– 52**	–	–	**– 52**
Investments accounted for using the equity method - Share of other comprehensive income	–	–	– 18	–	–	–	**– 18**	–	–	**– 18**
Revaluation of the net liability from defined benefit pension plans	–	–	117	–	–	–	**117**	–	–	**117**
Translation differences of foreign business units	–	–	–	–	– 4	–	**– 4**	–	3	**– 1**
Deferred taxes	–	–	– 37	30	–	–	**– 7**	–	–	**– 7**
Other comprehensive income	–	–	62	– 22	– 4	–	36	–	3	39
Comprehensive income for the period under review	**–**	**–**	**141**	**– 22**	**– 4**	**–**	**115**	**–**	**59**	**174**
Changes in the basis of consoli-dation	–	–	– 7	– 37	–	–	**– 44**	–	76	**32**
Other changes in capital	–	–	5	–	–	–	**5**	–	–	**5**
Equity as at 31 Dec 2017	**1 607**	**3 332**	**983**	**316**	**– 10**	**–**	**6 228**	**50**	**– 61**	**6 217**

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

For a more detailed explanation, see Note (58) Equity.

Cash Flow Statement

	1 Jan. - 31. Dec. 2018 (in € million)	1 Jan. - 31. Dec. 2017 (in € million)	Change (in %)
Consolidated profit/loss for the period	**– 2 354**	**135**	**> 100**
Non-cash items included in consolidated profit and reconciliation to cash flow from operating activities			
Depreciation, impairment and write-ups	653	– 241	> 100
Increase / decrease in provisions	227	200	14
Gains/losses from the sale of shares in companies, shares in companies accounted for using the equity method, property, plant and equipment, investment property and intangible assets	– 8	– 74	– 89
Risk provisioning	1 893	991	91
Restructuring result	133	85	56
Other adjustments net	– 961	– 3 415	– 72
Sub-total	**– 417**	**– 2 319**	**– 82**
Changes in assets and liabilities from operating activities:			
Financial assets at amortised costs	4 191	1 443	> 100
Trading assets/liabilities and hedge derivatives	1 718	– 755	> 100
Financial assets mandatorily at fair value through profit or loss	– 487	–	–
Financial assets designated at fair value through profit or loss	–	133	– 100
Financial assets at fair value through other comprehensive income	1 308	3 531	– 63
Other assets from operating activities	– 1 245	633	> 100
Financial liabilities at amortised costs	– 7 750	– 2 802	> 100
Financial liabilities designated at fair value through profit or loss	851	– 215	> 100
Other liabilities from operating activities	– 349	– 258	35
Interest received	5 707	6 295	– 9
Interest paid	– 4 224	– 4 559	– 7
Income taxes paid	– 45	– 34	32
Cash flow from operating activities	**– 742**	**1 093**	**> 100**

	1 Jan. - 31. Dec. 2018 (in € million)	1 Jan. - 31. Dec. 2017 (in € million)	Change (in %)
Cash flow from investing activities:			
Cash receipts from the disposal of			
financial assets	15	67	– 78
property and equipment	11	–	–
Payments for acquisition of			
financial assets	– 2	–	–
property and equipment	– 36	– 56	– 36
Cash receipts from the disposal of consolidated companies and other business units	–	78	– 100
Net increase / decrease in funds from other investing activities	17	288	–
Cash flow from investing activities	**5**	**377**	**– 99**
Cash flow from financing activities:			
Decrease in funds from other capital	– 56	– 246	– 77
Interest expenses on subordinated capital	– 163	– 183	– 11
Interest expenses on additional equity components	–	– 2	
Cash flow from financing activities	**– 219**	**– 431**	**– 49**
Cash and cash equivalents as at 1 January	**2 436**	**1 447**	**68**
Cash flow from operating activities	– 742	1 093	> 100
Cash flow from investing activities	5	377	– 99
Cash flow from financing activities	– 219	– 431	– 49
Total cash flow	**– 956**	**1 039**	**> 100**
Effects of changes in exchange rates	39	– 50	> 100
Cash and cash equivalents as at 31 December	**1 519**	**2 436**	**– 38**

With respect to the cash and cash equivalents as at 31 December, see Note (38) Cash reserve.

The cash flow statement does not substitute for liquidity or financial planning in the NORD/LB Group, nor is it used as a control tool. For information about the management of the liquidity risk at the NORD/LB Group, please see the extended risk report.

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 2018 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 2018 comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the Notes. Segment reporting is provided in Note (23) Segment reporting by business segment and in Note (24) Information by geographical segment. The reporting on the nature and scope of risks relating to financial instruments in accordance with IFRS 7 is mainly provided in the extended risk report within the Group management report.

In the reporting year 2018 the NORD/LB Group applied IFRS 9 and IFRS 15 for the first time. The resulting changes for accounting and measurement are described in Note (5) Adopted IFRS. In accordance with IFRS 9 methodology, from the reporting year 2018 onwards the NORD/LB Group aligns its reporting on financial instruments more to the measurement categories set out in IFRS 9 (see Note (3) Adjustment of the reporting structure).

Assets at the NORD/LB Group are generally measured at amortised cost. Notable exceptions include the financial instruments measured at fair value under IFRS 9. Accounting and measurement were based on the assumption of 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 according 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 as well as other factors, including expectations which appear reasonable given the future 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 (12) Financial instruments in conjunction with Note (59) Fair value hierarchy), measurement of provisions for pensions in respect of determining the underlying parameters (Note (20) Provisions for pensions and similar obligations and (21) Other provisions in conjunction with Note (55) Provisions), measurement of loan loss provisions in respect of future cash flows (Note (13) and (14) Risk provisioning in conjunction with Note (60) Risk provisioning and gross carrying amount), determination of deferred tax assets in respect of the impairment of unused tax losses (Note (22) Income taxes in conjunction with Note (37) Income taxes, Note (49) Income tax assets and Note (56) Income tax liabilities), measurement of provisions (Note (20) and (21) in conjunction with Note (55)). Where more extensive estimates were required, the assumptions made are presented. Please refer to the relevant information on sensitivity in Note (59) Fair value hierarchy for the impact of using assumptions to measure Level 3 financial instruments.

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 that could result in changes to accounting and measurement in subsequent periods: The use of the fair value option for financial instruments (Note (11) and (12) in conjunction with Note (39) Financial assets at fair value through profit or loss and Note (51) Financial liabilities at fair value through profit or loss), application of the reclassification rules under IFRS 9 (Note(12)), the distinction between finance leases and operating leases (Note (16) Leases in conjunction with Note (72) Lease agreements), the recognition of provisions (Note (20) Provisions for pensions and similar obligations and Note (21) Other provisions in conjunction with Note (55) Provisions), the presence of assets held for sale (Note (19) Assets held for sale in conjunction with Note (48) Assets held for sale) and the assessment of control of shares in companies including the control of credit-financed project companies or investment companies due to activities as fund manager (Note (7) Basis of consolidation in conjunction with Note (76) Disclosures concerning shares in companies).

The reporting currency for the Consolidated Financial Statements is euro. All amounts are stated as rounded figures in millions of EUR (€ million) according to standard commercial practice, unless otherwise indicated. The figures for the previous year are indicated in brackets below.

These Consolidated Financial Statements were signed by the Managing Board on 2 April 2019 and approved for forwarding to the Supervisory Board.

Risk coverage and capital strengthening measures

On 2 February 2019, the owners and the Managing Board of NORD/LB decided to transfer a significant part of the Bank's ship financing portfolio in a volume of approx. € 2.6 billion (gross amount before fair-value discount) to an external investor as part of a portfolio transaction. A corresponding purchase and transfer agreement for the portfolio consisting entirely of non-performing ship financing was signed on 4 February 2019. For a further ship financing portfolio with an exposure of € 3.8 billion, the establishment of an internal settlement unit is being examined as a leading option. On this basis, the Managing Board decided to build up extensive additional risk provisions for the transaction portfolio as well as for the entire additional NPL portfolio in the 2018 financial year in order to ensure a complete credit risk coverage. Risk provisions were mainly measured on the basis of portfolio transactions and estimated market values. All this resulted in a consolidated loss of € 2.4 billion in the Group’s consolidated financial statements as at 31 December 2018 and capital ratios fell significantly below the regulatory minimum capital requirements.

The owners of the bank have agreed to take measures together with the Deutscher Sparkassen- und Giroverband (German Savings Banks Association, DSGV) to strengthen the capital and realign the bank. Among other things, these measures include strengthening the Bank's equity capital by € 3.5 billion, whereby the contributions will not be fully made in cash, but will also be made through suitable substitute measures.

For this reason, and taking into account the assessment of the future development of the Bank, the NORD/LB Group's accounting and valuation is unchanged on the assumption of going concern. The basis for the assumption made about the future development is the long-term corporate planning of the Group in connection with the following significant measures for the realignment of the NORD/LB Group initiated in the year under review or in the period between the end of the financial year and the preparation of the Group's consolidated financial statements:

a. Preparing the conditions for the implementation of the capital measures agreed by the owners

b. Strategic re-dimensioning and far-reaching reorganisation of the Group with a focus on future-oriented business segments

c. Implementation of a comprehensive restructuring plan for sustainable cost reduction

d. Significant RWA reduction through reduction of the non-performing loan portfolio and adequate coverage against further existing risks

Going Concern Assumption

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

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

A bidding process to allow external investors to participate in NORD/LB was carried out to strengthen capital ratios. As part of this process, bids have been received from various investors for a possible investment in NORD/LB.

At the same time, NORD/LB worked on two portfolio transactions aimed at substantially reducing its NPL shipping loan portfolios.

On 2 February 2019, having considered in depth a joint offer made by two financial investors to strengthen the capital of NORD/LB as part of the bidding process, the owners of NORD/LB decided to put this option on the back burner and focus on a joint solution with the German Savings Banks Association (DSGV) in the public sector. This decision was preceded by a discussion with the banking supervisory authority regarding the key points of the solution proposed by the owners and the DSGV.

The key points of this proposed solution to strengthen the Bank's capital and realign the business model will be a total injection of new equity capital amounting to € 3.5 billion by the owners and the DSGV, of which € 2.4 billion pertains to the states of Lower Saxony and Saxony-Anhalt, and around € 1.1 billion to the Savings Bank Financial Group. Around € 1.7 billion of the federal states' share will be paid in cash, and around € 0.8 billion will be provided in suitable capital replacement measures. In a joint letter of 20 February 2019 the owners and the DSGV submitted the key points to the banking supervisor. The proposed solution will be given more concrete form in further discussions between the owners and the DSGV over the course of 2019 and will have to be coordinated with the supervisor and the European Commission to take into account the issues relating to state aid.

On the basis of these measures to strengthen capital, the Managing Board and owners of NORD/LB also decided on 2 February 2019 to transfer part of NORD/LB's ship financing portfolio amounting to approx. € 2.6 billion to an external investor as part of a portfolio transaction with the aim of achieving a substantial reduction in the NPL ship loan portfolio. This portfolio comprises exclusively non-performing loans. The effects of this agreed transaction on the bank's annual financial statements and consolidated statements as at 31 December 2018 as well as additional loan loss provisions required on the remaining NPL ship loan portfolio led to an overall loan loss provision of € 1.7 billion for financial year 2018.

This was instrumental in leading to a loss for the Group for financial year 2018 of approx. € 2.4 billion after tax in accordance with IFRS. Under German commercial accounting rules, NORD/LB AöR incurred a loss for the year of approx. € 2.4 billion after tax. The above-mentioned loss for financial year 2018 will result in a shortfall on the regulatory requirements for minimum capital ratios as at the closing date of 31 December 2018 until the capital injection is carried out. The banking regulators have been informed accordingly by NORD/LB.

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

Based on the above measures to strengthen capital and its loan portfolio transactions, NORD/LB, at the request of the banking regulators, has prepared a capital strategy and business plan which was submitted to the regulators on 1 March 2019 and presented to them on 4 March 2019 together with the owners and DSGV. NORD/LB assumes that with the implementation of the capital reinforcement measures included in this plan and the realignment of the business model, the capital ratios will rise again significantly in the future and meet all regulatory requirements.

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

The measures for realigning the business model of NORD/LB provide for an extensive transformation of individual business areas and subsidiaries of the bank and Group in the coming years. The capital strategy and business plan upon which the Managing Board's forecast of the bank as a going concern is based, take account of the capital injection described and the realignment of the business model.

The going concern assumption made for accounting and measurement purposes as well as the continued existence of NORD/LB are subject to considerable uncertainty and are based in particular on the assumption that

- the measures pursued to strengthen capital on the level of NORD/LB will be implemented, completed and approved by all relevant stakeholders, in particular by the state parliaments of Lower Saxony and Saxony-Anhalt and the DSGV, with the result that the capital ratios and buffers as well as the thresholds required by the regulators will be met again in future,
- the banking regulators, in particular the European Central Bank, the Federal Financial Supervisory Authority and the Deutsche Bundesbank, will tolerate the failure to meet the minimum capital ratios demanded by the regulators until the measures pursued to reinforce capital on the level of NORD/LB have been completed,

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

If the measures envisaged to reinforce capital on the level of NORD/LB are not carried out as planned, NORD/LB could be wound up. In this case or in the event of a credit rating downgrade or other adverse developments, significant outflows of short-term funds could be triggered and NORD/LB's funding options fundamentally restricted.

It is also necessary that the acceptance by market participants and other relevant stakeholders needed for any successful implementation of the realignment of NORD/LB's business model is given.

With regard to the assessment of the going concern assumption and further information on the concrete implementation of measures a. to d., we additionally refer to the comments in the management report.

(2) Restatement of previous year's figures

In these Consolidated Financial Statements the previous year's figures were adjusted in the following points in accordance with IAS 8.42.

In the context of preparing the consolidated financial statements for the 2016 and 2017 reporting years, a consolidation entry was made in relation to the NORD/LB provident fund which should not have been made. As at 31 December 2016 and 31 December 2017, the recognition resulted in an increase of approximately € 7 million and € 9 million respectively in the balance sheet items of other assets and retained earnings. As part of an adjustment in accordance with IAS 8, the prior-year figures in these financial statements were therefore reduced by € 16 million each for the aforementioned items. At the same time, the deferred tax items were adjusted in this context. Deferred tax liabilities were reduced by € 2 million. Deferred tax assets by were increased €3 million and deferred taxes within retained earnings were increased by € 5 million. The statement of comprehensive income for 2017 also changed; the revaluation of the net liability from defined benefit pension plans decreased by € 9 million, while the related deferred taxes increased by € 3 million.

As at 31 December 2017, internal Group transactions in connection with liquidity management of NORD/LB Group were recorded which should have been eliminated when compiling the consolidated financial statements. Debts totalling approximately € 1.5 billion were not consolidated. Prior-year figures in these consolidated financial statements were corrected accordingly, which led to a reduction in financial assets at amortised cost as well as to a reduction in financial liabilities at amortised cost in the balance sheet as at 31 December 2017.

In the consolidated financial statements as at 31 December 2017, a consolidation entry of € 75 million was made to eliminate Group issues with regard to securitised liabilities. Instead, the securitised liabilities under subordinated capital should have been eliminated. The previous year's figures for liabilities in these consolidated financial statements were adjusted accordingly. In the context of the new balance sheet structure (see Note (3) Adjustment of the reporting structure), this led to a reduction of € 75 million in subordinated liabilities within the item financial liabilities at amortised cost.

As part of the initial and subsequent consolidation of the KMU Group, the fair value of the liabilities of KMU Shipping Invest GmbH was overstated by € 60 million. This amount shown in "Equity capital attributable to non-controlling interests" under liabilities should have been booked in risk provisioning as a pre-existing relationship or as an adjustment item in liabilities through profit and loss or directly in equity as part of the initial consolidation. Consequently, the consolidated retained earnings and the liabilities were overstated in the subsequent years. This error is corrected in the prior-year figures of these consolidated financial statements by adjusting the aforementioned liability items accordingly.

Adjustment of consolidated profit and comprehensive income for the period from 1 January to 31 December 2017:

1 Jan. - 31 Dec.2017 (in € million)	Before adjustment	Adjustment NORD/LB provident fund	After adjustment
Consolidated profit/loss	**135**	**–**	**135**
Other comprehensive income which is not recycled in the income statement in subsequent periods			
Investments accounted for using the equity method - Share of other operating profit / loss	4	–	4
Revaluation of the net liability from defined benefit pension plans	126	– 9	117
Deferred taxes	– 40	3	– 37
	90	**– 6**	**84**
Other comprehensive income which is recycled in the income statement in subsequent periods on certain conditions	**– 45**	**–**	**– 45**
Other comprehensive income	**45**	**– 6**	**39**
Comprhensive income for the period under review	**180**	**– 6**	**174**
of which: attributable to the owners of NORD/LB	121	– 6	115
of which: attributable to non-controlling interests	59	–	59

Restatement of balance sheet figures as at 31 December 2017:

31 Dec.2017 (in € million)	Before adjustment	Adjustment NORD/LB provident fund	Adjustment debt consoli-dation	Adjustment Group issues	Adjustment KMU	After adjustment
Assets						
Financial assets at amortised cost	122 759	–	– 1 541	–	–	121 218
of which: Loans and advances to banks	29 201	–	– 1 541	–	–	27 660
Deferred income taxes	713	3	–	–	–	716
Other assets	848	– 16	–	–	–	832
	41 059	–	–	–	–	41 059
Total assets	**165 379**	**– 13**	**– 1 541**	**–**	**–**	**163 825**
Liabilities						
Financial liabilities at amortised cost	140 389	–	– 1 541	–	– 25	138 823
of which: Liabilities to banks	46 710	–	– 1 541	–	– 25	45 144
of which: Securitised liabilities	36 058	–	–	–	–	36 058
of which: Subordinated liabilities	3 606	–	–	– 75	–	3 531
Deferred income taxes	55	– 2	–	–	– 10	43
Equity						–
Issued capital	1 607	–	–	–	–	1 607
Capital reserves	3 332	–	–	–	–	3 332
Retained earnings	1 019	– 11	–	–	– 25	983
Accumulated other OCI	316	–	–	–	–	316
Currency translation reserve	– 10	–	–	–	–	– 10
Equity capital attributable to the owners of NORD/LB	**6 264**	**– 11**	**–**	**–**	**– 25**	**6 228**
Additional equity	50	–	–	–	–	50
Equity capital attributable to non-controlling interests	– 121	–	–	–	60	– 61
	6 193	**– 11**	**–**	**–**	**35**	**6 217**
	18 742	–	–	–	–	18 742
Total liabilities and equity	**165 379**	**– 13**	**– 1 541**	**–**	**–**	**163 825**

The openting balance sheet for the previous year was not presented as there are no material effects on the comparative period.

The respective restatements were also taken into account in the following notes: (41) Financial assets at amortised cost, (49) Income tax assets, (50) Other assets, (52) Financial liabilities at amortised cost, (56) Income tax liabilities, (59) Fair value hierarchy.

(3) Adjustment of the reporting structure

In the 2018 financial year, the NORD/LB Group changed the structure of the income statement, the balance sheet and other explanatory notes to provide more reliable and relevant information about the financial position, earnings position and financial performance of the Group in preparation for the first application of IFRS 9. In terms of financial instruments this aligns the Group's reporting more closely with the measurement categories of IFRS 9.

The relevant corresponding figures of the previous year are compared with the IFRS 9 values. As permitted, the Bank did not restate the prior-year figures retrospectively to account for the new IFRS 9 requirements. The effects resulting from the initial application of IFRS 9 as at 1 January 2018 are recognised directly in equity. The values for the 2018 reporting year are therefore compared with prior-year figures determined using the requirements of IAS 39 for the financial year 2017.

The following tables show the adjustments between the former and new items on the income statement and balance sheet using accounting standards as laid down by the IFRS to be applied on 31 December 2017 and thus before the application of IFRS 9.

Before adjustment 1 Jan. - 31 Dec.2017 (in € million)		Adjustments Reclassification of risk provisioning for lending business	Aggregation of fair value result	Breakdown of profit/loss from financial instruments	Breakdown of administrative expenses	Breakdown of other operating profit/loss	After adjustment	
Interest income from assets	6 593	–	–	–	–	–	Interest income from assets	6 593
Interest expenses from assets	64	–	–	–	–	–	Interest expenses from assets	64
Interest expenses from liabilities	5 191	–	–	–	–	–	Interest expenses from liabilities	5 191
Interest income from liabilities	79	–	–	–	–	–	Interest income from liabilities	79
Net interest income	**1 417**	**–**	**–**	**–**	**–**	**–**	**Net interest income**	**1 417**
Risk provisioning for lending business	– 986	986	–	–	–	–		
Commission income	268	–	–	–	–	–	Commission income	268
Commission expenses	156	–	–	–	–	–	Commission expenses	156
Net commission income	**112**	**–**	**–**	**–**	**–**	**–**	**Net commission income**	**112**
		–	341	–	–	–	Profit/loss from financial assets at fair value	341
Trading result	– 82	–	82	–	–	–		
Profit/loss from fair value option	423	–	– 423	–	–	–		
	–	– 986	–	– 5	–	–	Risk provisioning	– 991
		–	–	105	–	354	Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	459
Profit/loss from financial assets at fair value through profit or loss	**341**	**–**	**–**	**–**	**–**	**–**		
Profit/loss from hedge accounting	13	–	–	–	–	–	Profit/loss from hedge accounting	13
Profit/loss from financial instruments	147	–	–	– 147	–	–		
		–	–	47	–	–	Profit/loss from shares in companies	47
Profit/loss from investments accounted for using the equity method	38	–	–	–	–	–	Profit/loss from investments accounted for using the equity method	38
Administrative expenses	– 1 185	–	–	–	29	–	Administrative expenses	– 1 156
Other operating profit/loss	383	–	–	–	–	– 354	Other operating profit/loss	29
Result before restructuring and taxes	**280**	**–**	**–**	**–**	**–**	**–**	**Earnings before restructuring, reorganisation and taxes**	**309**
Restructuring result	– 85	–	–	–	–	–	Restructuring result	– 85
	–	–	–	–	– 29	–	Reorganisation expenses	– 29
Earnings before taxes	**195**	**–**	**–**	**–**	**–**	**–**	**Earnings before taxes**	**195**
Income taxes	– 60	–	–	–	–	–	Income taxes	– 60
Consolidated profit/loss	**135**	**–**	**–**	**–**	**–**	**–**	**Consolidated profit/loss**	**135**
of which: attributable to the owners of NORD/LB	79	–	–	–	–	–	of which: attributable to the owners of NORD/LB	79
of which: attributable to non-controlling interests	56	–	–	–	–	–	of which: attributable to non-controlling interests	56

Before adjustment		Adjustments				After adjustment	
31 Dec.2017 (in € million)		Net value of financial assets measured at amortised cost	Breakdown of financial assets at fair value through profit or loss	Reclassification of positive fair values from hedge accounting derivatives	Breakdown of financial assets		
Cash reserve	2 436	–	–	–	–	Cash reserve	2 436
	–	–	9 650	–	–	Trading assets	9 650
	–	–	–	–	–	Financial assets mandatorily at fair value through profit or loss	–
	–	–	1 333	–	–	Financial assets designated at fair value through profit or loss	1 333
	–	–	–	–	24 831	Financial assets at fair value through other comprehensive income	24 831
Loans and advances to banks	27 661	– 27 661	–	–	–		
Loans and advances to customers	95 115	– 95 115	–	–	–		
Risk provisioning	– 3 508	3 508	–	–	–		
	–	119 268	–	–	1 950	Financial assets at amortised cost	121 218
	–	–	–	1 385	–	Positive fair values from hedge accounting derivatives	1 385
Balancing items for financial instruments hedged in in the portfolio fair value hedge	65	–	–	–	–	Balancing items for financial instruments hedged in in the portfolio fair value hedge	65
Financial assets at fair value through profit or loss	10 983	–	– 10 983	–	–		
Positive fair values from hedge accounting derivatives	1 385	–	–	– 1 385	–		
Financial assets	27 183	–	–	–	– 27 183		
	–	–	–	–	402	Shares in companies	402
Investments accounted for using the equity method	200	–	–	–	–	Investments accounted for using the equity method	200
Property and equipment	482	–	–	–	–	Property and equipment	482
Investment property	87	–	–	–	–	Investment property	87
Intangible assets	137	–	–	–	–	Intangible assets	137
Assets held for sale	20	–	–	–	–	Assets held for sale	20
Current income tax assets	31	–	–	–	–	Current income tax assets	31
Deferred income taxes	716	–	–	–	–	Deferred income taxes	716
Other assets	832	–	–	–	–	Other assets	832
Total assets	**163 825**	**–**	**–**	**–**	**–**	**Total assets**	**163 825**

Before adjustment		Adjustments			After adjustment	
31 Dec.2017 (in € million)		**Reclassification of financial liabilities measured at amortised cost**	**Breakdown of financial liabilities at fair value through profit or loss**	**Reclassification of negative fair values from hedge accounting derivatives**		
Liabilities to banks	45 144	– 45 144	–	–		
Liabilities to customers	56 466	– 56 466	–	–		
Securitised liabilities	33 682	– 33 682	–	–		
	–	–	3 931	–	Trading liabilities	3 931
	–	–	9 040	–	Financial liabilities designated at fair value through profit or loss	9 040
	–	138 823	–	–	Financial liabilities at amortised cost	138 823
	–	–	–	1 990	Negative fair values from hedge accounting derivatives	1 990
Balancing items for financial instruments hedged in in the portfolio fair value hedge	729	–	–	–	Balancing items for financial instruments hedged in in the portfolio fair value hedge	729
Financial liabilities at fair value through profit or loss	12 971	–	– 12 971	–		
Negative fair values from hedge accounting derivatives	1 990	–	–	– 1 990		
Provisions	2 731	–	–	–	Provisions	2 731
Liabilities held for sale	7	–	–	–	Liabilities held for sale	7
Current income tax liabilities	71	–	–	–	Current income tax liabilities	71
Deferred income taxes	43	–	–	–	Deferred income taxes	43
Other liabilities	243	–	–	–	Other liabilities	243
Subordinated capital	3 531	– 3 531	–	–		
Equity					**Equity**	
Issued capital	1 607	–	–	–	Issued capital	1 607
Capital reserves	3 332	–	–	–	Capital reserves	3 332
Retained earnings	983	–	–	–	Retained earnings	983
Revaluation reserve	316	–	–	–	Accumulated other comprehensive income (OCI)	316
Currency translation reserve	– 10	–	–	–	Currency translation reserve	– 10
Equity attributable to the owners of NORD/LB	**6 228**	**–**	**–**	**–**	**Equity attributable to the owners of NORD/LB**	**6 228**
Additional equity	50	–	–	–	Additional equity	50
Non-controlling interests	– 61	–	–	–	Equity capital attributable to non-controlling interests	– 61
Total liabilities	**163 825**	**–**	**–**	**–**	**Total liabilities**	**163 825**

(4) Reconciliation of categories and classes from IAS 39 to IFRS 9

As a result of the initial application of IFRS 9 as at 1 January 2018, there is in some cases a change of measurement category compared with IAS 39 for financial assets and liabilities as the financial instruments are assessed based on the business model valid at this time. The following table shows the effects for each class of financial instruments stemming from the change in category and changed measurement. Firstly, the carrying amounts as at 31 December 2017 of the financial instruments valued in accordance with the provisions of IAS 39 and classified under IFRS 7 with an unchanged measurement are organised into the newly defined classes of financial instruments pursuant to IFRS 7 using IFRS 9. This change is reported for each class in the “reclassification” line. In a second step, the measurement provisions of IFRS 9 are applied to the new classes of financial instruments pursuant to IFRS 7. This effect is reported for each class in the “revaluation” line. The total of the carrying amount recognised in accordance with IAS 39 as at 31 December 2017 and the effect from the first application of IFRS 9 is equal to the carrying amount in the balance sheet of financial instruments for each class under IFRS 9 as at 1 January 2018.

	IAS 39 Holding category	**Financial assets at fair value through profit or loss**				**Financial assets reported at fair value**	**Financial assets not reported at fair value**	**LaR**	**LaR**
	IAS 39 class	Trading assets (HfT)	Financial assets as at fair value through profit or loss			Financial assets of the category AfS	Financial assets of the category LaR	Loans and advances to banks[1]	Loans and advances to customers[1) 2)]
(in € million)			Continuation FVO	Voluntary revocation FVO	Required revocation FVO				
Carrying amounts IAS 39 as at 31.12.2017		9 650			1 333	25 231	1 953	27 626	91 762
IFRS 9 class	**Total carrying amounts IFRS 9 as at 1.1.2018**								
Trading assets									
Derivatives									
Reclassification	**4 701**	4 701	–	–	–	–	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**4 701**	4 701	–	–	–	–	–	–	–
Equity instruments									
Reclassification	**2**	2	–	–	–	–	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**2**	**2**	–	–	–	–	–	–	–
Debt securities									
Reclassification	**3 317**	2 819	–	–	92	309	97	–	–
Revaluation	**1**	–	–	–	–	–	1	–	–
Carrying amount IFRS 9 as at 1.1.2018	**3 318**	**2 819**	–	–	**92**	**309**	**98**	–	–
Loans and advances									
Reclassification	**2 660**	2 106	–	–	–	–	–	–	554
Revaluation	**4**	–	–	–	–	–	–	–	4
Carrying amount IFRS 9 as at 1.1.2018	**2 664**	**2 106**	–	–	–	–	–	–	**558**
Financial assets mandatorily at fair value through profit or loss									
Equity instruments									
Reclassification	**82**	–	–	–	–	82	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**82**	–	–	–	–	**82**	–	–	–
Debt securities									
Reclassification	**2 412**	–	–	–	883	1 260	269	–	–
Revaluation	**– 16**	–	–	–	–	–	– 16	–	–
Carrying amount IFRS 9 as at 1.1.2018	**2 396**	–	–	–	**883**	**1 260**	**253**	–	–
Loans and advances									
Reclassification	**1 798**	–	–	–	–	54	–	84	1 660
Revaluation	**– 464**	–	–	–	–	–	–	1	– 465
Carrying amount IFRS 9 as at 1.1.2018	**1 334**	–	–	–	–	**54**	–	**85**	**1 195**

1)

	IAS 39 Holding category	Financial assets at fair value through profit or loss				Financial assets reported at fair value	Financial assets not reported at fair value	LaR	LaR
	IAS 39 class	Trading assets (HfT)	Financial assets as at fair value through profit or loss			Financial assets of the category AfS	Financial assets of the category LaR	Loans and advances to banks[1]	Loans and advances to customers[1][2]
(in € million)			Continuation FVO	Voluntary revocation FVO	Required revocation FVO				
Financial assets at fair value through other comprehensive income									
Debt securities									
Reclassification	**19 906**	–	–	–	18	19 774	114	–	–
Revaluation	**3**	–	–	–	–	–	3	–	–
Carrying amount IFRS 9 as at 1.1.2018	**19 909**	–	–	–	**18**	**19 774**	**117**	–	–
Loans and advances									
Reclassification	**1 987**	–	–	–	–	–	–	881	1 106
Revaluation	**128**	–	–	–	–	–	–	58	70
Carrying amount IFRS 9 as at 1.1.2018	**2 115**	–	–	–	–	–	–	**939**	**1 176**
Financial assets at amortised cost									
Debt securities									
Reclassification	**5 021**	–	–	145	–	3 406	1 470	–	–
Revaluation	**– 25**	–	–	– 3	–	– 24	2	–	–
Carrying amount IFRS 9 as at 1.1.2018	**4 996**	–	–	**142**	–	**3 382**	**1 472**	–	–
Loans and advances									
Reclassification	**115 320**	22	–	–	195	–	–	26 661	88 442
Revaluation	**– 58**	–	–	–	– 41	–	–	62	– 79
Carrying amount IFRS 9 as at 1.1.2018	**115 262**	**22**	–	–	**154**	–	–	**26 723**	**88 363**
Shares in companies									
Reclassification	**349**	–	–	–	–	346	3	–	–
Carrying amount IFRS 9 as at 1.1.2018	**349**	–	–	–	–	**346**	**3**	–	–

[1] The IAS 39 carrying amount as at 31 December 2017 does not include risk provisioning in relation to loans and advances to banks and in relation to loans and advances to customers it contains risk provisioning in the amount of € 3 508 million.
[2] In relation to banks, the IAS 39 carrying amount as at 31 December 2017 includes claims from initial margin paid in the amount of € 196 million, which in the previous year were reported under Other assets.

The previously presented table for financial assets includes all key changes due to the first application of IFRS 9.

Financial assets at fair value through profit or loss

For assets measured at fair value through profit or loss under IAS 39 the main business model is “Other”, so the fair value measurement through profit or loss continues to apply.

For the lion’s share of debt securities and loans and advances that were allocated upon initial recognition to the fair value option under IAS 39 to avoid or significantly reduce accounting mismatches, a mandatory resolution of the fair value option took place as the allocated business model already provides for fair value measurement respectively the accounting mismatches at the time of initial application of IFRS 9 no longer existed. In the latter case, depending on the business model and the cash-flow criterion the debt securities were measured at fair value through other comprehensive income while the loans and advances were measured at amortised cost.

For the rest of the debt securities that were allocated upon initial recognition to the fair value option under IAS 39 to avoid or significantly reduce accounting mismatches, the option to rescind the fair value option was exercised on the initial application of IFRS 9. Instead, they are measured at amortised cost from 2018 as there is an intention to hold them and the cash-flow criterion is met.

As part of the transition to IFRS 9, loans and advances that were measured at fair value through profit or loss as trading assets under IAS 39 are measured at amortised cost as a result of the business model and the fulfilment of the cash-flow criterion.

Effective interest rates of between 2.54 per cent and 5.27 per cent were used to determine the amortised cost of financial assets that were measured at fair value through profit or loss under IAS 39. In the 2018 reporting year, interest income amounting to € 14 million from these financial assets was recognised.

Financial assets classified as AfS

For debt securities classified as available for sale under IAS 39, the main business model is Hold and Sell and the cash-flow criterion is met, so the measurement at fair value through other comprehensive income still applies.

Some of the debt securities are held for trading at the time IFRS 9 is first applied or are managed on the basis of fair value, so they are measured at fair value through profit or loss.

Some other debt securities are managed in the Group's treasury departments with the aim of generating long-term profits and are assigned to the business model Hold. As the cash-flow criterion is also met, these are recognised at amortised cost from 2018.

The equity instruments and shares in companies classified as available for sale under IAS 39 are always measured at fair value through profit or loss from the date of initial application in accordance with the accounting provisions of IFRS 9. Due to the business model, loans and advances classified as available for sale under IAS 39 have to be measured at fair value through profit or loss under IFRS 9.

Financial assets classified as LaR

The business model Hold applies for most of the debt securities classified in the Loans and Receivables category under IAS 39. Since the cash-flow criterion is also met they are still measured at amortised cost.

Some of the debt securities are held for trading at the time IFRS 9 is first applied or are managed on the basis of fair value, so they are measured at fair value through profit or loss.

For other debt securities both the contractual cash flows are to be received and significant sales proceeds are to be generated. This is why the measurement is at fair value and recognition is through other comprehensive income where the cash-flow criterion is met.

Loans and advances classified as LaR

For loans and advances classified in the Loans and Receivables category under IAS 39, the business model is Hold and the cash-flow criterion is met, so the measurement at amortised cost still applies.

Some of the loans and advances are held for trading upon the initial recognition of IFRS 9 so these are measured at fair value through profit and loss.

Other loans and advances are measured at fair value through profit and loss since the contractual cash flows are not just interest and principal payments and so the cash-flow criterion is not met.

For other loans and advances there is no intention to hold; instead, both the contractual cash flows are to be received and significant sales proceeds are to be generated. This is why the measurement is at fair value and recognition is through other comprehensive income where the cash-flow criterion is met.

(in € million)	IAS 39 Holding category / IAS 39 class	Financial liabilities at fair value through profit or loss: Trading liabilities (HfT)	Financial liabilities designated at fair value (DFV): Continuation FVO	Financial liabilities designated at fair value (DFV): Voluntary revocation FVO	Financial liabilities designated at fair value (DFV): Required revocation FVO	Other liabilities: Liabilities to banks	Other liabilities: Liabilities to customers	Other liabilities: Securitised liabilities	Other liabilities: Subordinated capital
Carrying amounts IAS 39 as at 31.12.2017		4 090			9 040	45 144	56 459	33 682	3 531
IFRS 9 class	**Total carrying amounts IFRS 9 as at 1.1.2018**								
Trading liabilities									
Derivatives									
Reclassification	**3 910**	3 910	–	–	–	–	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**3 910**	**3 910**	–	–	–	–	–	–	–
Delivery obligations from short-sales									
Reclassification	**180**	180	–	–	–	–	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**180**	**180**	–	–	–	–	–	–	–
Financial liabilities designated at fair value through profit or loss									
Deposits									
Reclassification	**4 005**	–	4 005	–	–	–	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**4 005**	–	**4 005**	–	–	–	–	–	–
Securitised liabilities									
Reclassification	**2 883**	–	2 883	–	–	–	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**2 883**	–	**2 883**	–	–	–	–	–	–
Financial liabilities at amortised cost									
Deposits									
Reclassification	**104 597**	–	–	2 152	–	45 144	56 459	–	825
Revaluation	**– 284**	–	–	– 291	–	8	– 1	–	–
Carrying amount IFRS 9 as at 1.1.2018	**104 313**	–	–	**1 861**	–	**45 152**	**56 458**	–	**825**
Securitised liabilities									
Reclassification	**36 388**	–	–	–	–	–	–	33 682	2 706
Carrying amount IFRS 9 as at 1.1.2018	**36 388**	–	–	–	–	–	–	**33 682**	**2 706**
Other financial liabilities									
Reclassification	**8**	–	–	–	–	8	–	–	–
Revaluation	**– 8**	–	–	–	–	– 8	–	–	–
Carrying amount IFRS 9 as at 1.1.2018	**–**	–	–	–	–	–	–	–	–

The reconciliation table presented above for financial liabilities includes all significant changes resulting from the initial application of IFRS 9.

Financial liabilities at fair value through profit or loss

For the part of deposits that were allocated upon initial recognition to the fair value option in order to avoid or significantly reduce accounting mismatches, the option to rescind the fair value option was exercised on the initial application of IFRS 9. Instead, they are measured at amortised cost from 2018 since the accounting mismatches of these financial instruments are avoided or significantly reduced due to their consideration as hedged items in hedge accounting. To determine the amortised cost of these deposits measured at amortised cost under IFRS 9, effective interest rates of between 1.02 and 7.75 per cent were applied. In the 2018 reporting year, interest expenses of € 66 million from these financial liabilities were recognised.

The deposits remaining in the category and debt securities issued continue to be allocated to the fair value option in order to avoid or significantly reduce accounting mismatches.

The revaluation effects as at 1 January 2018 for the financial assets and liabilities were recognised at € 283 million in retained earnings and at € -484 million in accumulated other comprehensive income (OCI).

As part of the initial application of IFRS 9 in 2018, financial assets and liabilities were reclassified so they are now measured at amortised cost. Furthermore, financial assets previously measured at fair value through profit or loss are measured at fair value through other comprehensive income under IFRS 9. The following table shows the fair values of these financial assets and liabilities as at 31 December 2018 as well as the profit/loss from fair value measurement that would have been recorded in the income statement or in other comprehensive income (OCI) during the reporting period if there had not been any reclassification.

(in Mio €)	Fair value 31 Dec. 2018	Fair value gain/loss that would have been recognised in profit or loss or other comprehensive income (OCI) during the period
Financial assets at fair value through other comprehensive income		
Debt securities	–	–
Financial assets at amortised cost		
Debt securities	144	– 6
Loans and advances	192	– 3
Financial liabilities at amortised cost		
Deposits	2 096	21

The following table reconciles the risk provisioning balances in accordance with IAS 39 as at 31 December 2017 with the risk provisioning balances calculated under IFRS 9 as at 1 January 2018 for each category.

	Risk provisioning IAS 39 as at 31.12.2017			Reclassification	Revaluation IFRS 9	Risk provisioning IFRS 9 as at 1.1.2018			
(in € million)	Specific loan loss provisions	Lump-sum loan loss provisions	General loan loss provisions			Stage 1	Stage 2	Stage 3	Total
Accounting risk provisioning at									
amortised cost (IAS 39)	3 296	6	199						
at amortised cost (IFRS 9)				2 729	189	81	205	2 633	**2 919**
at fair value through profit or loss (IFRS 9)				772	– 772	–	–	–	–
				3 501	**– 583**	**81**	**205**	**2 633**	**2 919**
fair value through other comprehensive income (IAS 39)									
at amortised cost (IFRS 9)				–	1	–	1	–	**1**
at fair value through other comprhensive income (IFRS 9)				–	3	2	1	–	**3**
				–	**4**	**2**	**2**	**–**	**4**
fair value through profit or loss (IAS 39)									
at amortised cost (IFRS 9)				–	3	–	3	–	**3**
				–	**3**	**–**	**3**	**–**	**3**
Total				**3 501**	**– 576**	**83**	**210**	**2 633**	**2 926**
IFRS 9 Risk provisioning by category									
at amortised cost (IFRS 9)				**2 729**	**193**	**81**	**209**	**2 633**	**2 923**
at fair value through other comprhensive income (IFRS 9)				**–**	**3**	**2**	**1**	**–**	**3**
at fair value through profit or loss (IFRS 9)				**772**	**– 772**	**–**	**–**	**–**	**–**
Total				**3 501**	**– 576**	**83**	**210**	**2 633**	**2 926**

	Provisions for lending business IAS 39 as at 31.12.2017		Reclassification	Revaluation IFRS 9	Provisions for lending business IFRS 9 as at 1.1.2018			
(in € million)	Provisions	General loan loss provisions			Stage 1	Stage 2	Stage 3	Total
Provisions for lending business	15	11	26	1	8	5	14	**27**
Loan commitments	7	9	16	1	4	6	7	**17**
Financial guarantees	11	4	15	3	5	1	12	**18**
Total	**33**	**24**	**57**	**5**	**17**	**12**	**33**	**62**

(5) 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 2018 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 2018:

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments replaces IAS 39 – Financial Instruments: Recognition and Measurement and thus introduces new rules governing the classification and measurement of financial assets. Furthermore, IFRS 9 introduces amendments regarding how the effect of changes in the company's credit risk for financial liabilities at fair value through profit or loss is recognised. It also changes previous rules governing the impairment of financial assets and rules governing the recognition of hedges. In addition, extensive disclosures are required in the Notes. Please refer to Note (12) Financial Instruments and Note (14) Risk Provisioning for more details on the individual rules. The NORD/LB Group applies IFRS 9 in accordance with the transitional guidelines contained therein. The impact on the Consolidated Financial Statements of NORD/LB is set out in Note (4) Reconciliation of the categories and classes of IAS 39 to IFRS 9. Within the scope of initial application of the new standards, the NORD/LB Group is more strongly gearing its reporting from financial year 2018 onwards toward the measurement categories defined in IFRS 9 (see Note (3) Adjustment of the reporting structure).

IFRS 15 – Revenue from Contracts with Customers

The currently applicable standards for revenue recognition (IAS 18 and IAS 11) and the related interpretations will be replaced from 2018 by IFRS 15. IFRS 15 provides for a new principle-based five-step model for the accounting and recognition of revenue. The requirements of the new IFRS 15 standard do not deviate fundamentally from the requirements under IAS 11 and IAS 18. However, they impact the amount and timing of income recognition, and the allocation of income in the income statement. 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 regulations of other standards. IFRS 15 is applicable mainly for the accounting of commission income (see Note (26)), i.e. for the Group's service business.

Please refer to the general notes on commission for details (see Note (10)).

When initially adopted, the NORD/LB Group applied IFRS 15 on a modified retrospective basis and, in doing so, refrained from adjusting the previous year's figures. There was no impact of first-time application as a result. In the case of agreements modified prior to the initial application of IFRS 15 on 1 January 2018, the aggregate impact of all contract amendments is shown at the time of initial application. The NORD/LB Group applies IFRS 15 in accordance with the transitional guidelines contained therein. The introduction of the standard had no impact on the presentation of the financial position, earnings position and financial performance 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 such a transfer can take place only in the 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. At the NORD/LB Group, investment property is only transferred if there is evidence of a change in use in accordance with IAS 40.

Improvements to IFRS (cycle 2014 – 2016) under the IASB's annual improvement process
Amendments were made to IFRS 1 and IAS 28 as part of the annual improvement process. For IFRS 1 the short-term exemptions for first-time users were eliminated. The amendment to IAS 28 specifies the option for venture capital companies regarding the carrying amount of certain investments. This clarification does not have an effect on NORD/LB's Consolidated Financial Statements.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration
The IFRIC published an interpretation in December 2016 that clarifies which exchange rate should be applied when translating prepayments paid or received in a foreign currency. The clarification does not have any 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 incorporated into European law and are to be implemented for the NORD/LB Consolidated Financial Statements only after 31 December 2018:

IFRS 16 – Leasing
In January 2016, the IASB issued the new standard IFRS 16 on leases, which replaces the previous standard IAS 17 in conjunction with the interpretations IFRIC 4, SIC-15 and SIC-27. It was adopted into 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 NORD/LB Group will apply IFRS 16 starting from the mandatory initial application date as at 1 January 2019.

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.

The NORD/LB Group will apply the rules of IFRS 16 to all leases identified under IAS 17 on a modified retrospective basis. Prior-year figures will not be adjusted as a result.

As a lessee, the NORD/LB Group will exercise the option to not record rights of use or leasing liabilities for short-term and low-value leases. Instead, expenses arising from these agreements will be recognised in the income statement in the period in which they occur. Lease agreements due to expire in 2019 will also be treated as short-term lease agreements. In addition, the NORD/LB Group will exercise the option not to record leasing arrangements for other intangible assets in accordance with IFRS 16.

The financial position, earnings position and financial performance of the NORD/LB Group as lessee are primarily affected by an increase in total assets recognised in the balance sheet. This increase results from the standard's requirement to recognise the usage rights and liabilities for leases that are currently classified under IAS 17 as operating leases and therefore not recognised in the balance sheet. For the first time, rights of use amounting to € 100 million and leasing liabilities of the same amount will be recognised by the NORD/LB Group as at 1 January 2019.

The amount of leasing liabilities to be recognised as at 1 January 2019 was determined as follows based on the future minimum lease payments disclosed in Note (72) Lease agreements:

	(in € million)
Undiscounted future minimum payments from operating lease commitments applying IAS 17 as at 31 December 2018	111
Discounted future minimum payments from operating lease commitments applying IAS 17 as at 31 December 2018	103
No recognition as lease liability according to IFRS 16 for	
Leases for which the underlyinf asset is of low value	5
Discounted future minimum payments from finance lease commitments applying IAS 17	2
Lease liability according to IFRS 16 as at 1 January 2019	**100**

Moreover, from 2019 onward, breaking down expenses into a depreciation component and an interest component using the effective interest method, rather than the leasing expense recognised under administrative expenses as in the past, will result in the degressive development of expense and the earlier recognition of expenses in the earlier periods of the term of a lease.

For the NORD/LB Group as lessor, IFRS 16 only resulted in changes to the Notes.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation
In October 2017, the IASB published narrow-scope amendments to IFRS 9 that must be applied from 1 January 2019, and which clarify or adjust existing rules regarding the classification of financial assets. This was prompted by the ambiguous application of these rules in the case of financial instruments that include symmetric termination and 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. This adjustment does not have an effect on NORD/LB's 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 currently affected by this amendment.

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.

Improvements to IFRS (cycle 2015 – 2017) under the IASB's annual improvement process
As part of the annual improvements process, changes were made to IFRS 3, IFRS 11, IAS 12 and IAS 23 that are applicable for financial years beginning on or after 1 January 2019. There are currently no circumstances in NORD/LB in which the clarification regarding the obtaining of control over joint operations in IFRS 3 and IFRS 11 applies. The amendment to IAS 12 regarding the tax treatment of dividends is in line with the current procedure used within the NORD/LB Group. Similarly, the clarification regarding IAS 23 Borrowing Costs will not have any effect on NORD/LB's consolidated financial statements, either.

On the preparation date of the Consolidated Financial Statements, adoption into European law by the European Commission of the following standards and amendments to standards was still outstanding:

IFRS 17 – Insurance Contracts
In May 2017, the IASB issued the new standard IFRS 17 on the recognition of insurance contracts. This new standard replaces the previous standard IFRS 4 – Insurance Contracts. It redefines the principles governing the recognition, measurement and presentation of insurance contracts. IFRS 17 is retrospectively applicable as a mandatory requirement for financial years starting on or after 1 January 2021. In November 2018, however, the IASB reached a preliminary decision to postpone the first mandatory application to financial years starting on or after 1 January 2022. Compared with the current accounting this is not expected to result in any material changes compared with the current accounting practice of the NORD/LB Group.

Amendments to IAS 1 and IAS 8 – Definition of Materiality
The amendments to IAS 1 and IAS 8, which were published at the end of October 2018, are intended to provide a more precise definition of "materiality" by aligning the definition used in all IFRS and the Conceptual Framework and providing clarifications regarding the definition of "material" and on the topic of "obscuring material information with immaterial information". In addition, the relevant meaning of the term "users of financial statements" is clarified for these purposes. The new definition of "materiality" is contained in IAS 1, while the previous definition is being replaced in IAS 8 through a reference to IAS 1. The amendments must be applied for the first time from January 2020. No material impact can be expected on the Consolidated Financial Statements of NORD/LB.

Amendments to IFRS 3 – Definition of a Business
In October 2018, IFRS 3 Business Combinations was amended with respect to how it defines a business. The amendment must be applied for the first time from 1 January 2020. This will not have any effect on NORD/LB's Consolidated Financial Statements.

Moreover, the following interpretations and overarching amendments to be applied from 1 January 2019 and 1 January 2020 are not currently expected to have any material impact on NORD/LB's Consolidated Financial Statements:

- IFRIC Interpretation 23 – Uncertainty over income tax treatments
- Amendment to the conceptual framework of the IFRS standards

The first-time application of any standards and amendments to standards which must only be implemented in NORD/LB's Consolidated Financial Statements after 31 December 2018 is planned on the respective initial adoption date.

(6) 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. The NORD/LB Group 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. When applying 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 accounted for using the equity method.

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. If an equity interest in the former subsidiary still remains, it 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.

(7) Basis of Consolidation

In addition to NORD/LB as parent, the Consolidated Financial Statements include 31 (34) subsidiaries in which NORD/LB directly or indirectly holds more than 50 per cent of the voting rights or over which NORD/LB can exercise a controlling influence in another manner. In addition, one (one) joint venture and nine (nine) associates are recognised. The joint ventures and the additional affiliated companies are accounted for using the equity method.

The basis of consolidation compared with 31 December 2018 has changed as follows:

In the case of six previously fully consolidated one-ship companies, the Group sold the ships, which were their material asset, over the course of 2018. The companies were then deconsolidated. This concerns the following subsidiaries:

- Callisto Beteiligungsgesellschaft mbH & Co. KG, Hamburg
- Ganymede Beteiligungsgesellschaft mbH & Co. KG, Hamburg
- PANDORA Beteiligungsgesellschaft mbH & Co. KG, Elsfleth

- MT “BALTIC CHAMPION” Tankschifffahrtsgesellschaft mbH &Co. KG, Hamburg
- North Wind Shipping Corporation, Majuro (Marshall Islands)
- South Wind Shipping Corporation, Majuro (Marshall Islands)

Similarly, due to the sale of the majority stake in the holding company and the loss of control, these two subsidiaries

- NORD/LB Asset Management Holding GmbH, Hanover (renamed: Warburg Invest Holding GmbH)
- NORD/LB Asset Management AG, Hanover

will no longer be recognised as fully consolidated subsidiaries in the Consolidated Financial Statements. After transitional consolidation, the 24.9 per cent stake in the holding company itself will be recognised as an associated company at fair value and accounted for using the equity method.

The four one-ship companies

- MS “Arian” Schifffahrtsgesellschaft mbH & Co. KG, Elsfleth
- MS “Tammo” Schifffahrtsgesellschaft mbH & Co. KG, Elsfleth
- First Fleet Rita UG (limited liability) & Co. KG, Bremen
- MS “Mistral Strait” UG (limited liability) & Co. KG, Bremen

will be initially consolidated as at 1 January 2018 as fully consolidated subsidiaries. Due to restructuring and changes among the investors in the one-ship companies, the owner is no longer the principal from an economic perspective. This change process is largely controlled by the NORD/LB Group. As a result, the Group has a controlling influence on the company’s significant business activities due to its capacity as creditor.

Pursuant to IFRS 3, the loan relationships in connection with the four initially consolidated companies are deemed terminated with the business combination. The end to the loan relationships recognised at fair value produced a profit of € 3 million. The loan receivables totalling € 24 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 four ships with a total market value of € 27 million. They are recognised under Property and equipment of the NORD/LB Group.

The special fund that was newly founded during the financial year by the NORD/LB Group

- NORD/LB SICAV RAIF S.C.Sp Aviation 1, Luxembourg

will be initially consolidated as a fully consolidated subsidiary as at 31 December 2018.

The change in the basis of consolidation did not have a material influence on the financial position, earnings position and financial performance of the Group.

Information on the subsidiaries, joint ventures and associated companies included in the Consolidated Financial Statements can be found in Note (80) Equity Holdings.

(8) 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 currencies will be translated at the exchange rates applied when translating the respective balance sheet items. 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 comprehensive income (OCI) or in the Income Statement.

Assets and liabilities of foreign subsidiaries whose functional currency is not the euro are translated at ECB reference exchange rates on the measurement date. With the exception of other comprehensive income (OCI; 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.

(9) Interest and Dividends
Earnings are recognised in accordance with the applicable accounting standards. Here, IFRS 9 is particularly relevant for the NORD/LB Group. 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 Stage 3 interest-bearing assets, the interest income is determined on the basis of the interest rate used to calculate the impairment (unwinding). Dividend income is recognised when the legal right to the dividend arises.

(10) Commission
The Bank recognises income in compliance with the respective accounting standard. Here, IFRS 15 is particularly relevant for the NORD/LB Group. Commission income that must be realised at a specific point in time is recognised in the income statement when the service is performed. This relates primarily to commission income from account management and payment transactions as well as to brokerage business. The control over agreed services passes directly to customers when the services are rendered, even if the services are sometimes invoiced to the customers only after the fact. A right of return or refunds do not exist for these services.

If services are rendered across multiple periods, income from service transactions is recognised on the financial reporting date according to the degree of completion of the transaction's performance obligations. This relates primarily to commission income from the lending business, the safe custody and credit card business (in this case, NORD/LB is sometimes the agent and not the principal of the original service performance) and asset management. Services in the NORD/LB Group that relate to a specified period of time are usually rendered on an ongoing basis in equal increments over the relevant time period. In these cases, the NORD/LB Group usually has a claim to reimbursement from the customer immediately when the service is rendered. If not already paid by the customer, income from customer agreements for services rendered are reported as receivables. Conditional income from services not yet fully rendered are reported as contract assets under Other assets. Expenses related to future income from customer contracts are recognised as capitalised contract costs under Other assets until these earnings are recognised. Remuneration paid by customers for unperformed services is deferred as a contract liability under Other liabilities and is recognised as income in the period when the service is rendered.

The income amounts to the contractually agreed transaction price. In many cases, remuneration is due when the service is rendered. Invoices are issued either in advance of, at the time of, or after the service is rendered. Where invoices are issued after services are rendered, the invoicing delay generally does not exceed a period of one year. No changes are made based on the fair value of money. Fixed prices were usually agreed. Customer contracts do not contain material non-financial compensation. If the transaction price must be allocated to multiple service categories, the Bank makes the allocation based on the stand-alone sales prices of the services. Bundled services for which one transaction price is paid and which share the same performance period or time are not split since these are irrelevant with respect to revenue recognition. Discounts are not taken into account since these are only granted in exceptional cases.

Costs incurred to obtain or fulfil a contract are capitalised as an asset under the balance sheet item Other assets if the NORD/LB Group expects reimbursement from the customer and the other recognition criteria are met. The amount of the capitalised contract costs is calculated on the basis of the amounts paid to third parties. If capitalised costs are incurred, they are amortised on a straight-line basis over the period in which the service is rendered due to the uniformity of the service.

(11) Financial Instruments under IAS 39

For consolidated financial statements up to and including 31 December 2017 the rules of IAS 39 had to be followed; these were applied by the NORD/LB Group as follows:

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. The financial instruments include financial guarantees as per the IAS 39 definition.

a) Recognition and derecognition 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 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 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. 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 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 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 the 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.

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) 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 constitute a legal unit 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).

e) 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 the 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.

(12) Financial Instruments under IFRS 9

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 and these will be recognised in accordance with the accounting principles of IFRS 9 for the first time from 1 January 2018. IFRS 9 replaces the regulations of IAS 39 and governs the classification as well as the measurement of financial assets and financial liabilities. The requirments resulting from IFRS 9 as well as their application to NORD/LB Group are set down in the following.

a) Recognition and derecognition 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 financial instruments 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 accordance with IFRS 9, the initial measurement of financial assets and liabilities is at fair value, as is the case pursuant to IAS 39. As regards financial instruments not measured at fair value through profit and loss, the transaction costs are included in amortised cost insofar as these can be directly allocated.

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 which are measured at fair value through profit and loss, the transaction costs are immediately recognised in profit and loss.

The subsequent measurement is based on the IFRS 9 measurement category to which the financial instruments were assigned when initially recognised.

b) Classification and measurement of financial assets

IAS 39 stipulated that assets are classified primarily based on the nature of the financial asset. Under IFRS 9, the classification is based on the actual management of the cash flows from financial assets (business model) and the structure of the financial asset itself (cash-flow criterion).

ba) Business model

To assess the business model, the Bank evaluates financial assets at an aggregate level. To that end, it aggregates those with homogeneous strategic and commercial objectives into assessment units. These assessment units are then assigned to an IFRS 9 business model in accordance with their objective. The specific allocation criteria used in the NORD/LB Group include, for example, the strategic management of the transactions, previous transactions, expectations about future transactions within the assessment unit, as well as the nature of the performance measurement and the corresponding internal reporting. Assessment units in the NORD/LB Group are established based on the Group's business segments. The Managing Board determines the assessment unit and, based on that determination, the resulting allocation to an IFRS 9 compliant business model. The Bank reviews the allocation of the assessment units with their objective-based IFRS 9 business models at least once a year when it reviews or adjusts the segment strategies.

IFRS 9 provides for three possible business models for financial assets: "Hold", "Hold and sell", and "Other". The "Hold" business model includes financial assets with the objective to receive the contractual cash flows from these assets until they mature. When assessing whether this business model is applicable, the Bank takes into account at the level of the corresponding assessment unit the frequency, volume and timing of sales in previous periods, the reasons for these sales and expected future sales activities. This review process is conducted under the assumption that sales conducted just prior to maturity or due to a deterioration in creditworthiness are fundamentally compatible with this business model. The same is applicable for disposals that are material in terms of disposal volume, but which occur only very infrequently, as well as for disposals that are immaterial both individually and in total, even if they occur frequently. The Bank reviews on an ad hoc basis whether the requirements for these exceptions are met and the materiality thresholds are complied with when sales are made from the "Hold" portfolio.

The "Hold and sell" business model envisages both the receipt of contractual cash flows and disposals of financial assets that occur more than just occasionally. For example, portfolios with the following objective are allocated to this business model: coverage of the daily liquidity need or achievement of a specific (interest) income profile.

The "Other" business model includes financial assets that are not allocated to the "Hold" business model or the "Hold and sell" business model. Financial instruments within this business model are held for trading or are managed based on fair value. In both cases, the NORD/LB Group holds the financial assets with the objective to realise cash flows primarily from their sale. The receipt of contractual cash flows is not an integral component of this business model.

bb) Cash-flow criterion

Each individual financial asset must be analysed with regard to the cash-flow criterion to determine the extent to which the financial asset's contractual cash flows include only unleveraged interest and principal payments. This analysis is based on the contractual terms and conditions applicable when the asset is initially recognised.

Contractual cash flows that do not meet the requirements for the cash-flow criterion include, for example, principal payments in excess of the contractual notional amount, interest payments linked to shares, commodity prices or other indices, or a notional currency that differs from the currency of the reference interest-rate.

In contrast, termination rights, special repayment agreements and extension options meet the cash-flow criterion if the repayment amount, in other words the fair value of the financial instrument on initial recognition, in addition to outstanding principal repayments and interest, includes prepayment compensation appropriate for the cost of funding or if the extension option provides for an interest-rate for the term extension at the same rate of interest originally agreed in the contract.

The only situations in which the Bank does not assess the cash-flow criterion is in respect to contractual components that have only an very minor effect on the contractual cash flows or whose occurrence is considered to be very unlikely.

Financial assets may contain contractual components for which an initial qualitative analysis is performed but it is unclear to what extent these components result in more than just very minor deviations compared with unleveraged interest payments. In this case, the NORD/LB Group reviews these components by comparing the present values of the contractual cash flows of the financial asset under consideration with those of an existing or hypothetical unmodified financial instrument that has identical features and the same credit quality except for the components causing the deviations (benchmark test).

bc) Modification

When modifying existing loan agreements, which occurs in the NORD/LB Group primarily when ship mortgage loans are restructured, the Group assesses whether the modification results in a material change in the loan's cash flows and thus the derecognition criteria under IFRS 9 are met. This assessment is carried out using qualitative criteria such as changes in the principal payment or interest agreements or a change in the contract term, supplemented with a present-value-based criterion. If the derecognition criteria are met, the modified loan must be remeasured at fair value as a newly recognized financial asset, and classified for subsequent measurement purposes by applying the business model and cash-flow criterion. If a modification does not result in a material change in the cash flows, the difference in the present value of the cash flows before and after the modification is recognised in Profit/loss from modifications and amortised over the residual term of the existing loan agreement.

Modifications of securities are currently not relevant in the NORD/LB Group.

The following measurement categories are applicable in the Bank depending on the classification of the business model and whether the cash-flow criterion is met:

bd) Financial assets at amortised cost

This category includes non-derivative financial assets allocated to the "Hold" business model if the cash-flow criterion is also met. As significant portions of the traditional credit and lending business are presented here, this is the largest category in the NORD/LB Group. This category also includes a portion of the NORD/LB Group’s securities portfolio.

Assets included in this category are subsequently measured at amortised cost using the effective interest-rate method. In addition, under the impairment regulations the carrying amount in the balance sheet is reduced by expected credit losses (see Notes (28) Profit/loss from risk provisioning and (60) Risk provisioning and gross carrying amount). Allocations to and reversals of risk provisioning are recognised in the income statement under Profit/loss from risk provisioning. Interest is recognised in Net interest income; commissions are recognised in Net commission income.

be) Financial assets at fair value through other comprehensive income
This category includes non-derivative financial assets allocated to the “Hold and sell” business model if the cash-flow criterion is also met. The NORD/LB Group allocates to this category primarily securities intended for short and medium-term liquidity management purposes, or if the Group does not generally intend to hold the securities until maturity. In the lending business, this category is used for only a very narrow spectrum of products, primarily promissory notes.

Assets allocated to this category are subsequently measured at fair value. The profit/loss from the fair value measurement is reported in Other comprehensive income (OCI). On disposal of the financial asset, the accumulated measurement profit/loss recognised until then in other comprehensive income (OCI) is reversed and recognised in the income statement.

Differences between the cost of acquisition and the redemption amount for debt instruments are amortised through profit and loss using the effective interest method. Interest is recognised in Net interest income; commissions are recognised in Net commission income.

In addition, the debt securities allocated to this category are subject to the same impairment regulations as financial assets at amortised cost (see Notes (28) Profit/loss from risk provisioning and (60) Risk provisioning and gross carrying amount). Allocations to and reversals of risk provisioning are also recognised here through profit or loss under Profit/loss from risk provisioning. However, the expected credit losses determined for this category do not reduce the balance sheet carrying amount at fair value, rather they are recognised in other comprehensive income (OCI).

In addition, the Bank has an option to allocate to this measurement category those equity instruments that are in principle to be measured at fair value through profit or loss. This irrevocable allocation must occur at initial recognition. The impairment regulations are not applicable for equity instruments. Upon disposal, the total cumulative measurement profit or loss that has accumulated in other comprehensive income (OCI) is not reclassified to the income statement, rather it is recognised directly in equity in retained earnings.

bf) Financial assets at fair value through profit or loss
Financial assets in this category are measured subsequently at fair value through profit and loss. There is no separate amortisation of premiums and discounts at constant effective interest-rates. Interest and commission are recognised in Net interest income and Net commission income. The effects from the fair value measurement are reported under Profit/loss from the fair value measurement.

Financial assets at fair value through profit or loss are divided into three subcategories:

i) Trading assets (financial assets held for trading)

This subcategory includes financial assets acquired with the intention of selling them soon thereafter. They are therefore always allocated to the “Other” business model. In addition, all derivatives with positive fair values that are not hedging instruments used in hedge accounting are recognised under trading assets. Trading assets comprise primarily bonds, debt securities and derivatives.

ii) Financial assets mandatorily at fair value through profit or loss
This subcategory includes financial assets that are either allocated to the “Other” business model even though they are not held as trading assets, or which regardless of the business model do not meet the cash-flow criterion. Loans must be recognised at fair value through profit or loss when they include specific contractual arrangements, such as “conditional terminal fees” or similar clauses allowing for additional income potential (certain cash sweep or pay-as-you-earn agreements). This measurement approach is mandatory because such contractual terms are not compatible with the cash-flow criterion. In addition, financial assets may fall into this category if the creditor’s right of recourse to settle its claim is limited to only some of the debtor’s assets or to payments from these assets, and as a result of this limitation the financial instrument’s cash flows are highly dependent on the performance of the financed property (non-recourse financing). This is the case if a review of the credit-specific cash flows generated by the financed asset (look-through test) confirms that, from an economic perspective, the NORD/LB Group is more likely to bear the risks from the financed property. This can be the case, for example, if the relationship of the loan amount to the value of the collateral exceeds a defined threshold. Syndication portfolios are also allocated to this category because of the Group’s intention to place them in the market. Furthermore, equity instruments not held for trading are recognised under this subcategory.

iii) Financial assets designated at fair value through profit or loss
This subcategory, which is known as the fair value option, can include all financial assets that would otherwise be measured at amortised cost or at fair value through other comprehensive income. The requirement for its application is that by exercising the fair value option, the Group will avoid or significantly reduce accounting mismatches arising from different measurement methods for financial assets and liabilities (e.g. by presenting economic hedges of structured bond issues and the corresponding derivatives).

The application of IFRS 9 classification regulationsthe requirements permitting the use of the fair value option are not longer met for most of the financial assets that had been previously reported as designated at fair value through profit or loss. For the remaining financial assets, the Group when initially adopting IFRS 9 exercised its option under IFRS 9.7.2.9 (b) to rescind the designation in the fair value option (see Note (4) Reconciliation of the categories and classes of IAS 39 to IFRS 9). As a result, the NORD/LB Group currently does not use this category.

c) Classification and measurement of financial liabilities

The classification and measurement of financial liabilities under IFRS 9 remain largely unchanged compared with IAS 39.

ca) Financial liabilities at amortised cost
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 and, if appropriate, interest income are reported under Net interest income; commission expenses are reported under Net commission income.

cb) Financial liabilities at fair value through profit or loss

The financial liabilities in this category are subsequently measured at fair value through profit and loss. There is no separate amortisation of premiums and discounts at constant effective interest-rates. Interest and commission are recognised in interest expenses or interest income from financial liabilities, and in commission income or commission expenses.

Financial liabilities at fair value through profit or loss are divided into two subcategories:

i) Trading liabilities (financial liabilities held for trading)

This subcategory includes all derivatives with negative fair values that are not hedging investments in hedge accounting, and the financial liabilities that are held for trading. Trading liabilities therefore include primarily derivatives with a negative fair value and delivery obligations from short-sales. All fair value changes related to liabilities held for trading are reported in the income statement under Profit/loss from the fair value measurement.

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

This subcategory includes the financial liabilities otherwise measured at amortised cost which the Group has designated at fair value through profit or loss. The NORD/LB Group uses the fair value option to minimise or avoid accounting mismatches. While the profit or loss from the fair value measurement of financial liabilities was recognised in the income statement under IAS 39, under IFRS 9 the Group breaks down the changes in value for financial liabilities designated at fair value through profit or loss. The changes in fair value attributable to the Group's own credit risk are recognised in other comprehensive income (OCI). When the transactions are derecognised, these fair value changes are reclassified into retained earnings. Other fair value changes are reported in the income statement under Profit/loss from the fair value measurement. Additional information on the nature and scope of application of the fair value option in the Group, as well as on the change in credit risk, is provided in Note (51) Financial liabilities at fair value through profit or loss.

When initially adopting IFRS 9, the Group exercised its option under IFRS 9.7.2.10 (c) to rescind the fair value designation for a portion of the financial liabilities. Consequently, these are measured as at the initial adoption date at amortised cost, instead of at fair value (for more information, refer to Note (4) Reconciliation of the categories and classes of IAS 39 to IFRS 9).

The adoption of IFRS 9 does not change the methods to measure financial assets and financial liabilities in accordance with IFRS 13.

For information on the required disclosures regarding the effects of the changes in classification and measurement between IAS 39 and IFRS 9 when initially adopting IFRS 9, refer to Note(4) Reconciliation of the categories and classes of IAS 39 to IFRS 9.

d) Reclassifications

IFRS 9 stipulates that reclassifications may be made only as a result of a significant change in the business model.

e) 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 IFRS 9. 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 IFRS 9 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.

The measurement models used in the NORD/LB Group and the data flowing into them are reviewed periodically. The resulting fair values are subject to internal controls and monitoring procedures. These controls and processes are carried out in and coordinated by the Finance and Risk Control divisions.

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.

No listed prices are generally available for OTC market derivatives; their fair values are therefore determined using other measurement methods. The measurement is first carried out using cash flow models without taking account of the credit default risk. The measurement adjustment on the basis of the counterparty default risk (credit value adjustment (CVA) / debit value adjustment (DVA)) is calculated on the basis of the net risk position pursuant to IFRS 13.48. The calculation is based on simulated future market values and, if available, market-implied input data.

The NORD/LB Group measures secured OTC derivatives primarily 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.

ea) 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 IDW RS 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, 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 not assigned to Level 1, rather to Level 2 of the measurement hierarchy if the quotations relate to binding offers, observable prices or market transactions. Likewise, (mixed) prices calculated by price service agencies on the basis of reported prices are to be assigned to Level 2. The Level 1 values are used without any adjustment.

Level 1 financial instruments include trading assets and liabilities, financial assets requiring measurement at fair value through profit or loss, financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial instruments at amortised cost as well as shares in companies.

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 model for options) and the calculations of which are fundamentally based on inputs available on an active market. One requirement here is that variables which market participants would have taken into account in the pricing are included in the measurement process. Wherever possible, the respective inputs are taken from the markets on which the instruments are issued or acquired.

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

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

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

Level 2 financial instruments include trading assets and liabilities, financial assets requiring measurement at fair value through profit or loss, financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial instruments at amortised cost, hedge accounting derivatives as well as other assets.

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 used for portfolios of interest-bearing securities and derivatives for which the market has been classified as inactive or for which significant valuation parameters are not observable on the market. These include:

- Equity-linked structures measured using historical volatilities
- Stock index options, provided that no dividend expectations are observable on the market for the relevant term
- CMS spread options since the ingoing correlation is not directly observable
- Own and third-party issues as well as futures on such issues if the credit/funding spread is not observable on the market.

In addition, all loans measured at fair value and derivatives intended for syndication are regularly assigned to Level 3.

Level 3 financial instruments include trading assets and liabilities, financial assets requiring measurement at fair value through profit or loss, financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial instruments at amortised cost, shares in companies as well as other liabilities.

eb) 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, securitised liabilities and subordinated capital.

For the cash reserve as well as short-term loans/advances and liabilities to banks and customers (demand deposits), the notional value is taken as the fair value on account of the short-term nature of these items.

In the same way as for financial instruments recognised on the balance sheet at fair value, various forms of measurement are used in practice for securities and liabilities (e.g. market or comparative prices, or measurement models). The discounted-cash-flow model is generally used. In this case, the value is often determined with the help of a risk-free yield curve adjusted for risk premiums and other components as relevant. For liabilities, NORD/LB's own credit default risk is taken as the risk premium. Appropriate assignment to levels in the existing fair value hierarchy is based on the significance of the input data.

No observable market prices are available for long-term loans/advances and liabilities to banks and customers or for deposits, since there are no observable primary or secondary markets. The fair value for these financial instruments is determined with the help of recognised measurement methods (discounted-cash-flow model). Input data for this model are the risk-free interest-rate, a risk premium and (as appropriate) additional premiums to cover administrative and equity costs.

Further information on the fair value hierarchy and the fair values of financial instruments is given in Note (59) Fair value hierarchy.

f) 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 in accordance with IFRS 9.

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 (59) 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 interest-rate in accordance with IDW and a risk premium to account for 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 market portfolio, in other words the most extensive national share index that contains the security. 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.

g) Subordinated liabilities

The subordinated liabilities of the NORD/LB Group are recognised as an "of which" item under financial liabilities at amortised cost. They consist 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 are included under equity. From a regulatory perspective in pursuant to CRR, these are largely recognised as own funds.

Subordinated liabilities are recognised on the balance sheet at amortised cost. Share premiums and discounts are distributed over the term in accordance with the effective interest method, and are recognised under Net interest income in the Income Statement.

Silent participations classified as debt capital were measured in accordance with IFRS 9.B5.4.6 in these Consolidated Financial Statements. This accounting standard requires that the carrying amount of financial instruments that are not to be measured at fair value must be adjusted through profit or loss if there are changes in the estimates of the future cash flows associated with the financial instrument. To determine the new carrying amount, the future interest and principle payments must be reassessed and discounted at the original effective interest-rate. The difference between these is recognised in profit and loss in the year in which the reassessment is performed and amortised based on constant effective interest-rates in the subsequent years.

The NORD/LB Group's silent participations that are subject to revaluation feature a rate of return that is dependent on profit and participate in any loss for the financial year or accumulated net loss. The current profit forecasts for the NORD/LB Group, which are significantly affected by the future earnings position of NORD/LB as well as economic trends, indicate the estimated future cash flows of the silent participations deviate from their contractual cash flows. The change in estimate resulting from the application of IFRS 9.B5.4.6 has led to an adjustment in the value of the silent participations, which is reported in the income statement in the Group's net interest income (see Note (25) Net interest income). Deferred tax results from the difference between the tax measurement and the measurement of the silent participations in the Consolidated Financial Statements.

When new knowledge becomes known about previous assumptions underlying the profit forecast, this can lead to further adjustments in the value of the silent participations in subsequent periods.

h) Structured products

Structured products comprise two components: a host contract (e.g. security) and one or more embedded derivative financial instruments (e.g. swaps, futures or caps). Both components are the object of only one agreement regarding the structured product, so these products constitute a legal unit and cannot be treated separately from one another due to the single contract.

IAS 39 stipulated that an embedded derivative must be separated from the host contract and recognised on the balance sheet as a separate derivative if certain criteria are met. In contrast, under IFRS 9 the host contract and the derivative for hybrid financial assets must be classified in their entirety, and not separated. Any financial liabilities requiring separation that are not allocated to the Financial liabilities at fair value through profit or loss category are measured and reported separately. The host contract is accounted for and measured at amortised cost, whereas the embedded derivative is accounted for and measured under Trading portfolio, or as a hedging derivative, at fair value through profit and loss.

i) 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.

The rules regarding general hedge accounting have changed under IFRS 9. The new standard stipulates that reporting entities may apply either the IFRS 9 regulations from 1 January 2018 onwards or continue using the existing regulations under IAS 39. The NORD/LB Group decided to continue applying the IAS 39 regulations. This means no changes regarding hedge accounting resulted for the NORD/LB Group. However, the revised classification requirements under IFRS 9 change the composition of the underlying transactions in the fair-value-hedge portfolio for interest-rate risks.

Macro hedge accounting is not covered by the published IFRS 9 and is currently being addressed by the IASB as a standalone project.

IAS 39 differentiates between three basic forms of hedges 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 (42) and Note (53) Positive / Negative fair values from hedge accounting derivatives). Measurement changes are recognised in the Income Statement (Note (30) 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. Profit/loss from hedge accounting is mainly affaected by the measurement of the variable side of the hedging instruments.

When employing hedge accounting for financial assets at fair value through other comprehensive income, 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. Asset-side underlying transactions measured at fair value through other comprehensive income 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. The hedges taken out in portfolio hedge accounting are entered into for a period of one month. For underlying transactions in effective hedges, see Note (65).

j) Securities repo and lending transactions

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. Agreed interest payments are recognised under Interest expenses according to their maturity.

If they meet the business model and cash flow criteria, reverse repo transactions are recognised as financial assets at amortised cost.

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.

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 IFRS 9, while borrowed securities are not recognised in the balance sheet. Cash collateral furnished for securities lending transactions is shown as a receivable, while cash collateral received is shown as a liability.

Regarding the scope and volume of securities sale/repurchase (repo) and lending transactions, reference is made to Note (63) Transfer and derecognition of financial assets.

k) Loan commitments and financial guarantees

Loan commitments are only recognised at fair value on the balance sheet if they have been designated as such or can be settled in cash or through the delivery of other financial instruments. However, loan commitments are not recognised on the balance sheet. In these cases, provisions are created to take the expected credit loss into account.

Financial instruments include financial guarantees in accordance with the definition in IFRS 9 (see Note (74) Other financial obligations).

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.

l) 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 depend on the performance of the underlying asset, and not on that of the issuer.

Balance-sheet treatment of transactions of this type under IFRS 9 is unchamged from IAS 9 and depends on the type and method of securitisation. In the case of synthetic securitisation, the assets remain on the balance sheet and are recognised together with concluded credit derivatives as per the IFRS 9 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.

(13) Risk Provisioning under IAS 39

For consolidated financial statements up to and including 31 December 2017 the rules of IAS 39 had to be followed; these were applied by the NORD/LB Group as follows:

Specific valuation allowances, collective valuation allowances and portfolio valuation allowances are created in order to take account of the risks arising from the on-balance-sheet lending business. The specific valuation allowance is quantified as the difference between carrying amount and recoverable amount as the present value of all expected cash flows.

The expected cash flows may result from principal and/or interest payments plus payments from the liquidation of collateral less liquidation costs. If the amount obtainable is below the carrying amount, a specific valuation allowance is 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 collective valuation allowances as appropriate. The calculation is based on historic probabilities of default and loss rates.

A portfolio valuation allowance 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 collective valuation allowances and portfolio valuation allowances 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 valuation allowances 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.

(14) Risk Provisioning under IFRS 9

IFRS 9 prescribes the implementation of a new impairment model. The “three-stage model” requires the recognition of credit-related expected losses on the financial asset not when the first objective indications of impairment become evident, rather immediately based on an expected loss model when the asset is initially recognised. This model must be applied across all products to all debt instruments measured at amortised cost or at fair value through other comprehensive income as well as to off-balance sheet liabilities. These are allocated to one of three stages depending on the relative change in their credit quality since initial recognition.

When initially recognised, all relevant financial assets for which objective indications of impairment are not already evident must be allocated to Stage 1, regardless of the credit rating of the debtor. The expected losses in this stage equal the present value of the payment defaults expected from potential default events over the next twelve months. The losses expected to arise as a result of weighting the exposure by the percentage probability of default over the next 12 months (determined on the basis of the internal rating classification) and the present loss ratio in the event of default are determined. Interest income in this stage is recognised based on the gross carrying amount, i.e. by applying the effective interest rate to the carrying amount before deducting the expected losses.

If at a subsequent reporting date the Bank determines that the default risk has increased significantly since initial recognition, with out objective existing of impairment yet, the Bank must transfer the underlying financial assets from Stage 1 to Stage 2. In this stage, risk provisioning must be recognised for the present value of the financial instrument's lifetime expected credit loss, taking into account the corresponding probability of default matching the relevant maturity. Interest is realised similar to Stage 1.

The NORD/LB Group uses quantitative and qualitative criteria to determine a significant increase in default risk. The quantitative review is performed using the credit-related change in the 12-month probability of default. To do that, the Group compares the forward-12-month probability of default defined upon initial recognition using a default profile and the actual 12-month probability of default as determined at the measurement date. In addition, the credit quality is deemed to have deteriorated significantly if qualitative criteria are met, such as either a payment in arrears of more than 30 days or the exposure is forborne.

If on the financial reporting date there exists an objective evidence of impairment, the Bank transfers the financial asset into Stage 3 and deems it credit-impaired. In this stage, risk provisioning likewise equals the present value of the lifetime expected credit loss. However, unlike at Stage 1 or 2, interest is recognised based on the net carrying amount, i.e. after deducting risk provisioning. This does not take the contractually agreed interest rate into account as interest income, rather the present value effect (unwinding) determined by accruing the net carrying amount.

Significant criteria for an objective evidence of impairment include, for example, arrears on interest and principal payments in excess of 90 days, or major financial difficulties on the part of the borrower, such as imputed and actual insolvency or sustained negative development of a restructuring. These criteria also include concessions by the lender, such as deferral of principal payments, exemption from interest or waiver of claim. For ship financing, significant evidence of impairment include in particular the deferral of interest and/or principal payments or other concessions (including the granting of restructuring loans to support the borrower's liquidity) and the risk of insolvency.

At the NORD/LB Group, the triggers used for calculating risk provisioning are defined based on the regulatory requirements for defining default pursuant to CRR; as a result, all loan receivables currently in default pursuant to CRR are allocated to Stage 3.

Financial assets which when purchased or issued already exhibit objective indications of impairment (POCI assets) are not subject to the "three stage model". In these cases, risk provisioning is not recognised upon initial recognition of the asset, because the lifetime expected credit loss is already taken into account appropriately through the measurement at fair value upon initial recognition. Risk provisioning is then recorded in subsequent periods for the amount of the change in the lifetime expected credit loss compared with the initial expected credit loss.

Financial assets which exhibit only a low default risk as at the financial reporting date may be allocated to Stage 1 without performing another review. This assumes that the increase in the default risk since initial recognition is immaterial. The NORD/LB Group does not utilise this rule, which is referred to as the low credit risk exemption.

The simplified approach may be used in the case of trade receivables, lease receivables and certain assets as defined in IFRS 15. Under the simplified approach, an asset may be generally allocated to Stage 2 upon initial recognition depending on its credit quality. The simplified approach is also not used at the NORD/LB Group.

The impairment model is based on a symmetric approach. If as at the financial reporting date the Bank determines a significantly higher default risk is no longer present, the respective financial asset must be transferred from Stage 2 to Stage 1. The financial asset must also be transferred from Stage 3 to Stage 2 if objective impairment are no longer present. However, when assets are transferred back to another stage, especially if these either are forborne or are in default pursuant to CRR, periods of good conduct must be observed as defined by FINREP or the default and recovery plan before the transfer can take place.

Risk provisioning is calculated in the NORD/LB Group based on each individual financial asset. The Bank uses a parameter-based approach to determine risk provisioning for all Stage 1 and 2 financial assets, as well as for non-significant Stage 3 financial assets. An expert-based approach based on multiple scenarios is used for significant Stage 3 financial assets.

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 in Stage 3, risk-based weightings are determined and 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 earning power of the financed property). The number of scenarios to be applied depends on the significance of the risk associated with the individual asset. Different scenarios look at factors such as the timing and amount of expected cash flows in response to specific events (continuation of the engagement or disposal) as well as their estimated probability of occurrence.

In the case of assets at amortised cost, the risk provisioning reduces the reported value of the balance sheet item in which the financial asset is disclosed, whereas for debt instruments measured at fair value through other comprehensive income, the risk provisioning is reported under Accumulated other comprehensive income (OCI).

The Bank also uses the expected loss model, broken down by Stage 1, 2 or 3, to determine the risk provisioning for off-balance-sheet obligations in the form of loan commitments and financial guarantees. In these cases risk provisioning is reported under Provisions in lending business.

If it is no longer likely that the financial assets can be realised (uncollectible loans and advances) in a specific case within the scope of restructuring measures or the liquidation of an exposure, the corresponding gross carrying amount is written off directly. Financial assets with a carrying amount of less than € 10,000 when grounds for default are determined pursuant to CRR are written off directly. Cash inflows for written-off receivables are recognised through profit and loss.

The expenses from allocations to risk provisioning and the income from reversals of risk provisioning are shown in the income statement under risk provisioning. The interest income to be taken into account for Stage 3 financial assets in relation to the net carrying amount (unwinding) is reported in net interest income.

For information on the required reconciliation of the risk provisioning balances by category between IAS 39 and IFRS 9 when initially adopting IFRS 9, please refer to Note (4) Reconciliation of the categories and classes of IAS 39 to IFRS 9.

(15) 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:

	Period of use in years
Land and buildings	5 - 50
Operating and office equipment	3 - 25
Ships	25
Other property and equipment	3 - 25

(16) 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 as a liability.

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. 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 [(lessor) or liabilities (lessee)] directly in equity. The interest component is recognised/booked through profit and loss as interest income (lessor) or interest expense (lessee).

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, while 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 two to 20 years. Operating lease agreements are written down over a period of 25 years.

(17) 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 25 to 50 years. The capitalised earnings value method is applied together with market data to determine the fair value of investment properties. No measurements by independent valuers took place.

(18) 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 depreciated over a period of 3 to 15 years.

(19) 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 recognised in separate balance sheet items if they can be disposed of immediately in their present condition and if disposal is highly probable. Disposal is deemed highly

probable if the responsible level of management has decided on a plan for the sale and an active start has been made on the search for a buyer and on implementing the plan. In addition, non-current assets or disposal groups must actually be offered for acquisition at a price that is appropriately proportionate to the present fair value. In addition, the disposal should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The relevant assets are measured at fair value less costs of disposal, if this figure is lower than the carrying amount. Non-current assets classified as held for sale are no longer subject to 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.

(20) 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 assumptions made and developments that actually take place as well as changes in the assumptions made when measuring defined benefit plans and similar obligations result in actuarial gains and losses, which are recognised under 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 2018 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. 2018	31 Dec. 2017
Domestic		
Actuarial interest rate	2.20	2.15
Salary development (weighted)	2.00	2.00
Pension development (contingent on the occupational pension scheme)	2.75	1,00/2,0/2,75
Cost increase rate for allowance payments	3.50	3.50
Mortality, invalidity, etc.	Based on Heubeck mortality tables 2018 G	Based on Heubeck mortality tables 2005 G
Abroad (weighted parameters)		
Actuarial interest rate	2.83	2.53
Salary development (weighted)	2.67	2.69
Pension development	3.21	3.34
Mortality, invalidity, etc.	GB S2PMA Light/S2PFA light base tables with CMI 2017 projections basis, LUX DAV 2004 R	GB S2PMA Light/S2PFA light base tables with CMI 2014 projections basis LUX DAV 2004 R
Inflation	3.25	3.26

On 20 July 2018, Heubeck AG published new Heubeck 2018 G mortality tables. This update takes into account the most recent information about statistical life expectancy. Overall, it reveals a higher life expectancy requiring an increase in pension provisions; in the reporting year, this would have a € 4 million impact in other comprehensive income (OCI). If the pension obligation on the reporting date were to have been evaluated on the basis of the Heubeck 2005 G mortality tables previously used, the resulting pension obligation would have been € 22 million lower.

(21) 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, availment 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.

(22) 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 comprehensive income (OCI).

Income tax assets and liabilities are recognised separately on the balance sheet, divided into actual and deferred assets and liabilities for the reporting year. The carrying amount of a deferred tax asset is impairment-tested as of each balance sheet date.

Income tax expense or income is recognised in the Income taxes position in the Group's Income Statement.

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 accordance with 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, shown pursuant to CRR/CRD IV as at the financial reporting date. In 2018, the Group established the "Savings Banks Network Customers" segment as a separate segment and reported it for the first time. This involved shifting portions of the Markets and Corporate Customers segments. Leases were also shifted from the Energy and Infrastructure Customers segment to the Corporate Customers segment. The segment structure and the prior-year figures were restated accordingly and adjustments were made to the prior-year figures in both the income statement for 2017 as well as the balance sheet in the segment report as a result of the introduction of IFRS 9 in 2018 and as shown in Note (2).

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. The income generated from them is 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. Net commission in the segments is also shown net in internal reporting, i.e. not broken down into commission income and commision 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 income is recognised in the internal reporting.

Segment expenses comprise primary expenses, expenses allocated on the basis of cost and service charging, and distributed overhead costs. Risk provisioning is allocated to the segments according to actual costs incurred.

Overall bank profit and loss, such as profit/loss from hedge accounting and the result from financial instruments not measured at fair value through profit/loss, is not allocated to the Bank's operational business fields, but rather to the Group Management / 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 amounts pursuant to CRR/CRD IV will be reported as at the financial reporting date. Segment assets and liabilities are measured using the same standards used for measuring assets and liabilities in the balance sheet. These are reported in the customer segment using annual average values; differences to the values as at the reporting date are included in the segment reconciliation. The cost-income ratio is defined as the ratio of administrative expenses to the sum of the following types of income: Net interest income, Net commission income, Profit/loss from the fair value measurement, Result from financial assets not measured 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.

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

In 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. It 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 state of Braunschweig) as well as in the adjacent regions, this segment also includes, in particular, the areas of agricultural banking and the housing sector.

The Group offers banking products and banking services 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. 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.

The wholesale business for supra-regional savings and regional banks comprises the sale of the entire range of fixed-income products and services including asset management products and the lending alternative business. For the corresponding third-party securities (Depot B) business, the offer comprises a permanently wide range of retail products, both with and without subscription phases, as well as private placements for individual customers.

Savings Banks Network Customers

Savings banks are NORD/LB's customers, owners and the Bank's market access to a broad customer base. The Savings Banks Network Customers segment bundles the business activities which from the perspective of the savings banks are material for the collaboration with NORD/LB in the network region in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania, as well as in the extended network region in Schleswig-Holstein and Brandenburg.

The segment focuses on the business with corporate and syndicated customers that is managed in cooperation with the savings banks. The complete range of services comprises the Bank's clearing house function, the promotional loan business, its proprietary business for network savings banks, the financing of municipal customers and the syndication of lending activities to savings banks. It also offers products and services related to interest and currency management, the third-party securities business and private banking to network savings banks and their customers. The offering is rounded off with specialised consulting services for international business.

Support for Savings Banks Network Customers is provided by the NORD/LB branches within the network region.

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

Energy and Infrastructure Customers

The remit covers global business relationships with NORD/LB customers in the infrastructure and energy (especially renewables) sectors. 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 / Maritime Industry Customers

The ship financing activities of NORD/LB in Germany and abroad are recognised in this segment. Customers in the Ship Customers / Maritime Industry 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 swaps, 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 Banking 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 Management / 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 reported under Other operating profit/loss.

Reconciliations

The reconciliation items from internal accounting to the consolidated overall figures for the income statement and balance sheet (segment assets, liabilities and equity) are shown here. It also includes reclassifications of profit and loss items that are recognised differently in the internal management system compared with the external reporting. Reasons for these reconciliation positions include recognition under different income positions in internal and external accounting, and also differences in accrual accounting. In addition, residual figures are included here that cannot be further differentiated or can only be allocated to the operating segments at unreasonably high expense. Segment assets and liabilities are shown in the customer segments at average values for the year, the differences to the year-end values in the balance sheet are included in the Reconciliation segment.

Segment reporting by region

Regional distribution of income before loan loss provisions, earnings before taxes, segment assets and segment liabilities is based on the domicile of the branch or Group company concerned. Consolidation-related circumstances are shown separately.

(23) Segment Reporting by Business Segment

1 Jan. - 31 Dec. 2018 (in € million)	Private and Commercial Customers	Corporate Customers	Markets	Savings Banks and Regional Customers	Energy and Infrastructure Customers	Ship Customers / Maritime Industries	Aircraft Customers	Real Estate Banking Customers	Group Management/ Others	Reconciliations	NORD/LB Group
Net interest income	169	353	134	59	165	158	86	188	39	– 71	1 279
Net commission income	60	44	20	11	54	16	15	1	– 136	– 34	52
Profit/loss from financial instruments at fair value	–	4	–	5	7	– 182	1	4	– 115	– 7	– 282
Risk provisioning	– 2	– 70	2	– 12	– 56	– 1 835	7	10	– 7	71	– 1 893
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	–	–	–	–	–	–	–	–	27	4	31
Profit/loss from hedge accounting	–	–	–	–	–	–	–	–	9	–	9
Profit/loss from shares in companies	–	–	–	–	–	–	–	–	1	–	1
Profit/loss from investments accounted for using the equity method	2	–	–	–	–	–	–	–	19	–	21
Administrative expenses	175	150	100	40	95	84	32	59	268	8	1 011
Other operating profit/loss	– 5	1	– 2	–	9	1	1	– 1	– 35	– 14	– 45
Result before restructuring, reorganisation and taxes	**50**	**182**	**54**	**23**	**84**	**– 1 926**	**77**	**142**	**– 466**	**– 58**	**– 1 838**
Restructuring result	–	–	–	–	–	–	–	–	134	– 1	133
Reorganisation expenses	–	–	–	–	–	–	–	–	85	1	86
Earnings before taxes	**50**	**182**	**54**	**23**	**84**	**– 1 926**	**77**	**142**	**– 685**	**– 58**	**– 2 057**
Income taxes	–	–	–	–	–	–	–	–	–	297	297
Consolidated profit/loss	**50**	**182**	**54**	**23**	**84**	**– 1 926**	**77**	**142**	**– 685**	**– 355**	**– 2 354**
Segment assets	6 866	23 938	18 610	19 338	15 283	10 239	5 379	13 206	53 418	– 12 266	154 012
of which: investments at equity	44	–	–	–	–	–	–	–	129	–	173
Segment liabilities	7 394	5 516	51 321	3 766	2 569	886	347	166	90 704	– 8 658	154 012
Total risk exposure amount	3 885	13 377	3 928	1 361	5 848	3 147	4 099	5 265	1 683	2 926	45 520
Capital employed[1]	398	1 339	406	145	615	615	456	534	455	1 219	6 180
CIR	77.2%	37.3%	65.5%	53.2%	40.4%	- 1253.1%	30.9%	30.9%			94.8%
RoRaC/RoE[2]	12.5%	13.6%	13.4%	16.2%	13.7%	- 313.4%	17.0%	26.7%			-33.3%

1 Jan. - 31 Dec. 2017 (in € million)	Private and Commercial Customers	Corporate Customers	Markets	Savings Banks and Regional Customers[4]	Energy and Infrastructure Customers	Ship Customers/ Maritime Industries	Aircraft Customers	Real Estate Banking Customers	Group Management/ Others	Reconciliations	NORD/LB Group
Net interest income	173	363	166	50	171	293	103	203	– 74	– 32	1 417
Net commission income	54	51	47	9	44	15	9	2	– 88	– 32	112
Profit/loss from financial instruments at fair value	3	25	67	8	32	15	2	7	161	21	341
Risk provisioning	3	– 31	1	1	– 35	– 946	– 2	4	– 10	24	– 991
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	–	–	–	–	–	–	–	–	461	– 2	459
Profit/loss from hedge accounting	–	–	–	–	–	–	–	–	13	–	13
Profit/loss from shares in companies	–	–	–	–	–	–	–	–	48	–	48
Profit/loss from investments accounted for using the equity method	2	–	–	–	–	–	–	–	27	9	38
Administrative expenses	174	158	107	43	106	117	33	63	342	13	1 156
Other operating profit/loss	– 12	– 3	2	–	3	–	–	1	52	– 15	29
Result before restructuring, reorganisation and taxes	**50**	**247**	**176**	**25**	**110**	**– 740**	**80**	**153**	**248**	**– 39**	**310**
Restructuring result	–	–	–	–	–	–	–	–	85	–	85
Reorganisation expenses	–	–	–	–	–	–	–	–	29	–	29
Earnings before taxes	**50**	**247**	**176**	**25**	**110**	**– 740**	**80**	**153**	**133**	**– 39**	**195**
Income taxes	–	–	–	–	–	–	–	–	–	60	60
Consolidated profit/loss	**50**	**247**	**176**	**25**	**110**	**– 740**	**80**	**153**	**133**	**– 99**	**135**
Segment assets[3]	6 821	24 370	20 125	18 151	14 645	12 184	5 894	13 129	56 471	– 7 964	163 825
of which: investments at equity	44	–	–	–	–	–	–	–	156	–	200
Segment liabilities[3]	6 970	6 142	47 886	3 628	2 832	1 299	357	231	99 717	– 5 237	163 825
Total risk exposure amount	3 822	13 386	3 638	1 014	6 283	5 935	4 503	4 970	839	2 493	46 884
Capital employed[1]	412	1 265	351	108	717	1 009	525	595	878	– 119	5 741
CIR	78.8%	36.3%	38.0%	64.6%	42.0%	36.3%	28.7%	29.8%	35.6%		48.0%
RoRaC/RoE[2]	12.1%	19.5%	50.0%	23.3%	15.4%	-73.3%	15.2%	25.8%	- 159.8%		3.4%

[1] Reconciliation of long-term equity under commercial law to reported equity:

(in € million)	31 Dec. 2018	31 Dec. 2017
Long-term equity under commercial law	6 180	5 741
Accumulated OCI	– 423	340
Silent participations in reported equity	– 2 354	135
Reported equity	**3 404**	**6 217**

[2] RoRaC at the business level:
Earnings before taxes / committed capital.
RoE at the company level:
Earnings before taxes / long-term equity under commercial law (see table above)
[3] The previous year's figures were restated at individual items, for more see Note (2) Restatement of previous year's figures.
[4] The prior-year figures for the new Network Customers segment were reclassified from the previous business segments.

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

(24) Segment Reporting by geographical Segment

1 Jan. - 31. Dec.2018 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings [1]	1 010	101	66	49	– 159	1 066
Earnings before taxes (EBT)	– 2 023	30	28	– 4	– 89	– 2 057
Segment assets	148 075	19 208	4 622	2 978	– 20 871	154 012
Segment liabilities	149 990	17 294	4 622	2 978	– 20 871	154 012
Total risk exposure amount	41 098	7 806	1 390	805	– 5 579	45 520
Capital employed	5 354	589	134	104	–	6 180
CIR	92.7%	70.8%	58.1%	50.8%		94.8%
RoRaC/RoE2) [2]	-37.8%	5.1%	20.8%	-3.5%		-33.3%

1 Jan. - 31. Dec.2017 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings [1]	2 349	77	103	74	– 194	2 409
Earnings before taxes (EBT)	215	– 10	50	31	– 90	195
Segment assets	160 848	17 334	5 944	2 943	– 23 244	163 825
Segment liabilities	162 552	15 629	5 944	2 943	– 23 244	163 825
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	46.7%	106.3%	51.5%	48.5%		48.0%
RoRaC/RoE2) [2]	4.6%	-1.4%	24.5%	17.5%		3.4%

[1] Earnings are defined as the sum of net interest income, net commission income, profit/loss from the fair value measurement, result from financial assets not measured 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.

[2] RoRaC at the segment level:
Earnings before taxes / committed capital.

RoE at the company level:
Earnings before taxes / long-term equity under commercial law (= reported equity - OCI (until 2017: revaluation reserve) - earnings after taxes)

The tables may include minor differences that occur in the reproduction of mathematical operations.

Note to the Income Statement

(25) 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. 2018 (in € million)	1 Jan. - 31. Dec. 2017 (in € million)	Change (in %)
Interest income from assets			
Interest income from financial instruments at fair value through profit or loss			
Interest income from trading assets	2 534	2 524	–
Interest income from trading and hedge accounting derivatives	2 436	2 450	– 1
Interest income from debt securities and other fixed interest securities	17	23	– 26
Interest income from loans and advances	81	51	59
Interest income from financial instruments mandatorily at fair value through profit or loss	106	–	–
Interest income from debt securities and other fixed interest securities	25	–	–
Interest income from loans and advances	81	–	–
Interest income from financial assets designated at fair value through profit or loss	–	27	– 100
Interest income from debt securities and other fixed interest securities	–	21	– 100
Interest income from loans and advances	–	6	– 100
	2 640	**2 551**	**3**
Interest income from financial assets at fair value through other comprehensive income			
Interest income from debt securities and other fixed interest securities	224	372	– 40
Interest income from loans and advances	49	–	–
	273	**372**	**– 27**
Interest income from financial assets at amortised cost			
Interest income from debt securities and other fixed interest securities	122	67	82
Interest income from loans and advances	2 420	2 821	– 14
Interest income from impaired debt securities and other fixed interest securities as well as loans and advances	68	100	– 32
	2 610	**2 988**	**– 13**
Dividend income			
of which: Equity instruments held at the reporting date	–	4	– 100
	9	**16**	**– 44**
Other interest income and similar income			
Interest income from hedge accounting amortisations	459	576	– 20
Income from silent participations	100	–	–
Other interest income and similar income	63	90	– 30
	622	**666**	**– 7**
	6 154	**6 593**	**– 7**

	1 Jan. - 31. Dec. 2018 (in € million)	1 Jan. - 31. Dec. 2017 (in € million)	Change (in %)
Interest expenses from assets	**55**	**64**	**– 14**
Interest expenses from liabilities			
Interest expenses from financial labilities at fair value through profit or loss			
Interest expenses from trading liabilities	2 484	2 463	1
Interest expenses from trading and hedge accounting derivatives	2 474	2 463	–
Interest expenses from deposits	10	–	–
Interest expenses from financial labilities designated at fair value through profit or loss	152	247	– 38
Interest expenses from deposits	108	208	– 48
Interest expenses from securitised liabilities	44	39	13
	2 636	**2 710**	**– 3**
Interest expenses from financial liabilities at amortised cost			
Interest expenses from deposits	1 291	1 340	– 4
Interest expenses from securitised liabilities	400	475	– 16
	1 691	**1 815**	**– 7**
Other interest expenses and similar expenses			
Interest expenses from hedge accounting amortisations	516	614	– 16
Other interest expenses and similar expenses	**57**	**52**	**10**
	573	**666**	**– 14**
	4 900	**5 191**	**– 6**
Interest income from financial liabilities	**80**	**79**	**1**
Total	**1 279**	**1 417**	**– 10**

The income from silent participations contains the valuation effect resulting from the application of IFRS 9.B5.4.6. This effect is caused by the reassessment of the cash flows associated with the silent participations (see Note 12 Financial instruments). The difference between the tax measurement of the silent participations and the measurement under IFRS 9.B5.4.6 results in an increase in deferred tax assets amounting to € 37 million.

(26) Net Commission Income

	1 Jan. - 31. Dec. 2018 (in € million)	1 Jan. - 31. Dec. 2017 (in € million)	Change (in %)
Commission income			
Lending and guarantee business	104	118	– 12
Account management and payment transactions	46	43	7
Trust activities	1	1	–
Security transactions and custody service	43	37	16
Brokerage business	29	21	38
Other commission income	19	48	– 60
	242	**268**	**– 10**
Commission expenses			
Lending and guarantee business	155	119	30
Account management and payment transactions	3	3	–
Security transactions and custody service	18	19	– 5
Brokerage business	4	8	– 50
Other commission expenses	10	7	43
	190	**156**	**22**
Total	**52**	**112**	**– 54**

Commission income includes income from financial instruments not measured at fair value through profit and loss in the amount of € 193 million (€ 198 million) and expenses from financial instruments not measured at fair value through profit and loss in the amount of € 176 million (€ 141 million).

(27) Profit/loss from financial assets at fair value through profit or loss

	1 Jan. - 31 Dec. 2018 (in € million)	1 Jan. - 31 Dec. 2017 (in € million)	Change (in %)
Trading result			
Profit/loss from derivatives			
Interest-rate risks	23	– 71	> 100
Currency risks	– 86	– 84	2
Share-price and other price risks	11	5	> 100
Credit derivatives	– 2	35	> 100
	– 54	**– 115**	**– 53**
Profit/loss from equity instruments	– 4	– 5	– 20
Profit/loss from debt-securities and other fixed-interest securities	– 11	3	> 100
Profit/loss from receivables held for trading	– 8	– 57	– 86
Profit/loss from short sales	– 3	–	–
Other trading result	– 6	– 5	20
	– 86	**– 179**	**– 52**
Profit/loss from financial assets at fair value through profit or loss			
Profit/loss from equity instruments	– 15	–	–
Profit/loss from debt-securities and other fixed-interest securities	– 31	–	–
Profit/loss from receivables	– 162	–	–
	– 208	**–**	**–**
Profit/loss from designated financial assets at fair value through profit or loss			
Profit/loss from debt-securities and other fixed-interest securities	–	33	– 100
Profit/loss from receivables	–	– 8	– 100
Profit/loss from deposits	3	352	– 99
Profit/loss from securitised liabilties	6	46	– 87
	9	**423**	**– 98**
Foreign exchange result	**3**	**97**	**– 97**
Total	**– 282**	**341**	**> 100**

(28) Risk provisioning

	1 Jan. - 31 Dec. 2018 (in € million)	1 Jan. - 31 Dec. 2017 (in € million)	Change (in %)
Risk provisioning of financial assets at fair value through other comprehensive income			
Income from the reversal of risk provisioning for			
Debt-securities and other fixed-interest securities	1	–	–
	1	**–**	**–**
Expenses from allocations to risk provisions for			
Debt-securities and other fixed-interest securities	3	8	– 63
	3	**8**	**– 63**
	– 2	**– 8**	**– 75**
Risk provisionig of financial assets at amortised cost			
Income from the reversal of risk provisioning for			
Debt-securities and other fixed-interest securities	4	2	100
Loans and advances	838	1 289	– 35
	842	**1 291**	**– 35**
Expenses from allocations to risk provisions for			
Debt-securities and other fixed-interest securities	1	–	–
Loans and advances	2 574	1 971	31
	2 575	**1 971**	**31**
	– 1 733	**– 680**	**> 100**
Provisions in lending business			
Income from the reversal	32	22	45
Expenses from allocation	51	26	96
	– 19	**– 4**	**> 100**
Additions to receivables written off	**48**	**28**	**71**
Direct write-offs	**192**	**327**	**– 41**
Modification results	**5**	**–**	**–**
Total	**– 1 893**	**– 991**	**– 91**

€ 4 million of the modification result relates to financial instruments for which the risk provisioning was determined on the basis of a lifetime expected credit loss. The corresponding amortised cost came to a total of € 400 million prior to modifications.

(29) Disposal profit/loss from financial assets that are not measured at fair value through profit or loss

	1 Jan.-30 Dec. 2018 (in € million)	1 Jan.-30 Dec. 2017 (in € million)	Change (in %)
Disposal profit/loss from financial assets at fair value through other comprehensive income			
Disposal profit/loss of			
Debt-securities and other fixed-interest securities	47	105	– 55
Disposal profit/loss from financial assets at amortised cost			
Disposal profit/loss of			
Loans and advances	– 4	440	> 100
Disposal profit/loss from financial liabilities at amortised cost			
Disposal profit/loss of			
Deposits	– 11	– 61	– 82
Securitised liabilities	– 1	– 25	– 96
	– 12	**– 86**	**– 86**
Total	**31**	**459**	**– 93**

Profit/loss from the disposal of financial assets at amortised cost comprises earnings in the amount of € 1 million (€ 0 million) and expenses in the amount of € 4 million (€ 0 million).

(30) 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. 2018 (in € million)	1 Jan. - 31 Dec. 2017 (in € million)	Change (in %)
Profit/loss from micro fair value hedges			
from hedged underlying transactions	– 23	– 232	– 90
from derivatives employed as hedging instruments	28	227	– 88
	5	**– 5**	**> 100**
Profit/loss from portfolio fair value hedges			
from hedged underlying transactions	– 183	4	> 100
from derivatives employed as hedging instruments	187	14	> 100
	4	**18**	**– 78**
Total	**9**	**13**	**– 31**

(31) Profit/loss from shares in companies

Profit/loss from shares in companies includes current income, valuation gains and losses recognised in profit or loss and disposal gains and losses on non-consolidated investments in companies.

	1 Jan. - 31 Dec. 2018 (in € million)	1 Jan. - 31 Dec. 2017 (in € million)	Change (in %)
Profit/loss from subsidiaries	–	8	– 100
Profit/loss from shares in associated companies	– 2	–	–
Profit/loss from other shares in companies	3	39	– 92
Total	**1**	**47**	**– 98**

(32) 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 associated companies through profit and loss, measured using the equity method.

	1 Jan.-30 Dec. 2018 (in € million)	1 Jan.-30 Dec. 2017 (in € million)	Change (in %)
Shares in joint ventures	1	2	
Shares in associated companies	20	36	
Total	**21**	**38**	**– 45**

(33) Administrative Expenses

	1 Jan.-30 Dec. 2018 (in € million)	1 Jan.-30 Dec. 2018 (in € million)	Change (in %)
Staff expenses			
Wages and salaries	415	442	– 6
Social insurance contributions	61	66	– 8
Expenditure on pension schemes and other benefits	53	61	– 13
Other staff expenses	6	7	– 14
	535	**576**	**– 7**
Other administrative expenses			
Costs for IT and communications	235	259	– 9
Building occupancy costs	45	47	– 4
Expenses for marketing, communications and entertainment	17	19	– 11
Personnel-related material expenses	17	24	– 29
Costs for legal, auditing, appraisal and consulting services	58	94	– 38
Levies and contributions	30	37	– 19
Expenses for operating and office equipment	6	7	– 14
Other administrative expenses	17	32	– 47
	425	**519**	**– 18**
Amortisation and depreciation			
Property and equipment	25	35	– 29
Investment property	2	2	–
Intangible assets	24	24	–
	51	**61**	**– 16**
Total	**1 011**	**1 156**	**– 13**

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

(34) Other operating profit/loss

	1 Jan.-30 Dec. 2018 (in € million)	1 Jan.-30 Dec. 2017 (in € million)	Change (in %)
Other operating income			
Income from the reversal of provisions	28	22	27
Income from the chartering of vessels related to restructuring lending commitments	18	31	– 42
Rental income from investment property	10	11	– 9
Income from the disposal of non-financial assets	7	–	–
Reimbursements	11	25	– 56
Other operating income	37	114	– 68
	111	**203**	**– 45**
Other operating expenses			
Expenses from bank levy	56	52	8
Expenses from allocation to provisions	4	12	– 67
Expenses from additions of impairment losses on non-financial assets	23	30	– 23
Expenses for the achievement of charter revenues from vessels	15	25	– 40
Expenses from Investment property	3	2	50
Expenses from the disposal of non-financial assets	–	1	– 100
Other taxes	4	7	– 43
Other operating expenses	51	45	13
	156	**174**	**– 10**
Total	**– 45**	**29**	**> 100**

Other operating expenses primarily include expenses from internal service charging. Earnings from the reversal of provisions mainly resulted from the reversal of provisions for tax refunds.

(35) Restructuring result

Profit/loss from restructuring totalling € - 133 million (€ - 85 million) resulted from the recognition of provisions for restructuring measures which meet the requirements of IAS 37. The restructuring requirements are in connection with the NORD/LB Group's One Bank transformation programme and relate to staff expenses.

(36) Reorganisation expenses

This item involves measures aimed at securing the future and maintaining the competitiveness of the NORD/LB Group; these expenses are reported separately due to their significance. The recognised items are non-recurring in nature and are not part of the operating business activities of the NORD/LB Group. The expense totalling € 86 million (€ 29 million) resulted from consulting services for strategy, IT and legal advice. These advisory services covered, the redimensioning of the lending business, the planned capital-boosting programme and other measures to strategically realign the Bank.

(37) Income taxes

	1 Jan.-30 Dec. 2018 (in € million)	1 Jan.-30 Dec. 2017 (in € million)	Change (in %)
Current taxes on income and earnings			
Tax expenses / income for the current year	20	47	– 57
Tax expenses / income for previous years	1	– 40	> 100
	21	**7**	**> 100**
Deferred taxes			
Deferred taxes due to the accrual / reversal of temporary differences and tax losses / tax credits not previously considered	59	77	– 23
Deferred taxes due to changes in tax legislation / tax rates	–	– 5	– 100
Deferred taxes due to temporary differences in previous periods not previously considered	217	– 19	> 100
	276	**53**	**> 100**
Total	**297**	**60**	**> 100**

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.-30 Dec. 2018	1 Jan.-30 Dec. 2017
IFRS earnings before taxes	**– 2 057**	**195**
Anticipated income tax expenditure	– 658	62
Effects of reconciliation:		
Effects of differing tax rates	– 5	– 3
Taxes from previous years reported in the reporting period	218	– 59
Effects of changes in tax rates	–	– 5
Non-creditable income taxes	1	4
Non-deductible operational expenditure	40	15
Effects of tax-free earnings	– 6	– 46
Effect of permanent accounting-related effects	– 2	1
Effects of write-ups/write-downs/recognition adjustments	716	82
Other effects	– 7	9
Reported income tax expenses	**297**	**60**

Anticipated income tax expenditure in the tax reconciliation statement is calculated using the corporate tax rate of 15 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 2018. 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. 2018 Amount before taxes	1 Jan. - 31 Dec. 2018 Income tax effect	1 Jan. - 31 Dec. 2018 Amount after taxes	1 Jan. - 31 Dec. 2017 [1] Amount before taxes	1 Jan. - 31 Dec. 2017 [1] Income tax effect	1 Jan. - 31 Dec. 2017 [1] Amount after taxes
Investments accounted for using the equity method - Share of other operating profit/loss	– 34	12	– 22	– 18	–	– 18
Changes in designated financial liabilities at fair value through profit or loss due to changes in credit risk	– 153	48	– 105	–	–	–
Revaluation of the net liability from defined benefit pension plans	– 23	– 72	– 95	117	– 37	80
Changes in financial assets at fair value through other comprehensive income	– 36	11	– 25	– 52	30	– 22
Translation differences of foreign business units	– 1	–	– 1	– 1	–	– 1
Other profit/loss	**– 247**	**– 1**	**– 248**	**46**	**– 7**	**39**

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

Notes to the Balance Sheet

(38) Cash Reserve

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Cash on hand	69	134	– 49
Cash balances at Central Banks	1 450	2 302	– 37
Total	**1 519**	**2 436**	**– 38**

(39) Financial assets at fair value through profit or loss

This item includes the trading assets, financial assets requiring measurement at fair value through profit or loss and financial assets at fair value through profit or loss of the NORD/LB Group.

The Group's trading activities comprise trading in debt securities and other fixed-interest securities, equity instruments, and derivative financial instruments not used in hedge accounting. The financial assets requiring measurement at fair value category recognises financial instruments which are required to be measured at fair value through profit or loss due to fulfilment of the cash-flow or business model criterion as per IFRS 9.

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Trading assets			
Positive fair values from derivatives			
Interest-rate risks	3 760	4 105	– 8
Currency risks	397	544	– 27
Share-price and other price risks	3	3	–
Credit derivatives	62	50	24
	4 222	**4 702**	**– 10**
Equity instruments	3	2	50
Debt-securities and other fixed-interest securities	1 697	2 819	– 40
Loans and advances to customers	160	2 127	– 92
Registered securities	2 790	–	–
	8 872	**9 650**	**– 8**
Financial assets mandatorily at fair value through profit or loss			
Equity instruments	70	–	–
Debt-securities and other fixed-interest securities	2 480	–	–
Loans and advances to banks	104	–	–
Loans and advances to customers	880	–	–
	3 534	**–**	**–**
Financial assets designated at fair value through profit or loss			
Debt-securities and other fixed-interest securities	–	1 138	– 100
Loans and advances to customers	–	195	– 100
	–	**1 333**	**– 100**
Total	**12 406**	**10 983**	**13**

When initially adopting IFRS 9, the Group exercised its option to rescind the fair value option for debt securities and other fixed-interest securities, as well as for loans and advances, that were allocated upon initial recognition to the fair value option because accounting mismatches existed at initial recognition (see Note (4) Reconciliation of the categories and classes of IAS 39 to IFRS 9).

The change in fair value attributable to changes in the credit risk of financial assets designated at fair value through profit and loss amounted to € 0 Mio € million in the reporting period (4 Mio €). The cumulative change totals € 0 Mio € (12 Mio €).

The fair value adjustment triggered by the credit risk is determined using a procedure in line with market practices 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 as well as the current NORD/LB spread curves and the fair value calculated using market data and the NORD/LB spread curves used in the previous reporting period.

(40) Financial assets at Fair Value through other comprehensive income

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Equity instruments	–	152	– 100
Debt-securities and other fixed-interest securities	18 739	24 679	– 24
Loans and advances to banks	804	–	–
Loans and advances to customers	1 005	–	–
Total	**20 548**	**24 831**	**– 17**

The change in the risk provisioning recognised in other comprehensive income (OCI) related to this item is presented under Note (60) Risk provisioning and gross carrying amount.

(41) Financial assets at amortised cost

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Debt-securities and other fixed-interest securities	4 375	1 950	> 100
Loans and advances to banks	24 498	27 660	– 11
Loans and advances to customers	85 168	91 608	– 7
Total	**114 041**	**121 218**	**– 6**

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

The change in the risk provisioning contained in this item is presented under Note (60) Risk provisioning and gross carrying amount.

(42) Positive fair values from hedge accounting derivatives

This item comprises positive fair values of hedging instruments in effective micro and portfolio fair value hedging relationships.

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Micro fair value hedge derivative	981	1 135	– 14
Portfolio fair value hedge derivative	171	250	– 32
Total	**1 152**	**1 385**	**– 17**

(43) Balancing items for financial instruments hedged in the fair value hedge portfolio

This item includes fair-value changes to assets attributable to the hedged risk, which are included as an underlying transaction in a portfolio fair value hedge.

(44) Shares in companies

The balance sheet item Shares in companies includes the strategic investments of the NORD/LB Group, which are not measured in accordance with IFRS 10, IFRS 11 or IAS 28, but rather in accordance with IFRS 9.

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Subsidaries	36	35	3
Joint Ventures	6	6	–
Associated companies	36	37	– 3
Other shares in companies	260	324	– 20
Total	**338**	**402**	**– 16**

(45) Property and Equipment

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Land and buildings	311	325	– 4
Operating and office equipment	44	48	– 8
Ships	29	106	– 73
Other property and equipment	1	3	– 67
Total	**385**	**482**	– 20

Changes to property, plant and equipment are presented under Note (46) Investment property.

(46) Investment Property

Investment property has a total carrying amount of € 86 million (€ 87 million). The corresponding fair value amounts to € 142 million (€ 126 million) and in accordance with the fair value hierarchy under IFRS 13 is split between Level 1 at € 0 million (€ 53 million), Level 2 at € 142 million (€ 68 million) and Level 3 at € 0 million (€ 5 million).

The profit/loss from investment property is as follows:

(in € million)	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Rental income	10	11
Direct operating expenses	3	2

The cost and accumulated depreciation for property and equipment and for investment property are as follows:

(in Mio €)	Land and buildings	Operating and office equipment	Vessels[1]	Other property equipment	**Total**	Investment property
Cost as at- 1 January 2017	**689**	**251**	**62**	**1**	**1 003**	**97**
Additions	–	11	302	2	**315**	1
Disposals	–	6	106	–	**112**	–
Transfers	– 3	– 1	–	–	**– 4**	3
Change from currency translation	–	– 1	– 6	–	**– 7**	–
Total 31.12.2017	**686**	**254**	**252**	**3**	**1 195**	**101**
Accumulated depreciation as at 1 January 2017	**356**	**195**	**33**	**–**	**584**	**11**
Scheduled depreciation	5	17	11	–	**33**	2
Impairments (non-scheduled)	–	–	20	–	**20**	1
Appreciation	–	–	– 49	–	**– 49**	–
Transfers	–	– 1	–	–	**– 1**	1
Additions	–	–	169	–	**169**	–
Disposals	–	5	–	–	**5**	1
Change from currency translation	–	–	– 3	–	**– 3**	–
Total 31.12.2017	**361**	**206**	**146**	**–**	**713**	**14**
Closing balance as at 31.12.2017	**325**	**48**	**106**	**3**	**482**	**87**
Cost as at 1 January 2018	**686**	**254**	**252**	**3**	**1 195**	**101**
Additions	2	6	12	1	**21**	–
Disposals	–	9	92	–	**101**	23
Transfers	– 8	2	–	– 3	**– 9**	9
Change from currency translation	–	–	1	–	**1**	–
Total 31.12.2018	**680**	**253**	**75**	**1**	**1 009**	**87**
Accumulated depreciation as at 1 January 2018	**361**	**206**	**146**	**–**	**713**	**14**
Scheduled depreciation	9	12	4	–	**25**	2
Impairments (non-scheduled)	–	–	22	–	**22**	–
Transfers	– 1	–	–	–	**– 1**	1
Disposals	–	9	62	–	**71**	16
Total 31.12.2018	**369**	**209**	**46**	**–**	**624**	**1**
Closing balance as at 31.12.2018	**311**	**44**	**29**	**1**	**385**	**86**

[1] Due to the correction of subitems, reporting shifts occurred in 2017.

Transfers from Other property and equipment relate in full to construction in progress. Of the transfers from Investment property, € 8 million (€ 0 million) relate to additions attributable to reclassifications from Property and equipment and € 0 million (€ 3 million) relate to disposals attributable to reclassifications to Property and equipment.

(47) Intangible Assets

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Software			
Purchased	71	64	11
Internally generated	42	41	2
	113	**105**	**8**
Prepayments and intangible assets under development and preparation	8	16	– 50
Leasing Property from Finance Lease	2	3	– 33
Other intangible assets	13	13	–
Total	**136**	**137**	**– 1**

Intangible assets under development refer primarily to internally generated software. Fully amortised software is still used.

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

	Carrying amount (in € million)		Remaining depreciation period (in years)	
	31 Dec.2018	31 Dec.2017	31 Dec.2018	31 Dec.2017
IT applications	53	66	10	15
Internally developed software	39	38	10	10

Intangible assets changed as follows:

(in € million)	Software Purchased	Software Internally generated	Prepayments and intangible assets under development and preparation[1]	Leasing-Items from Finance Lease	Other intangible assets[1]	**Total**
Cost as at 1 January 2017	**171**	**288**	**19**	**5**	**31**	**514**
Additions	19	3	5	–	10	**37**
Disposals	9	–	8	–	5	**22**
Transfers	8	–	–	–	– 8	**–**
Total at 31 December 2017	**189**	**291**	**16**	**5**	**28**	**529**
Accumulated depreciation as at 1 January 2017	**110**	**243**	**–**	**1**	**6**	**360**
Scheduled depreciation	18	7	–	1	– 1	**25**
Depreciation (non-scheduled depreciation)	3	–	–	–	10	**13**
Disposals	6	–	–	–	–	**6**
Total at 31 December 2017	**125**	**250**	**–**	**2**	**15**	**392**
Closing balance as at 31.12.2017	**64**	**41**	**16**	**3**	**13**	**137**
Cost as at 1 January 2018	**189**	**291**	**16**	**5**	**28**	**529**
Additions	10	7	10	–	–	**27**
Disposals	1	–	3	–	15	**19**
Transfers	14	1	– 15	–	–	**–**
Total at 31 December 2018	**212**	**299**	**8**	**5**	**13**	**537**
Accumulated depreciation as at 1 January 2018	**125**	**250**	**–**	**2**	**17**	**394**
Scheduled depreciation	17	7	–	1	–	**25**
Disposals	1	–	–	–	17	**18**
Total at 31 December 2018	**141**	**257**	**–**	**3**	**–**	**401**
Closing balance as at 31 December 2018	**71**	**42**	**8**	**2**	**13**	**136**

[1] Due to the correction of subitems, reporting shifts occurred in 2017.

(48) Assets held for sale

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

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Financial assets at fair value through profit or loss	84	13	> 100
Financial assets at amortised costs	737	3	> 100
Property and equipment	30	1	> 100
Intangible assets	–	2	– 100
Other assets	–	1	– 100
Total	**851**	**20**	**> 100**

In financial year 2018, the NORD/LB Group decided to significantly reduce its NPL ship loan exposure. The divestment portfolio held for sale predominantly contains receivables from ship financing. Assets for sale are still measured in accordance with IFRS 9 where these are applicable. The expected transaction price was used to measure risk provisioning for the portfolio assets measured at amortised cost. The total allowance for losses on loans and advances amounts to € 1,330 million (€ 0 million). A fair value adjustment of

€ 385 million was recognised in profit or loss on the financial assets in the total portfolio measured at fair value through profit or loss of € 84 million. In addition, the portfolio includes three consolidated one-ship companies with a net carrying amount of € 15 million, for which an impairment loss of € 22 million was recognized in other operating income in property, plant and equipment in accordance with IFRS 5.20. The goal is to sell the portfolio in the Ship Customers and Group Management/Others segment during the second quarter of 2019.

The assets of two fully consolidated subsidiaries from the Markets segment, which were recognised in various items under Assets held for sale in December 2017, were sold in November 2018.

In addition, the item Assets held for sale also includes property and equipment (ships) totalling € 15 million (€ 1 million) owned by two fully consolidated subsidiaries reported in the Group Management / Others segment. The Group sold and derecognised these ships on 13 February 2019 and 15 February 2019.

(49) Income Tax Assets

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Current income tax assets	38	31	23
Deferred tax assets	431	716	– 40
Total	**469**	**747**	**– 37**

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 € 117 million (€ 189 million) as at 31 December 2018.

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

	31 Dec.2018 (in € million]	31 Dec.2017 (in € million]	Change (in %)
Assets			
Trading assets	–	737	– 100
Financial assets at fair value through profit or loss	49	–	–
Financial assets at fair value through other comprehensive income	11	8	38
Financial assets at amortised costs	178	164	9
Shares in companies	14	15	– 7
Property and equipment	54	61	– 11
Other assets	118	90	31
Liabilities			–
Trading liabilities	38	74	– 49
Designated financial liabilities at fair value through profit or loss	12	61	– 80
Financial liabilities at amortised costs	369	398	– 7
Negative fair values from hedge accounting derivatives	580	525	10
Provisions	616	769	– 20
Liabilities held for sale	2	–	–
Other liabilities	6	10	– 40
Tax loss carried forward	1	–	–
Total	**2 048**	**2 912**	**– 30**
Net	1 617	2 196	– 26
Total	**431**	**716**	**– 40**

In addition to deferred taxes recognised in the income statement, netted deferred income tax assets include € 7 million (€ 5 million) from other assets and € 110 million (€ 184 million) from provisions, which are recognised in other comprehensive income (OCI).

In the case of loss carryforwards from corporate tax amounting to € 2,630 million (€ 367 million) and from trade tax amounting to € 2,595 million (€ 311 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 2018.

Tax losses carried forward from corporate tax totalling € 1 million (€ 0 million) lapse in the next five years, while the other tax losses carried forward can be used indefinitely.

The NORD/LB Group recognises deferred assets exceeding deferred tax liabilities by € 343 million for companies that suffered a loss for the current year as at 31 December 2018.The value of deferred tax assets is the result of positive future results, primarily due to relief under the risk shield on the shipping portfolio.

No deferred taxes were recognised for € 1,453 million (€ 438 million) of temporary differences that can be carried forward indefinitely.

(50) Other Assets

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Refund claims to provident fund NORD/LB	426	463	– 8
Loans and advances on interim accounts	1 284	76	> 100
Rights to reimbursement from defined benefit plans	12	13	– 8
Deferred item	8	9	– 11
Receivabales	1	–	–
Contract assets	9	–	–
Other assets	54	271	– 80
Total	**1 794**	**832**	**> 100**

NORD/LB 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's rights to reimbursement from the fund equates to the fair value of the assets transferred to the fund by NORD/LB for the purpose of making the pension payments. Please refer to Note (55) Provisions for details on the changes in the reimbursement claim.

The loans and advances on interim accounts primarily relate to loans and advances in lending business, securities business, investments and transactions on payment accounts.

Reimbursement claims from defined benefit plans include allocated provisions for pensions to the benefit of people outside the Group.

The change in Other assets, which are related to income from customer agreements, is presented in the following:

(in € million)	Receivables 2018	Contract assets 2018
1 Jan.	**10**	**11**
Satisfaction of performance obligations	– 6	– 2
Consideration received	– 3	–
31 Dec.	**1**	**9**

(51) Financial Liabilities at Fair Value through Profit or Loss

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

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 through profit and loss includes liabilities to banks and customers and securitised liabilities.

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Trading liabilities			
Negative fair values from derivatives			
Interest-rate risks	2 641	3 053	– 13
Currency risks	672	695	– 3
Share-price and other price risks	6	2	> 100
Credit derivatives	9	2	> 100
	3 328	**3 752**	**– 11**
Delivery obligations from short-sales	353	179	97
	3 681	**3 931**	**– 6**
Financial liabilities designated at fair value through profit or loss			
Deposits			
Liabilities to banks	388	406	– 4
Liabilities to customers	3 941	5 751	– 31
	4 329	**6 157**	**– 30**
Securitised liabilities	3 438	2 883	19
	7 767	**9 040**	**– 14**
Total	**11 448**	**12 971**	**– 12**

The change in fair value attributable to changes in the Bank's credit risk of financial liabilities designated at fair value through profit and loss is recognised in Other comprehensive income (OCI). This amounts to -44 (0 Mio €) in the reporting period.

The fair value adjustment attributable to the credit risk is determined based on differences using a procedure in line with market practices. The amount in question is derived from the difference between the fair value determined on the reporting date based on current market figures as well as the current NORD/LB spread curves and the fair value calculated using market data and the NORD/LB spread curves used in the previous reporting period.

The carrying amount of liabilities designated at fair value through profit and loss as at 31 December 2018 is € 169 million (€ 558 million) higher than the corresponding repayment amount. The difference stems largely from the higher interest rates on liabilities compared to the current market rate.

(52) Financial Liabilities at amortised cost

	31 Dec. 2018 (in € million)	31 Dec. 2017[1] (in € million)	Change (in %)
Deposits			
Deposits from banks	15 932	3 799	> 100
Saving deposits from customers	1 150	1 186	– 3
Other liabililities	85 280	96 625	– 12
Subordinated liabilities	742	1 155	– 36
	103 104	**102 765**	**–**
Securitised Liabilities			
Mortgage bonds	10 573	11 429	– 7
Municipal debentures	6 947	8 434	– 18
Other securitised Liabilities	10 145	13 819	– 27
Subordinated securitised liabilities	2 664	2 376	12
	30 329	**36 058**	**– 16**
Total	**133 433**	**138 823**	**– 4**

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

Silent participations were revalued as at 31 December 2018 in accordance with IFRS 9.B5.4.6 (see Note (12) Financial instruments).

(53) 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.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Micro fair value hedge derivatives	1 750	1 965	– 11
Portfolio fair value hedge derivatives	21	25	– 16
Total	**1 771**	**1 990**	**– 11**

(54) Balancing items for financial instruments hedged in the fair value hedge portfolio

This item includes fair value changes financial liabilities attributable to the hedged risk, of which are included as an hedged items in a portfolio fair value hedge.

(55) Provisions

Provisions are broken down as follows:

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Provisions for pensions and other obligations	**2 410**	**2 357**	**2**
Other provisions			
Provisions for personnel	79	95	– 17
Provisions in lending business	66	49	35
Provisions for litigation and recourse risks	41	52	– 21
Provisions for restructuring measures	228	127	80
Other provisions	45	51	– 12
	459	**374**	**23**
Total	**2 869**	**2 731**	**5**

Pensionens and similar Oblgations

The net liability from defined benefit pension plans breaks down as follows:

	31 Dec. 2018 (in € million)	31 Dec. 2017 (in € million)	Change (in %)
Present value of defined benefit obligations	2 578	2 544	1
Less fair value of plan assets	168	187	– 10
Total	**2 410**	**2 357**	**2**

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, duration 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 fixed-interest securities. There are also claims to benefit payments.

There are defined benefit pension claims from direct commitments and indirect commitments. Payments from direct pension claims are made directly by NORD/LB, while payments from indirect pension claims are made by the legally independent provident fund Norddeutsche Landesbank Girozentrale Hannover/Braunschweig e. V., Hanover, or by the provident fund of Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen ("provident funds"). The management bodies of the provident funds consist 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 (see Note (50)).

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, 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 new employees. VO 2000 was closed, effective as at 31 December 2013.

Since 1 January 2014, the pension commitments for new employees of NORD/LB AöR are structured as a reinsured provident fund through the BVV Bankenversicherungsverein des Bankgewerbes a.G. (Banking Insurance Association for the Banking Industry) in Berlin.

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 cash/cash 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 amount as the pension payments. The risk of interest 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 extended 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 predominantly 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 of 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 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. The BVV is subject to subsidiary employer liability with respect NORDLB employees. 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:

	Defined benefit obligation		Fair value of plan assets		Negative balance (net obligation)		Change (in %)
(in € million)	2018	2017	2018	2017	2018	2017	
Opening balance	**2 544**	**2 629**	**187**	**200**	**2 357**	**2 429**	**– 3**
Current service cost	41	51	–	–	41	51	– 20
Interest income (interest expense)	54	51	4	4	50	47	6
Change from consolidation	– 4	–	–	–	– 4	–	–
Effects from plan curtailments	–	–	–	– 1	–	1	– 100
Effects from settlements / assignments (compensation payments)	4	9	1	–	3	9	– 67
Changes from currency translation	–	– 1	–	– 1	–	–	–
Benefits paid	– 71	– 72	– 18	– 19	– 53	– 53	–
Employer contributions	–	–	2	2	– 2	– 2	–
	2 568	**2 667**	**176**	**185**	**2 392**	**2 482**	**– 4**
Revaluation							
Adjustments made on the basis of experience	12	6	–	–	12	6	100
Profit / losses from the change in demographic assumptions	24	– 5	–	–	24	– 5	> 100
Profit / losses from the change in financial assumptions	– 26	– 124	–	–	– 26	– 124	– 79
Income from plan assets (without interest income)	–	–	– 8	2	8	– 2	> 100
Closing balance	**2 578**	**2 544**	**168**	**187**	**2 410**	**2 357**	**2**

In addition to the pension commitments, the present value of the defined benefit obligation includes commitments to benefit payments of € 283 million (€ 264 million).
The defined benefit obligation is divided as at the reporting date into amounts of € 2 582 million (€ 2 052 million) from defined benefit plans which are not financed through a fund, and amounts of € 7 million (€ 492 million) from defined benefit plans which are fully or partially financed through a fund.

The fair value of plan assets is structured as follows:

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Equity instruments			
active market	17	22	– 23
Debt instruments			
active market	66	66	–
Other assets			
active market	70	20	> 100
inactive market	4	3	33
	74	**23**	**> 100**
Cash/cash equivalent	**11**	**76**	**– 86**
Total	**168**	**187**	**– 10**

The fair value of plan assets includes own debt instruments, amounting to € 1 million (€ 1 million). Other self-used assets as well as own equity instruments and self-used real estate are not included in the fair value of plan assets. Other assets contain asset values of reinsurance policies totalling € 29 million (€ 25 million).

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

	2018 (in € million)	2017 (in € million)	Change (in %)
Opening balance 1 January	**463**	**503**	**– 8**
Benefits paid on reimbursement	– 47	– 42	12
Calculated interest income on reimbursement	9	10	– 10
Revaluation (through OCI)	1	– 8	> 100
Closing balance 31 December	**426**	**463**	**– 8**

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

(in € million)	Pensions expenses 31 Dec.2018	Pensions expenses 31 Dec.2017
Less than 1 year	71	70
between 1 and 2 years	74	71
between 2 and 3 years	76	74
between 3 and 4 years	78	76
between 4 and 5 years	81	78
Total	**380**	**369**

The duration of the defined benefit pension obligation is 20 (21) 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 (€ 1 million) in the next reporting period. Due to actuarial assumptions, the defined benefit obligation is subject to changes. The following sensitivity analysis shows the effects of the specified changes to each assumption on the amount of the defined benefit obligation, based on the premises that there are no correlations and all other assumptions remain unchanged.

(in € million)	Increase 31 Dec.2018	Decline 31 Dec.2018	Increase 31 Dec.2017	Decline 31 Dec.2017
Actuarial interest rate	266	231	263	224
Wages	31	30	26	25
Pensions	63	60	64	59
Cost increase rate for benefit payments	64	49	61	46
Mortality, invalidity, etc.	120	119	116	115

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 payments. 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 for personnel	Provisions in lending business	Provisions for litigation and recourse risks	Provisions for restructuring measures	Other provisions	**Total**
1. January	**95**	**63**	**52**	**123**	**54**	**387**
Utilisation	17	25	2	6	12	**62**
Resolutions	3	48	12	26	11	**100**
Additions	2	77	4	166	14	**263**
Reversals	2	– 11	–	– 23	–	**– 32**
Effects on changes of currency translation and other changes	–	10	–	– 6	–	**4**
31. December	**79**	**66**	**42**	**228**	**45**	**460**

The provisions for reorganisation measures stem largely from the “One Bank” transformation programme of the NORD/LB Group. These relate to HR measures in connection with efforts to leverage synergies within the NORD/LB Group. For the most part, use of these provisions is planned for 2019 to 2020. At the time the provisions were recorded, the extent of their use could not be reliably predicted on account of the variety of individual contractual agreements expected in the future.

The majority of the provisions for human resources liabilities are long term. They also include provisions for reorganisation expenses amounting to € 41 million (€ 38 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 Note (35) Restructuring result). The provisions due to reorganisation expense as well as the provisions owing to early retirement schemes totalling € 9 million (€ 14 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 human resources provisions are essentially of a short-term nature.

The Other provisions for uncertain liabilities include € 42 million (€ 52 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.

(56) Income Tax Liabilities

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Current income tax liabilities	53	71	– 25
Deferred income taxes	43	43	–
Total	**96**	**114**	**– 16**

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 € 27 million (€ 25 million) as at 31 December 2018.

The deferred tax liabilities are related to the following balance sheet items:

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Assets			
Trading assets	207	143	45
Financial assets mandatorily at fair value through profit or loss	19	–	–
Financial assets designated at fair value through profit or loss	–	17	– 100
Financial assets at fair value through other comprehensive income	146	325	– 55
Financial assets at amortised cost	455	278	64
Positive fair values from hedge accounting derivatives	312	346	– 10
Shares in companies	4	5	– 20
Property and equipment	24	21	14
Intangible assets	13	13	–
Assets held for sale	2	–	–
Other assets	180	160	13
Liabilities			
Trading liabilities	–	738	– 100
Financial liabilities designated at fair value through profit or loss	3	–	–
Financial liabilities at amortised cost	198	112	77
Negative fair values from hedge accounting derivatives	–	58	– 100
Provisions	19	1	> 100
Other laibilities	78	22	> 100
Total	**1 660**	**2 239**	**– 26**
Net	1 617	2 196	– 26
Total	**43**	**43**	**–**

In addition to deferred taxes recognised in the income statement, deferred income tax liabilities contain financial assets measured at fair value through other comprehensive income of € 18 million (€ 25 million) and financial liabilities designated at fair value through profit and loss of € 9 million (€ 0 million), which are recognised in other comprehensive income (OCI). No deferred tax liabilities were recorded for taxable differences from shares in subsidiaries amounting to € 21 million (€ 22 million), in accordance with IAS 12.39.

(57) Other Liabilities

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Liabilities from interim accounts	59	58	2
Liabilities from short-term employee remuneration	6	19	– 68
Liabilities resulting from unsettled invoices	47	40	18
Liabilities from payable taxes and social insurance contributions	7	9	– 22
Defferred items	9	7	29
Other liabilities	122	110	11
Total	**250**	**243**	**3**

The liabilities from interim accounts primarily relate to liabilities connected to the lending business, securities trading business and and transactions on payment accounts.

(58) Equity

Breakdown of equity:

	31 Dec.2018 (in € million)	31 Dec.2017[1)] (in € million)	Change (in %)
Issued capital	1 607	1 607	–
Capital reserves	3 332	3 332	–
Retained earnings	– 1 096	983	> 100
Accumulated other comprehensive income	– 412	316	> 100
Currency translation reserve	– 11	– 10	10
Equity attributable to the owners of NORD/LB	**3 420**	**6 228**	**– 45**
Additional equity	50	50	–
Non-controlling interests	– 66	– 61	8
Total	**3 404**	**6 217**	**– 45**

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

As at 31 December 2018, 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 26.23 per cent (26.23 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 reserves contain 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 (€ 1 million).

Included in retained earnings are the earnings retained in the Group in previous reporting years and the transfers from the annual profit minus the shares of other shareholders.

Accumulated other comprehensive income (OCI) contains the effects from the valuation of financial assets measured at fair value through other comprehensive income, the proportional change in equity of shares in the company recognised according to the equity method and the effects of the revaluation of the net liability from defined benefit pension plans. This item also contains cumulative changes resulting from financial liabilities designated at fair value through profit and loss that are attributable to the change in credit risk.

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 (AT1 bonds).

Other shareholders do also hold a stake in the equity of the NORD/LB Group. They hold shares in the equity of subsidiaries and are recognised as Group equity capital attributable to non-controlling interests. There are no funding obligations for the non-controlling interests.

No dividend was paid for 2017 nor is any dividend planned for 2018.

Notes to the Cash Flow Statement

The cash flow statement shows how cash and cash equivalents for the reporting year have changed by cash flows from operating activities, investing activities and financing activities.

Cash and cash equivalents are defined 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 do not allocate to operating activities, are eliminated. These payments are taken into account in the cash flow from investing activities or financing activities.

In accordance with the IASB's recommendations, payment transactions from loans and advances, from securities in the trading portfolio and from liabilities are recognised under cash flow from operating activities.

The cash flow from investing activities includes payment transactions for the investment portfolio 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 the opening and closing balances of liabilities where the cash flows are assigned to financing activity is presented:

	Equity[1]		Subordinated capital[1]	
(in € million)	2018	2017	2018	2017
31 December 2017	**6 217**		**3 531**	
First-time adoption effect IFRS 9	- 201		–	
01 January	**6 016**	**6 006**	**3 531**	**3 909**
Consolidated profit/loss	– 2 354	135	–	–
Repayment	–	–	– 56	– 246
Non cash changes				
Changes due to acquisition or loss of control of subsidiaries or other business operations	– 7	32	–	–
Exchange rate-related changes	– 1	–	35	– 103
Depreciation of liabilities	–	–	– 101	–
Other changes	– 250	44	– 3	– 29
31 December	**3 404**	**6 217**	**3 406**	**3 531**

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

For transactions that resulted in gaining or losing control of subsidiaries in the reporting period, remuneration of € 24 million (€ 16 million) was paid or € 67 million (€ 114 million) was received. € 0 million (€ 0 million) or € 67 million (€ 114 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 (in € million)	Acquisition of control 31 Dec. 2018	Acquisition of control 31 Dec. 2017	Loss of control 31 Dec. 2018	Loss of control 31 Dec. 2017
Financial assets mandatorily at fair value through profit or loss	18	–	13	–
Financial assets designated at fair value through profit or loss	–	–	3	–
Financial assets at amortised cost	–	–	1	51
Investments accounted for using the equity method	–	–	–	45
Property and equipment	27	14	40	28
Intangible assets	–	–	2	–
Assets held for sale	–	–	8	33
Current income tax assets	–	–	1	–
Other assets	–	1	2	1
Total assets	**45**	**15**	**70**	**158**

Liabilities (in € million)	Acquisition of control 31 Dec. 2018	Acquisition of control 31 Dec. 2017	Loss of control 31 Dec. 2018	Loss of control 31 Dec. 2017
Provisions	4	–	–	–
Liabilities held for sale	–	–	–	10
Other liabilities	4	–	2	1
Total liabilities	**8**	**–**	**2**	**11**

Other Disclosures

Notes to Financial Instruments

(59) Fair Value Hierarchy

The fair values of financial assets and their classification in the fair value hierarchy are compared with their corresponding carrying amounts in the following table.

(in € million)	31 Dec.2018 Level 1	Level 2	Level 3	Total fair values	Carrying amount	Difference
Assets						
Cash reserve	1 519	–	–	1 519	1 519	–
Trading assets	424	8 095	353	8 872	8 872	–
Positive fair values from derivatives	3	4 217	2	4 222	4 222	–
Interest-rate risks	–	3 759	1	3 760	3 760	–
Currency risks	–	397	–	397	397	–
Share-price and other price risks	3	–	–	3	3	–
Credit derivatives	–	61	1	62	62	–
Equity instruments	3	–	–	3	3	–
Debt-securities and other fixed-interest securities	417	1 280	–	1 697	1 697	–
Loans and advances	1	2 598	351	2 950	2 950	–
Financial assets at fair value through profit or loss	1 196	1 557	781	3 534	3 534	–
Equity instruments	69	1	–	70	70	–
Debt-securities and other fixed-interest securities	1 127	1 353	–	2 480	2 480	–
Loans and advances	–	203	781	984	984	–
Financial assets at fair value through other comrehensive income	6 422	12 223	1 903	20 548	20 548	–
Debt-securities and other fixed-interest securities	6 422	12 223	95	18 740	18 740	–
Loans and advances	–	–	1 808	1 808	1 808	–
Financial assets at amortised cost	6 778	7 057	102 623	116 458	114 041	2 417
Debt-securities and other fixed-interest securities	548	3 750	–	4 298	4 375	– 77
Loans and advances	6 230	3 307	102 623	112 160	109 666	2 494
Positive fair values from hedge accounting derivatives	–	1 152	–	1 152	1 152	–
Positive fair values from allocated micro fair value hedge derivatives	–	981	–	981	981	–
Interest-rate risks	–	934	–	934	934	–
Currency risks	–	47	–	47	47	–
Positive fair values from allocated portfolio fair value hedge derivatives	–	171	–	171	171	–
Interest-rate risks	–	171	–	171	171	–
Balancing items for financial instruments hedged in in the portfolio fair value hedge	–	–	–	–[1]	114	– 114
Shares in companies	17	–	321	338	338	–
Financial assets held for sale measured at fair value	–	–	84	84	84	–
Financial assets held for sale not recognised at fair value	–	–	735	735	735	–
Other assets (only financial instruments) measured at fair value	–	4	–	4	4	–
Total	**16 356**	**30 088**	**106 800**	**153 244**	**150 941**	**2 303**

[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.

(in € million)	31 Dec.2017 Level 1	Level 2	Level 3	Total fair values[2]	Carrying amount[2]	Difference
Assets						
Cash reserve	2 357	79	–	2 436	2 436	–
Trading assets	1 555	8 007	88	9 650	9 650	–
Positive fair values from derivatives	4	4 698	–	4 702	4 702	–
Interest-rate risks	2	4 103	–	4 105	4 105	–
Currency risks	–	544	–	544	544	–
Share-price and other price risks	2	1	–	3	3	–
Credit derivatives	–	50	–	50	50	–
Equity instruments	2	–	–	2	2	–
Debt-securities and other fixed-interest securities	1 549	1 270	–	2 819	2 819	–
Loans and advances	–	2 039	88	2 127	2 127	–
Designated financial assets at fair value through profit or loss	873	460	–	1 333	1 333	–
Debt-securities and other fixed-interest securities	873	265	–	1 138	1 138	–
Loans and advances	–	195	–	195	195	–
Financial assets at fair value through other comrehensive income	8 870	15 959	2	24 831	24 831	–
Equity instruments	152	–	–	152	152	–
Debt-securities and other fixed-interest securities	8 718	15 959	2	24 679	24 679	–
Financial assets at amortised cost	548	2 982	119 655	123 185	121 218	1 967
Debt-securities and other fixed-interest securities	11	1 809	–	1 820	1 950	– 130
Loans and advances	537	1 173	119 655	121 365	119 268	2 097
Positive fair values from hedge accounting derivatives	–	1 385	–	1 385	1 385	–
Positive fair values from allocated micro fair value hedge derivatives	–	1 135	–	1 135	1 135	–
Interest-rate risks	–	1 098	–	1 098	1 098	–
Currency risks	–	37	–	37	37	–
Positive fair values from allocated portfolio fair value hedge derivatives	–	250	–	250	250	–
Interest-rate risks	–	250	–	250	250	–
Balancing items for financial instruments hedged in in the portfolio fair value hedge	–	–	–	–[1]	65	– 65
Shares in companies	13	9	380	402	402	–
Financial assets held for sale measured at fair value	12	–	1	13	13	–
Financial assets held for sale not recognised at fair value	–	–	7	7	7	–
Other assets (only financial instruments) measured at fair value	11	–	–	11	11	–
Total	**14 239**	**28 881**	**120 133**	**163 253**	**161 351**	**1 902**

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

The fair values of financial liabilities and their classification in the fair value hierarchy are compared with their corresponding carrying amounts in the following table.

	31 Dec.2018					
(in € million)	Level 1	Level 2	Level 3	Total fair values	Carrying amount	Difference
Liabilities						
Trading liabilities	110	3 562	9	3 681	3 681	–
Negative fair values from derivatives	1	3 318	9	3 328	3 328	–
Interest-rate risks	1	2 634	6	2 641	2 641	–
Currency risks	–	672	–	672	672	–
Share-price and other price risks	–	6	–	6	6	–
Credit derivatives	–	6	3	9	9	–
Delivery obligations from short-sales	109	244	–	353	353	–
Designated financial liabilities at fair value through profit or loss	1 082	5 222	1 463	7 767	7 767	–
Deposits	–	2 870	1 459	4 329	4 329	–
Securitised liabilities	1 082	2 352	4	3 438	3 438	–
Financial liabilities measured at amortised cost	3 236	37 513	94 541	135 290	133 433	1 857
Deposits	541	12 489	92 188	105 218	103 104	2 114
Securitised liabilities	2 695	25 024	2 353	30 072	30 329	– 257
Negative fair values from hedge accounting derivatives	–	1 771	–	1 771	1 771	–
Negative fair values from allocated micro fair value hedge derivatives	–	1 750	–	1 750	1 750	–
Interest-rate risks	–	1 585	–	1 585	1 585	–
Currency risks	–	165	–	165	165	–
Positive fair values from allocated portfolio fair value hedge derivatives	–	21	–	21	21	–
Interest-rate risks	–	21	–	21	21	–
Balancing items for financial instruments hedged in in the portfolio fair value hedge	–	–	–	–[1]	734	– 734
Other liabilities (only financial instruments) not recognised at fair value	–	–	18	18	18	–
Total	**4 428**	**48 068**	**96 031**	**148 527**	**147 404**	**1 123**

[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.

(in € million)	Level 1	Level 2	Level 3	Summe Fair Values[2]	Buchwert[2]	Differenz
	31 Dec.2017					
Liabilities						
Trading liabilities	13	3 916	2	3 931	3 931	–
Negative fair values from derivatives	1	3 749	2	3 752	3 752	–
Interest-rate risks	–	3 053	–	3 053	3 053	–
Currency risks	–	695	–	695	695	–
Share-price and other price risks	1	1	–	2	2	–
Credit derivatives	–	–	2	2	2	–
Delivery obligations from short-sales	12	167	–	179	179	–
Designated financial liabilities at fair value through profit or loss	499	8 531	10	9 040	9 040	–
Deposits	–	6 157	–	6 157	6 157	–
Securitised liabilities	499	2 374	10	2 883	2 883	–
Financial liabilities measured at amortised cost	4 864	45 921	90 984	141 769	138 823	2 946
Deposits	769	13 430	90 240	104 439	102 765	1 674
Securitised liabilities	4 095	32 491	744	37 330	36 058	1 272
Negative fair values from hedge accounting derivatives	–	1 990	–	1 990	1 990	–
Positive fair values from allocated micro fair value hedge derivatives	–	1 965	–	1 965	1 965	–
Interest-rate risks	–	1 793	–	1 793	1 793	–
Currency risks	–	172	–	172	172	–
Positive fair values from allocated portfolio fair value hedge derivatives	–	25	–	25	25	–
Interest-rate risks	–	25	–	25	25	–
Balancing items for financial instruments hedged in in the portfolio fair value hedge	–	–	–	–[1]	729	– 729
Financial liabilities held for sale not recognised at fair value	–	–	7	7	7	–
Other liabilities (only financial instruments) measured at fair value	1	–	–	1	1	–
Other liabilities (only financial instruments) not recognised at fair value	–	2	–	2	2	–
Total	**5 377**	**60 360**	**91 003**	**156 740**	**154 523**	**2 217**

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

In the case of assets held for sale and reported at fair value and liabilities held for sale and reported at fair value these are non-recurring fair value measurements (see Note (48) Assets held for sale).

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

2018 (in € million)	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Trading assets	45	–	16	24	–	–
Positive fair values from derivatives	–	–	–	1	–	–
Interest-rate risks	–	–	–	1	–	–
Debt-securities and other fixed-interest securities	45	–	16	–	–	–
Loans and advances	–	–	–	23	–	–
Financial assets at fair value through profit or loss	36	–	6	–	–	2
Equity instruments	1	–	–	–	–	–
Debt-securities and other fixed-interest securities	35	–	6	–	–	2
Financial assets at fair value through other comrehensive income	1 333	–	863	65	–	–
Debt-securities and other fixed-interest securities	1 333	–	863	65	–	–
Trading liabilities	1	–	–	–	–	–
Negative fair values from derivatives	1	–	–	–	–	–
Share-price and other price risks	1	–	–	–	–	–
Designated financial liabilities at fair value through profit or loss	–	–	–	1 368	–	–
Deposits	–	–	–	1 368	–	–

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
Trading assets	20	–	105	–	–	–
Debt-securities and other fixed-interest securities	20	–	105	–	–	–
Designated financial assets at fair value through profit or loss	–	–	28	–	–	–
Debt-securities and other fixed-interest securities	–	–	28	–	–	–
Financial assets at fair value through other comrehensive income	1 100	–	2 103	–	–	–
Debt-securities and other fixed-interest securities	1 100	–	2 103	–	–	–
Designated financial liabilities at fair value through profit or loss	–	–	501	–	–	–
Securitised liabilities	–	–	501	–	–	–

Asset-side financial instruments are allocated to a level on the basis of the individual transaction pursuant to IDWRS HFA 47. This makes the classification of the financial instruments in the various levels more precise. Accordingly, (mixed) prices calculated by price service agencies, among others, on the basis of reported prices are to be assigned to Level 2. Broker quotations must originate from an active market in order to be allocated to Level 1. If there are only a few broker prices or if these prices have significant bid-ask ranges or price differences, it is assumed that there is no active market.

Most level transfers as at the reporting date compared to 31 December 2017 took place between Level 1 and Level 2. These transfers are attributable to changes in trading activity. Other significant level transfers were made from Level 2 to Level 3 as a result of a change in market activity.

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

The IFRS 9 values for reporting year 2018 are compared with corresponding prior year comparative figures determined using the requirements of IAS 39 for financial year 2017.

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

	Trading assets					
	Positive fair values from derivatives Iterest-rate risks		Positive fair values from derivatives credit derivatives		Loans and advances to trading and other trading assets	
(in € million)	2018	2017	2018	2017	2018	2017
1 Jan.	**–**	**–**	**–**	**–**	**66**	**344**
Effect in the income statement [1]	–	–	–	–	3	– 5
Addition through purchase or issue	–	–	1	–	408	86
Disposal from sale	–	–	–	–	96	104
Repayment/exercise	–	–	–	–	71	233
Addition from Level 1 and 2	1	–	–	–	23	–
Changes from the basis of consolidation	–	–	–	–	18	–
31 Dec.	**1**	**–**	**1**	**–**	**351**	**88**
For information: Effect on income statement for financial instruments still held [1]	–	–	–	–	4	– 4

[1] The effects reported include net interest income and deferrals, valuation gains/losses and realised profit/loss; these are reported in the income statement under the items Net interest income and Profit/loss from the fair value measurement.

	Financial assets at fair value through profit or loss			
	Debt-securities and other fixed-interest securities		Loans and advances	
(in € million)	2018	2017	2018	2017
1 Jan.	**2**	**–**	**1 079**	**–**
Effect in the income statement [1]	–	–	– 43	–
Addition through purchase or issue	–	–	205	–
Disposal from sale	–	–	73	–
Repayment/exercise	–	–	385	–
Disposal to Level 1 and 2	2	–	–	–
Changes from the basis of consolidation	–	–	– 2	–
31 Dec.	**–**	**–**	**781**	**–**
For information: Effect on income statement for financial instruments still held [1]	–	–	95	–

[1] The effects reported include net interest income and deferrals, valuation gains/losses and realised profit/loss; these are reported in the income statement under the items Net interest income and Profit/loss from the fair value measurement.

	Trading assets			
	Debt-securities and other fixed-interest securities		Loans and advances	
(in € million)	2018	2017	2018	2017
1 Jan.	**–**	**3**	**2 115**	**–**
Effect in the income statement [1)]	–	–	– 16	–
Effect in other comprehensive income (OCI)	–	–	– 57	–
Addition through purchase or issue	30	–	15	–
Repayment/exercise	–	1	249	–
Addition from Level 1 and 2	65	–	–	–
31 Dec.	**95**	**2**	**1 808**	**–**

[1)] The effects reported include net interest income and deferrals, valuation gains/losses and realised profit/loss; these are reported in the income statement under the items Net interest income, Profit/loss from risk provisioning, and Result from financial assets not measured at fair value through profit or loss.

	Shares in companies		Financial assets held for sale measured at fair value	
(in € million)	2018	2017	2018	2017
1 Jan.	326	369	–	9
Effect in the income statement [1)]	1	– 8	–	–
Effect in other comprehensive income (OCI)	– 2	55	–	–
Addition through purchase or issue	2	36	84	30
Disposal from sale	6	20	–	38
Repayment/exercise	–	51	–	–
Change from currency translation	–	– 1	–	–
31 Dec.	**321**	**380**	**84**	**1**
For information: Effect on income statement for financial instruments still held [1)]	1	– 6	–	–

[1)] The effects reported include net interest income and deferrals, valuation gains/losses and realised profit/loss; these are reported in the income statement under the items Net interest income, Profit/loss from the fair value measurement, Profit/loss from risk provisioning, Result from financial assets not measured at fair value through profit or loss, Profit/loss from shares in companies, Administrative expenses and Other operating profit/loss.

	Trading liabilities			
	Negative fair values from derivatives interest-rate risks		Negative fair values from derivatives credit derivatives	
(in € million)	2018	2017	2018	2017
1 Jan.	**–**	**1**	**2**	**1**
Effect on the income statement [1)]	–	–	– 2	–
Addition through purchase or issue	6	–	3	2
Disposal from sale	–	1	–	1
31 Dec.	**6**	**–**	**3**	**2**

[1)] The effects reported include net interest income and deferrals, valuation gains/losses and realised profit/loss; these are reported in the income statement under the items Net interest income and Profit/loss from the fair value measurement.

(in € million)	Designated financial liabilities at fair value through profit or loss Deposits 2018	2017	Securitised liabilities 2018	2017
1 Jan.	**–**	**–**	**10**	**20**
Effect in the income statement [1]	– 2	–	–	–
Effect in other comprehensive income (OCI)	1	–	–	–
Addition through purchase or issue	92	–	–	–
Repayment/exercise	–	–	6	10
Addition from Level 1 and 2	1 368	–	–	–
31 Dec.	**1 459**	**–**	**4**	**10**
For information: Effect on income statement for financial instruments still held [1]	– 3	–	–	–

[1] The effects reported include net interest income and deferrals, valuation gains/losses and realised profit/loss; these are reported in the income statement under the items Net interest income and Profit/loss from the fair value measurement.

The following significant non-observable input data were used for the fair value measurement of financial instruments classified in Level 3.

Product	Fair value 31 Dec.2018 (in € million)	Significant non-observable input data in the fair value measurement	Spread of the used input data	Weighted average
Interest-bearing bonds (assets)	288	Discount rate	0,02-1,5%	0,89%
	52	Fair Value	–	–
Interest-bearing bond (liabilities)	– 4	historical volatilities	5-34%	22%
Participations	321	Discount rate	7-10%	7%
Silent participations	39	Fair Value	-	-
Loans (assets)	2 067	Rating	Ratingklassen (27er DSGV- Skala) 1-22	gemitteltes Rating 9
	673	Cashflow	–	–
Loans (liabilities)	– 1 444	Discount rate	1,44-2,95%	2,43%
	– 15	historical volatilities	12%	12%
Derivatives (assets)	1	Rating	Ratingklassen (27er DSGV- Skala) 6-10	gemitteltes Rating 9
	1	Correlation	0,8	0,8
Derivatives (liabilities)	– 3	Rating	Ratingklassen (27er DSGV- Skala) 7-9	gemitteltes Rating 9
	– 6	price of underlyings	100-126	109

A significant input parameter which cannot be observed on the market for the Level 3 fair value measurement of interest-bearing securities 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 in the measurement by 10 basis points respectively. Accordingly, a presumed change to the parameters based on the assumptions results in a change of € 3.2 million in the fair values of the Level 3 interest-bearing securities (non-observable input parameter fair value: € 0.2 million), with a corresponding effect on the income statement or in other comprehensive income (OCI).

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. This is because a lack of available market data requires the use of counterparty prices, which qualify as Level 3 input parameters. The sensitivity is approximated using a price change of 10 per cent and amounts to € 5.2 million (€ 0.2 million). The aforementioned amount would have 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 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 in the measurement by 50 basis points respectively. Accordingly, a presumed change to the parameters based on the assumptions results in a change of € 15.9 million (€ 16.5 million) in the fair values of Level 3 investments, with a corresponding impact on the income statement.

A significant input parameter which cannot be observed on the market for the fair value measurement of silent participations is the fair value itself. This is because a lack of available market data requires the use of counterparty prices, which qualify as Level 3 input parameters. The sensitivity is approximated using a price change of 10 per cent and amounts to € 3.9 million (€ 2.7 million). This amount would have had a corresponding effect on the income statement.

A significant input parameter which cannot be observed on the market for the fair value measurement of a part of the asset-side 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 of € 0.7 million (€ 0.2 million) in the fair values of Level 3 loans, with a corresponding effect on the income statement.

A significant input parameter which cannot be observed on the market for the fair value measurement for the other asset-side loans is the cash flow. Significant changes to this input parameter result in a significantly higher or lower fair value. As part of the sensitivity analysis, the cash flow was increased and decreased by one per cent respectively. Accordingly, a presumed change to the parameters based on the assumptions results in a change of € 42.2 million (€ 0 million) in the fair values of Level 3 loans, with a corresponding impact on the income statement.

A significant input parameter which cannot be observed on the market for the Level 3 fair value measurement of liability-side loans 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 in the measurement by 10 basis points respectively. Accordingly, a presumed change to the parameters based on the assumptions results in a change of € 35.2 million (€ 0 million) in the fair values of the Level 3 interest-bearing securities, with a corresponding effect on the income statement and in other comprehensive income (OCI).

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

Significant input data that cannot be observed on the market for the fair value measurement of the asset-side derivatives are rating and correlation. Significant changes in the rating and the correlation result in a significantly higher or lower fair value. As part of the sensitivity analysis, the rating was stressed by a one class improvement and deterioration, while the correlation was improved and deteriorated by five per cent. Accordingly, the presumed changes would result in a change of € 0.3 million (€ 0 million) in the fair value of the derivatives in Level 3, with a corresponding effect on the income statement.

Significant input data that cannot be observed on the market for the fair value measurement of these liability-side derivatives are rating and the price of the underlying. Major changes in the rating and in the price of the underlying result in a significantly higher or lower fair value. As part of the sensitivity analysis, the rating was stressed by an improvement and deterioration, while the price of the underlying was improved and deteriorated by one per cent. This analysis showed that the presumed changes would result in a change of € 0.4 million (€ 0.1 million) in the fair value of the derivatives in Level 3, with a corresponding effect on the income statement.

There are no relevant correlations between significant Level 3 input parameters for the fair value measurement of Level 3 financial instruments. As a result, there is no impact on the fair value.

(60) Risk provisions and Gross carrying amount
IFRS 9 introduced the three-stage model for measuring risk provisioning.

Risk provisioning in the amount of the default expectations will be created for the next 12 months for financial assets and off-balance-sheet liabilities whose credit risk as at the reporting date has not increased significantly since initial recognition (Stage 1). If, as at the reporting date, the credit risk has increased significantly since initial recognition, risk provisioning is created in the amount of the default expectation for the remaining term of the financial assets and off-balance-sheet liabilities (Stage 2). Similarly, risk provisioning is created in the amount of the default expectation for the remaining term of the financial assets and off-balance-sheet liabilities if there are objective indications of impairment at the reporting date and the exposure has defaulted (Stage 3). Risk provisioning for financial assets that are already credit-impaired at the time of issue or acquisition (POCI) is created since initial recognition implicitly on the basis of the fair value measurement. Risk provisioning is subsequently measured in the amount of the change in the lifetime expected credit loss compared with the initial expected credit loss. For certain financial assets, risk provisioning in the amount of the change in the lifetime expected credit loss can be recognised, without measuring the change in the credit risk from the time of recognition (simplified approach).

Changes in risk provisioning can arise mainly due to financial assets or off-balance sheet liabilities changing stage and due to changes in risk provisioning within a stage as a result of rating shifts. The main driver behind the increase in risk provisioning during the year was the higher shielding of the shipping loan portfolio (for further details please see the Management Report under Significant events in the financial year, reduction of the shipping loan portfolio).

The following overview presents the change during the reporting period in the risk provisioning for financial assets not measured at fair value through profit and loss and for off-balance-sheet items:

(in € million)		Transfer			Addition risk provisioning		Reversal/utilisation risk provisioning			Other changes						
	Opening balance 1 Jan. 2018	Stage 1	Stage 2	Stage 3	Credit-related additions	Addition of assets	Credit-related reversals	Utilisation	Disposal of assets	Modification of assets	Unwinding	Model and parameter changes	Currency translation	Change from the basis of consolidation	Other changes	Closing balance 31 Dec. 2018
Financial assets at fair value through other comprehensive income																
Stage 1																
Debt-securities	2	–	–	–	–	–	1	–	–	–	–	–	–	–	–	1
	2	–	–	–	–	–	1	–	–	–	–	–	–	–	–	1
Stage 2																
Debt-securities	1	–	–	–	3	–	–	–	–	–	–	–	–	–	–	4
	1	–	–	–	3	–	–	–	–	–	–	–	–	–	–	4
	3	**–**	**–**	**–**	**3**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**
Financial assets at amortised cost																
Stage 1																
Debt-securities	1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1
Loans and advances	80	34	– 5	– 1	28	43	72	–	44	–	–	–	2	–	1	66
	81	34	– 5	– 1	28	43	72	–	44	–	–	–	2	–	1	67
Stage 2																
Debt-securities	12	–	–	–	1	–	3	–	–	–	–	–	1	–	–	11
Loans and advances	197	– 34	5	– 23	108	19	44	–	107	–	–	–	2	–	–	123
	209	– 34	5	– 23	109	19	47	–	107	–	–	–	3	–	–	134
Stage 3																
Loans and advances	2 633	–	–	24	1 745	725	123	584	609	66	– 68	–	33	– 50	– 10	3 782
	2 633	–	–	24	1 745	725	123	584	609	66	– 68	–	33	– 50	– 10	3 782
	2 923	**–**	**–**	**–**	**1 882**	**787**	**242**	**584**	**760**	**66**	**– 68**	**–**	**38**	**– 50**	**– 9**	**3 983**
Total	**2 926**	**–**	**–**	**–**	**1 885**	**787**	**243**	**584**	**760**	**66**	**– 68**	**–**	**38**	**– 50**	**– 9**	**3 988**

(in € million)	Opening balance 1 Jan. 2018	Transfer			Addition risk provisioning		Reversal/utilisation risk provisioning			Other changes						Closing balance 31 Dec. 2018
		Stage 1	Stage 2	Stage 3	Credit-related additions	Addition of assets	Credit-related reversals	Utilisation	Disposal of assets	Modification of assets	Unwinding	Model and parameter changes	Currency translation	Change from the basis of consolidation	Other changes	
Off-balance sheet liabilities																
Stage 1																
Loan commitments	8	1	–	–	–	6	7	–	4	–	–	–	–	–	–	4
Financial guarantees	4	–	– 1	–	–	1	3	–	–	–	–	–	–	–	–	1
Off-balance-sheet liabilities	5	–	–	–	3	3	3	–	3	–	–	–	–	–	–	5
	17	1	– 1	–	3	10	13	–	7	–	–	–	–	–	–	10
Stage 2																
Loan commitments	5	– 1	–	–	6	1	2	–	5	–	–	–	–	–	–	4
Financial guarantees	6	–	1	–	7	–	–	–	2	–	–	–	–	–	–	12
Off-balance-sheet liabilities	1	–	–	–	1	–	1	–	1	–	–	–	–	–	–	–
	12	– 1	1	–	14	1	3	–	8	–	–	–	–	–	–	16
Stage 3																
Loan commitments	14	–	–	–	26	7	3	25	6	–	–	–	–	–	– 4	9
Financial guarantees	7	–	–	–	3	1	4	–	–	–	–	–	–	–	–	7
Off-balance-sheet liabilities	12	–	–	–	1	–	2	–	1	–	9	–	1	–	–	20
	33	**–**	**–**	**–**	**30**	**8**	**9**	**25**	**7**	**–**	**9**	**–**	**1**	**–**	**– 4**	**36**
Total	**62**	**–**	**–**	**–**	**47**	**19**	**25**	**25**	**22**	**–**	**9**	**–**	**1**	**–**	**– 4**	**62**

The closing balance of risk provisioning as at 31 December 2018 includes a net € 1,324 million of risk provisions recognised for assets held for sale and liabilities relating to the Big Ben portfolio transaction.

In the previous year, the risk provisioning was determined based on the requirements set out in IAS 39. It changed as follows:

	Specific valuation allowances	Lumpsum specific loan loss provisions	General loan loss provisions	Loan loss provisions	Total
(in € million)	2017	2017	2017	2017	2017
1 January	**3 577**	**7**	**213**	**47**	**3 844**
Allocations	1 843	3	126	26	1 998
Reversals	1 152	4	135	22	1 313
Utilisation	1 595	–	–	1	1 596
Unwinding	– 100	–	–	–	– 100
Effects of changes of foreign exchange rates and other changes	726	–	– 1	– 1	724
31 December	**3 299**	**6**	**203**	**49**	**3 557**

The following overview presents the change during the reporting period in the gross carrying amounts of financial assets not measured at fair value through profit or loss.

		Transfer						Other changes				
(in € million)	Opening balance 1 January 2018	Stage 1	Stage 2	Stage 3	Addition of assets	Disposal of assets	Direct write-offs of assets	Modification of assets	Currency translation	Change from the basis of consolidation	Other Changes	Closing balance 31 Dec. 2018
Financial assets at fair value through other comprehensive income												
Stage 1												
Debt-securities	19 350	18	– 55	–	2 446	3 948	–	–	31	–	117	17 959
Loans and advances	2 008	–	–	–	15	275	–	–	–	–	– 12	1 736
	21 358	18	– 55	–	2 461	4 223	–	–	31	–	105	19 695
Stage 2												
Debt-securities	208	– 18	55	–	–	59	–	–	–	–	– 1	185
	208	– 18	55	–	–	59	–	–	–	–	– 1	185
	21 566	–	–	–	2 461	4 282	–	–	31	–	104	19 880
Financial assets at amortised cost												
Stage 1												
Debt-securities	4 321	–	– 53	–	269	1 317	–	–	49	–	– 2	3 267
Loans and advances	111 428	883	– 1 105	– 614	23 003	26 370	–	5	409	5	– 180	107 464
Cash reserve	2 436	–	–	–	8 727	9 697	–	–	52	1	–	1 519
	118 185	883	– 1 158	– 614	31 999	37 384	–	5	510	6	– 182	112 250
Stage 2												
Debt-securities	632	–	53	–	– 4	26	–	–	25	–	–	680
Loans and advances	3 408	– 884	1 107	– 352	465	1 376	–	–	26	–	130	2 524
	4 040	– 884	1 160	– 352	461	1 402	–	–	51	–	130	3 204
Stage 3												
Loans and advances	5 179	– 5	– 2	966	2 476	5 511	572	–	150	– 21	105	2 765
	5 179	– 5	– 2	966	2 476	5 511	572	–	150	– 21	105	2 765
Simplified approach	7	–	–	–	–	–	–	–	–	– 7	–	–
	127 411	– 6	–	–	34 936	44 297	572	5	711	– 22	53	118 219
Total	148 977	– 6	–	–	37 397	48 579	572	5	742	– 22	157	138 099

(61) Net Gains or Losses by Measurement Category

	1 Jan. - 31 Dec. 2018 (in € million)	1 Jan. - 31 Dec. 2017 (in € million)	Change (in %)
Trading profit/loss	– 86	– 82	5
Financial assets at fair value through profit or loss	– 208	–	–
Designated financial assets at fair value through profit or loss - Net result in the income statement	9	423	– 98
Designated financial assets at fair value through profit or loss - Net result OCI	– 36	–	–
Financial assets at fair value through other comprehensive income - Net result in the income statement	45	145	– 69
Financial assets at fair value through other comprehensive income - Net result OCI	– 152	–	–
Financial assets at amortised cost	– 1 876	– 549	> 100
Financial liabilities at amortised cost	– 12	– 86	– 86
Total	**– 2 316**	**– 149**	**> 100**

Net gains or losses in the income statement from financial assets measured at fair value through other comprehensive income and from financial assets measured at amortised cost comprises risk provisioning, modification result and the disposal profit/loss. Net gains or losses in other comprehensive income (OCI) from financial assets at fair value directly in equity include changes from the fair value measurement, risk provisioning and the disposal profit/loss. Net gains or losses from financial liabilities measured at amortised cost equate to the disposal profit/loss.

Profit/loss from hedge accounting is not included in the net gains or losses since it is not assigned to any of the categories.

(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.2018	Gross amount	Amount of the	**Net amount**	Master netting arrangements and other without financially balancing			**Net amount**
	before balancing	financially balancing	**after balancing**	Financial instruments	Collaterals		
(in € million)					Securities collateral	Cash collateral	
Assets							
Offsetting of current accounts	1 721	57	**1 664**	–	–	–	**1 664**
Derivatives	10 106	4 498	**5 608**	2 871	–	989	**1 748**
Securities lending and repos	3 497	–	**3 497**	2 448	1 043	1	**5**
Liabilities							
Offsetting of current accounts	11 496	57	**11 439**	–	–	–	**11 439**
Derivatives	9 576	4 380	**5 196**	2 871	–	1 999	**326**
Securities lending and repos	10 840	–	**10 840**	2 448	8 375	8	**9**

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**

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 generally provided and received at fair value, e.g. in case of contract infringement or in case of insolvency. Hence, there is 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 generally 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.2018	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
Trading assets	9	191	9	191	– 182
Financial assets at fair value through profit or loss	839	665	839	681	158
Debt-securities and other fixed-interest securities	827	657	827	672	155
Loans and advances	12	8	12	9	3
Financial assets at fair value through other comprehensive income	9 318	10 557	7 815	9 090	– 1 275
Financial assets at amortised cost	6 356	4 121	5 547	3 846	1 701
Debt-securities and other fixed-interest securities	1 801	1 034	1 765	1 025	740
Loans and advances	4 555	3 087	3 782	2 821	961
Other assets (only financial instruments) not reported at fair value	– 17	–	–	–	–
Total	**16 505**	**15 534**	**14 210**	**13 808**	**402**

31 Dec.2017 (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
Trading assets	355	3 438	81	2 926	– 2 845
Financial assets at fair value through other comprehensive income	11 763	9 752	6 241	4 875	1 366
Financial assets at amortised cost	3 788	3 161	941	–	941
Total	**15 906**	**16 351**	**7 263**	**7 801**	**– 538**

Transferred financial assets within the items Trading assets, financial assets measured at fair value directly in equity and financial assets reported at amortised cost 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 parameter for determining reciprocally agreed settlement payments; these do not, however, represent claims or liabilities that can be shown on the balance sheet.

The composition of the portfolio of derivative financial instruments is as follows:

(in € million)	Nominal values 31 Dec. 2018	Nominal values 31 Dec. 2017	Fair value positive 31 Dec. 2018[1)]	Fair value positive 31 Dec. 2017	Fair value negative 31 Dec. 2018[1)]	Fair value negative 31 Dec. 2017
Interest-rate risk						
OTC options	7 374	7 682	136	141	344	370
Other OTC derivatives	294 512	286 101	4 729	9 585	3 901	8 648
Exchange traded options	–	769	–	2	–	–
Other exchange-traded derivatives	548	1 759	–	19	1	124
	302 434	**296 311**	**4 865**	**9 747**	**4 246**	**9 142**
Currency risk						
OTC options	191	306	1	1	2	2
Other OTC derivatives	35 035	38 546	442	578	835	865
	35 226	**38 852**	**443**	**579**	**837**	**867**
Share price and other price risks						
Credit default swap	–	25	–	–	–	–
Credit spread option	19	31	–	1	2	1
Total return swap	37	49	–	1	4	1
Other credit derivatives	66	77	2	1	–	–
	122	**182**	**2**	**3**	**6**	**2**
Credit derivatives risks						
OTC options	3 494	2 398	62	50	10	2
	3 494	**2 398**	**62**	**50**	**10**	**2**
Total	**341 276**	**337 743**	**5 372**	**10 379**	**5 099**	**10 013**

[1)] In contrast to the presentation in the notes to the consolidated financial statements for the year ended 31 December 2018, the fair values have been stated before recognition in the balance sheet netting in accordance with IAS 32.42.

(65) Hedging instruments and hedged items in effective Hedges

Derivative assets and liabilities that are hedging instrumentes in a hedging transaction under IAS 39 are recognised in separate balance sheet items. Financial assets and liabilities that are hedged items in a hedging transaction under IAS 39 are still recognised together with the unhedged transactions in the relevant balance sheet items, since the hedging does not change the type and function of the hedged items. However, the balance sheet recognition of the financial instruments otherwise reported at amortised cost 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, see note (43) and note (54)). Financial instruments at Fair Value through other comprehensive income continue to be reported at the full fair value. Changes in fair value or value considered in effectiveness testing are recognised in the income statement and broken down in note (30) Profit/loss from hedge accounting.

The financial assets and liabilities that are hedged items in an effective micro fair value hedging relationship:

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Assets			
Financial assets at fair value through other comprehensive income	3 116	6 507	– 52
Financial assets at amortised cost	11 056	9 331	18
Total	**14 172**	**15 838**	**– 11**
Liabilities			
Financial liabilities at amortised cost	15 158	17 305	– 12
Total	**15 158**	**17 305**	**– 12**

To hedge changes in fair value with regard to interest-rate risk, interest-rate or cross-currency interst rate swaps are used as hedging instruments in micro fair value hedge.

31 Dec.2018 (in € million)	Nominal values	Fair value positive	Fair value negative	Item in balance sheet	Change in fair value considered in effectiveness testing	Item in profit or loss
Interest-rate swaps	25 916	934	1 585	Positive/negative fair values from hedge accounting derivatives	28	Profit/loss from hedge accounting
Interest-rate currency swaps	889	47	165	Positive/negative fair values from hedge accounting derivatives	– 1	Profit/loss from hedge accounting

To hedge changes in fair value with regard to interest-rate risk, both financial assets and finacial liabilities are used as hedged items in micro fair value hedge.

31 Dec.2018 (in € million)	Carrying amount	*of which: hedge adjustments*	Change in value considered in effectiveness testing	Item in profit or loss
Financial assets at fair value through other comprehensive income	3 116	*418*		– 32
Financial assets at amortised cost	11 056	*1 084*		– 28
Financial liabilities at amortised cost	15 158	*939*		37

The following table shows the remaining maturities of derivative financial instruments in micro fair-value-hedge accounting.

Nominal values	Up to 3 months		More than 3 months to 1 year		More than 1 year to 5 years		More than 5 years		Total	
(in € million)	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018
Interest-rate risks	421	1 337	2 401	2 366	9 778	10 745	13 316	14 262	25 916	28 710
Currency risks	45	–	–	56	514	504	331	383	890	943
Total	**466**	**1 337**	**2 401**	**2 422**	**10 292**	**11 249**	**13 647**	**14 645**	**26 806**	**29 653**

The remaining term is defined as the period from the balance sheet date to the contractual maturity date.

The financial assets and liabilities that are hedged items in an effective portfolio fair value hedging relationship.

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Assets			
Financial assets at fair value through other comprehensive income	6 374	–	–
Financial assets at amortised cost	2 302	12 700	– 82
Total	**8 676**	**12 700**	**– 32**
Liabilities			
Financial liabilities at amortised cost	18 289	24 026	– 24
Total	**18 289**	**24 026**	**– 24**

Interest-rate swaps are used as hedging instruments in the portfolio fair value hedge to hedge changes in fair value relating to interest-rate risk.

31 Dec.2018 (in € million)	Nominal values	Fair value positive	Fair value negative	Item in balance sheet	Change in fair value considered in effectiveness testing	Item in profit or loss
Interest-rate risk	30 543	171	21	Positive/negative fair values from hedge accounting derivatives	187	Profit/loss from hedge accounting

To hedge changes in fair value with regard to interest-rate risk, interest-rate or cross-currency interst rate swaps are used as hedging instruments in portfolio hedge accounting.

31 Dec.2018 (in € million)	Carrying amount	Change in value considered in effectiveness testing	Item in profit or loss
Financial assets at fair value through other comprehensive income	6 374	18	Profit/loss from hedge accounting
Financial assets at amortised cost	2 302	9	Profit/loss from hedge accounting
Financial liabilities at amortised cost	18 289	– 209	Profit/loss from hedge accounting

(66) Residual Terms of Financial Liabilities

31 Dec.2018 (in € million)	Up to 1 month	More than 1 month to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Trading liabilities	163	265	1 180	3 932	2 279	7 819
Derivatives	163	265	1 176	3 837	2 005	7 446
Delivery obligations from short-sales	–	–	4	95	274	373
Designated financial assets at fair value through profit or loss	16	69	253	2 849	7 069	10 256
Deposits	10	42	105	593	5 866	6 616
Securitised liabilities	6	27	148	2 256	1 203	3 640
Financial liabilities at amortised costs	44 391	9 054	14 653	36 335	37 711	142 144
Deposits	42 437	7 459	10 880	22 278	27 335	110 389
Securitised liabilities	1 954	1 595	3 773	14 057	10 376	31 755
Negative fair values from hedge accounting derivatives	52	72	261	993	1 111	2 489
Issued loan commitments	3 511	281	687	2 128	230	6 837
Issued financial guarantees	484	25	22	135	150	816
Total	**48 617**	**9 766**	**17 056**	**46 372**	**48 550**	**170 361**

31 Dec.2017 (in € million)	Up to 1 month	More than 1 month to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Trading liabilities	295	210	848	2 925	3 536	7 814
Designated financial assets at fair value through profit or loss	29	136	251	2 044	10 190	12 650
Financial liabilities at amortised costs	33 322	14 328	19 470	43 227	41 034	151 381
Deposits	31 396	12 816	13 248	24 655	32 979	115 094
Securitised liabilities	1 926	1 512	6 222	18 572	8 055	36 287
Negative fair values from hedge accounting derivatives	63	71	324	1 239	1 465	3 162
Liabilities held for sale (only financial instruments)	7	–	–	–	–	7
Other liabilities (only financial intsruments)	–	1	–	–	–	1
Issued loan commitments	6 165	143	1 066	1 842	526	9 742
Issued financial guarantees	6 105	30	56	635	263	7 089
Total	**45 986**	**14 919**	**22 015**	**51 912**	**57 014**	**191 846**

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.

(67) The NORD/LB Group as Assignor and Assignee

The following assets have been transferred as collateral for liabilities (carrying amounts):

	31 Dec.2018 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Trading assets	11	997	– 99
Financial assets at fair value through profit or loss	1 235	–	–
Financial assets at fair value through other comprehensive income	10 127	12 486	– 19
Financial assets at amortised costs	58 724	50 188	17
Total	**70 097**	**63 671**	**10**

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 covered bond 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 € 7,689 million (€ 7,690 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.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Trading liabilities	3 039	5 659	– 46
Designated financial liabilities at fair value through profit or loss	1 184	–	–
Securitsed liabilities	24 572	35 947	– 32
Hedge accounting derivatives	1 475	382	> 100
Total	**30 270**	**41 988**	**– 28**

As in the previous year, collateral that may be sold or passed on even if the assignor does not default was not held in reporting year 2018 either.

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 € 3,048 million (€ 2,478 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 € 1,769 million (€ 1,866 million).

Securities repurchase and lending transactions are daily monitored with regard to collateralisation through 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

(68) Equity Management

Equity management for the NORD/LB Group is handled by the Group parent company, NORD/LB. The objective 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, as well as the regulatory parameters of Common Equity Tier 1 (CET1) capital, Tier 1 capital and own funds in the definition of Regulation (EU) No. 575/2013 on prudential requirements for banks and investment firms (CRR).

For these regulatory equity items, statutory minimum capital ratios and capital buffers apply, as well as additional requirements set by the European Central Bank (ECB) concerning compliance with certain capital ratios that shall be maintained individually at NORD/LB Group level. With all of these minimum equity ratios, the numerator represents the relevant equity ratio, while the denominator comprises the relevant total risk exposure amount according to Art. 92 para. 3 CRR. Details about the regulatory minimum equity ratios can be found in the section “Significant events in the financial year” in the economic report.

NORD/LB met these minimum equity ratios over the course of reporting year 2018. However, the equity ratios fell significantly short of the minimum as at the reporting date owing to the negative consolidated profit. For further information, please refer to the section “Significant events in the financial year” in the economic report. The relevant actual data is included in Note (69) Regulatory Data.

Alongside the regulatory provisions, internal target equity ratios have been established at Group level for some of the equity items listed, and each of those ratios are higher.

The core mission of equity management in the reporting year was strengthening equity, further optimisation of the equity structure and ongoing management of the relevant equity ratios and the total risk exposure amount with the objective of achieving the internal target equity ratios and therefore intrinsically continuing to comply in the long term with the regulatory prescribed minimum equity ratios.

Furthermore, estimates and forecasts of important equity items and the associated equity ratios are performed regularly and in response to specific needs in the context of equity management. Developements 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 amount 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, continuous changes to individual minimum capital requirements from banking regulatory authorities, and other special regulatory requirements (e.g. stress tests).

Thus according to the drafts of the amendments to the CRR and Directive 2014/59/EU for establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD), the legal framework for structuring the “eligible liabilities” defined by the BRRD, which banks in the EU must maintain under the minimum requirement for own funds and eligible liabilities (MREL) for loss absorption in the ptential event of resolution, is to be changed. The MREL reference parameter is also expected to change. This is relevant for the internal bank MREL management, as the MREL minimum requirements are expressed through a reference parameter. This reference parameter should be converted from a current balance sheet value to the total risk exposure amount according to Art. 92 para. 3 CRR. In future, the planning and management of MREL, and hence the interaction between own funds, "eligible liabilities" and the total risk exposure amount for compliance with MREL minimum requirements will represent an additional challenge for equity management, especially as it will likely also require modifications in the Group's capital structure.

(69) 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).

	31.12.2018 (in € million)	31 Dec.2017[1)] (in € million)
Total risk exposure amount	**45 520**	**46 813**
Capital requirements for credit risk	2 911	3 002
Capital requirements for operational risks	392	442
Capital requirements for market risks	225	224
Capital requirements for settlement risks	2	–
Capital requirements for loan amount adjustments	71	78
Other or transitional capital requirements	41	–
Capital requirements	**3 642**	**3 745**

[1)] Due to a correction of regulatory reporting data as at 31 December 2017 in 2018, the previous year's figures have been restated adjusted accordingly.

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

	31.12.2018 (in € million)	31 Dec.2017[1)] (in € million)
Paid-up capital including premium	4 930	4 930
Retained êarnings	– 1 265	1 491
Other components of CET 1 capital	– 186	– 158
– Deductible items (from CET 1 capital)	– 403	– 688
Adjustments due to transition rules	29	230
Common equity tier 1 capital	**3 105**	**5 804**
Paid-in instruments of additional tier 1 capital	50	50
Additional tier 1 capital components due to grandfathering	355	443
Adjustments due to transition rules	–	– 67
Additional tier 1 capital	405	**426**
Tier 1 capital	**3 510**	**6 230**
Paid-up instruments of tier 2 capital	2 487	2 682
Other components of tier 2 capital	182	–
– Deductible items (from tier 2 capital)	– 22	– 10
Adjustments due to transition rules	– 338	– 445
Tier 2 capital	**2 308**	**2 227**
Own funds	**5 818**	**8 457**

[1] Due to a correction of regulatory reporting data as at 31 December 2017 in 2018, the previous year's figures have been restated adjusted accordingly.

(in %)	31.12.2018	31 Dec.2017[1]
Common equity tier 1 capital ratio	6.82%	12.40%
Tier 1 capital ratio	7.71%	13.31%
Total capital ratio	12.78%	18.07%

[1] Due to a correction of regulatory reporting data as at 31 December 2017 in 2018, the previous year's figures have been restated adjusted accordingly.

Due to the presentation in million €, the reproduction of mathematical operations in the tables at hand can lead to minor differences.

(70) Foreign Currency Volume

As at 31 December 2018 and 31 December 2017 the NORD/LB Group had the following financial assets and liabilities in foreign currencies:

(in € million)	USD	GBP	JPY	Other	Total 31 Dec. 2018	Total 31 Dec. 2017
Assets						
Cash reserve	708	142	–	423	1 273	588
Trading assets	8 261	2 125	278	1 538	12 202	12 120
Financial assets at fair value through profit or loss	645	117	–	16	778	–
Financial assets at fair value through other comprehensive income	646	107	44	157	954	3 179
Financial assets at amortised costs	14 056	4 758	295	1 100	20 209	24 693
Positive fair values from hedge accounting derivatives	4	32	10	5	51	32
Balancing items for financial instruments hedged in in the portfolio fair value hedge	– 21	–	–	–	– 21	–
Shares in companies - not accounted for using the equity method	–	–	–	12	12	–
Tangible assets	2	–	–	3	5	–
Assets held for sale	–	–	–	–	–	3
Income tax assets	13	–	–	–	13	–
Other assets	10	3	1	1	15	32
Total	**24 324**	**7 284**	**628**	**3 255**	**35 491**	**40 647**
Liabilities						
Trading liabilities	16 835	4 115	354	2 064	23 368	26 204
Designated financial liabilities at fair value through profit or loss	593	–	–	–	593	–
Financial liabilities at amortised costs	9 899	1 565	278	497	12 239	12 837
Negative fair values from hedge accounting derivatives	362	30	22	67	481	527
Balancing items for financial instruments hedged in in the portfolio fair value hedge	– 5	–	–	–	– 5	–
Provisions	14	1	–	1	16	11
Income tax liabilities	4	1	–	4	9	–
Other liabilities	10	6	1	2	19	20
Total	**27 712**	**5 718**	**655**	**2 635**	**36 720**	**39 599**

Exchange rate risks are eliminated by concluding countertrades with matching terms.

(71) 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 derivatives included for 2017 are shown prior to the netting pursuant to IAS 32.42.

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Assets			
Trading assets	**3 884**	**7 415**	**– 48**
Derivatives	3 742	7 415	– 50
Loans and advances	142	–	–
Financial assets at fair value through profit or loss	**2 898**	**–**	**–**
Equity instruments	2	–	–
Debt-securities and other fixed-interest securities	2 094	–	–
Loans and advances	802	–	–
Designated financial assets at fair value through profit or loss	**–**	**437**	**– 100**
Debt-securities and other fixed-interest securities	–	246	– 100
Loans and advances	–	191	– 100
Financial assets at fair value through other comprehensive income	**16 735**	**22 106**	**– 24**
Debt-securities and other fixed-interest securities	15 325	22 106	– 31
Loans and advances	1 410	–	–
Financial assets at amortised costs	**82 584**	**89 027**	**– 7**
Debt-securities and other fixed-interest securities	4 212	1 822	> 100
Loans and advances	78 372	87 205	– 10
Positive fair values from hedge accounting derivatives	1 000	2 735	– 63
Balancing items for financial instruments hedged in in the portfolio fair value hedge	116	66	76
Other assets	1	–	–
Total	**107 218**	**121 786**	**– 12**
Liabilities			
Trading liabilities	**2 802**	**6 465**	**– 57**
Derivatives	2 798	6 465	– 57
Short positions	4	–	–
Designated financial liabilities at fair value through profit or loss	**7 513**	**8 215**	**– 9**
Deposits	4 231	6 009	– 30
Securitised liabilities	3 282	2 206	49
Financial liabilities at amortised costs	**65 746**	**76 502**	**– 14**
Deposits	42 812	50 686	– 16
Securitised liabilities	22 934	25 816	– 11
Negative fair values from hedge accounting derivatives	1 639	2 758	– 41
Balancing items for financial instruments hedged in in the portfolio fair value hedge	710	697	2
Provisions	98	76	29
Other liabilities	1	3	– 67
Total	**78 509**	**94 716**	**– 17**

(72) 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 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 11 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.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Future minimum leasing lease payments up to 1 year	18	18	–
Future minimum leasing lease payments more than 1 year up to 5 years	46	53	– 13
Future minimum leasing lease payments more than 5 years	47	37	27
Total future minimum leasing lease payments	**111**	**108**	**3**

In the context of the operating lease agreements, minimum lease payments of € 18 million (€ 19 million) were recognised as an expense in the reporting year. No income (€ 0 million) is expected from non-terminable sub-lease agreements. Finance lease agreements with the NORD/LB Group as the lessee were entered into to the following extent.

There is one contract for the leasing and maintenance of a standard software package (minimum lease payments € 2 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 € 7 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. In addition, 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.2018 (in € million)	31 Dec.2017 (in € million)	Veränderung (in %)
Present value of outstanding minimum lease payments up to 1 year	7	8	– 13
Present value of outstanding minimum lease payments more than 1 year up to 5 years	14	19	– 26
Present value of outstanding minimum lease payments more than 5 years	16	17	– 6
Total present value of outstanding minimum lease payments	**37**	**44**	**– 16**
Plus interest	14	15	– 7
Total minimum lease payments	**51**	**59**	**– 14**
Total minimum lease payments	**51**	**59**	**– 14**
Of which: up to 1 year	7	8	– 13
Of which: 1 year to 5 years	15	20	– 25
Of which: more than 5 years	30	30	–
Net investment	**51**	**59**	**– 14**

The minimum lease payments guarantee residual values of € 3 million (€ 5 million).

(73) Contingent Liabilities and Other Obligations

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	3 977	3 934	1
Other contingent liabilities	41	25	64
	4 018	**3 959**	**1**
Other obligations			
Irrevocable credit commitments	6 837	9 140	– 25
Total	**10 855**	**13 099**	**– 17**

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,
- 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 assets and on possible equalisation payments is not given for reasons of practicality.

(74) 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 (Actien-Gesellschaft), 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 (Actien-Gesellschaft) in accordance with the agreement concluded between Deutscher Sparkassen- und Giroverband e.V. and Deutsche Hypothekenbank (Actien-Gesellschaft) 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 (Actien-Gesellschaft). The participation of Deutsche Hypothekenbank (Actien-Gesellschaft) in the German banks' deposit protection fund was terminated on 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 (Actien-Gesellschaft).

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 Zietenterassen – 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 one company (two companies) to grant a shareholder loan amounting to € 2 million (€ 2 million).

Over the normal course of business NORD/LB has furnished collateral in the nominal amount of € 143 million (€ 107 million) in the form of securities.

Payment obligations for shares and other interests amounted to € 7 million (€ 16 million) as at year end.

NORD/LB Group has concluded several financial guarantee transactions in order to reduce the charge on regulatory equity, including the securitisation of a portfolio of NORD/LB Group loan receivables in the amount of € 11 billion initially. The default risk from the mezzanine tranche (approximately € 478 million) and of the first loss tranche (approximately € 103 million) was transferred to an external third party by way of a financial guarantee. The residual term of this guarantee is five years.

A further NORD/LB credit portfolio in the amount of € 10 billion initially was securitised through a second financial guarantee with a residual term of 14 years. By means of the 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.

The annual premiums for the guarantee are recognised under commission expenses. The two aforementioned financial guarantees amount to € 103 million (€ 69 million) for the current financial year and are estimated at € 88 million for the following year.

Furthermore, loan receivables of two portfolios of former Bremer Landesbank in the amount of approximately € 6.5 billion were securitised. External financial guarantees hedged the first loss tranches of one of the two portfolios of approximately € 140 million and the mezzanine tranche of the second portfolio of approximately € 106 million against default risk for a remaining period of eight and nine years respectively. The annual guarantee premiums for the two aforementioned financial guarantees amount to € 29 million (€ 28 million) for the current financial year and are estimated at € 28 million for the following year.

Two further portfolios of Deutsche Hypothekenbank (Actien-Gesellschaft) loan receivables sized at € 982 million (€ 1,023 million) and € 387 million (€ 505 million) were securitised also for regulatory capital relief purposes. The default risks from the mezzanine tranches were transferred to external third parties by means of financial guarantees and totalled € 59 million (€ 62 million) and € 18 million (€ 23 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 totalled € 3 million (€ 3 million) or € 1 million (€ 1 million) for the reporting year. Guarantee expenses for the following year are estimated at € 3 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 € 20 million (approximately € 34 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.

The Group is also obliged to make additional contributions up to an amount of € 106 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.

Also in the current financial year, NORD/LB has opted to apply a portion of the fixed annual contribution for the bank levy and the security reserve as an irrevocable payment. These payments, which now stand at € 22 million (€ 15 million) and € 19 million (€ 14 million) are covered by cash collateral.

Related Parties

(75) 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. 2018	Male 1 Jan. - 31 Dec. 2017	Female 1 Jan. - 31 Dec. 2018	Female 1 Jan. - 31 Dec. 2017	Total 1 Jan. - 31 Dec. 2018	Total 1 Jan. - 31 Dec. 2017
NORD/LB	2 510	2 615	2 501	2 552	5 011	5 167
NORD/LB Luxemburg CBB	120	138	58	62	178	200
Deutsche Hypothekenbank	240	232	190	182	430	414
Other	129	167	175	196	304	363
Group	**2 999**	**3 152**	**2 924**	**2 992**	**5 923**	**6 144**

(76) Disclosures concerning Shares in Companies

Consolidated subsidiaries

Of the 31 (34) subsidiaries included in the consolidated financial statements, 18 (19) are structured companies under IFRS 12. Neither at 31 December 2018 nor at 31 December 2017 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. With regard to the restrictions on collateral provided, refer to Note (67) NORD/LB Group as assignor and assignee.

The information on collateral provided also includes the cover assets included in the cover pool of the NORD/LB Group's Pfandbrief banks and loans pooled on the basis of securitisation transactions. Restrictions on the plan assets can be found in Note (55) Provisions.

As indicated in Note (6) Consolidation principles, structured companies are consolidated when the relationship between the Group and the structured companies shows that they are controlled by the Group.

As at the reporting date, one (one) structured company was consolidated, and the Group is contractually obligated to provide financial assistance to that company. This concerns Conduit Hannover Funding Company LLC (Hannover Funding), which purchases receivables from corporate customers and finances those transactions by issuing commercial paper. NORD/LB Group guarantees the company a liquidity facility so that Hannover Funding can fall back on NORD/LB Group in the event of financing and liquidity shortages. This arrangement is regulated by the Liquidity Asset Purchase Agreement. By contractual agreement, NORD/LB Group cannot access Hannover Funding's assets or liabilities.

Furthermore, the Group has provided financial support to one (five) consolidated structured shipping companies in the reporting period, although it is not contractually obligated to do so. The support payments relate to deferral agreements in the context of loan restructuring measures, and amount to € 22 million (€ 48 million).

Associated companies and joint ventures

Among the nine (nine) associated companies and one (one) joint venture company included in the consolidated financial statements, no associated company nor joint venture company are individually of significant importance to the Group due to their share in earnings and share in overall earnings.

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

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)
Carrying amount of the shares of non-significant associated companies	171	198
NORD/LB Group's share in		
Profit/loss from continuing operations	20	37
Other income	– 23	– 17
Comprehensive income	**– 3**	**20**

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

	31 Dec.2018 (in € million)	31 Dec.2017 (in € million)
Carrying amount of the shares of non-significant joint ventures	2	2
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 € 114 million (€ 54 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 often 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 "Profit/loss from the fair value measurement" 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. 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 or 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 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 investments, since they do not take account of any collateral or hedging transactions.

31 Dec.2018 (in € million)	Securitisation companies (lender)	Securitisation companies (investor)	Investment companies	Leasing companies	Property and project finance	Others	**Total**
Size of the non-consolidated structured company	1 170	11 437	15 222	3 016	211	67	**31 123**
Trading assets	–	–	–	49	–	–	**49**
Financial assets at fair value through profit or loss	–	179	61	–	9	6	**255**
Financial assets at fair value through other comprehensive income	–	354	–	–	–	–	**354**
Financial assets at amortised costs	–	16	–	1 284	30	9	**1 339**
Assets reported in the balance sheet of the Nord/LB Group	**–**	**549**	**61**	**1 333**	**39**	**15**	**1 997**
Financial liabilities at amortised costs	–	–	–	2	2	–	**4**
Liabilities reported in the balance sheet of the Nord/LB Group	**–**	**–**	**–**	**2**	**2**	**–**	**4**
Off-balance-sheet positions	–	933	–	41	–	–	**974**
Maximum risk of loss	–	563	61	1 433	39	14	**2 110**
Losses incurred during the reporting period	–	2	5	1	57	–	**65**

31 Dec.2017 (in € million)	Securiti-sation compa-nies (lender)	Securiti-sation compa-nies (inves-tor)	Invest-ment compa-nies	Leasing compa-nies	Property and project finance	Others	**Total**
Size of the non-consolidated structured company	–	15 459	19 576	3 899	182	6	**39 122**
Trading assets	–	10	–	6	–	–	**16**
Financial assets at fair value through other comprehensive income	–	266	66	–	–	6	**338**
Financial assets at amortised costs	–	–	–	1 634	15	–	**1 649**
Assets reported in the balance sheet of the Nord/LB Group	**–**	**276**	**66**	**1 640**	**15**	**6**	**2 003**
Financial liabilities at amortised costs	–	–	–	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**
Losses incurred during the reporting period	–	–	–	1	–	1	**2**

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 Group is the originator of the structured company).

The NORD/LB Group sponsors various securitisation companies, whose founding it was involved in and is the originator. Default risks from loan receivables in the amount of € 39 million (€ 654 million) were transferred to these companies by means of a financial guarantee or within the scope of syndicate agreements (see Note (74) Other financial obligations).

(77) Related Parties

All consolidated and non-consolidated subsidiaries, associated companies and joint ventures, 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 volume of transactions with related parties in 2017 and 2018 (not including those to be eliminated under consolidation) can be seen in the following lists:

31 Dec.2018 (in € million)	Companies with significant influence	Subsidiaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Assets						
Trading assets	**472**	**292**	**–**	**40**	**–**	**19**
Derivates	130	224	–	40	–	8
Debt-securities and other fixed-interest securities	128	31	–	–	–	–
Loans and advances	214	37	–	–	–	11
Financial assets at fair value through profit or loss	**91**	**19**	**–**	**–**	**–**	**–**
Debt-securities and other fixed-interest securities	91	–	–	–	–	–
Loans and advances	–	19	–	–	–	–
Financial assets at fair value through other comprehensive income	**1 425**	**3 345**	**–**	**–**	**–**	**–**
Debt-securities and other fixed-interest securities	1 326	3 345	–	–	–	–
Loans and advances	99	–	–	–	–	–
Financial assets at amortised cost	**1 746**	**2 737**	**–**	**297**	**1**	**374**
Loans and advances	1 746	2 737	–	297	1	374
Other assets	**87**	**7**	**–**	**–**	**–**	**–**
Total	**3 821**	**6 400**	**–**	**337**	**1**	**393**

31 Dec.2018 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Liabilities						
Trading liabilities	**47**	**342**	**–**	**9**	**–**	**–**
Derivates	47	339	–	9	–	–
Short positions	–	3	–	–	–	–
Designated financial liabilities at fair value through profit or loss	**47**	**–**	**–**	**–**	**–**	**73**
Deposits	47	–	–	–	–	73
Financial liabilities at amortised cost	**430**	**774**	**3**	**428**	**2**	**428**
Deposits	430	739	3	428	2	427
Securitised liabilities	–	–	–	–	–	1
Other financial liabilities	–	35	–	–	–	–
Other liabilities	**–**	**1**	**–**	**–**	**–**	**–**
Total	**524**	**1 117**	**3**	**437**	**2**	**501**
Guarantees and sureties received	95	–	–	–	–	–
Guarantees and sureties granted	–	114	–	37	–	7

1 Jan. - 31 Dec.2018 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest income	111	174	–	11	–	14
Interest expense	46	51	–	14	–	10
Commission income	6	3	–	–	–	–
Commission expenses	–	–	–	2	–	–
Other income/expense	30	–	–	1	– 5	–
Total	**101**	**126**	**–**	**– 4**	**– 5**	**4**

31 Dec.2017 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Assets						
Trading assets	**681**	**–**	**–**	**44**	**–**	**1**
Derivates	85	–	–	44	–	1
Debt-securities and other fixed-interest securities	379	–	–	–	–	–
Loans and advances	217	–	–	–	–	–
Financial assets at fair value through other comprehensive income	**1 761**	**–**	**–**	**16**	**–**	**–**
Equity instruments	–	–	–	16	–	–
Debt-securities and other fixed-interest securities	1 761	–	–	–	–	–
Financial assets at amortised cost	**1 954**	**4**	**–**	**398**	**1**	**467**
Loans and advances	1 954	4	–	398	1	467
Hedge accounting derivates	76	–	–	–	–	–
Other assets	**84**	**–**	**–**	**–**	**–**	**–**
Total	**4 556**	**4**	**–**	**458**	**1**	**468**

31 Dec.2017 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Liabilities						
Trading liabilities	**35**	**–**	**–**	**4**	**–**	**–**
Derivates	35	–	–	4	–	–
Designated financial liabilities at fair value through profit or loss	**45**	**–**	**–**	**–**	**–**	**229**
Deposits	45	–	–	–	–	229
Financial liabilities at amortised cost	**763**	**79**	**3**	**518**	**2**	**879**
Deposits	763	79	3	518	2	878
Securitised liabilities	–	–	–	–	–	1
Total	**843**	**79**	**3**	**522**	**2**	**1 108**
Guarantees and sureties received	226	–	–	–	–	–
Guarantees and sureties granted	–	–	–	36	–	8

1 Jan. - 31 Dec.2017 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest income	119	–	–	12	–	16
Interest expense	45	6	–	20	–	15
Commission income	2	–	–	–	–	–
Other income/expense	13	1	–	–	– 6	21
Total	**89**	**– 5**	**–**	**– 8**	**– 6**	**22**

As at the reporting date, there are valuation allowances for loans and advances to associated companies amounting to € 2 million (€ 24 million), and for loans and advances to unconsolidated subsidiaries totalling € 22 million (€ 24 million).

The following table shows the maximum balances for NORD/LB transactions with related parties in the reporting period and the previous year.

(in € million)	2018	2017
Assets		
Trading assets	936	726
Financial assets at amortised cost	5 154	3 225
Other assets	4 974	1 937
Total	**11 064**	**5 888**
Liabilities		
Trading liabilities	397	39
Financial liabilities at amortised cost	2 066	2 483
Other liabilities	124	845
Total	**2 587**	**3 367**
Guarantees and sureties received	105	252
Guarantees and sureties granted	166	44

Key personnel are remunerated as follows:

(in € million)	2018	2017
Employment-related payments due in the short term	5	7
Post-employment payments	1	1
Benefits arising from the termination of employment	–	1
Total remuneration	**6**	**9**

Total remuneration and loans to executive bodies in accordance with commercial regulations are shown in Note (78) Remuneration of and loans to governing bodies.

(78) Remuneration of and Loans to Govering Bodies

(in € million)	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Total emoluments paid to active members of governing bodies		
Managing Board	4	6
Total emoluments paid to former members of governing bodies and their dependants		
Managing Board	6	7

Total remuneration to active members of the Supervisory Board was € 412 thousand (€ 472 thousand).

In the reporting year, remuneration of € 64 thousand (€ 176 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. No commitments were made in 2018 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 € 204 thousand (€ 245 thousand) and € 33 thousand (€ 60 thousand), respectively.). Of the loans and advance payments granted to the members of the Managing Board and the Supervisory Board, € 49 thousand (€ 120 thousand) and € 13 thousand (€ 37 thousand) was paid back in the reporting year.

There are pension obligations of € 109 million (€ 110 million) to former members of the Managing Board and their surviving dependants.

(79) Group Auditor's Fees

(in € million)	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017[1)]
Group Auditor's Fees for		
The statutory audit	12	13
Other services	–	1

[1)] The figures given for 2017 include € 0.5 million in services that are 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 financial year 2018:

- 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)
- Project quality assurance with a direct link to the audit. This includes projects related to IT Compliance and the merger of the provident funds.
- Assurance services based on statutory or contractual obligations. Among other things, this includes assurance services for savings bank organisations, assurance services as per the

German Law on Integrated Financial Services Supervision (FinDAG) and assurance services as per § 36 of the German Securities Trading Act (WpHG)

- Assurance services related to the issue of comfort letters
- Quality assurance services in connection with the creation of the winding-up plan

(80) 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 [3]	–	100.00
Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover [3]	–	100.00
GBH Beteiligungs-GmbH, Bremen	–	100.00
KreditServices Nord GmbH, Braunschweig [3]	–	100.00
Nieba GmbH, Hanover [3]	–	100.00
NORD/FM Norddeutsche Facility Management GmbH, Hanover [3]	–	100.00
NORD/LB Leasing GmbH, Oldenburg [3]	–	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, Hanover	–	100.00
ab) Special Purpose Entities included in the consolidated financial statements		
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal	–	–
First Fleet Rita UG (haftungsbeschränkt) & Co. KG, Bremen	–	–
Fürstenberg Capital Erste GmbH, Fürstenberg/Weser	–	–
Fürstenberg Capital II. GmbH, Fürstenberg/Weser	–	–
GEBAB Ocean Shipping III GmbH & Co. KG, Hamburg	–	–
Hannover Funding Company LLC, Dover / USA	–	–
KMU Shipping Invest GmbH, Hamburg	–	–
MS "Mistral Strait" UG (haftungsbewschränkt) & Co. KG, Bremen	–	–
NORD/LB Objekt Magdeburg GmbH & Co. KG, Pullach im Isartal	–	–
"PRIMAVERA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
"QUADRIGA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
ac) Investment funds included in the consolidated financial statements		
NORD/LB AM ALCO	–	100.00
NORDLB SICAV-RAIF S.C.Sp. Aviation 1, Luxemburg	–	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, Hanover	–	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, Hanover	–	44.00
LINOVO Productions GmbH & Co. KG, Pöcking	–	45.17
NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover	–	28.66
Öffentliche Lebensversicherung Braunschweig, Braunschweig [2)]	–	75.00
Öffentliche Sachversicherung Braunschweig, Braunschweig [2)]	–	75.00
Toto-Lotto Niedersachsen GmbH, Hanover	–	49.85
Warburg Invest Holding GmbH, Hanover	–	24.90
ae) After IFRS 5 valuated companies		
Special Purpose Entities		
MS "Arian" Schiffahrtsgesellschaft mbH & Co. KG, Elsfleth	–	–
MS Tammo" Schiffahrtsgesellschaft mbH & Co. KG, Elsfleth	–	–
Hyperion Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
Rhea Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
Titan Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–

Company name and registered office	Share of capital held (in %)	Equity[1)] (in Tsd €)	Profit/Loss (in Tsd €)
b) Companies not included in the consolidated financial statements with an equity capital of greater +/-€ 1 million			
BGG Oldenburg GmbH & Co. KG, Bremen [6)]	100.00	9 750	742
Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [3) 6)]	100.00	9 061	–
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [6)]	100.00	1 858	887
NBN Grundstücks- und Verwaltungs-GmbH, Hanover [6)]	100.00	1 836	73
NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [6)]	90.00	2 695	– 3
Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [3) 6)]	98.00	3 088	–
SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [6)]	100.00	1 024	23
Skandifinanz AG, Zürich / Schweiz [6)]	100.00	11 891	–
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [6) 8)]	100.00	143 235	2 388
Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [3) 6)]	100.00	1 278	–
c) Joint Ventures and associated companies not included in the consolidated financial statements with an equity capital of greater +/-€ 1 million			
Adler Funding LLC, Dover / USA [6)]	21.88	– 14 086	– 25 468
BREBAU GmbH, Bremen [6)]	49.40	85 596	6 925
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [6)]	49.00	3 939	2 126
Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [6)]	50.00	2 900	101
Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [6)]	20.89	16 563	212
Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [6)]	20.44	15 612	454
FinTech Fonds GmbH & Co. KG, Köln [6)]	39.60	6 630	– 532
Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [6)]	20.46	12 807	524
Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. - Objekt Zietenterrassen - KG, Göttingen [6)]	50.00	4 850	– 282
INI International Neuroscience Institute Hannover GmbH, Hanover [4)]	22.70	– 6 114	2 526
LUNI Productions GmbH & Co. KG, Pöcking [6)]	24.29	– 115 894	– 194
Marktcarré Grundbesitz-GmbH [7)]	25.00	1 000	k.A.
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [6)]	26.00	14 429	288
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [6)]	39.82	13 638	507
NBV Beteiligungs-GmbH, Hanover [6)]	42.66	12 495	2 213
Öffentliche Versicherung Bremen, Bremen [6)]	20.00	8 091	1 307
Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [6)]	21.72	20 038	738

Company name and registered office	Share of capital held (in %)
d) Subsidiaries not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million	
BLBI Beteiligungs-GmbH, Bremen	100.00
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, Hanover	100.00
finpair GmbH, Hanover [7]	100.00
FL FINANZ-LEASING GmbH, Wiesbaden	58.00
LBT Holding Corporation Inc., Wilmington / USA	100.00
NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover	100.00
NORD/LB Informationstechnologie GmbH, Hanover [3]	100.00
NORD/LB Project Holding Ltd., London / Großbritannien	100.00
NORD/LB RP Investments LLC, Wilmington / USA	100.00
NORDLB SICAV-RAIF S.C.Sp., Luxemburg [7]	99.01
PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover	100.00
Ricklinger Kreisel Beteiligungs GmbH, Hanover	100.00
Themis 1 Inc., Wilmington / USA	100.00

Notes:

[1] Equity as defined in §§ 266 and 272 of the German Commercial Code (deutsches Handelsgesetzbuch – HGB) less outstanding capital contributions.
[2] This company is classified as an associate due to its structure under company
[3] A profit/loss transfer agreement is in place with the company law.
[4] Data is available as at 31 December 2016.
[5] Data is available as at 29 December 2017.
[6] Data is available as at 31 December 2017.
[7] Company established in 2018.
[8] Not subject to consolidation under IFRS 10.4 (a).

(81) Subsequent events

Risk coverage and capital strengthening measures

On 2 February 2019, the owners and the Managing Board of NORD/LB decided to transfer a significant part of the Bank's ship financing portfolio in a volume of approx. € 2.6 billion (gross amount before fair-value discount) to an external investor as part of a portfolio transaction. A corresponding purchase and transfer agreement for the portfolio consisting entirely of non-performing ship financing was signed on 4 February 2019. For a further ship financing portfolio with an exposure of € 3.8 billion, the establishment of an internal settlement unit is being examined as a leading option. On this basis, the Managing Board decided to build up extensive additional risk provisions for the transaction portfolio as well as for the entire additional NPL portfolio in the 2018 financial year in order to ensure a complete credit risk coverage. Risk provisions were mainly measured on the basis of portfolio transactions and estimated market values. All this resulted in a consolidated loss of € 2.4 billion in the Group's consolidated financial statements as at 31 December 2018 and capital ratios fell significantly below the regulatory minimum capital requirements.

The owners of the bank have agreed to take measures together with the Deutscher Sparkassen- und Giroverband (German Savings Banks Association, DSGV) to strengthen the capital and realign the bank. Among other things, these measures include strengthening the Bank's equity capital by € 3.5 billion, whereby the contributions will not be fully made in cash, but will also be made through suitable substitute measures.

For this reason, and taking into account the assessment of the future development of the Bank, the NORD/LB Group's accounting and valuation is unchanged on the assumption of going concern. The basis for the assumption made about the future development is the long-term corporate planning of the Group in connection with the following significant measures for the realignment of the NORD/LB Group initiated in the year under review or in the period between the end of the financial year and the preparation of the Group's consolidated financial statements:

a. Preparing the conditions for the implementation of the capital measures agreed by the owners
b. Strategic re-dimensioning and far-reaching reorganisation of the Group with a focus on future-oriented business segments
c. Implementation of a comprehensive restructuring plan for sustainable cost reduction
d. Significant RWA reduction through reduction of the non-performing loan portfolio and adequate coverage against further existing risks

Assumption of continuation of business activity

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

In order to reduce the non-performing ship financing portfolio and create the basis for measures to strengthen capital ratios, NORD/LB and its owners introduced a comprehensive concept for strengthening capital and repositioning the bank in financial year 2018; this concept also includes measures for selling non-performing loan portfolios. This was intended to prepare the bank for further increases in regulatory requirements and permanently strengthen its crisis resilience and competitiveness. In addition, the bank will continue to the realignment of its business model.

A bidding process to allow external investors to participate in NORD/LB was carried out to strengthen capital ratios. As part of this process, bids have been received from various investors for a possible investment in NORD/LB.

At the same time, NORD/LB worked on two portfolio transactions aimed at substantially reducing its NPL shipping loan portfolios.

On 2 February 2019, after a thorough evaluation of a joint bid by two financial investors to reinforce the capital of NORD/LB, submitted as part of the bidding process, the owners of NORD/LB decided to postpone this option and focus instead on a joint solution with the DSGV in the public sector. This decision was preceded by a discussion of the key elements of the solution proposed by the owners and DSGV with the banking regulators.

Key elements of this proposal to reinforce capital and reposition the business model include an injection of new equity by the owners and DSGV totalling € 3.5 billion, of which around € 2.4 billion is to be accounted for by the states of Lower Saxony and Saxony-Anhalt and around € 1.1 billion by the Sparkasse Finance Group. Furthermore, of the proportion to be shouldered by the states, around € 1.7 billion is to be paid as a cash capital contribution and € 0.8 billion in the form of suitable alternative capital measures. The key elements were set out for the regulators in a joint letter from the owners and DSGV dated 20 February 2019. The proposal will be given more concrete form in further discussions with the owners and DSGV in the course of 2019, and must be agreed with the banking regulators as well as the EU Commission from the perspective of government subsidies.

On the basis of these measures to strengthen capital, the Managing Board and owners of NORD/LB also decided on 2 February 2019 to transfer part of NORD/LB’s ship financing portfolio amounting to approx. € 2.6 billion to an external investor as part of a portfolio transaction with the aim of achieving a substantial reduction in the NPL ship loan portfolio. This portfolio comprises exclusively non-performing loans. The effects of this agreed transaction on the bank’s annual financial statements and consolidated statements as at 31 December 2018 as well as additional loan loss provisions required on the remaining NPL ship loan portfolio led to an overall loan loss provision of € 1.7 billion for financial year 2018.

This was instrumental in leading to a loss for the Group for financial year 2018 of approx. € 2.4 billion after tax in accordance with IFRS. Under German commercial accounting rules, NORD/LB AöR incurred a loss for the year of approx. € 2.4 billion after tax. The above-mentioned loss for financial year 2018 will result in a shortfall on the regulatory requirements for minimum capital ratios as at the closing date of 31 December 2018 until the capital injection is carried out. The banking regulators have been informed accordingly by NORD/LB.

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

On the basis of the above-mentioned measures to strengthen capital and its loan portfolio transactions, NORD/LB, at the request of the banking regulators, has prepared a capital strategy and business plan which was submitted to the regulators on 1 March 2019 and presented to them on 4 March 2019 together with the owners and DSGV. NORD/LB assumes that with the implementation of the capital reinforcement measures included in this plan and the realignment of the business model, the capital ratios will rise again significantly in the future and meet all regulatory requirements.

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

The measures for realigning the business model of NORD/LB provide for an extensive transformation of individual business areas and subsidiaries of the bank and Group in the coming years.

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

The going concern assumption made for accounting and measurement purposes as well as the continued existence of NORD/LB are subject to considerable uncertainty and are based in particular on the assumption that

- the measures pursued to strengthen capital on the level of NORD/LB will be implemented, completed and approved by all relevant stakeholders, in particular by the state parliaments of Lower Saxony and Saxony-Anhalt and by the DSGV, so that the capital ratios and buffers as well as the thresholds required by the regulators will be met again in future,
- the banking regulators, in particular the European Central Bank, the Federal Financial Supervisory Authority and the Deutsche Bundesbank, will tolerate the failure to meet the minimum capital ratios demanded by the regulators until the measures pursued to reinforce capital on the level of NORD/LB have been completed,
- all official permits required to implement the plan, particularly from the EU Commission and the responsible banking regulators, will be issued and
- the realignment of the business model and the restructuring measures envisaged are put into practice on schedule.

If the measures envisaged to reinforce capital on the level of NORD/LB are not carried out as planned, NORD/LB could be wound up. In this case or in the event of a credit rating downgrade or other adverse developments, significant outflows of short-term funds could be triggered and NORD/LB's funding options fundamentally restricted.

It is also necessary that the acceptance by market participants and other relevant stakeholders needed for any successful implementation of the realignment of NORD/LB's business model is given.

(82) Subsequent events

Risk coverage and capital strengthening measures

On 2 February 2019, the owners and the Managing Board of NORD/LB decided to transfer a significant part of the Bank's ship financing portfolio in a volume of approx. € 2.6 billion (gross amount before fair-value discount) to an external investor as part of a portfolio transaction. A corresponding purchase and transfer agreement for the portfolio consisting entirely of non-performing ship financing was signed on 4 February 2019. For a further ship financing portfolio with an exposure of € 3.8 billion, the establishment of an internal settlement unit is being examined as a leading option. On this basis, the Managing Board decided to build up extensive additional risk provisions for the transaction portfolio as well as for the entire additional NPL portfolio in the 2018 financial year in order to ensure a complete credit risk coverage. Risk provisions were mainly measured on the basis of portfolio transactions and estimated market values. All this resulted in a consolidated loss of € 2.4 billion in the Group's consolidated financial statements as at 31 December 2018 and capital ratios fell significantly below the regulatory minimum capital requirements.

The owners of the bank have agreed to take measures together with the Deutscher Sparkassen- und Giroverband (German Savings Banks Association, DSGV) to strengthen the capital and realign the bank. Among other things, these measures include strengthening the Bank's equity capital by € 3.5 billion, whereby the contributions will not be fully made in cash, but will also be made through suitable substitute measures.

For this reason, and taking into account the assessment of the future development of the Bank, the NORD/LB Group's accounting and valuation is unchanged on the assumption of going concern. The basis for the assumption made about the future development is the long-term corporate planning of the Group in connection with the following significant measures for the realignment of the NORD/LB Group initiated in the year under review or in the period between the end of the financial year and the preparation of the Group's consolidated financial statements:

a. Preparing the conditions for the implementation of the capital measures agreed by the owners

b. Strategic re-dimensioning and far-reaching reorganisation of the Group with a focus on future-oriented business segments

c. Implementation of a comprehensive restructuring plan for sustainable cost reduction

d. Significant RWA reduction through reduction of the non-performing loan portfolio and adequate coverage against further existing risks

Assumption of continuation of business activity

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

In order to reduce the non-performing ship financing portfolio and create the basis for measures to strengthen capital ratios, NORD/LB and its owners introduced a comprehensive concept for strengthening capital and repositioning the bank in financial year 2018; this concept also includes measures for selling non-performing loan portfolios. This was intended to prepare the bank for further increases in regulatory requirements and permanently strengthen its crisis resilience and competitiveness. In addition, the bank will continue to the realignment of its business model.

A bidding process to allow external investors to participate in NORD/LB was carried out to strengthen capital ratios. As part of this process, bids have been received from various investors for a possible investment in NORD/LB.

At the same time, NORD/LB worked on two portfolio transactions aimed at substantially reducing its NPL shipping loan portfolios.

On 2 February 2019, after a thorough evaluation of a joint bid by two financial investors to reinforce the capital of NORD/LB, submitted as part of the bidding process, the owners of NORD/LB decided to postpone this option and focus instead on a joint solution with the DSGV in the public sector. This decision was preceded by a discussion of the key elements of the solution proposed by the owners and DSGV with the banking regulators.

Key elements of this proposal to reinforce capital and reposition the business model include an injection of new equity by the owners and DSGV totalling € 3.5 billion, of which around € 2.4 billion is to be accounted for by the states of Lower Saxony and Saxony-Anhalt and around € 1.1 billion by the Sparkasse Finance Group. Furthermore, of the proportion to be shouldered by the states, around € 1.7 billion is to be paid as a cash capital contribution and € 0.8 billion in the form of suitable alternative capital measures. The key elements were set out for the regulators in a joint letter from the owners and DSGV dated 20 February 2019. The proposal will be given more concrete form in further discussions with the owners and DSGV in the course of 2019, and must be agreed with the banking regulators as well as the EU Commission from the perspective of government subsidies.

On the basis of these measures to strengthen capital, the Managing Board and owners of NORD/LB also decided on 2 February 2019 to transfer part of NORD/LB's ship financing portfolio amounting to approx. € 2.6 billion to an external investor as part of a portfolio transaction with the aim of achieving a substantial reduction in the NPL ship loan portfolio. This portfolio comprises exclusively non-performing loans. The effects of this agreed transaction on the bank's annual financial statements and consolidated statements as at 31 December 2018 as well as additional loan loss provisions required on the remaining NPL ship loan portfolio led to an overall loan loss provision of € 1.7 billion for financial year 2018.

This was instrumental in leading to a loss for the Group for financial year 2018 of approx. € 2.4 billion after tax in accordance with IFRS. Under German commercial accounting rules, NORD/LB AöR incurred a loss for the year of approx. € 2.4 billion after tax. The above-mentioned loss for financial year 2018 will result in a shortfall on the regulatory requirements for minimum capital ratios as at the closing date of 31 December 2018 until the capital injection is carried out. The banking regulators have been informed accordingly by NORD/LB.

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

On the basis of the above-mentioned measures to strengthen capital and its loan portfolio transactions, NORD/LB, at the request of the banking regulators, has prepared a capital strategy and business plan which was submitted to the regulators on 1 March 2019 and presented to them on 4 March 2019 together with the owners and DSGV. NORD/LB assumes that with the implementation of the capital reinforcement measures included in this plan and the realignment of the business model, the capital ratios will rise again significantly in the future and meet all regulatory requirements.

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

The measures for realigning the business model of NORD/LB provide for an extensive transformation of individual business areas and subsidiaries of the bank and Group in the coming years.

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

The going concern assumption made for accounting and measurement purposes as well as the continued existence of NORD/LB are subject to considerable uncertainty and are based in particular on the assumption that

- the measures pursued to strengthen capital on the level of NORD/LB will be implemented, completed and approved by all relevant stakeholders, in particular by the state parliaments of Lower Saxony and Saxony-Anhalt and by the DSGV, so that the capital ratios and buffers as well as the thresholds required by the regulators will be met again in future,
- the banking regulators, in particular the European Central Bank, the Federal Financial Supervisory Authority and the Deutsche Bundesbank, will tolerate the failure to meet the minimum capital ratios demanded by the regulators until the measures pursued to reinforce capital on the level of NORD/LB have been completed,
- all official permits required to implement the plan, particularly from the EU Commission and the responsible banking regulators, will be issued and
- the realignment of the business model and the restructuring measures envisaged are put into practice on schedule.

If the measures envisaged to reinforce capital on the level of NORD/LB are not carried out as planned, NORD/LB could be wound up. In this case or in the event of a credit rating downgrade or other adverse developments, significant outflows of short-term funds could be triggered and NORD/LB's funding options fundamentally restricted.

It is also necessary that the acceptance by market participants and other relevant stakeholders needed for any successful implementation of the realignment of NORD/LB's business model is given.

Statement and Audit

Independent Auditor's Report

To Norddeutsche Landesbank – Girozentrale –, Hanover, Braunschweig and Magdeburg

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

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 consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of NORD/LB for the financial year 1 January to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch – German Commercial Code] and, in compliance with theses requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and the combined management report.

Material uncertainty about the entity's ability to continue as a going concern

Please refer to the comments in the combined management report in the 'Events after the reporting date as well as statements on the entity's ability to continue as a going concern' section and in the notes to the consolidated financial statements in the 'Principles for the preparation of the consolidated financial statements' section in which management states that the going concern assumptions made for the recognition and measurement as well as the going concern status of NORD/LB are subject to material uncertainty and in particular are based on

- the intended measures to strengthen the capital at the level of NORD/LB being implemented, completed and approved by all relevant stakeholders, in particular by the state parliaments of Lower Saxony and Saxony-Anhalt as well as by Deutscher Sparkassen- und Giroverband e.V., such that the regulatory capital ratios and buffers as well as thresholds are again complied with in future,
- the banking supervision, in particular the European Central Bank, the German Federal Financial Supervisory Authority [BaFin] and the German Bundesbank tolerate the shortfall of regulatory minimum capital ratios until the date of completion of the intended measures to strengthen the capital at NORD/LB level,
- all regulatory approvals required for implementation, in particular from the EU Commission and the responsible banking supervision, are issued and
- the realignment of the business model and the intended restructuring measures are implemented according to plan.

If the intended measures to strengthen capital at NORD/LB level are not implemented as planned, this may result in the resolution of NORD/LB. In such a case or in the event of a rating downgrade or other adverse developments, significant outflows of short-term funds may be triggered and the funding options of NORD/LB could be fundamentally limited.
It is also required that the necessary acceptance be given by market participants and other relevant stakeholders for the successful transformation of NORD/LB's business model.
As stated in the comments in the combined management report in the 'Events after the reporting date as well as statements on the entity's ability to continue as a going concern' section and in the notes to the consolidated financial statements in the 'Principles for the preparation of the consolidated financial statements' section, the events and circumstances described indicate the existence of material uncertainties which may raise significant doubts regarding the Bank's ability to continue as a going concern and represent going concern risks within the meaning of Section 322 (2) sentence 3 of the German Commercial Code [HGB]. Our opinions have not been modified with respect to this matter.

Key Audit Matters in the Audit of the Consolidated Financial Statements

In addition to the matters described in the 'Material uncertainty about the entity's ability to continue as a going concern' section we have identified the matters described below as key audit matters which must be communicated in our independent auditor's report.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Calculation of fair values for financial instruments using valuation models

For the accounting policies of NORD/LB applied, please refer to note 12 'Financial instruments according to IFRS 9 and note 59 'Fair value hierarchy' in the 'General disclosures' section in the notes to the consolidated financial statements.

THE CONSOLIDATED FINANCIAL STATEMENT RISK

The consolidated financial statements contain financial instruments measured at fair value for which there are no observable market prices. This concerns in particular derivative assets held for trading (EUR 4,219 million), derivative liabilities held for trading (EUR 3,327 million) as well as bonds and other fixed-income securities that are required to be measured at fair value through profit or loss (EUR 1,353 million). It also relates to deposits and securitised liabilities designated at fair value through profit or loss in the amount of EUR 6,685 million. In addition, bonds and other fixed-income securities measured at fair value through other comprehensive income amount to EUR 12,318 million. The fair values of these financial instruments are calculated based on recognised valuation methods. The selection of the valuation models and their parametrisation is in part subject to judgement. For our audit it was therefore of particular significance that appropriate valuation models or inputs are not used for the calculation of fair values and changes in fair value and that, due to improper measurement of the relevant financial assets and liabilities, the balance sheet items assets held for trading, liabilities held for trading, financial assets required to be measured at fair value through profit or loss, assets at fair value through other comprehensive income as well as financial liabilities designated at fair value through profit or loss are in this respect not measured in accordance with financial reporting requirements.

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:

First, we gained a comprehensive understanding of the development of the relevant financial instruments, the associated risks and the internal control system with regard to the measurement of the relevant financial instruments.

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 our measurement specialists to conduct surveys and gain insight into relevant documents. After carrying out this test of design, we assessed the effectiveness of specific established controls using tests of operating effectiveness.

One focus of the tests of controls was to establish whether the models were validated when introduced as well as regularly or on an ad hoc basis, irrespective of the trading or business areas. Using sampling in the course of tests of operating effectiveness, we assessed whether the validations were appropriately performed and documented and whether the implemented valuation models as well as the inputs incorporated for the respective product are suitable and appropriate. Furthermore, we audited the monitoring of measurement of the relevant transactions performed by a department that is independent of the trading or business area using inputs obtained from third parties.

With the involvement of our valuation specialists we carried out a re-evaluation for a selected group of products based on materiality and risk aspects. In addition, we performed analytical audit procedures to add further detail to our risk assessment taking account of the assurance already obtained from other substantive audit procedures and randomly selected additional products for re-evaluation from the remaining population.

Inputs observable in the market were used for the re-evaluation where possible. We then compared the results of our re-evaluation with the figures determined by NORD/LB.

OUR OBSERVATIONS

The derivative assets and liabilities held for trading, the bonds and other fixed-income securities required to be measured at fair value through profit or loss, the deposits and securitised liabilities designated at fair value through profit or loss as well as bonds and other fixed-income securities measured at fair value through other comprehensive income for which no prices are observable in the market, are measured on the basis of appropriate models in compliance with the applicable accounting policies. The Group's inputs underlying the measurement are appropriate.

Calculation of specific loss allowances on loans and advances to customers from ship financing

For the accounting policies of NORD/LB applied, please refer to note 14 'Risk provisioning according to IFRS 9' in the 'General information' section in the notes to the consolidated financial statements.

THE CONSOLIDATED FINANCIAL STATEMENT RISK

NORD/LB operates in the ship financing business. Owing to the continued challenging market environment in commercial shipping and how this may potentially impact the value of shipping loans, the financial performance and the capital adequacy of NORD/LB, the Bank further specified the strategic reduction of non-performing shipping loans in the reporting year. Exposure at default (EAD) for non-performing shipping loans designated for this reduction amounted to EUR 7.5 billion as at 31 December 2018.

NORD/LB is planning a portfolio transaction with an external investor for a sub-portfolio with an EAD of EUR 2.6 billion and is now bound by contract to dispose of this sub-portfolio. Furthermore, an internal workout unit for an additional part of the shipping loan portfolio designated for reduction with an EAD of EUR 3.8 billion is planned to be established as principal course of action. A downsizing plan by way of individual sales is being developed for the remaining part of the shipping loan portfolio designated for reduction with an EAD of EUR 1.1 billion.

NORD/LB applied the new financial reporting standard IFRS 9 Financial Instruments for the first time at the beginning of financial year 2018. One of the main new developments of IFRS 9 is that the measurement of loss allowances for expected credit losses is generally based on probability-weighted scenarios, and consequently this also applies to debt instruments with a deterioration in credit quality (stage 3 loss allowances/specific loss allowances).

Determining the number and nature of scenarios, deriving the cash flows expected in each scenario and estimating the probabilities of occurrence require considerable judgement. Therefore, it was of particular importance for our audit that the number of scenarios considered was consistent with the complexity of the conditions determining the individual credit risks. We also considered it important that the selection of specific scenarios, estimates of probabilities for each scenario and estimates of cash flows expected in each scenario were verifiably and objectively justified and consistently performed and documented.

OUR AUDIT APPROACH

Using a risk-based audit approach, we based our audit opinion on both control-based audit procedures and substantive audit procedures. Consequently, we carried out the following audit procedures among others:

First, we gained an overview of the development of the shipping markets, an insight into the development of the Bank's shipping loan portfolios, the associated credit risks, the methods used to determine specific loss allowances and the internal control system with regard to the calculation of specific loss allowances for shipping loans. Furthermore, we assessed the effects on the financial reporting as at 31 December 2018 based on interviews and meetings with management, by inspecting management's and supervisory board's meeting minutes and based on the review of documentation on the external exposure reduction of shipping loan portfolios. To assess the appropriateness of the internal control system in respect of the calculation of specific loss allowances for ship financing, we conducted interviews and inspected the written rules of procedure.

We then verified the implementation and effectiveness of relevant controls intended to ensure the appropriate determination of specific loss allowances in accordance with the accounting principles. For the IT systems deployed for this purpose, we verified the effectiveness of the IT application controls performed with the involvement of our IT experts.

Based on these findings, we also assessed for the sub-portfolios whether the number and nature of the scenarios used as well as the probabilities assigned to these scenarios were appropriate. In doing so, we took into account the complexity of the respective loans and the factors likely determining further exposure to risk and considered whether the assumptions underlying the scenarios were consistent with the forecasts of general macroeconomic conditions and the estimates of expected sales proceeds, takeover prices or expected amounts realised used by NORD/LB.

We then assessed the cash flows derived for the scenarios including the payment dates assumed and verified the calculation of the necessary risk provisioning.

OUR OBSERVATIONS

As a result of the audit approach described for the shipping loan portfolio designated for reduction with an EAD of EUR 7.5 billion, we found that the selection of specific scenarios, estimates of probabilities for each scenario and estimates of cash flows expected in each scenario have been verifiably and objectively justified and consistently performed and documented.

Other Information

Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.
Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.
In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibility of Management 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 that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group.

In addition, management is responsible for such internal controls as they have determined 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, management is responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives 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 as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 this combined management report.
We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of 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 opinions. 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 controls relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to 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 by management and the reasonableness of estimates made by management and related disclosures.
- 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 the auditor's 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 respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able 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 present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and

on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective 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 the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the 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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation
We were appointed as group auditor by the Supervisory Board on 13 April 2018. We were engaged by the Chairman of the Supervisory Board on 3 August 2018. We have been the group auditor of NORD/LB without interruption since the financial year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagment is Mr Volker Bormann.

Hanover, 10 April 2019
KPMG AG
Wirtschaftsprüfungsgesellschaft

signature Wiechens
Wirtschaftsprüfer
[German Public Auditor]

signature Bormann
Wirtschaftsprüfer
[German Public 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.

Hanover / Braunschweig / Magdeburg, 2 April 2019
Norddeutsche Landesbank Girozentrale

The Managing Board

Bürkle Dieng Dr. Holm

Schulz Tallner

Further Information

Country-by-Country-Reporting in accordance with §26a of the German Banking Act as at 31 December 2018

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 profits and losses (in € million)	Received public aids
Germany	1 100	5 504	-2,082	-283	–
China	4	25	-1	0	–
UK	33	62	11	-4	–
Luxembourg	51	178	2	0	–
Singapore	46	79	-3	0	–
USA	68	75	28	-10	–

	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
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Provider of financial services	Germany	Pullach i. Isartal
Deutsche Hypothekenbank (Actien-Gesellschaft)	Bank	Germany	Hanover
First Fleet Rita UG (haftungsbeschränkt) & Co. KG	Other company	Germany	Bremen
Fürstenberg Capital Erste GmbH	Other company	Germany	Fürstenberg
Fürstenberg Capital II. GmbH	Other company	Germany	Fürstenberg
GBH Beteiligungs-GmbH, Oldenburg	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
MS "Arian" Schiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Elsfleth
MS "Mistral Strait" UG (haftungsbeschränkt) & Co. KG	Other company	Germany	Bremen
MS "Tammo" Schiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Elsfleth
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	Singapur
NORD/FM Norddeutsche Facility Management GmbH	Other company	Germany	Hanover
NORD/LB AM ALCO	Other company	Germany	Hanover
NORD/LB Leasing GmbH	Financial services institution	Germany	Oldenburg
NORD/LB Luxembourg S.A. Covered Bond Bank	Bank	Luxembourg	Luxemburg-Findel
NORD/LB Objekt Magdeburg GmbH & Co. KG	Provider of financial services	Germany	Pullach i. Isartal
NORD/LB, SICAV-RAIF S.C.Sp. - Aviation 1	Other company	Luxembourg	Luxemburg
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG	Other company	Germany	Bremen
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG	Other company	Germany	Bremen
"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
Titan Tankschifffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
TLN Beteiligung Anstalt des öffentlichen Rechts & Co KG	Finance company	Germany	Hanover

The average return on capital is -1.5 per cent. This is calculated from the earnings after tax and the total assets in the IFRS consolidated financial statements as at 31 December 2018.

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 2018)

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)
Christoph Dieng
Christoph Schulz
Günter Tallner

General Representatives
Carsten Hünken
Olof Seidel

Registered Office of the Bank
Hanover (Head Office)
Friedrichswall 10
30159 Hanover

Braunschweig
Friedrich-Wilhelm-Platz
38100 Braunschweig

Magdeburg
Breiter Weg 7
39104 Magdeburg

Development Banks
Investitionsbank Sachsen-Anhalt
Domplatz 12
39104 Magdeburg

Landesförderinstitut Mecklenburg-Vorpommern
Werkstraße 213
19061 Schwerin

Branches in Germany
Hanover Branch
Georgsplatz 1
30159 Hanover

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 Munich

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
https://www.deutsche-hypo.de/en/about-us

Branches of Braunschweigische Landessparkasse
www.blsk.de

Investments
https://www.nordlb.com/nordlb/about-us/investments/

caplantic GmbH
Waldstraße 1
30163 Hanover

Deutsche Hypothekenbank
(Actiengesellschaft)
Osterstraße 31
30159 Hanover

Finpair GmbH
Friedrichswall 10
30159 Hanover

KreditServices Nord GmbH
Friedrich-Wilhelm-Platz
38100 Braunschweig

LBS Norddeutsche Landesbausparkasse Berlin-Hannover
Kattenbrookstrift 33
30539 Hanover

Nieba GmbH*
Friedrichswall 10
30159 Hanover

* with investment holding
DekaBank Dt. Girozentrale
Mainzer Landstraße 16
60325 Frankfurt am Main

NORD/FM Norddeutsche Facility Management GmbH
Breite Str. 10
30159 Hanover

NORD/LB Leasing GmbH
Markt 12
26122 Oldenburg

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

Öffentliche Sachversicherung Braunschweig
Öffentliche Lebensversicherung Braunschweig
Theodor-Heuss-Straße 10
38122 Braunschweig

Toto Lotto Niedersachsen GmbH
Am TÜV 2+4
30519 Hanover

Supervisory Board of Norddeutsche Landesbank
(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
CEO
OstseeSparkasse Rostock

Edda Döpke
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Frank Doods
Secretary of State
Lower Saxony Ministry for Environment, Energy and Climate Protection

Dr Jürgen Fox
CEO
Saalesparkasse

Astrid Hamker
Business Consultant

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 Braunschweig

Ludwig Momann
CEO
Sparkasse Emsland

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
CEO
OstseeSparkasse Rostock

2nd Deputy Chairman
Frank Bannert

District Administrator
Saalekreis District

State of Lower Saxony
Ulrich Böckmann
Assistant Head of a Government
Ministry of Finance Lower Saxony

Doris Nordmann
State Secretary
Ministry of Finance Lower Saxony

State of Saxony-Anhalt
Michael Richter
State Secretary
Ministry of Finance Saxony-Anhalt

Heinrich Heine
Assistant Head of a Government
Ministry of Finance Saxony-Anhalt

Saxony-Anhalt Savings Banks Holding Association
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CEO
Saalesparkasse

Special Purpose Holding Association of the Mecklenburg-Western Pomerania Savings Banks

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Kreissparkasse

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KKH Kaufmännische Krankenkasse

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Ostdeutscher Sparkassenverband

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Sparkasse Mecklenburg-Schwerin

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CEO
Kreis- und Stadtsparkasse Münden

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Minister
Ministry of Finance Saxony-Anhalt

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CEO
Salzlandsparkasse

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Sparkasse Osterode am Harz

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Deputy Chairman
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Helmstedt District

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Reinhold Hilbers
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President
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State Chancellery Lower Saxony

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Conductor of Ministry Department
Lower Saxony Ministry of Finance

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Ministry of Finance Saxony-Anhalt

Angela Schürzeberg
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CDU parliamentary group in the Lower Saxony state parliament

Dirk Toepffer
Parliamentary Chairman
CDU parliamentary group in the Lower Saxony state parliament

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Lower Saxony Association of Cities and Municipalities

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Office of Regional Development, Braunschweig

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Farmer

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Bauernverband Mecklenburg-Vorpommern e.V.

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Graduate Engineer agr Doris Schröder
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Management Spokesperson
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State Secretary
Saxony-Anhalt Ministry for Environment, Agriculture and Energy

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Günter Günnemann
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Kreissparkasse Syke

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J. Heinr. Kramer Holding GmbH & Co. KG

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Jürgen Lange
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Sparkasse Scheeßel, Zweckverbandssparkasse

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Sparkassenverband Niedersachsen

Ekkehart Siering
State Councillor
The Senator for Economics, Labor and Ports

Gert Stuke
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Oldenburgische Industrie- und Handelskammer

Henning Thiele
Chief Financial Officer (CFO)
Diersch & Schröder GmbH & Co. KG

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Baugrund Bau- und Grundstücksgesellschaft mbH Co. Bauträger KG

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PHW-Gruppe / Lohmann & CO. AG

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Mayor of Braunschweig

1st Deputy Chairperson
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District Administrator
Holzminden District

2nd Deputy Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

Members

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Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Gerald Heere
Bündnis 90/Die Grünen Lower Saxony

Frank Hildebrandt
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

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Mayor of Salzgitter

Thorsten Köster
Chairman CDU Council Group

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Deputy Managing Director
ver.di Vereinte Dienstleistungsgewerkschaft

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Helmstedt District

Stefanie Rieke
Bank Employee
Saxony-Anhalt Development Bank

Christiana Steinbrügge
District Administrator
Wolfenbüttel District

Glossary

Amortised Cost
Amount at which financial assets or liabilities are measured at 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.

Backtesting
Method for monitoring the quality of value-at-risk models, which compares the losses calculated using the value-at-risk approach retrospectively with the losses actually incurred.

Business Model for Financial Assets
Financial assets are aggregated and allocated to an IFRS 9 business model that meets their economic objectives. IFRS 9 provides for the three possible business models “hold”, “hold and sell”, and “do not hold”.

Cash Flow Criterion for Financial Assets
All financial assets must be assessed with regard to the cash flow criterion to what extent the contractual cash flows of the financial asset contain exclusively unleveraged interest and principal payments.

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 which will be 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
Valuation method where investments 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 that can, for example, be calculated for the bank's credit portfolio on the basis of the avaliable loss data. Depending on the risk provision classififcation, the present value of the expected losses is determined over 12 months or over the remaining term of the financial instrument.

Fair Value
The price that would be obtained in an ordinary transaction between market participants at the measurement date when an asset is sold or a liability is transferred.

Financial Assets at Fair Value through Other Comprehensive Income
Non-derivative financial assets of the business model "hold and sell" are assigned to this category if at the same time the cash flow criterion is met. In the case of subsequent valuations, the result from the fair value measurement is reported under other comprehensive income (OCI).

Financial Assets at Fair Value through Profit or Loss
This category is divided into three sub-categories: "Trading assets", "Financial assets mandatorily at fair value through profit or loss", and "Financial assets designated at fair value through profit or loss". The financial assets of this category are measured at fair value through profit or loss as part of the subsequent valuation.

Financial Assets and Liabilities Designated at Fair Value through Profit or Loss
All financial assets or liabilities that would otherwise be measured at amortised cost or at fair value through profit or loss can be allocated to this sub-category known as the fair value option. The prerequisite for this is that the use of the fair value option avoids or significantly reduces the recognition and measurement mismatches arising from different valuation methods.

Financial Assets and Liabilities Measured at Amortised Cost
Non-derivative financial assets of the "hold" business model are allocated to this category on the assets side if the cash flow criterion is also met. On the liabilities side, this category includes in particular liabilities to banks and customers, securitised liabilities and subordinated capital to the extent that these liabilities have not been designated for the fair value measurement under the fair value option.

Financial Assets Mandatorily at Fair Value through Profit or Loss
This sub-category comprises financial assets that are either assigned to the "do not hold" business model without being held for trading or that do not meet the cash flow criterion regardless of the business model.

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.

Financial Liabilities at Fair Value through Profit or Loss
This category is divided into two sub-categories: "Trading liabilities" and "Financial liabilities designated at fair value through profit or loss".

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 (in the case of hedging currency risks) non-derivative financial instruments which are expected to produce a fair value or cash flows to compensate for changes in the fair value or cash flow of a designated underlying transaction.

Hedged Underlying Transaction
Financial assets or liabilities, firm commitments, expected and highly probable future transactions or net investments in foreign entities that expose the entity to the risk of a change in fair value or future cash flows and that are designated as part of an effective hedge relationship.

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.

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.

Modification
As a part of modification of existing fiancial instruments (e.g. in the case of restructuring), qualitative and quantitative criteria are used to check whether the cash flows of the financial instrument are subject to a matarial change as a result of the modification and whether the disposal criterai of IFRS 9 are met.

Other Comprehensive Income (OCI)
Other comprehensive income includes all income and expenses of the reporting period that are not recognised in profit or loss. Together with the income and expenses recognised in profit or loss (income statement), it is part of the statement of comprehensive income. The cumulative other result is reported in a separate equity sub-item.

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
Within the framework of securitisations, recceivebales are bundled and, if necessary, transferred to a special purpose entity that refinances itself by issuing securities.

Stress Test
Method that models the effects of unscheduled but plausible possible events.

Trading Assets
Financial assets acquired with the attention of selling them in the near term and derivative financial instruments that are not hedging instruments in an effective hedging relationship.

Trading Liabilities
Financial liabilities entered with the intention of repurchasing them at short notice as well as derivative financial instruments that are not hedging instruments in an effective hedging relationship.

“Three-Stage-Model” of Risk Provisioning
The impairment model according to IFRS 9 stipulates that credit-rating-induced losses are not only recognised when there is objective evidence of impairment, but also upon initial recognition after addition on the basis of an expected loss model. The financial assets are allocated to one of three stages. Depending on the classification, the present value of the expected losses is determined over the next 12 months (stage 1) or over the remaining term of the financial instrument (stages 2 and 3). Default loans are assigned to stage 3.

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 chosen confidence level.

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 NORD/LB 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 2018 reporting year were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. The audits have each resulted in an unqualified audit opinion with a separate section on the material uncertainty associated with the continuation of the business. The auditors also took part in the meetings of the Supervisory Board to discuss the annual report, which were held on 1 April 2019 and 18 April 2019, 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 18 April 2019 the Supervisory Board adopted NORD/LB AöR's annual report for 2018 and approved the consolidated financial statements for 2018. The Supervisory Board also recommended to the Owners' Meeting to discharge the Managing Board.

Left the Supervisory Board:

as at 25 March 2018	Ms Dr Elke Eller
as at 25 March 2018	Ms Antje Niewisch-Lennartz
as at 31 August 2018	Mr Norbert Dierkes

The following were newly delegated to the Supervisory Board:

as at 26 March 2018	Ms Astrid Hamker
as at 26 March 2018	Mr Frank Doods
as at 1 September 2018	Mr Dr Jürgen Fox

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 2018.

Hannover / Braunschweig / Magdeburg

April 2019

Reinhold Hilbers
Minister of Finance
State of Lower Saxony

Report of the Owners' Meeting

In the year under review the Owners' Meeting took over the tasks imposed on it by the State Treaty and the Articles of Association. The Owners' Meeting discharged the Managing Board and the Supervisory Board.

Furthermore, in its meetings in 2018 the Owners' Meeting consulted mainly on the capital resources of NORD/LB.

The following left the Owners' Meeting:

as at 14 June 2018	Mr Dr Ingolf Lange
as at 22 August 2018	Mr Norbert Dierkes
as at 24 October 2018	Mr Rolf Christiansen

The following were appointed to the Owners' Meeting:

as at 30 October 2018	Mr Dr-Ing Alexander Badrow
as at 23 August 2018	Mr Dr Jürgen Fox
as at 19 June 2018	Mr Heinrich Heine

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the Bank's employees for their work.

Hanover / Braunschweig / Magdeburg
April 2019

Thomas Mang
President
Sparkassenverband, Lower Saxony

Our annual and interim reports are available for download at www.nordlb.de/reports.

For questions about the reports, please contact our Investor Relations department.
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Email: info@nordlb.de

Branches (including Braunschweigische Landessparkasse)

Bad Harzburg	Braunschweig	Bremen
Düsseldorf	Hamburg	Helmstedt
Holzminden	Magdeburg	Munich
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