Hanover, Braunschweig, Magdeburg

Annual Report 2019

NORD/LB at a Glance

Income Statement	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018[1)] (in € million)	Change (in %)
Net interest income	1 024	1 229	– 17
Net commission income	71	52	37
Profit/loss from financial assets at fair value	201	– 282	> 100
Risk provisioning	29	– 1 893	> 100
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	– 30	31	> 100
Profit/loss from hedge accounting	22	9	> 100
Profit/loss from shares in companies	17	1	> 100
Profit/loss from investments accounted for using the equity method	20	21	– 5
Administrative expenses	970	999	– 3
Other operating profit/loss	45	– 57	> 100
Earnings before reorganisation, restructuring and taxes	**429**	**– 1 888**	**> 100**
Restructuring result	– 341	– 133	> 100
Reorganisation expenses	118	86	37
Earnings before taxes	**– 30**	**– 2 107**	**– 99**
Income taxes	39	297	– 87
Consolidated profit	**– 69**	**– 2 404**	**– 97**

Key figures	1 Jan. - 31 Dec. 2019 (in %)	1 Jan. - 31 Dec. 2018 (in %)	Change (in %)
Cost-Income-Ratio (CIR)	71.7%	99.5%	– 28
Return-on-Equity (RoE)	-0.5%	-34.1%	– 99

Balance sheet figures	31 Dec. 2019 (in € million)	31 Dec. 2018[1)] (in € million)	Change (in %)
Total assets	139 619	154 012	– 9
Financial liabilities at amortised costs	115 487	133 483	– 13
Financial assets at amortised costs	104 215	114 041	– 9
Equity	5 838	3 362	74

Regulatory key figures	31 Dec. 2019	31 Dec. 2018[1)]	Change (in %)
Common equity tier 1 capital (in € million)	5 792	2 976	95
Tier 1 capital (in € million)	6 108	3 380	81
Tier 2 capital (in € million)	2 162	2 307	– 6
Own funds (in € million)	8 270	5 687	45
Total risk exposure amount (in € million)	39 840	44 895	– 11
Common equity tier 1 capital ratio (in %)	14.54%	6.63%	> 100
	20.76%	12.67%	
Total capital ratio (in %)	4.13%	2.02%	> 100

[1)] For individual items, the previous year’s figures have been adjusted, see Note (5) Restatement of previous year’s figures.

Minor deviations 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,

The review of the 2019 financial year is shaped by the important steps we are taking towards the future of NORD/LB. This refers primarily to the capital measures introduced at the end of the year, which enabled the bank's capital ratios to once again significantly exceed the regulatory requirements. At the same time, we were also working with our old and new owners to develop a mission statement for NORD/LB, which we aim to achieve by 2024. We therefore named the transformation programme launched last year "NORD/LB 2024".

We have set ourselves several ambitious goals. In order to achieve them, the new NORD/LB will be significantly leaner and more efficient than it is at present. We already began the necessary restructuring measures some time ago and this process will also shape the years ahead. We have set aside significant provisions for the transformation, which has affected the bank's profits accordingly. In the financial year 2019, earnings before tax were € -30 million. The consolidated profit after taxes was at € -69 million. A welcome development was the fall in administrative expenses, which already reflects the initial success of our transformation process.

The last financial year also saw us make some major progress in the reduction of non-performing loans from ship financing. As at the end of 2019, the total ship loan portfolio amounted to just € 4.6 billion. This portfolio has since been broadly cleared of risks.

The capital strengthening the reduction in ship risks, and the initial success of our transformation process should provide us with a tail wind for the challenges that lie ahead. The rating agencies have already responded positively to this progress. Following the upgrade to our long-term rating by Moody's at the beginning of 2020, all of NORD/LB's key ratings are investment gradagain. All of this will help us to achieve our actual goal: to continue to support our clients as a reliable partner.

On behalf of myself and my colleagues from the Managing Board, I would like to thank our clients and business partners for their loyalty. We are also grateful to our owners, who have worked extremely hard for NORD/LB, particularly over the past year. I would particularly like to thank all of my colleagues at NORD/LB, who have always shown a great commitment and professionalism, even during the tougher times.

Kind regards,

Thomas S. Bürkle

Chairman of the Managing Board of NORD/LB Norddeutsche Landesbank

Reinhold Hilbers

Finance Minister of Lower Saxony and

Chairman of the Supervisory Board of NORD/LB, Hanover

Introduction by the Chairman of the Supervisory Board

Dear reader,

The 2019 financial year was a year full of challenges and new beginnings for NORD/LB. In December, the former Bank's owners and the Savings Banks Finance Group provided NORD/LB with a capital injection. After checking the intended measures in advance, the EU Commission had already declared them as "state-aid free" and therefore cleared the way for the increase in capital. A key factor in the approval by Brussels was the good past performance by the many successful business units that will form the basis of the Bank's business model in future.

NORD/LB is now able to once again concentrate on its particular strengths: Financing the economy and, in particular, small- and medium-sized enterprises in northern Germany. Together with the Sparkassen, NORD/LB is the leading financing partner for corporate customers. Its knowledge of structured financing, particularly project financing for renewable energy, makes it one of the most important players both nationally and internationally.

There is no denying that the entire banking sector is facing major challenges. In particular, the consistently low interest rates, intense competition and the digitalisation process call for adjustment and change. For this reason, NORD/LB will continue to make every effort to prove its sustainability for the future. This includes further reductions to its total assets, some HR adjustments and a significant improvement to the cost-income-ratio.

NORD/LB is well positioned on the market and will continue to build on old strengths. At the same time, it is set to become more resistant to crisis and less exposed to risk. I am therefore very confident that the Bank will succeed in becoming profitable over the long term and will thus return to a position that allows it to pay dividends.

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

Günter Tallner
Corporate Customers, Corporate Finance, Treasury, Markets plus Sachsen-Anhalt Investment Bank and Sachsen-Anhalt Relationship

Christoph Schulz
Chairman of the Managing Board of the Braunschweigische Landessparkasse (BLSK)
Private and Commercial Customers, Private and Commercial Customers at BLSK, Corporate Customers at BLSK, Savings Bank Network, Real Estate Banking Customers, BLSK Retail Controlling, BLSK Relationship plus member of Regional Managing Board for Bremen/Oldenburg

Thomas S. Bürkle
Chairman of the Managing Board
Office of the Managing Board/Communications/Investments, Legal, Group Organisation/HR, Auditing, Aircraft Finance, Structured Finance, Credit Asset Management plus UK Relationship with London branch

Olof Seidel
Business Management & Operations, Bank Management and Finances, Group IT, NORD/LB 2024 Programme, Compliance, and Asia Relationship with Singapore and Shanghai branches

Christoph Dieng
Credit Risk Management, Strategic Portfolio Optimisation, Special Credit Management, Risk Controlling, Research/Economy, Mecklenburg-Vorpommern Landesförderinstitut, Mecklenburg-Vorpommern Relationship and American Relationship with New York Office

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Combined Management Report

The management report for NORD/LB Norddeutsche Landesbank Girozentrale (hereinafter referred to as: NORD/LB or Bank) has been combined with the management report for the NORD/LB Group to provide greater clarity as per Section 315(5) of the German Commercial Code (HGB) in conjunction with Section 298(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.

Since the business activities of the NORD/LB Group are largely characterised by the business activities of NORD/LB AÖR, the information provided for the Group also applies to the individual institute. Separate explanations are provided in the event of significant deviations from the Bank.

NORD/LB Group – Basic Information

Business Model

NORD/LB is a public-law institution with legal capacity. The Bank is owned by the holding companies for the Federal State of Lower Saxony, the Federal State of Saxony-Anhalt, the Savings Banks Association of Lower Saxony (hereinafter abbreviated as: SVN), the Holding Association of the Savings Banks of Saxony-Anhalt, the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania, and the Saving Banks Finance Group's security system with two trust companies FIDES Gamma GmbH and FIDES Delta GmbH.

The share capital amounts to € 2,835 million, 52.98 per cent of which is held by Lower Saxony, 6.98 per cent by Saxony-Anhalt, 9.97 per cent by SVN, 1.99 per cent by the Holding Association of the Savings Banks of Saxony-Anhalt, 1.38 per cent by the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania, 13.35 per cent by FIDES Gamma GmbH and 13.35 per cent by FIDES Delta GmbH.

NORD/LB is a commercial bank, Landesbank (federal state bank) and central bank for the savings banks based in Hanover, Braunschweig and Magdeburg and operates 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.

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

- Private and Commercial Customers
- Corporate Customers
- Markets
- Savings Bank Network Customers
- Energy and Infrastructure Customers
- Ship Customers/Maritime Industries Customers
- Aircraft Customers
- Real Estate Banking Customers

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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 unit 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.

Within the NORD/LB Group, NORD/LB acts as the parent company, which manages all business activity in line with the strategic targets. 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.

Control Systems

The control systems used for the 2019 financial year are described below. 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 the end of each quarter and year, with utilisation of early warning and restructuring thresholds. Internal reporting processes also include an integrated control and restructuring cockpit.

Another key control tool is the annual strategy and planning process, which includes the following key steps: At the beginning of the planning process, 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. However, the planning process was abandoned in 2019; the plans for 2020 onwards are covered by the business plans submitted to and accepted by the EU Commission as part of the state aid proceedings.

At Group level, the Common Equity Tier 1 ratio is one of the most important indicators of performance. The leverage ratio and the absolute quantities required to calculate these key figures are also included in the control system. The primary objective is to ensure adherence over the long term to the defined internal objectives and all regulatory requirements.

Common equity tier 1 capital ratio	Common equity tier 1 capital as per CRR/total risk amount
Leverage Ratio	Tier 1 capital/leverage exposure

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 the Group and its segments:

Earnings before taxes	As shown in the income statement
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
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
Return-on-Equity (RoE)	Earnings before taxes / Long-term equity under commercial law Long-term equity under commercial law = reported equity - OCI - earnings after taxes

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.

The superordinated 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.

A detailed description is found in the Risk Management section.

Asset quality is assessed on the basis of the asset's exposure in default as a share of NORD/LB's total exposure (non-performing loan ratio), and also with the help of the risk ratio, in which risk provisioning is offset by the total risk exposure amount plus the shortfall equivalent.

Arrows are used to show trends in the following sections. The table below shows the meanings of the different arrow directions.

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

Risk Management

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

The Group risk report includes parts of the NORD/LB Group's qualitative risk reporting as per the Capital Requirements Regulation (CRR) insofar as they are supplementary to requirements under commercial law. However, more extensive regulatory reporting is provided in a separate disclosure report published on the NORD/LB website (http://www.nordlb.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. Material companies are included in risk reports at individual risk type level 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. These include the parent company NORD/LB (public-law institution, AöR) and the subsidiaries

- Deutsche Hypothekenbank (Actien-Gesellschaft) and
- NORD/LB Luxembourg S.A. Covered Bond Bank.

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 risks, and additional explanations are provided as appropriate through a separate report in connection with investment risk.

The process of 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.

Taking into account the Basel principles for effective risk data aggregation (BCBS 239), risks are reported according to the management approach, i.e. internal and external risk reports are essentially based on the same terminology, 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 so that it is able to react in a timely and suitable manner to special situations. External risk reports have an additional area of focus in the Bank's compliance with legal requirements.

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.

According to Section 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 Section 2a (1) in the version of the German Banking Act applicable at this time. The prerequisite for this purpose is the control and profit/loss transfer agreement concluded for an indefinite period between Deutsche Hypo and NORD/LB.

In 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 Section 2a (1) and 2 KWG in conjunction with Art. 7 (3) CRR.

Strategies

Handling risks responsibly is the top priority in the NORD/LB Group’s business policy. The formulated Group risk strategy provides the strategic framework and is superordinate to 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.

NORD/LB employs the RACE model (Risk Appetite Control Engine) to identify and assess risk-bearing capacity in a standardised manner across the Group. As a control instrument for the entire bank, RACE is also the operational process used to control and limit material risks. In combination with the set escalation procedures the RACE 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 RACE model is based on the assumption of a going concern. The going concern concept is ensured, for example, by the exclusion of AT1 (additional tier 1 capital plus tier 1 capital) and T2 (tier 2, additional) capital from the economic risk coverage assets. The normative perspective is managed according to the goal of adhering to all internal and external capital requirements over a time period of three years. This goal incorporates economic risk potential by means of a projection of P2R (Pillar 2 Requirement) requirements.

Operative management and limitation of risks classified as material take place on the basis of the quantitative limit system. Determinations of the risk strategy regarding the risk appetite and allocation of internal risk capital to material risks are monitored in internal reports and translated for the operations level by means of traffic light statuses.

Operative risk management is implemented on a decentralised basis at the NORD/LB companies with material relevance. For this purpose, companies in the NORD/LB Group of material relevance have established organisational structures and processes and also have a variety of additional instruments available which ensure adequate transparency concerning the risk situation and which make the necessary limitation and portfolio diversification controllable and monitorable.

Structure and Organisation

The Managing Board of NORD/LB AöR is responsible for risk management within the NORD/LB Group. It approves decisions regarding the Group risk strategy and then reports these to the Supervisory Board of NORD/LB AöR. The Group risk strategy was regularly reviewed and amended during the reporting year.

The responsible Chief Risk Officer (CRO) of NORD/LB is responsible for drawing up and monitoring the Group risk strategy in consultation with the heads of the Market departments. The corresponding CRO is responsible at individual institute level.

NORD/LB's Risk Controlling division is responsible for updating and developing the Group-wide RACE model, monitoring compliance with the Group risk strategy on a continuous basis and for regularly reviewing the specific features of the individual institutions.

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 following committees are also involved in risk management at the NORD/LB Group.

- **Risk Management Methods Board:** This committee develops and approves 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. The Direct Report for Credit Risk Management (Direct Report = Head of Division) is responsible for business management. The permanent voting members are the CRO and the Chief Operating Officer (COO) of NORD/LB, plus the Direct Reports for Risk Controlling, Credit Risk Management, Special Credit Management, Strategic 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 for Research/Economy and Compliance/Group Security at

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 performs an integrated assessment of all risk types at the NORD/LB Group, taking the entire 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 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 DRU (direct reporting unit) Credit Asset Management chairs the Credit-ALCO meetings. Further permanent members include the head of Credit Markets, the Chief Risk Officer and the Direct Reports for Credit Asset Management, Corporate Customers, Maritime Industries (since December 2019 SPO – Strategic Portfolio Optimization), 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.
- **One Bank ALCO**: The One Bank ALCO is an advisory committee for the members of the Managing Board responsible for the Financial Markets units in the NORD/LB Group and deals with issues related to the planning and market positioning of the ALCO portfolio. In general, the One Bank ALCO serves to manage market price and liquidity risk positions along with the investment portfolio with the aim of optimising profitability at NORD/LB Group level. The NORD/LB Chief Financial Officer (CFO) is responsible for chairing the meeting. Other permanent members from NORD/LB with voting rights are the Chief Clients/Product Officer for Financial Markets, the managing director of One Bank ALCO, and the heads of the Treasury, Bank Assets, Allocations, and Markets divisions. Representing Deutsche Hypo, the head of the Financial Markets department and the head of the Treasury are entitled to vote. NORD/LB Luxembourg is represented by the member of the Managing Board responsible for Financial Markets and the head of the Financial Markets division. From NORD/LB, the Chief Risk Officer (CRO), the heads of the Risk Controlling, Finances/Bank Control, Research, Credit Asset Management divisions and the head of the Financial Controlling department are entitled to vote on an ad-hoc basis, as well as the members of the Braunschweigische Landessparkasse (BLSK) Managing Board. Furthermore, guests may be invited to attend the meetings as required while individual agenda items are discussed. Every member of the NORD/LB Group Managing Board is entitled to participate in One Bank ALCO meetings as a guest.
- **Other Advising Committees:** The Managing Board is supported by other committees that advise in specific areas. These include, for example, the Risk Round Table (issues related to operational risks, governance and compliance), and the Recovery Plan Committee for issues related to the recovery plan.

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 system. 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 Internal Audit’s activities complement those of the subsidiaries’ Internal Audit units. The focus is on assessing the areas of 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 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.

Reporting

In the quarterly risk situation report, Risk Controlling provides the Managing Board of NORD/LB with comprehensive information about the risk situation. The report is also made available to the Risk Committee of the Supervisory Board. The information is also incorporated into the joint quarterly reports published by Risk Controlling and Financial Controlling (the Finance and Risk Compass). A more regular, compressed report regarding the risk situation is issued to the Managing Board as part of the “Monthly KPI Cockpit for NORD/LB”.

Risk-bearing capacity model (RACE Model)

As a core element of risk strategy monitoring, the RACE (Risk Appetite Control Engine) model is used for the regular quantitative comparison

- of period-end capital ratios with the required capital ratios (the normative perspective) and
- the risk potential (from 31. December on cash value as defined by the requirements from the ICAAP (Internal Capital Adequacy Assessment Process) guidelines) from key risks with the capital available to cover the risks (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 aim is the assessment and securing of capital adequacy from various perspectives.

According with the ECB Guideline for ICAAP Principle 3, the normative perspective and the economic perspective are implemented in RACE as follows:

Implementation in RACE	Normative perspective	Economic Perspective
Risk potentials	Measurement according to CRR: - Counterparty risk - market price risk - Operational risk - CVA Risk - Settlement Risks Note: the liquidity risk is mapped using the Liquidity Coverage Ratio (LCR).	Counterparty risk: Fair Value view Market price risk: Complete present value measurement including all credit spread risks of tradeable positions Liquidity risk: Liquidity progress review over the entire term Operational risks: Loss distribution approach
Risk-covering capital	Differentiated consideration according to CRR: - CET1 capital - core capital - total capital	CET1 capital plus hidden burdens and dynamic modification items

Following the implementation of the capital measures, the approach for determining internal capital within the economic perspective was adapted in view of the ECB Guide in January 2020. The derivation is made on the basis of the stated capital (CET1- (Common equity tier 1)) (including silent charges and dynamisation positions) whilst taking into account minimum regulatory requirements. A total of 80 per cent is defined as available limit capital; the remaining 20 per cent serves as reserves for covering other risks. In turn, approx. 80 per cent of this limit capital (currently € 3,500 million) is provided as a limit and represents the risk appetite in the closer sense. This limitation below the maximum possible limits corresponds to the bank’s move towards a lower risk profile.

The interaction between the normative and economic perspective required in the ECB’s ICAAP Guide is implemented into operations by means of projecting the P2R requirements (beyond the planning horizon for medium-term planning) into 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 internal and external constraints. Within the optimisation process, the risk-by-risk assessment is carried out, compliance with the minimum regulatory capital requirements is taken into account, and compliance with internal risk strategy requirements is ensured. During the optimisation process, the economic risk potential is simulatively steadily increased. This triggers two 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 projection).

The RACE model's methodological structure is binding across the Group. Deviations by individual institutions (e.g. when parametrising 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.

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 the strategy, concentrations were deliberately entered into within the credit risk and sub-category of address risks (borrower, state and industry level) and market risk (credit spread risks and interest change risks) of the banking book. 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 the 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 Section 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 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 means 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 transactions involve a 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. Furthermore, credit risk also incorporates wrong-way risk, which results from a positive correlation between the likelihood of the counterparty defaulting and the risk arising from the financial instrument in question.

Strategy

The lending business and the management of credit risks represent a core competence for the NORD/LB Group that is to be constantly enhanced and expanded. Different customer groups and products are diversified on account of the NORD/LB Group's strategic 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 and counterparties below the aforementioned 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 to the extent that they improve (regional) portfolio diversification in the Bank's current business segments or increase 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 sustainably developed business model provides the Bank with every opportunity to offer innovative products and thus respond to customers' needs and make the most of market opportunities in a risk-aware manner. Further goals are to serve customers' needs as best as possible, to improve NORD/LB's risk-adjusted profitability on an ongoing basis, to detach earnings growth from RWA growth as much as possible, and to safeguard the Bank's funding and liquidity.

As part of the implementation of the ECB guidelines for distressed loans, which went into effect when it was published in March 2017, the NORD/LB Group developed a non-performing loans (NPL) strategy. For its NPL strategy, all of the Bank's strategic business areas were analysed with regard to their specific NPL ratio. A dedicated portfolio reduction strategy is being developed for any strategic business area with a considerably high NPL ratio (above 4.5 per cent). As in the previous year, this only affected the ship finance portfolio in 2019; all other business areas remained unobstrusive in this regard. The latest update to the NPL strategy took place in May 2019. One part of the implementation of the capital measures in December 2019 was the acceptance of three guarantees by the state of Lower Saxony to protect certain credit portfolios, including the ship finance portfolio. The strategic priority is to accelerate the reduction of the NPL ship portfolio within the responsibility of the SPO division (Strategic 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. The valuation of real estate and structured financing transactions, including the definition of the collateral value, takes place in 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 relating to the size of the credit exposure. On the basis of a multi-stage reporting system, the division also prepares sector portfolio reports on selected sub-segments at regular intervals.

In the case of risk-relevant exposures, credit decisions, including contract documentation and the management of existing credit, are always implemented by the BMO division (Business Management & Operations) in collaboration with the market division and Structured Credit Management (SCM). For structured finance, the respective market division and SPO are exclusively responsible for these tasks.

The Credit Portfolio Management organisational unit (OU), 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.

The SCM division handles non-performing exposures or exposures requiring restructuring at NORD/LB with the exception of ship financing, financial institutions, asset backed securities (ABS) and corporate bonds. The separate Strategic 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, 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 the reorganisation officer. 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 the exposure will be transferred 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 example, for low-risk business.

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. This approach therefore meets the regulatory requirement for the functional separation of credit approval votes. For renovation and settlement commitments (SCM) and commitments that are the responsibility of SPO, the first and second votes (unilateral competency) were provided by these back office divisions.

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

Above a certain volume (as defined in the current table of authorisations), decisions are taken by the Managing Board or the Risk Committee 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 overall portfolio level, the related reporting system and for the methodology of procedures related to the economic estimation of counterparty risk. The Bank Control/Finances division is responsible for the regulatory reporting system.

Risk management at NORD/LB Luxembourg is based on the concepts used at NORD/LB. 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 conforms to uniform Group standards. The second vote for credit transactions is arranged by the Credit Risk Management (CRM) Back-Office division. Exposures needing turnaround are looked after by Structured Credit Management in Deutsche Hypo. Monitoring of Deutsche Hypo’s risks at portfolio level is undertaken by Risk Controlling at Deutsche Hypo.

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 scenario is used. When an exposure moves into liquidation, valuation uses a goneconcern 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. Other collateral can be contracted with the borrower, but this does not reduce the unsecured part of the exposure.

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 jurisdictions are monitored on a permanent basis. International law firms are employed to help with this area in foreign jurisdictions.

Control and Monitoring

To assess counterparty 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 mainly developed in various cooperation projects conducted by the savings banks and Landesbanks. Individual modules are 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 an 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.

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 loss rates into account. 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 debt instruments, loan commitments and financial guarantees (provided they are not recognised in the balance sheet at fair value through profit or 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.
- 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 parameters input are exposure at default (EaD), probability of default (PD), loss given default (LGD) and a discount rate. As an IRBA institution, NORD/LB mainly uses rating procedures developed in cooperation with other banks. These are, firstly, the rating modules from the 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 monthly for each financial instrument. For each credit data set, the expected credit loss over 12 months (12m ECL) and lifetime expected credit loss (LECL) are calculated.

The parameters for calculating the ECL as regularly assessed with regard to their adequate allowance of macro-economic, future-oriented information and updated as required. 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 scenarios, which represent a baseline, downside and upside scenario in each case, contain forecasts at country level for NORD/LB's most relevant markets and cover the following macro-economic variables: unemployment rate, GDP (gross domestic product), CPI (consumer price index), the benchmark index for shares, short-term interest rates, long-term interest rates and the exchange rate for the national currency to the US dollar. The over-arching variable of the oil price is also taken into account. In a documented meeting, NORD/LB Research determines the scenarios to be examined (expert assessment) and their probability of occurrence are also defined. 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.

At stage 3, risk provisioning for the non-retail business is calculated as the expected loss over the remaining term of the financial instrument. The identification process is performed by experts based on loss scenarios and their likelihoods of occurrence. The specific valuation allowance is quantified based on the difference between carrying amount and recoverable amount as the present value of all expected cash flows. This estimate is made for at least two 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. restructuring concepts of the borrowers) or subject to fluctuation (e.g. collateral values). This increases the uncertainty of estimates in respect of key parameters for loan loss provisions. Assumptions made undergo regular review and are adapted to changes in circumstances as necessary.

For the retail business, i.e. for transactions with a commitment up to € 1.5 million, the risk provisioning in stage 3 is calculated using a parameter-based method based on the statistical variables PD, LGD and EaD. The probability of default, i.e. the credit risk parameter PD, is always set to 100 per cent in these cases.

Transfer between stages

For drawing a distinction between stage 1 and stage 2, the relevant criterion is a significant deterioration in credit quality. This is assessed at each measurement date using quantitative and qualitative criteria as described in more detail below.

The quantitative criterion for significant deterioration is measured by comparing the initially anticipated 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 standards including 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 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 takes place (see below), 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. For financings, the deferral of interest and/or principal payments, concessions – in particular the granting of restructuring loans to support the borrower's liquidity – and the risk of insolvency are normally significant indications of impairment. 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 legal definition of default was chosen to ensure that the internal rating procedure based on it would be recognised by the regulator. This is used consistently within NORD/LB to ensure credit risks are measured and managed consistently. The method for transfer between stages implemented at NORD/LB is symmetrical. If a default as defined in Article 178 CRR does not take place 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.

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.

If receivables are assessed as having no value, they are irrecoverable and must be derecognised. The write-off must take place within the reporting period in which the receivable is classified as irrecoverable. Receivables that have been terminated and interest reduced to zero are, for example, classified as irrecoverable if, even though payments are still being made, they are so small and unlikely to increase significantly so that recovery cannot be expected within a reasonable period (e.g. ten years). Similary, the receivable is to be written off in the event of a waiver declared to the debtor or if a court approved settlement offer is accepted. Further criteria depend on the credit portfolio.

If there is a contractual amendment to a financial asset that is not classified as a substantial modification within the meaning of IFRS 9, it must be assumed an increased risk default continues to apply for financial instruments under impairment stage 2. As such, it cannot automatically be concluded that the risk of default has reduced due to the modification. Instead, a check must be made as to whether a significant deterioration in credit quality still applies.

This is done by comparing the default risk for 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 rendered all due payments fully and punctually for a sufficiently long period before a reduction in default risk can be assumed. Only then it is 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 (purchased or originated credit impaired) 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 particular when determining the probability of default (rating), 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.

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

Reporting

The Risk Controlling division is responsible for assessing the risk situation as part of the Report on the Risk Situation. This report also includes a presentation and analysis of other material structural features and parameters for managing the credit portfolio. It is submitted to the Managing Board every quarter, with additional details for individual sub-segments provided in the Finance and Risk Compass and industry portfolio reports from Credit Risk Management. This reporting process is complemented by a monthly KPI Cockpit.

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).

The Risk Controlling division at NORD/LB Luxembourg prepares a monthly overall risk report.

Deutsche Hype also prepares a quarterly risk report. This provides the Managing Board and Supervisory Board with in-depth 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.

Strategy

NORD/LB has an investment portfolio that was built up over time and contains 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 and redimensioning process, the Bank is aiming to focus on its core business, reduce redundancies within the Group, simplify processes and reduce complexity while adhering to objectives under the capital-strengthening measures. The Bank's priority is reflected in the investment strategy. Here the main objective 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 NORD/LB's investment strategy is to protect and improve the strategic business segments' market position and support the development of investments so that they can support the Bank's business model.

The investment portfolio is primarily managed to generate value while adhering to the Group's objectives. This process is based on the concept of value-oriented investment management, which requires both selected investments to be actively managed and also requires active management to take place at portfolio level (identification of potential candidates for sales and selective portfolio additions). 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/Strategy/M&A OU in close cooperation with other divisions, particularly the divisions of Risk Controlling and Bank Control/Finances. Domestic and foreign investments are monitored centrally by the Investments/Strategy/M&A OU. The two major investments at NORD/LB, Deutsche Hypo and NORD/LB Luxembourg, had no equity investments as at 31 December 2019. Information relating to equity investments is managed by the Investments/Strategy/M&A OU with the support of the Bank Control/Finances division.

The analysis by the Investments/Strategy/M&A OU 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 Group 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 or 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 Investments/Strategy/M&A OU 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 the strengths and weaknesses of significant and important investments.

The Report on the Risk Situation and the Finance and Risk Compass also include quarterly reports on material and significant investments. Furthermore, this information is incorporated into the Bank's controlling and planning processes by having the investments transfer their earnings forecasts prepared at the end of each quarter and the current calendar's income and expenses from investments to be recorded as income to the Bank Control/Finances division. NORD/LB's Managing Board receives a monthly report on the profit/loss and profitability of the NORD/LB Group's largest investments consolidated under commercial law.

Market-Price Risk

Market-price risk describes 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.

Strategy

NORD/LB Group's activities in respect of market-price risks focus on selected markets, customers and product segments. Its positioning on the money, foreign exchange and capital markets is based on the Group's significance and size, and also on customer demand and support from overall Bank management. The NORD/LB Group does not engage in positioning beyond the scope just described.

Trading activities relating to customer business focus on interest products.

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 in the economic perspective:

- 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, currency risks and volatility risks taken as part of interest-rate and liquidity risk management.
- The third block contains 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. Under the global head function, the trading divisions are also responsible for the trading activities of the foreign offices in London, New York, Singapore and Shanghai. Trading transactions are processed and monitored in separate divisions. Management of market-price risks is supported by NORD/LB Group’s One Bank ALCO.

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. While market-price risk in the economic perspective (previously known as the Resolution Case) is calculated and measured using a present value approach, the aim of the earnings-oriented approach (previously known as the Business Case) 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 economic perspective with modelling of pension and assistance commitments, and also the earnings-oriented approach that considers net interest income over the next 12 months and the measurement effects from credit spreads and exchange rates. The risks in the “Central Valuation Effects (IFRS)” are also managed using a fair value-based present value approach. 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. Furthermore, CVA risks and loans recognised at fair value are also particularly relevant in block three.

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 (EaR) limits.

The limits for market-price risk are measured in such a way so that they support the activities related to 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 One Bank ALCO. The risks in block three are limited indirectly by RBC limits at 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 month, 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 that have taken place since 2 January 2008 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 back-testing analyses. These involve comparing the daily change in value of the respective portfolio with the previous day's VaR. There is a back-testing 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.

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. The standard process is applied for all remaining risk types and for Deutsche Hypo and NORD/LB Luxembourg.

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 NORD/LB Group companies of material relevance, the local Risk Controlling units, which are independent of the divisions managing the positions, submit daily reports to the relevant department head regarding market-price risks in the “Trading and Investments” block (exception: Deutsche Hypo submits reports on the market risk resulting from syndication positions on only a monthly basis), submit at least weekly or monthly reports regarding market-price risks in the “Treasury and Bank Management” block, and submit monthly reports regarding market-price risks in the “Central Valuation Effects (IFRS)” block (exception: Deutsche Hypo does not report on these positions as it does not prepare single entity statements under IFRS).

The NORD/LB Managing Board is informed about NORD/LB Group’s market-price risks on a quarterly basis in the Report on the Risk Situation and the Finance and Risk Compass. Furthermore, an in-depth monthly report regarding interest-rate risks is submitted to the Managing Board in the banking book.

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 may be market disruptions, e.g. delayed/defaulted payment flows from market participants, and the lack of ability to correctly estimate one’s own intraday liquidity situation at any time so that the Bank can 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 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 the costs of 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.

NORD/LB Group's liquidity policy defines the business principles for liquidity risk management. 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 One Bank 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 liquidity buffer as per MaRisk BTR 3.1 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 represents 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 three 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 sub-categories (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. Additionally, the Managing Board and other recipients within Risk Controlling receive daily information via e-mail regarding traditional liquidity risks in a dynamic environment.

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 One Bank ALCO, which convenes each month.

NORD/LB's largest customers in the deposit business are also monitored regularly. The corresponding report is made available on a quarterly basis via the Finance and Risk Compass and the Report on the Risk Situation.

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;
- consideration 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 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). 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.

The annual integrated self-assessment involves surveys by the second line of defence in the form of data collection. 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 incorporated into the internal OpVaR model.

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 Report on the Risk Situation and the Finance and Risk Compass), while information on material risks is reported immediately. 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.

Staff are made aware of risks during face-to-face and online training courses and ad-hoc informational events. "Lessons Learned" from previous cases play a special role here.

Management cycles have been implemented for IT and security risks. The aim of these cycles is to ensure that internal and external threats are detected quickly and can be actively managed. In the IT division, measures including procedural instructions, spare capacity and back-ups support the stability of the IT infrastructure. Security concepts and contingency plans supplement precautionary measures to prevent losses resulting from the failure or manipulation of applications and information.

HR risks are tackled with an HR strategy which aims to safeguard human resources that are of an adequate quantity and quality. Personnel shortfall related to time-critical processes form part of the contingency planning process.

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 the specialist divisions.

The quality of external suppliers and service providers is ensured by a service provider management concept. For significant outsourcings, a quarterly risk assessment takes place using defined risk indicators.

NORD/LB uses insurance policies. 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 regarding

- The correctness and reliability of external accounting
- Compliance with legal regulations that are relevant for NORD/LB and the
- Assurance of the effectiveness and efficiency of 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 Bank Control/Finances DRD 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 contain 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 quality assurance.

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 within the warning range impact the models. The model's parameters are validated on a regular basis and subjected to 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 possible source of reputational risk. It refers to the risk that financial support is provided to an unconsolidated entity under stress when no contractual obligation for such an occurrence is in place or the financial support exceeds the existing contractual obligation. The main reason for 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 through ongoing dialogue and the safe management of risky transactions
- recognise early and reduce arising and existing reputational risk
- securely manage reputational risk that has arisen

Management

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

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

- Financing principles
- Guidelines which direct and govern the economic, environmental and social aspects of business (ESG guidelines, sustainability guidelines)
- Guidelines for external communication
- Overall guidelines to prevent money laundering, the financing of terrorism and other criminal offences (fraud) as well as to ensure 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 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.

In parallel with the continuous, cross-divisional exchange of reputation-related information, NORD/LB has an early-warning system that is continually reviewed. Findings related to reputational risk are incorporated into the regular GOC reporting process (Governance, Operational Risk, Compliance).

Economic Report

General Economic and Industry-Specific Environment

Global Economic Environment

Global economic growth fell noticeably during 2019.

Economic momentum also remained weak in the euro area in 2019. Gross domestic product (GDP) expanded in real terms by a quarterly growth rate of just 0.1 per cent during the fourth quarter, resulting in an annual change rate of 1.2 per cent for real GDP for 2019 as a whole. One positive impact came from the sustained if slightly slower fall in unemployment and the matching rise in employment. At the mid-point of the year the unemployment rate fell to 7.6 per cent. Very low consumer price inflation of just over 1.0 per cent year on year also had a positive effect on the rise in disposal income in real terms. Adjusted for special effects, investment rose at only a moderate rate.

The German economy experienced a clear cooldown in 2019. Compared with the same period in the previous year, real GDP rose by just 0.6 per cent in the first half of the year compared with the previous year. Based on the indicators available, NORD/LB expects a growth rate of 0.6 per cent for the year as a whole.

In NORD/LB's view, Brexit and the negotiations between the USA and China were the key issues having an impact on the global economy in 2019. Capital market returns unexpectedly plunged during periods of 2019. German government bonds with a ten-year residual term reached a new record low in early September at almost -0.75 per cent. Yields across the rest of Europe also tightened. Returns on government bonds began to recover slightly at the end of the year. The European Central Bank reduced the rate for the deposit facility and began a new purchase programme with a volume of € 20 billion in the autumn. The DAX ended the year on 13 249 points and thus grew by 25 per cent over the whole year. Yields on government bonds rose. For example, the yield on a German 10-year sovereign bond increased to -0.19 per cent and yield on a 10-year US Treasury bond rose to 1.92 per cent. The US dollar ended the year on EUR/USD 1.1213. The EUR/USD basis swap spread narrowed over the year in all maturities to -10 to -15 basis points.

Finance Sector

From NORD/LB's perspective, the European banking sector has managed to significantly improve credit quality on the basis of regulatory requirements, effective non-performing loan strategies and successful restructuring. The good economic growth to date, falling unemployment, low interest rates and good performance by the real estate markets over the past four years also helped bring about this improvement. Capital ratios have also been increased or maintained at good and stable level.

In our opinion, the ECB's very loose monetary and interest policies were influential factors in the flattening out of swap and yield curves. As a result, it is becoming increasingly difficult for banks to generate income from traditional interest earning operations, which is leading to a decrease in net interest margins. Instead of responding to this environment by adjusting the business model (net interest profits still make up around 60 per cent of total earnings), NORD/LB believes that banks are compensating for lower interest margins by expanding their total volumes, particularly in higher risk segments. High costs are leading to weaker profitability in the European banking sector.

Shipping

In 2019, the industry was focused on the intensifying trade war between the USA and China, and also on the impending IMO 2020 regulations (measures from the International Maritime Organisation (IMO) to reduce maritime pollution). During the course of the year, global economic growth forecasts were revised downwards, particularly in light of the increasing tensions.

While trade in the container sector slowed down, heavier fluctuations did not become apparent until the final quarter of the year. While freight rates exhibited more of a sideways tendency, the charter market remained strong, even in the last three months of the year. The introduction of a new upper limit for sulphur content in fuel resulted in increased demand for retrofit measures. Because investments pay off more quickly with larger ships, tonnage was thinned out in the upper sub-segments with equivalent positive effects on demand in the charter market. This was reflected in higher rate levels.

In the bulker sector, demand began to rise in the summer after a slump in global iron ore production at the start of the year caused by external shocks. While China's overall steel production rose in 2019, it dropped significantly in the final quarter of the year. The country's iron ore imports remained below the previous year's levels. Customs disputes had a negative effect on soya trade while coal transport was adversely affected by China's emissions requirements. This resulted in another drop in the Baltic Dry benchmark index at the end of the year. A positive side effect of the lower rate level was the rise in scrappage in 2019.

The tanker sector initially benefited from the heightening geo-political tensions. In particular, the USA's sanctions against Iran were accompanied by restrictions placed on Chinese fleets, which also reduced access to retrofit measures. The introduction of an amended fuel supply to the industry also resulted in positive sentiment in the crude oil and product tanker sector. The further reduction to oil production, which was announced by the OPEC+ states in early December, then placed further strain on the sector, as did economic concerns. The combination of high delivery rates and low scrappage rates had an apparent impact. However, the low number of new orders in the tanker sector was regarded as positive.

Aircraft

According to the calculations of the International Air Transport Association (IATA), global passenger numbers (RPK, revenue passenger kilometres) increased by 4.2 per cent year-on-year in 2019. Although global economic growth was weaker, demand remained reasonably strong. The growth rates were 4.1 per cent for international traffic and 4.5 per cent for domestic traffic. Overall, there were only moderate differences between traffic developments in the individual regions.

The number of freight tonne kilometres (FTK) sold fell by 3.3 per cent year-on-year in 2019. International trade conflicts led to only weak growth in global trade and were one of the main reasons for the decline in the volume of air freight. This figure fell particularly sharply in the Asia/Pacific region, which is heavily dependent on global trade; in comparison to the previous year, volumes decreased by 5.7 per cent.

Real Estate

The European commercial real estate market experienced growth on the whole in 2019. NORD/LB believes that this was mainly driven by factors including the ongoing fall in interest rates. Transaction volumes in the European countries observed were very heterogeneous. While the transaction volume in the United Kingdom fell by around 26 per cent to about € 49.4 billion in 2019 compared with the previous year, the Spanish commercial real estate market recorded an increase of around 38 per cent in its transaction volume to around € 14.4 billion. Germany built on these developments in 2019 with yet another record-breaking year for investments. With a transaction volume of around € 91.3 billion, 2019 was the best year of all time on the German real estate investment market (compared with around € 79.0 billion in 2018). With a share of around 40 per cent of the total German transaction volume, office buildings remained the most highly-sought-after asset class, as was the case in the previous year. With a transaction volume of around € 52.6 billion (previous year: € 46 billion), the Big 7 (Berlin, Dusseldorf, Frankfurt/Main, Hamburg, Cologne, Munich and Stuttgart) continued to make up the majority, which now amounts to around 58 per cent.

Significant Events in the Financial Year

Regulatory Requirements regarding Minimum Capital

On 31 January 2019, the Saving Banks Finance Group's institutional protection scheme declared that the Bank was in need of support. As a result, the owners and the Bank concluded a notarised comprehensive agreement regarding an increase in capital at NORD/LB with the German Savings Banks Association (DSGV) on 21 June 2019. In this agreement, the parties approved the material underlying legal conditions for a capital injection with a long-term capital effect amounting to a total of around € 3.6 billion and the long-term restructuring of the Bank. Based on the comprehensive agreement, the old owners, new owners and the Bank held in-depth negotiations regarding the details of the capital injection in the second half of 2019.

The final regulations were set down in what is termed the support contract, which was agreed by the parties on 17 December 2019. The support contract contains, inter alia, material regulations on the corporate governance of the Bank, dividend distributions, capital strengthening through a combination of a capital increase in cash and risk-mitigating measures, the information and monitoring rights of the DSGV, restructuring and rehabilitation of the Bank and on ending the support measures when the stipulated targets have been achieved.

The increase in cash capital by means of a contribution of € 2.8 billion by the old and new owners and the resulting change to the shares in the ownership of NORD/LB is broken down as follows:

	subscribed capital (in € Million)	**ratio (in %)**
Niedersachsen Invest GmbH (NIG)[1]	1 276	45.00
Hannoversche Beteiligungsgesellschaft Niedersachsen mbH[1]	226	7.98
Land Niedersachsen[2]	0	0.00
Land Sachsen-Anhalt	198	6.98
Sparkassenverband Niedersachsen	283	9.97
Sparkassenneteiligungsverband Sachsen-Anhalt	57	1.99
Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern	39	1.38
FIDES Gamma GmbH[3]	378	13.35
FIDES Delta GmbH[3]	378	13.35
Gesamt	**2 835**	**100.00**

[1] NIG and Hannoversche Beteiligungsgesellschaft Niedersachsen mbH act for the state of Lower Saxony.
[2] The state of Lower Saxony directly holds subscribed capital in the amount of € 1,000.59.

In addition to the cash capital increase of € 2.8 billion, the support contract also sets out various risk-mitigating measures with a total effect of up to € 800 million to strengthen the Bank's capital:

- Sale of the Bank's holding in Fürstenberg Holding GmbH to NIG as an investment company attributable to the state of Lower Saxony following transfer of the Bank's holding in Toto-Lotto Niedersachsen GmbH and the porcelain manufacturer Fürstenberg GmbH through a transfer or spin-off agreement for a total purchase price of € 150 million.

- Granting of three guarantees by the state of Lower Saxony to protect specific loan portfolios from the Ship Customers/Maritime Industries Customers and Aircraft Customers segments with effect from the date of execution of the support contract. For the Ship Customers / Maritime Industries Customers segment the guarantees cover a ship finance portfolio with nonperforming loans in the amount of approximately € 1.5 billion to hedge the net carrying amount of € 1.0 billion maximum and a further portfolio with performing loans to protect the gross carrying amount totalling € 1.7 billion. For the Aircraft Customers segment, a portfolio with a gross carrying amount of around

€ 1.8 billion was secured. The guarantee amounts referring to the hedging of gross carrying amounts derive from the original loan amounts in the foreign currency.

- The support agreement also provides for the bank to be indemnified against risks in connection with any increased health benefits paid by NORD/LB to its pensioners and employees up to an amount of € 200 million, guaranteed by the state of Lower Saxony.

On 29 November 2019, NORD/LB received confirmation from the responsible banking supervisory authorities that the capital instruments meet the requirements for Common Equity Tier 1 and also received the responsible banking supervisory authorities' permission to class these capital instruments as Common Equity Tier 1 instruments. This permission was tied to conditions, the fulfilment of which was demonstrated by NORD/LB on 23 December 2019. After the final package of documents (support contract including appendices and explanatory documents regarding the business plan and guarantee contracts) were first submitted to the European Commission, the Commission then confirmed the state aid conformity of the planned measures on 5 December 2019.

Following approval by the Managing Board, the owners and the parliaments in Lower Saxony, Saxony-Anhalt and Mecklenburg-West Pomerania, the cash capital contributions entered NORD/LB's account on 23 December 2019, which marked the execution of the capital measures and the entry into force of the amended statutes.

With the deposit of the capital and its acknowledgement by the supervisory authorities, the material requirements for leaving the reorganisation phase have been met. From the time of the deposit, all requirements related to minimum capital have been met. The Managing Board, on the recommendation of the Recovery Plan Committee, therefore agreed on 21 January 2020 to the transition from the rehabilitation phase to the early warning phase.

Explanation of the Impact of the Guarantee Contracts on the Balance Sheet

Through the three guarantee contracts, the state of Lower Saxony assumes the unconditional, irrevocable and unsubordinated guarantee to protect against the risk of losses for certain ship and aircraft financing portfolios on behalf of Norddeutsche Landesbank Girozentrale and NORD/LB Luxemburg S.A. Covered Bond Bank from the completion date 23 December 2019.

Each of the guarantee contracts covers one reference portfolio from the Ship Customers / Maritime Industries Customers segment and the Aircraft Customers segment with ship and aircraft loans including the associated customer derivatives and a number of credit commitments, letters of credit and overdraft facilities. The total amount up to which the state of Lower Saxony will guarantee payment obligations is limited on an individual basis for each contract. The guaranteed performing loan portfolio in the Ship Customers / Maritime Industries Customers segment covered transactions with a protected net book value of around € 0.9 billion. The guarantee for the performing loans portfolio involves a reference portfolio with a gross carrying amount of € 1.4 billion plus contingent liabilities of approximately € 0.4 billion as at the reporting date. The guarantee contract to hedge a sub-portfolio in the Aircraft Customers segment refers to an initial gross carrying amount of around € 1.7 billion plus loan commitments of approximately € 150 million.

Based on the guarantee contracts, payment claims in the amount of the anticipated loss vis-à-vis the state of Lower Saxony will arise upon occurrence of one or more guarantee cases. The guarantee cases cover the following circumstances:

- Shortfall resulting from amounts not rendered in full or in part on the due date
- Capital reduction caused by contractual reduction of the nominal amount owed without a corresponding equalisation payment and/or

- Loss resulting from early repayment of capital amounts or a negative market value in the event of an early sale of a customer derivative.

In NORD/LB's consolidated balance sheet, the guarantee agreements are reported as credit derivatives and at fair value because, regarded on an individual basis, they do not fulfil the requirements in applicable accounting standards for the definition of a financial guarantee. Under consideration of the item-by-item approach, the derivatives cannot be used in the balance sheet as collateral to reduce risk provisioning for the transactions included in the hedged portfolios. Consequently, all transactions in the guarantee portfolios remain subject to risk provisioning and ongoing fair value measurement, even after conclusion of the guarantee contracts. The hedging effects of the derivatives are visible at the level of the NORD/LB Group's income statement by means of the compensating recognition of the guarantee portfolios' offsetting measurement effects generated by the hedged risks (changes to risk provisioning and fair value) and the change in value in the subsequent periods. In this respect, the compensation effect may be postponed to later periods during the guarantees' terms due to differences in the measurement methods. This relates solely to temporary differences as the market value of the derivatives approaches the final settlement amount over the term of the respective guarantee; this settlement amount corresponds to the sum of all of the guarantors' contractual payments resulting from the guarantee cases.

In return for granting the guarantees, NORD/LB pays the state of Lower Saxony a commission for each one. In the case of the guarantee for the NPL portfolio, this is determined on a variable basis as a percentage of the decreasing guarantee amount within the scope of the portfolio wind-down and is calculated every month. For the other guarantees, a fixed guarantee charge is defined, which must be paid in fixed quarterly instalments.

The guarantee contracts end at the earliest at the time at which the respective guarantee portfolio is fully wound down and all pending payment obligations have been settled (variable end of term), or on 31 December 2024 (fixed end of term, does not apply for the NPL portfolio guarantee). The earliest point in time applies for each guarantee contract. The fixed end of term can be extended by a further year within the first ten working days of a year, insofar as there are inconsistencies between the residual term of the guarantee contracts and the secured receivables. The extension option was utilised for the first time in 2020.

Regulatory Requirements regarding Minimum Capital

According to Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation, 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 capital buffer. 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 reporting year 2019, 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 ("Pillar 2 Requirement", or P2R).

In addition, in 2019 the Bank was required to maintain a combined capital buffer of around 3.6 per cent, comprising the statutory capital buffer of 2.5 per cent, an institution-specific anti-cyclical buffer weighted for all lending of around 0.1 per cent and – because it is a systemically important bank – a capital buffer for other systemically important institutions of 1.0 per cent. Overall the individual minimum total capital ratio in 2019 was around 14.1 per cent.

Because both the P2R requirement and the combined capital buffer requirement have to be covered by Common Equity Tier 1 capital, in 2019 the Bank had to maintain an individual Common Equity Tier 1 capital ratio of around 10.6 per cent (= minimum capital ratio pursuant to CRR of 4.5 per cent + an additional requirement of 2.5 per cent + a combined capital buffer requirement of around 3.6 per cent).

The table below shows an overview of the minimum regulatory capital requirements for the NORD/LB Group in the reporting year 2019:

(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)	2.50%	2.50%	2.50%
Countercyclical capital buffer (§ 10d KWG)	0.10%	0.10%	0.10%
Capital buffer for otherwise system relevance (§ 10g KWG)	1.00%	1.00%	1.00%
Total requirement	**10.60%**	**12.10%**	**14.10%**
31 Dec. 2019	**14.54%**	**15.33%**	**20.76%**

In addition to the minimum equity ratios, the responsible EU authorities also specify a minimum MREL (Minimum Requirement for Own Funds and Eligible Liabilities) ratio for NORD/LB at Group level for the resolution of credit institutions and investment firms (SRM). 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 (Bank Recovery and Resolution Directive, BRRD) to hold as a buffer for losses and recapitalisation in the event resolution is required. The minimum MREL ratio for NORD/LB was 8.0 per cent in the reporting year 2019: this is obtained by dividing equity and MREL eligible liabilities by the sum of equity and all liabilities.

Change in Regulatory Capital Ratios and the MREL Ratio plus Capital-Boosting Measures

The regulatory requirements regarding capital valid for 2019 were not achieved apart from the disclosures for November. The measures to strengthen the Bank's capital were implemented as planned on 23 December 2019. NORD/LB met the minimum regulatory capital ratios at Group level as at the reporting date (for details see note (68) in the Regulatory Data in the Management Report).

The main driver behind this shortfall during the year was the substantial loss after tax under IFRS in 2018, which under the rules in the CRR wiped out almost all Common Equity Tier 1 capital from 01 January 2019.

To counteract this, the Bank's owners agreed to comprehensive capital and capital replacement measures in the reporting year 2019; these were executed in December 2019 following notification of the European Commission with regard to compliance with the EU state aid regulations, which in turn was followed by an appropriate assessment and approval by the European Commission. This is comprised in particular of an increase in share capital by € 2.8 billion and several financial guarantees, which the state of Lower Saxony issued for some of the Bank's credit portfolios for an amount equivalent to around € 700 million in capital and capital equivalent to around € 100 million from the sale of holdings in Toto-Lotto Niedersachsen GmbH and Porzellanmanufaktur Fürstenberg GmbH to the state of Lower Saxony and a holding company assigned to the state. As a result of these measures, all of NORD/LB's Group-level regulatory capital ratios rose back up to a level that is significantly higher than the corresponding minimum capital ratios. The increase in the leverage ratio by around 2.02 as of 31 December 2018 percent to 4.13 as of 31 December 2019 percent is also due to the measures to strengthen capital.

The MREL ratio in the year under review was only slightly affected by this development, as the major element in the MREL-eligible capital at NORD/LB currently consists of unsecured and unstructured senior bonds and promissory notes issued in the past. NORD/LB comfortably met the minimum MREL ratio both as at the reporting date and during the course of the reporting year 2019.

Servicing and Performance of Capital Instruments

Unlike the slightly negative earnings after taxes reported at Group level according to IFRS, NORD/LB is reporting a significant loss after tax for the reporting year at the individual institution level in accordance with HGB. These negative earnings after taxes in accordance with HGB impact on the servicing and valuation of certain NORD/LB capital instruments.

Instruments that permanently rank as additional Tier 1 capital (Additional Tier 1, AT1) under the CRR will not be serviced from the results for 2019. This is due to insufficient available distributable items according to the relevant contracts.

This has the following negative impact on silent partner contributions:

The negative earnings after taxes according to HGB also caused a net accumulated loss according to HGB on the reporting date. As a consequence, the contractually agreed interest for silent partner contributions will not be paid for 2019. Furthermore, in accordance with HGB, the silent participations as at the reporting date participated contractually in the net accumulated loss according to HGB in accordance with their relative share in all liable equity available on the reporting date. For this reason the carrying amounts of the individual silent participations on the reporting date have been reduced by the amount of their respective share of the loss. Conversely, the amounts arising from the elimination of interest and write-downs were recognised in profit or loss.

The carrying amounts for the silent participations had already been reduced as at 31 December 2018 due to the significant net accumulated loss according to HGB that occurred at that time. The further reduction of the carrying amounts of the silent participations as at the reporting date took place accordingly on the basis of this already reduced level.

IFRS applies a different methodology when the contractual servicing of capital instruments carried as at 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 as at the reporting date. As a result, the valuation of silent partner contributions recorded as debt under IFRS rose slightly at Group level. The changes in value therefore had a slight negative impact on the loss under IFRS for the reporting year 2019.

NORD/LB 2024 Transformation Programme

NORD/LB agreed the basic principles of a new business model with its previous owners, the Saving Banks Finance Group (SFG) and the banking supervisory authorities. This will result in a significant decrease in the size of Bank. Based on the current status, the resulting goal for employee figures by 2024 is around 2,800 to 3,000 active employees. A further aim is to reduce administrative expenses by around € 1 billion to € 625 million per year in 2024.

In order to achieve these targets agreed with the owners and supervisory authorities by 2024, the Bank must undergo a far-reaching, comprehensive transformation with further significant simplification of processes and structures. In view of these conditions, a decision has been made to reorganise the most important banking projects. The two programmes Blossom (recapitalisation and business model of NORD/LB) and One

Bank (optimisation of Group structures and processes) plus some additional content have been transferred to a new joint project structure for transformation. The new programme has been named NORD/LB 2024.

The steering committee for the Transformation Programme has defined a set of guidelines for NORD/LB's realignment and, in particular, for the development of a new business and operating model. The focus is on standardising, automating and centralising processes with the goal of reducing complexity within NORD/LB. The quantitative guidelines include the target variables for administrative expenses, employee numbers and total assets of around € 95 billion to be achieved by 2024. Conceptional, over-arching guidelines form the framework for implementing these targets and incorporating them into operations.

Following the EU's approval of the capital-boosting programme, the programme structure was fine-tuned and is now geared towards the value creation chains in the new business model during the implementation phase.

- Financial markets value added chain
- Retail value added chain (incl. Braunschweigische Landessparkasse and Kreditservice Nord)
- Wholesale value creation chain
- Bank control and data management
- Staff and management functions
- IT (IT platform)
- Foreign branches and subsidiaries

Furthermore, following the positive approval by the EU Commission, the members of the steering committee meeting on 16 December 2019 approved the visions for the future divisions and measures packages due to be implemented in the divisions. Over the coming three years, all target specifications must be underpinned by measures and their realisation must be ensured so that by 2024 all measures are implemented and all targets have been achieved.

NORD/LB 2024 Restructuring Plan

Based on the current project plans, the restructuring measures were planned in further detail, prepared for implementation, and approved by the committees at NORD/LB. These include projects for reducing the workforce, redimensioning NORD/LB, and redesigning the Bank's operational structures.

Based on current plans, the workforce-reduction measures at the NORD/LB Group aim to reduce the number of full-time positions by around 1,850. Including the implementation of the One Bank programme, the number of full-time positions will be reduced to around 2,800 to 3,000 positions. As far as possible, staff reductions are to be implemented on a socially responsible basis. In the year under review, NORD/LB concluded a service agreement with staff representatives, which contains both instruments for early-retirement-style regulations and termination offers. Based on the service agreement and the measures planned for implementing the reduction in employee numbers, NORD/LB's Managing Board has approved a restructuring plan, which sets out the planned workforce reductions by the end of 2023.

Before the savings planned to be achieved under the NORD/LB 2024 programme, additional restructuring expenses will be incurred by the NORD/LB Group. The anticipated restructuring expenses are – for NORD/LB AöR in Germany – taken into account under the restructuring provisions in the consolidated financial statements as at 31 December 2019.

Reduction of the Ship Loan Portfolio

NORD/LB has set itself the goal of reducing the NPL ship portfolio as much as possible by 2021.

As a preparatory measure for a portfolio transaction, the risk provisioning balance was increased to € 1.7 billion as early as the year before for an NPL sub-portfolio with an exposure of € 2.6 billion, enabling this portfolio to be reduced in the first quarter of 2019. On account of this portfolio transaction in the first quarter of 2019 and other individual-exposure-related transactions in the final three quarters of 2019, the NPL exposure in the ship portfolio could be reduced by a total of two thirds in the year under review from the previous level of € 7.5 billion at the end of 2018 to € 2.5 billion.

The risk provisioning balance for the NPL ship exposure of € 2.5 billion remaining at the end of 2019 is now € 1.5 billion (incl. fair-value deductions) after the utilisation of a total of € 3.2 billion in risk provisions in the year under review, which resulted in a coverage ratio of 60 per cent for the remaining NPL ship portfolio (coverage: ratio of risk provisioning to NPL exposure).

With the reduction of the NPL ship exposure by € 5 billion in the year under review, the process is on schedule to wind down the NPL ship portfolio as much as possible by the end of 2021.

Release from Benefit-Related Risks

In accordance with the support contract, the state of Lower Saxony has released NORD/LB from the risk of a provision-relevant rise in costs for benefit obligations to employees. The resulting payment obligations for the State are limited to a maximum of € 200 million compared to the reserves for benefits in place as at 31 December 2018. The payment obligations must be discharged no earlier than the end of year in which the FIDES companies, which became new owners in the year under review, step back as investors in NORD/LB due the completion of the support measure and no later than the end of 2025.

Upon the support contract's entry into force on 23 December 2019, the state of Lower Saxony became obliged to make an initial payment to NORD/LB in the amount of around € 57 million on 31 December 2019. The equivalent receivable is recognised directly in equity in the consolidated financial statements under other comprehensive income (OCI). The amount of the payment obligation changes depending on NORD/LB's total benefit obligations and is updated on the balance sheet date of 30 June and 31 December each year; any differing amounts incurred due to revaluation is also recognised under other comprehensive income. In return for its release from the benefits, NORD/LB is paying the State a one-off commission in the amount of around € 10 million which is due at the start of 2020. In return a commission payment for the expected term is limited starting from 2019. The five-year euro swap rate is applied to the benefits receivable provided the rate is higher than zero per cent. The interest must be paid by the state of Lower Saxony at the end of each year and is not deducted from the maximum amount released. No interest was due in 2019.

External Rating

On 31 January 2019, the ratings agency DBRS Ratings GmbH published a press release about 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 the uncertainty regarding the membership of and support from the joint liability scheme. On 6 January 2020, DBRS confirmed all ratings for NORD/LB as "A", including the long-term issuer rating. The review measure was withdrawn and the trends for all ratings were put back to "positive". This confirmation followed the capital contributions by the Bank's public sector owners and the institutional guarantee from the Sparkassen finance group in December 2019. The intrinsic assessment of "BBB (low)" reflects both the capital increases and the Bank's reduced exposure in the shipping sector based on a mixture of disinvestment, the creation of reserves and guarantees.

On 14 February 2019, the ratings agency Moody’s Investors Service 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 owners’ decisions to focus on a capital-boosting programme and realignment of the Bank jointly with the Sparkassen finance group. On 18 February 2019, the outlook for Pfandbriefs was also changed to review for upgrade. At the end of February 2019, NORD/LB cancelled the rating for its Flugzeugpfandbriefs at Moody’s as it would no longer be needed in future. On 9 January 2020, Moody’s upgraded the long-term ratings and viability rating for NORD/LB, Deutsche Hypo and NORD/LB CBB by two notches. The long-term issuer rating is “A3”, the non-preferred rating (junior senior unsecured) is “Baa2”, the short-term rating of “P-2” was confirmed and Fürstenberg I and II were downgraded to “Caa3(hyb)”. The outlook is stable. The rating action followed the capital measures on 23 December 2019 and the completed and planned measures related to the ship portfolio. On 13 January 2020, the Pfandbrief ratings of “Aa1” were also confirmed and the “Review for Upgrade” was closed.

On 22 February 2019, the ratings agency Fitch Ratings published a “Rating Action Commentary” about NORD/LB: all long- and short-term ratings for NORD/LB were confirmed including the “Rating Watch Negative” from 7 December 2018. Due to the announcement of a loss for the financial year 2018 and the resulting need for capital, the viability rating was downgraded from “bb” to “f”. Following the successful capital increase on 23 December 2019, Fitch confirmed the “A-” long-term issuer default rating for NORD/LB on 3 January 2020, withdrew the rating watch negative (RWN), and gave the rating a “stable” outlook. Furthermore, Fitch raised NORD/LB’s viability rating from “f” to “bb+”.

Brexit

In June 2017, NORD/LB set up a Brexit work group in response to the Brexit result in order to prepare the NORD/LB Group for any changes to its operations and processes.

The Withdrawal Agreement negotiated with the European Union, which was pushed back multiple times, was approved by the British House of Commons, meaning that the United Kingdom left the European Union on 31 January 2020. This agreement does not permit the transition phase to be extended beyond 31 December 2020 without any further legislative amendments. As a result, there is a risk of a hard Brexit at the end of 2020 if no new trade deal is agreed.

In case there is a hard Brexit, NORD/LB and Deutsche Hypo have applied for the temporary permission regime from the Bank of England and received the necessary approval. This ensures that the institutions can continue to act in the scope set out in the current authorisation on a transitional basis. The transitional period ends with the London offices receiving authorisation from the Financial Conduct Authority (FCA). A request from the FCA to submit an application for a third-party office is anticipated in the second quarter of 2020.

Transitional solutions have been implemented or decreed by law for any issues relevant to the NORD/LB Group:

- Central derivatives clearing
- Cover pool eligibility of UK assets (Hypothekenpfandbriefs)
- Visas/work permits for employees at the office in London

The progress of negotiations between the European Union and the United Kingdom is being monitored closely so that the Bank can respond quickly if required. On the whole, no significant effects from Brexit are anticipated for the NORD/LB Group.

Changes in the Composition of the Managing Board

On 6 December 2019, the Supervisory Board of NORD/LB appointed Mr Olof Seidel to the roles of Chief Financial Officer and Chief Operating Officer on the NORD/LB Group Managing Board with effect from 01 January 2020.

Report on the Earnings, Assets and Financial Position

(In the following text the previous year's figures for the period from 1 January to 31 December 2018 are shown in brackets)

Earnings Position

In the reporting year 2019, NORD/LB's earnings position was affected by the restructuring measures, the decrease in total assets, the reduction in the ship portfolio, and the persistently low interest rates.

For the reporting period, the NORD/LB Group recorded **earnings before taxes** of € -30 million, which is significantly lower than the previous year's level.

The income statement figures can be summarised as follows:

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018[1)] (in € million)
Net interest income	1 024	1 229
Net commission income	71	52
Profit/loss from financial assets at fair value	201	– 282
Risk provisioning	29	– 1 893
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	– 30	31
Profit/loss from hedge accounting	22	9
Profit/loss from shares in companies	17	1
Profit/loss from investments accounted for using the equity method	20	21
Administrative expenses	970	999
Other operating profit/loss	45	– 57
Earnings before reorganisation, restructuring and taxes	**429**	**– 1 888**
Restructuring result	– 341	– 133
Reorganisation expenses	118	86
Earnings before taxes	**– 30**	**– 2 107**
Income taxes	39	297
Consolidated profit	**– 69**	**– 2 404**

Key figures	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (in € million)
Common equity tier 1 capital (in € million)	71.7%	99.5%
Return-on-Equity (RoE)	-0.5%	-34.1%
Harte Kernkapitalquote (in %)	14.54%	6.63%
Leverage Ratio (transitional)	4.13%	2.02%

Due to persistently low interest rates on the money and capital markets, decreasing average receivables and the volume reduction in the ship portfolio compared with the prior-year period, **net interest income** decreased by € 205 million to € 1,024 million (€ 1,229 million). European capital market returns stayed on a downward trajectory in 2019.

In particular, the effect of a large ship portfolio transaction, additional shipping sales and the resulting reduction in the portfolio contributed to the significant fall in interest income. On the earnings side, interest income from financial assets at amortised cost fell by € 235 million while interest income from financial assets at fair value through profit or loss decreased by € 207 million. Expenses also decreased. Interest expenses on financial liabilities at amortised cost decreased by € 172 million; the reduction of interest expenses on financial liabilities at fair value through profit or loss is € 143 million.

The contribution from interest-rate conditions on the assets side was adversely affected by the declining credit exposure due to the reduction of the ship finance portfolio. Margins in the credit business are largely stable. Furthermore, the contribution from interest-rate conditions on the liabilities side fell due to factors including the reduced base rate advantages. However, income from interest and liquidity risk management rose due to income from the treasury's positioning.

Net commission income rose compared with the prior-year period and amounted to € 71 million (€ 52 million). Commission income increased by € 7 million, while commission expenses fell by € 12 million. The increase in earnings was primarily the result of a service fee, which was recognised in relation to the further reduction to the ship portfolio. As a result of falling guarantee fees for securitisation transactions, expenses for guarantee commissions were lower than in the previous year. However, this effect was partially compensated for by the fees for the guarantees from the state of Lower Saxony, which were taken into account for the first time.

At € 201 million, **profit/loss from financial assets** at fair value was € 483 million higher than the € -282 million seen in the previous year. The main financial assets at fair value through profit or loss in the amount of € 107 million (€ -208 million) made a contribution to the result, caused in particular by valuation effects related to interest rates and credit ratings. In addition, a credit spread-induced gain from loan derivatives totalling € 48 million (€ 12 million) and sales margins received from trading at € 63 million (€66 million) are responsible for the gain. The currency derivatives with a contribution of €-14 million (€ -86 million) have in the reporting year no significant influence on the profit from the fair value valuation due to the low range of the EUR/USB base spread compared with the previous year.

Expenses from **loan loss provisions** in the credit business rose considerably by € 1,922 million to € 29 million (€ -1,893 million). Overall there were minor reversals of risk provisions in 2019. This was caused in particular by the reduction in the ship financing portfolio. However, an increase in risk provisioning on individual exposures in the Corporate Customers and Energy and Infrastructure segment compensated for this to a certain extent. In the previous year, risk provisions for the ship portfolio were very high.

The **disposal loss from financial assets that are not measured at fair value through profit or loss** of € -30 million (€ 31 million) consisted primarily of the disposal of various receivables and mortgage loans and expenses resulting from the repurchase of issued liabilities.

The **profit from hedge accounting** in the amount of € 22 million (€ 9 million) was mainly due to valuation effects related to interest rates, the basis spread and currencies.

The **profit from shares in companies** amounted to € 17 million (€ 1 million), mainly as a result of the gains from the measurement of an investment.

Administrative expenses decreased by € 29 million to € 970 million compared with the prior-year period (€ 999 million). Lower staff expenses of € 516 million (€ 535 million) were caused by the downsizing in particular. Other administrative expenses fell due to reduced expenses for appraisal and consultancy services in projects, but also due to the change in measurement of other administrative expenses in depreciation under the implementation of IFRS 16 (Leasing).

Other operating profit rose by € 102 million to € 45 million (€ -57 million) and was influenced particularly by the successful sale of investments in the amount of € 124 million (€ 4 million). Furthermore, increased expenses related to the restructuring fund, the savings banks' deposit protection system, and depreciation of the real estate portfolio compared with the previous year offset this.

Restructuring expenses in the amount of € 341 million (€ 133 million) were related to the NORD/LB Group's cost-cutting programme and the associated transformation programmes. These expenses related to personnel costs for the additional job cuts already implemented.

Reorganisation expenses of € 118 million (€ 86 million) involved 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 include one-off consultancy services for strategic, IT and legal advice.

Tax expenditure to the amount of € 39 million (€ 297 million) was mainly the result of current income taxes and deferred income taxes for foreign Group units.

The **Cost-Income-Ratio (CIR)** is significantly better than the previous year as a result of higher revenue.

The **Return on Equity (RoE)** is slightly negative as a result of the earnings before taxes but significantly better than in the previous year.

The **Common Equity Tier 1 ratio** has risen as a result of the capital strengthening measures to 14.54 per cent (6.63 per cent).

The increase in the leverage ratio to 4.12 percent (2.02 percent) is mainly due to the capital increase.

Assets and Financial Position

	31 Dec. 2019 (in € million)	31 Dec. 2018[1] (in € million)	Change (in %)
Trading assets	9 359	8 963	4
Financial assets mandatorily at fair value through profit or loss	1 768	3 443	– 49
Financial assets at fair value through other comprehensive income	17 185	20 548	– 16
Financial assets at amortised costs	104 215	114 041	– 9
Shares in companies	352	338	4
Investments accounted for using the equity method	147	173	– 15
Other assets	6 593	6 506	1
Total assets	**139 619**	**154 012**	**– 9**
Trading liabilities	3 331	3 681	– 10
Financial liabilities designated at fair value through profit or loss	7 754	7 767	– 0
Financial liabilities at amortised costs	115 487	133 483	– 13
Provisions	3 751	2 861	31
Other liabilities	3 458	2 858	21
Equity	5 838	3 362	74
Total liabilities	**139 619**	**154 012**	**– 9**

[1] For individual items, the previous year's figures have been adjusted, see Note (5).

Total assets continued to fall as planned and decreased by around € 14 billion in the reporting period. As a result of the capital increase implemented in December 2019 there is a surplus for the group's liquidity at the end of the year. With regard to the financial situation, we also refer to the risk report.

Trading assets of € 9,359 million (€ 8,963 million) consisted of € 4,597 million (€ 4,222 million) in derivative financial instruments as well as debt securities and receivables of € 4,762 (€ 4,647 million) held for trading. The change in this item is mainly due to interest, currency and credit spread measurement effects.

Financial assets at fair value through profit or loss primarily comprise debt securities and receivables. The € 1,675 million decrease to € 1,768 million is the result of the disposal of a fully consolidated special fund and its debt securities at € 1,058 million. Furthermore, receivables also reduced as part of the reduction in ship finance.

Financial assets at fair value through other comprehensive income in the amount of € 17,185 million (€ 20,548 million) included securities of € 15,759 million (€ 18,739 million) that are used for short and medium-term liquidity management or that are not generally intended to be held. This decrease is caused in particular by the fact that not all maturing securities were replaced and by the sale of securities as part of the reduction of risk-weighted assets.

At € 104,215 million (€ 114,041 million), **financial assets at amortised cost** were 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. The reduction was related to the Group's efforts to reduce total assets as part of its new business model and was caused in particular by the reduction to the ship loan portfolio and the decrease in repo transactions and overnight funds.

The **other assets** summarise the cash reserve, hedge accounting asset balances, fixed assets, property held as financial investments, assets to be sold, income tax assets and other assets.

Trading liabilities of € 3,269 million (€ 3,328 million) mainly included derivative financial instruments with negative fair values. The change in this position was due in particular to interest, currency and credit spread-related measurement effects.

For **financial liabilities designated at fair value through profit or loss**, the NORD/LB Group uses the fair value option to reduce or avoid accounting mismatches. The change in the amount of € 13 million was mainly due to valuation and volume effects.

At € 115,487 million (€ 133,483 million), **financial liabilities at amortised cost** was the largest category on the liabilities side by amount. Furthermore, they were the largest driver of volume under the total assets reduction efforts, which was largely influenced by the decline in money market transactions in the amount of € 7.7 billion, a repo volume of € 3 billion and time deposits in the amount of € 3 billion.

The total amount of **provisions** increased by € 890 million compared with the previous year. Of this total, € 575 million was attributed to provisions for defined benefit pension plans. This was mainly due to the allocations of the service and interest cost, the extension to the duration, and the reduction in the actuarial interest rate from 2.20 per cent to 1.50 per cent. Furthermore, restructuring provisions rose by € 311 million due to the transformation programme.

The increase in **other liabilities** was almost completely attributed to the higher negative fair values of the hedge accounting derivatives on the liabilities side and the increased counterparts for portfolio fair value hedges.

Reported equity rose by € 2,476 million to € 5,838 million. This increase was caused particularly by the capital increase in the amount of € 2,835 million executed in December 2019. This was offset by the negative comprehensive income for the period under review of € -396 million, which was particularly affected by the revaluation of pension obligations.

The total **contingent liabilities and other obligations** remains almost at the previous year's level and amounts to € 11.9 billion as at the balance sheet date (€ 10.9 billion).

Description and Development of the Business Segments

Private and Commercial Customers

Private and Commercial Customers

The Private and Commercial Customers segment includes the areas of private banking and commercial customers, corporate retail customers, branch advisory customers, and service customers in the business areas of Braunschweigische Landessparkasse (BLSK) and the locations in Hanover, Hamburg, Bremen and Oldenburg.

Braunschweigische Landessparkasse is the savings bank of the city of Braunschweig and the parts of the former Duchy of Brunswick (Braunschweig) which now belong to the current Federal State of Lower Saxony. It acts as an institution with partial legal capacity within NORD/LB.

BLSK's range of products and services is based on the financial concepts of the customer-segment-specific savings banks, including the range of products offered by Öffentliche Versicherung Braunschweig insurance company.

2019 (in € million)	Private and Commercial Customers	Trend	Development
Earnings before taxes (EBT)	57	↑	- Earnings before taxes were considerably higher than the previous-year level. - Net interest income was significantly below the previous year, mainly due to reduced earnings from the deposit business as a result of the low-interest phase. Furthermore, earnings from the lending business were marginally above the previous year's level. - Earnings rose slightly in net commission income, particularly as a result of account maintenance fees, payment transactions and the brokerage business (home savings, insurance, but also a switch to the consumer credit business). - Profit/loss from financial assets at fair value with subordinate importance for the segment. - Reversals of risk provisions in the reporting year 2019 while allocations to risk provisions were recorded in the previous year. - Profit/loss from investments accounted for using the equity method includes the investment in Öffentliche Versicherung Braunschweig. - Negligible reduction in administrative expenses due to reduced internal inter-company cost allocations in back office divisions while staff and material costs remain at almost the same level as in the previous year. - Other operating income considerably improved by reversals of provisions (cancellation instructions, closed-end funds).
Cost-Income-Ratio (CIR)	77.8%	→	- CIR is slightly above the previous year's value. - Significant influencing factors are the lower earnings from net interest income, which were partially offset by the improved other operating profit/loss and the lower operating costs.
Return-on-Risk-adjusted-Capital (RoRaC)	10.1%	↓	- RoRaC significantly lower year-on-year due to significant increase in committed capital.

Corporate Customers

The Corporate Customers segment, which is active all over Germany, includes the upper medium-sized corporate customer business and the areas of agricultural banking, community-interest property and housing business of the NORD/LB Group (excluding corporate customers in the Private and Commercial Customers segment/Savings Banks Network customers):

- As a partner for corporate customers in Germany and its neighbouring countries
- With a focus on three core regions: North, Central and South
- With customers from selected industries

The main goal is to achieve core bank status for its customers.

Furthermore, the Corporate Customers business segment also includes the financing of corporate acquisitions by private equity companies.

31 Dec.2019 (in € million)	Corporate Customers	Trend	Development
Earnings before taxes (EBT)	119	↓	Earnings before taxes significantly below the previous year due to lower earnings, higher risk provisions and increased administrative expenses. - A fall in earnings from the deposit business owing to lower interest rates reduced net interest income slightly compared with the previous year. - Net commission income noticeably above the previous year's level. - Profit/loss from financial assets at fair value significantly below the level of the previous year due to higher negative valuation effects from the counterparty-specific default risk from derivatives. - Visibly higher allocations to risk provisions, including in the electrical equipment manufacturing and information technology services industries. - Sharp rise in administrative expenses due to inter-company cost allocations. - Other operating profit/loss for this segment has no relevance for earnings.
Cost-Income-Ratio (CIR)	49.3%	↑	- CIR considerably higher compared with previous year. - Slightly lower earnings with simultaneous rise in costs.
Return-on-Risk-adjusted-Capital (RoRaC)	6.4%	↓	- Significant drop in RoRaC compared with prior year. - This was primarily due to the lower result and higher capital commitment.

Markets

The focus of the Markets segment is the sale of capital market products and products related to the capital market to institutional customers. This customer group includes insurance companies, asset managers, investment management companies, banks and savings/regional banks, central banks, pension funds and institutions, the German federal government and the individual federal state governments as well as social insurance funds. Furthermore, the Markets segment's activities include customers for capital market products in the areas of Corporate Customers, Aircraft Customers, Real Estate Banking Customers, Energy and Infrastructure Customers, and Savings Bank Network Customers.

As part of the wholesale business for savings banks and regional banks, the Market segment's sales team sells the full range of fixed-income products and services (incl. asset management products and the lending alternative business). For the securities business at savings banks, Markets offers a consistently wide range of retail products with and without application phases and individual customer private placements.

In terms of the capital market business, the focus is on interest, credit, money market and foreign currency products as well as structured products. Business activities in this area concentrate primarily on the interest segment. Furthermore, capital-market-related products, such as corporate promissory notes or alternative investment products are also sold to the aforementioned customer groups as required.

In addition to the sales business for institutional clients, the Markets segment also offers classic trading services (market access for customers in the product groups of interest, foreign currency and their derivatives).

One of the priority areas for activities in the Markets segment is the expansion of the debt capital market business (particularly primary market issuances by foreign issuers).

31 Dec.2019 (in € million)	Markets	Trend	Development
Earnings before taxes (EBT)	35	↓	- Sharp decline in earnings before taxes. - Significant reduction in net interest income compared with previous year owing to lower interest income from base rate advantages on the liabilities side. However, interest income from securities continued to rise. - Net commission income slightly above the previous year's level. - Profit/loss from financial assets at fair value rose considerably compared with the previous year due to interest rate derivative transactions and sales margins received. - Risk provisioning and other operating profit/loss are of minor relevance in this segment. - Moderate rise in administrative expenses in particular owing to increased material costs (IT costs and consultancy costs) and inter-company cost allocations.
Cost-Income-Ratio (CIR)	76.0%	↑	- Sharp rise in CIR compared with previous year. - The main reasons are the moderate rise in administrative expenses combined with a significant fall in earnings
Return-on-Risk-adjusted-Capital (RoRaC)	6.7%	↓	-RoRaC is markedly lower than the previous-year's level mainly due to the clear reduction in earnings and moderate rise in administrative expenses.

Savings Bank Network Customers

The Savings Bank Network Customers segment serves the savings banks in the states of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania (publicly-owned savings banks/network savings banks). Furthermore, all corporate customers that are managed in cooperation/liaison with the savings banks and located within this network region with external turnover between € 20 and 250 million, those located within the extended network region with external turnover up to € 50 million, syndicate transactions within the network region with external turnover up to € 500 million, syndicate transactions within the extended network with external turnover up to € 50 million, and local authorities (across Germany) are assigned to this segment. In order to ensure a strong regional image and proximity to customers, customers are managed at the locations in Hanover, Bremen, Oldenburg, Braunschweig, Magdeburg and Schwerin.

From the Landesbank's point of view, the Savings Bank Network Customers play three roles in association business: They are owners, customers and a point of access to a broad market of customers. From NORD/LB’s perspective, this means bearing responsibility towards their owners, being a market partner for savings banks in the owner states and providing the function of a clearing house.

31 Dec.2019 (in € million)	Savings Bank Network Customers	Trend	Development
Earnings before taxes (EBT)	– 15	↓	- Negative earnings before taxes significantly below the previous year due to considerably lower earnings, higher risk provisions and increased administrative expenses. - Net interest income clearly below the previous year’s level due to a reduction in the deposit business. - Sharp fall in commission income as the previous year was boosted by the sale of the foreign notes and coins, and precious metals business. - Trading profit/loss fell sharply and was negative overall owing to negative valuation effects for the counterparty-specific default risk from derivatives. - Considerably higher allocations to risk provisions. - Sharp rise in administrative expenses due to inter-company cost allocations. - Other operating profit/loss has little relevance for this segment.
Cost-Income-Ratio (CIR)	100.1%	↑	- CIR considerably higher compared with previous year. - Significantly lower earnings with simultaneous sharp rise in administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	-8.9%	↓	- Significant drop in RoRaC compared with the previous year. - The primary reason was the significant drop in earnings before taxes.

Energy and Infrastructure Customers

The central locations for the Energy and Infrastructure segment are Hanover, London and Oldenburg. Customers are also managed at the New York and Singapore offices.

The focus of this segment is on structuring and arranging bespoke, individual financing solutions, mainly for project-related transactions.

In the energy sector, financing relates mostly to new construction and capacity expansions of wind and photovoltaic plants.

The focus of the infrastructure business is on the sectors Public buildings, Economic infrastructure and Rail-based transportation.

The focus is on building customer relationships with sustainable earning structures and acceptable risks within the existing limits.

31 Dec.2019 (in € million)	Energy and Infra-structure Customers	Trend	Development
Earnings before taxes (EBT)	71	↓	- Earnings before taxes down sharply compared with the previous year. - Net interest income with falling active margins due to stronger investment income from committed equity capital and higher passive margins at the previous year's level. - Sharp drop in commission earnings compared with a good previous year. - Profit/loss from financial instruments at fair value through profit or loss increased strongly due to effects from loans measured at fair value through profit and loss. Partially offset by negative effects from the valuation of counterparty-specific default risk for derivatives and lower margin earnings from interest derivatives. - Slightly lower allocations to risk provisioning. - Administrative expenses slightly above the previous year owing to higher inter-company cost allocations. - Sharp fall in other operating profit/loss following the elimination of a special effect from the previous year (reversal of provisions).
Cost-Income-Ratio (CIR)	43.8%	↗	- Big rise in the CIR as a result of moderately lower earnings and slightly higher administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	8.9%	↓	- Significant decline in RoRaC. - Sharp reduction in earnings before taxes with significantly higher capital commitment.

Ship Customers/Maritime Industries Customers

The Ship Customers/Maritime Industries Customers segment covers cash flow- and asset-based ship financing as well as short-, medium and long-term financing of maritime corporate customers (both secured and unsecured in the event of faultless credit rating). Due to business policy decisions related to the 2024 business model, NORD/LB will no longer class the area of Ship Customers/Maritime Industries Customers as a segment in the future. No new lending business will take place. In 2019, the performing-loan and non-performing-loan portfolios were further decreased in size in a carefully planned approach to preserve value.

31 Dec.2019 (in € million)	Ship Customers	Trend	Development
Earnings before taxes (EBT)	196	↑	- Earnings before taxes impacted heavily by reversals of risk provisions. Although significant new risk provisions were established in the previous year in line with the new strategy (reduction strategy), risk provisions were reversed in 2019 due to successful sales activities and interest and redemption payments in the eliminated portfolio. - Sharp decline in interest income compared with the previous year as the overall segment's exposure decreased considerably, while the interest received in the eliminated portfolio was not reflected in interest income but by its effect on the decrease in risk provisions in the form of reversals. - Commission income improved significantly compared with the previous year due to a servicing fee related to a portfolio transaction (one-off effect). - Fair value income was positive due to effects from loans measured at fair value through profit and loss and rose sharply compared with the previous year. - Administrative expenses significantly lower as a result of the reduced headcount in connection with the decrease in volume. - Other operating profit/loss in this segment was insignificant.
Cost-Income-Ratio (CIR)	62.2%	↑	- CIR for the previous year was negative due to negative earnings. - The increase compared with previous year was attributable to earnings becoming positive again.
Return-on-Risk-adjusted-Capital (RoRaC)	52.5%	↑	- Marked rise in RoRaC. - Caused mainly by the changes in risk provisions.

Aircraft Customers

The segment covers primarily asset-based aircraft financing and is based mainly at the Hanover location with additional sales staff in Singapore and New York. The long-standing expertise in this asset class and the ability to develop bespoke and innovative, commercial financing solutions for customers form the basis for the Aircraft Customer segment's position on the market. Financing products are complemented by an extensive range of additional services (e.g. promissory notes, derivatives, etc.), which enable NORD/LB to offer its customers comprehensive solutions from a single source.

31 Dec.2019 (in € million)	Aircraft Customers	Trend	Development
Earnings before taxes (EBT)	44	↓	- Earnings before taxes down sharply compared with the previous year. - Net interest income significantly reduced due to falling balances. - Sharp fall in net commission income due to inter alia the first commission payment for the state guarantee in 2019. - Profit/loss from financial assets at fair value is of little importance in the segment; significant increase mainly owing to the initial fair value measurement of financing transactions under IFRS 9 and increased conclusion of interest derivatives. - In 2018, reversals of risk provisions had a positive effect on the earnings before taxes, while low net additions led to a negative effect on the result in 2019. - Administrative expenses moderately above the previous year owing to higher inter-company cost allocations. - Other operating profit/loss has little relevance for this segment.
Cost-Income-Ratio (CIR)	42.1%	↑	- Significant rise in the CIR as a result of considerably lower earnings and moderately higher administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	7.4%	↓	- Sharp reduction in RoRaC. - Caused by sharp fall in earnings before taxes and jump in committed capital.

Real Estate Banking Customers

NORD/LB's and Deutsche Hypothekenbank's definition of real estate finance relates mainly to financing regardless of the collateral for customers who generate the majority of their cash flow from real estate or who regularly make major real estate investments. These customers include, in particular, institutional investors, open and closed real estate funds, real estate companies/REITs, asset managers, leasing companies, financial investors, professional private investors, developers, and affiliated companies.

In the area of commercial real estate financing, the business focus is on financing residential buildings for rental purposes and offices or retail units. These are regarded as fungible investment properties as they are normally rented or can be rented on a long-term basis. The Bank also finances commercial property in the segments of hotels, logistics and multi-purpose properties.

Business activities concentrate on the focus markets of Germany, France, the United Kingdom, Benelux, Poland and Spain.

31 Dec.2019 (in € million)	Real Estate Banking Customers	Trend	Development
Earnings before taxes (EBT)	136	→	- Slight reduction in earnings before taxes. - Interest income was almost unchanged overall Real estate financing portfolio at almost constant level in a year-on-year comparison. - Net commission income in absolute terms had an 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 jump in profit/loss from fair value measurement was largely down to the loans measured at fair value. - New net reversals in risk provisions but far fewer than in the previous year. - Slight rise in administrative expenses particularly due to higher intercompany cost allocations. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	31.4%	→	- CIR slightly higher compared with the previous year. - Both earnings and administrative expenses increased slightly.
Return-on-Risk-adjusted-Capital (RoRaC)	17.6%	↓	- Sharp fall in RoRaC primarily due to considerably higher capital commitment.

Group Management / Others

All integrated components are directly linked to operational 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 Treasury divisions 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. For funding and liquidity management during the year, the Treasury divisions 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. The portfolios are managed by the NORD/LB Group's One Bank Asset Liability Committee (One Bank ALCO).

31 Dec.2019 (in € million)	Group Management/ Other	Trend	Development
Earnings before taxes (EBT)	– 428	↑	- Earnings before taxes much improved compared with the previous year, mainly due to the net interest income, net commission income, fair value measurement and other operating profit/loss. - Contribution to net interest income rose sharply, mainly owing to significantly higher income from interest and liquidity management from the positioning of the treasury. - Better but still negative commission income due to factors including a fall in guarantee fees for securitisation transactions following the termination of a transaction in 2019. - Significantly higher profit/loss from financial assets at fair value resulting from sales proceeds in trading profit/loss and from measurement effects in currency derivatives. Additional positive impact from financial assets at fair value through profit or loss and from the foreign exchange result. - 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 disposal of various securities and repurchases of issued debt securities. - Much higher profit/loss from hedge accounting. - Profit/loss from shares in companies rose sharply owing to positive results from the valuation of investments. - Marked decrease in profit/loss from investments measured using the equity method. - Significant fall in administrative expenses due to cost cutting and higher inter-company cost allocations in the market segments. - Positive other operating profit that is thus considerably higher than in the previous year despite rise in expenses for the restructuring fund and for the savings banks' deposit protection system. Owing mainly to successful sales from investments. - Significant rise in restructuring and reorganisation expenses in connection with the Bank's cost-cutting programme.

Target v Actual Comparison

31 Dec.2019 (in € million)	Planned amount	Actual amount	Accounting variance	Statement
Earnings before reorganisation and taxes	↑	− 30	↑	- Planned figure for earnings before taxes easily exceeded, mainly as a result of lower restructuring expenses, a higher fair value result than planned, and positive risk provisioning. - Earnings markedly exceeded planned figures. - Net interest income down and moderately below target. In particular, interest income from the lending business and deposit business were below expectations. Sharp negative impact on the contribution from interest-rate conditions on the assets side as a result of an additional reduction in assets due to the reduction of the ship finance portfolio and subdued new business. Despite increased funding costs due to ratings, margins in the credit business were better than planned. Due to the low interest rate level, the contribution from interest-rate conditions on the liabilities side was moderately lower than planned due to reduced product margins. However, income from interest and liquidity risk management was much better than planned due to earnings from the treasury's interest and liquidity management. - Overall, net commission income exceeded planned figures slightly, due to commission payments not included in plans resulting from a ship portfolio transaction. - Profit/loss from financial assets at fair value was considerably higher than planned, particularly due to positive effects from foreign exchange, from trading profit/loss for securities and receivables due to the lower interest rate for the euro, from market developments for credit derivatives and from financial assets at fair value through profit or loss (particularly ship loans and securities). - Risk provisioning was positive and, as a result, significantly better than the planned figures. Based on the reduction of the ship finance portfolio, ship sales resulted in unplanned reversals of risk provisions. Allocations to risk provisions were recorded from individual exposures in the Corporate Customers and Energy and Infrastructure Customers segments. - Disposal profit/loss from financial instruments not measured at fair value through profit and loss much lower than planned as a result of securities sales and the redemption of our own issues. - Profit/loss from hedge accounting well above target. - Profit/loss from shares in companies with only a slight effect on profit and loss in the reporting year. Positive valuation effects on investments. The budget included the gain from the sale of a holding that was reported in the Other operating profit/loss category. - Profit/loss from investments measured using the equity method significantly above target. - Administrative expenses less than planned. The initial results of the Group-wide savings programmes were visible in staff expenses. There was a reclassification of other administrative expenses to write-downs as part of the implementation of IFRS 16 (Leasing). - Positive other operating profit and, as a result, much better than the planned loss. The reason for this was the successful sales from the holdings that were planned in Profit/loss from shares in companies. - Restructuring and reorganisation expenses related to the Bank's cost-cutting programme were significantly lower than planned, as a portion of the restructuring expenses will not be recorded until subsequent years.
Cost-Income-Ratio (CIR)	↓	71.7%	↘	- CIR considerably lower than planned. - Earnings markedly exceeded planned figures with administrative expenses that were slightly lower than planned.
Return-on-Equity (RoE)	↑	-0.5%	↑	- RoE only slightly negative and therefore significantly better than planned. - Positive effects generated particularly by lower restructuring expenses, a higher than planned fair value result and positive risk provisioning.
Common equity tier 1 capital ratio (CET 1 ratio)	↑	14.5%	→	- CET1-Quote geringfügig über Planwert. - Leichte Verbesserung im harten Kernkapital ggü. Plan insbesondere aufgrund der positiveren Entwicklung im Ergebnis vor Steuern. - Gesamtrisikobetrag liegt im Berichtsjahr auf Planniveau.

31 Dec.2019 (in € million)	Planned amount	Actual amount	Accounting variance	Statement
Leverage Ratio	↑	4.1%	↗	- CET1 ratio slightly above plan. - Slight improvement in CET1 capital compared to plan, in particular due to the more positive development in earnings before taxes. - Total risk exposure amount in the year under review is at the planned level

The NORD/LB Group clearly exceeded its goals in 2019. Lower restructuring expenses, a higher-than-planned fair value result and positive risk provisioning played a significant role here.

Although the contributions to earnings before taxes in the Private and Commercial Customers, Ship Customers (risk provisioning), Aircraft Customers (risk provisioning) and Real Estate Banking Customers segments significantly exceeded planning figures, the Markets and Savings Bank Network Customers segments (earnings and risk provisions) were considerably lower than planned. Income for the Corporate Customers (earnings) and Energy and Infrastructure Customers segments was moderately lower than planned.

Target achievement with regard to key figures is as follows for the segments: In relation to the changes in earnings and administrative expenses, the CIR in the Markets and Savings Bank Network Customers segments was significantly higher than planned, and the CIR in the Corporate Customers segment was slightly higher than planned.

Although the CIR for the Ship and Aircraft Customers segments was significantly lower than planned and the CIR for the Real Estate Banking Customers segment was significantly lower than planned, the CIR for the Private and Commercial Customers and the Energy and Infrastructure Customers segments was almost the same as the planned level.

In 2019, the RoRaC was much higher than planned due to the size of the earnings before taxes and the total risk exposure amount in the Private and Commercial Customers, Ship Customers, Aircraft Customers and Real Estate Banking Customers segments. In the Corporate Customers segment, the Energy and Infrastructure Customers business, the Markets segment, and the Savings Bank Network Customers segment, the RoRaC was lower than planned.

At almost € 40 billion, the total risk exposure amount of the NORD/LB Group was slightly below target. This development is due to irrevocable payment obligations not included in the budget. Since 2019 this is no longer shown as the total risk exposure amount in Pillar II in line with the instructions from the European Central Bank but rather deducted directly from the CET1.

Overall Assessment

In the financial year 2019, the NORD/LB Group's financial position, earnings position and financial performance remain satisfactory despite the continued challenges in the market environment. The earnings position was affected by the reduction in the credit volume and the low interest environment. Loan loss provisions in the credit business were positive due to lower new provisions, which were more than offset by reversals, and much better compared with the previous year at € 1,893 million. Due to restructuring and reorganisation expenses, the NORD/LB Group recorded a loss of € 69 million in the reporting year, which is a significant improvement on the previous year's loss of € 2,404 million.

Forecast, Opportunities and Risk Report

General Economic Development

Global Economic Outlook

Global economic forecasts for 2020 are subject to a high level of uncertainty. For instance, at this point in time the specific impact of the coronavirus (SARS-CoV-2) is still unclear. A number of geo-political issues, such as Brexit and trade conflicts, remain significant.

In NORD/LB's base scenario, we do not expect these issues to escalate to a particularly great extent, though they will have a dampening effect. The momentum of real economic output in the Federal Republic of Germany may generally be low. At the time of preparing the annual financial statements, NORD/LB does not expect a longer recession. According to the Bank's forecasts, it will also become more difficult for the United States to maintain its current momentum. In the challenging economic environment, NORD/LB believes that the central banks will retain their expansive policies, which means that interest rates will also remain very low, or even negative in the euro area.

Finance Sector

For this reason, the European banks are expecting to face the following challenges in future:

Advancing digitalisation increases competition (additional market participants such as fintechs, mobile payment services such as Apple Pay, etc.) and forces established banks to make large investments, thus increasing costing pressure on a temporary basis.

Furthermore, political risks (Brexit, EU-critical governments, global trade conflicts and protectionist tendencies) increase the level of uncertainty for banks. This may have a negative impact on economic development, halting the positive development of earnings and credit quality.

Intensive competition, decreasing interest margins and a waning economy increase pressure on earnings and force banks into more cooperations and mergers (the number of all institutes in Europe is already declining).

Furthermore, business models need to be adjusted (reduction of interest income in favour of commission income) and more focus needs to be placed on cost management.

The extent to which the coronavirus will have a sustained impact on the financial sector cannot be assessed at this time.

Shipping

With the implementation of the IMO 2020 regulations, the industry is facing general upheaval. The industry has adopted the issue of retrofitting flue gas scrubbers to a much greater extent than originally anticipated. However, this also raised new problems initially. The technology is relatively new and therefore causes problems for more than just ship personnel. The installation process takes a lot of time and expertise in ports. Due to the influx of retrofit jobs, waiting periods extended far into the current year at the end of 2019. As a result, the supply of tonnage in the affected sub-sectors remains artificially restricted and may have a positive impact on charter rates. However, there is now some criticism of devices known as "open loop" scrubbers. An increasing number of port regions are banning their use. Despite declining spreads for conventional bunkers, the switch to low-sulphur fuels is being accompanied by increased transport costs. As well as passing on costs to end customers, the industry is also due to focus on reducing travel speeds in future with the aim of saving fuel.

Due to the “retrofit measures”, support for charter rates is expected to run into the peak season in the container sector despite impending high delivery levels. New build orders are affected by uncertainty regarding future technology, which is why orders are expected to be at a moderate level.

The coronavirus outbreak, cyclones in the Pacific and handling problems in Brazil led to the important Capesize sub-index falling so much that it reached the negative range. However, IMO 2020 effects and forecasts for increasing scrappage rates should support the sector in the current year. In view of the rising economic risks (China), however, the recovery potential appears negligible for the time being.

The extent to which the coronavirus will have a sustained impact on the Shipping sector cannot be assessed at this time.

Despite the increase in risks on the economic side, expectations for the tanker sector remain positive. Retrofitted scrubbers, slower travelling speeds and storage facilities on ships are absorbing some of the anticipated new deliveries in tonnage. Demand for refined fuels will continue to rise due to IMO 2020 requirements with corresponding support for demand in the crude oil and product tanker sector.

Aircraft

Even before the outbreak of the corona virus, IATA expected global passenger traffic (RPK) to grow by 4.1 percent in 2020, which is below the average growth rate of 6.6 percent of the past ten years. For the net profit of global airlines, IATA predicted an increase to USD 29.3 billion in 2020 (2019: USD 25.9 billion). This would correspond to a net margin of approximately 3.4 percent (2019: 3.1 percent).

IATA predicted a slight increase of 2.0 percent in the volume of air cargo in demand (FTK).

The effects of the coronavirus cannot be conclusively assessed at this time. Against this background, the expected values mentioned are characterised by a high degree of uncertainty.

Real Estate

Forecasts for Continental Europe see real estate investments remaining at the previous year’s level in 2020. If interest rates remain low, this should continue to encourage the attractiveness of real estate compared to government bonds. Stability and risk-adjusted investment opportunities are key characteristics of the German real estate investment market. The Bank believes that robust labour market data, further growth in office employment figures and stable incomes will have a positive impact on investment in German commercial real estate. According to our estimates, a surplus in demand on the investment market and a shortage of products will remain in place. The extent to which the coronavirus will have a sustained impact on the real estate sector cannot be assessed at this time.

Subsequent events

Changes to the Strategic Business Segments

As part of the annual strategy process, the NORD/LB Group's business strategy was aligned with the capital-boosting business plan and NORD/LB's restructure as presented to the European Commission (EUC).

As a result of this, NORD/LB's former eight-pillared business model was adapted to a new business model with five strategic business segments based on the EUC business plan. This change takes into account NORD/LB's redimensioning targets and allows for its future focus on selected areas of business and groups of customers. The new five-pillared business model was given final approval in the Managing Board's strategy meeting on 29 October 2019 and entered into force at the same time as the planned switch to segment reporting on 1 January 2020.

In the new business model, the former strategic business segments of "Private and Commercial Customers" and "Savings Bank Network Customers" were consolidated to create the strategic business segment "Private and Commercial Customers and Savings Banks Customers". The strategic business segments "Energy and Infrastructure Customers" and "Aircraft Customers" have become the new strategic business segment "Structured Finance Customers", which consolidates NORD/LB's structuring expertise in the field of cash-flow and item-based financing. The previous strategic business segment "Ship Customers/Maritime Industries Customers" was dissolved on the basis of the business decision to withdraw from the ship finance sector. The ship credit portfolio was transferred to the internal "Strategic Portfolio Optimisation" (SPO) unit so that the value-preserving portfolio reduction process can take place in a consolidated manner.

Provident funds (Unterstützungskasse)

Both NORD/LB and the former Bremer Landesbank have implemented provident funds as means of implementing occupational pension provision - firstly, the "Unterstützungskasse Norddeutsche Landesbank Girozentrale Hannover/Braunschweig e.V." (NORD/LB UK), secondly, the "Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH" (BLB UK). Following the merger of the former Bremer Landesbank with NORD/LB, a project to gradually wind up BLB UK was commissioned. With effect from 1 January 2020, the obligations from Bremer Landesbank's pension benefit plan were taken over by NORD/LB UK by means of debt assumption and the obligations from aid agreements were taken over by NORD/LB. At the same time, the fund assets of BLB UK were transferred pro rata to NORD/LB UK and NORD/LB respectively. BLB UK was subsequently liquidated and deleted in the Commercial Register.

Coronavirus

At the time of preparing the financial statements, the spread of coronavirus is clearly having an influence on the economic activity of many markets, some of which are significant. The concrete effects on the economy, individual markets and industries cannot be conclusively assessed at the time of preparation. In view of the unfolding dynamics, the forecasts contained in the management report are characterized by a high degree of uncertainty.

At the time of preparation, the currently foreseeable effects have been taken into account in the planning for fiscal year 2020. It cannot be ruled out that further developments regarding the corona crisis will have a significant negative impact on the earnings figures planned for the individual segments and the Group as a whole for the 2020 financial year and beyond. Negative effects may arise in particular with regard to risk provisioning, net interest income and the fair value result, with corresponding consequences for balance sheet and regulatory capital and regulatory ratios. This may also result in considerable liquidity risks.

Transition from the Reorganisation Phase to the Early Warning Phase

With the deposit of the capital and its acknowledgement by the supervisory authorities, the material requirements for leaving the reorganisation phase have been met. Upon the recommendation of the Recovery Plan Committee, the Managing Board therefore agreed to transition from the reorganisation phase to the early warning phase on 21 January 2020.

Changes in the Composition of the Managing Board

With effect from 01 January 2020, Mr. Olof Seidel was appointed to the Managing Board of the NORD/LB Group. As at 31 January 2020, Dr. Hinrich Holm resigned from the Managing Board of the NORD/LB Group.

Group Forecast with Opportunities and Risk Report

Key Planning Assumptions

NORD/LB's Group-wide medium-term planning is based on the planning figures presented at the end of 2019 as part of the European Commission's formal notification process required for the assessment. Following this, the state parliaments of Lower Saxony, Saxony-Anhalt and Mecklenburg-Vorpommern passed the decisions needed to implement the capital measures. On this basis, the Bank's owners increased share capital by € 2,835 billion and executed additional capital-supporting measures on 23 December 2019. With the implementation of the capital measures, NORD/LB began a transformation process, which should lead to the redimensioning and realignment of the NORD/LB Group.

The medium-term economic forecast produced by NORD/LB Research serves as the binding premise for planning process. The outlooks contained in this forecast for the changes in the economy, interest rates, exchange rates, price inflation and financial markets are included in the NORD/LB Group's planning. Interest rates in 2020 are expected to be slightly higher than in 2019. In addition, an average exchange rate of USD/EUR 1.16 is assumed in the planning process. NORD/LB Research anticipates GDP growth of 1.7 per cent and a rise in consumer prices of +1.8 per cent for Germany, along with a slight increase 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 2020 takes 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.

Based on the new business strategy, five strategic segments will be shown from 1 January 2020:

- Private, Commercial and Savings Bank Network Customers (incl. Öffentliche Versicherung Braunschweig)
- Corporate Customers
- Markets
- Structured Finance Customers (Energy and Infrastructure plus Aircraft Customers)
- Real Estate Banking Customers

Furthermore, the intended reduction in the NORD/LB Group's ship portfolio will be recorded in the Strategic Portfolio Optimization segment. The former Group Controlling / Others segment will be renamed Treasury / Consolidation / Other.

2020 Business Plan for the NORD/LB Group
Following the capital increase at the end of last year, NORD/LB is now facing a comprehensive redimensioning and reorganisation process. Following the portfolio wind-down and downsizing process, NORD/LB's new organisational structure is due to serve as a basis for new and flexible forms of internal cooperation. Under the NORD/LB 2024 programme, new organisational principles have been developed and should be implemented in an ongoing process up to 2024. In future NORD/LB should be a leaner and flatter organisation and therefore be more profitable with regard to the performance indicators than is the case today.

In the 2020 business plan, earnings are expected to fall sharply compared with the previous year. Net interest income is expected to be slightly lower than the previous year's level. A significant drop is anticipated in commission income as a result of the guarantee expenses paid to the state of Lower Saxony for the guarantees granted as part of the capital increases and due to the elimination of a special effect from 2019. Lower figures compared with the previous year are also planned for the fair value measurement (no recognition of positive valuation effects planned), companies measured using the equity method following the sale of an investment, hedge accounting and other operating profit/loss as the previous year's special effect from the sale of an investment is no longer valid.

Following reversals of specific valuation allowances in the ship finance portfolio in 2019, the risk provisioning is planned at the level of the anticipated protection requirements in all segments in 2020.

Changes in the valuation of investments are not anticipated in the 2020 business plan. As a result, a decline in profit/loss from shares in companies is expected compared with the previous year.

In the 2020 business plan, administrative expenses are expected to be slightly lower than the previous year. Both staff expenses and other administrative expenses are likely to drop slightly compared with the prior year.

The significantly lower expense for reorganisation and restructuring in 2020 compared with the previous year is required for the measures taken as part of the realignment and redimensioning of NORD/LB.

Due to the anticipated decline in earnings under normalised risk provisioning, negative and significantly lower earnings before taxes are expected in the 2020 business plan than in the previous year despite falling administrative expenses and lower expenses for restructuring. In the 2020 business plan, the CIR has fallen compared with the previous year due to a sharp decline in earnings coupled with a slight fall in administrative expenses; the RoE is expected to be slightly lower. The CET1 ratio is slightly lower in the 2020 budget compared with 2019; the leverage ratio is slightly higher than in the previous year.

On the whole, the total risk exposure amount for the NORD/LB is expected to rise slightly in 2020. Consequently, the total assets of the NORD/LB Group are expected to fall sharply in 2020.

After the capital measures were implemented in 2019, the regulatory requirements and binding requirements regarding regulatory capital and MREL-eligible capital were 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 (3) of the CRR, Common Equity Tier 1 capital is included in the Common Equity Tier 1 capital ratio. The Bank expects the Common Equity Tier 1 ratio in 2020 to remain around the prior-year level and therefore stay above all legal requirements and other individual banking supervisory regulations.

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

The Private/Commercial and Savings Bank Network Customers segment anticipates a clear rise in its contribution to earnings before taxes in 2020. Significantly higher earnings compared with the previous year will primarily be attributable to rising interest income on the liabilities side and increasing commission and trading income, which will result mainly from the Savings Banks business. Higher planned risk provisioning, which largely featured reversals in the Private and Commercial Customers segment in 2019, will counteract this development to a lesser extent, as will a further fall in other operating profit/loss, which was influenced by reversals of provisions in 2019. The CIR improved compared with the previous year, particularly owing to the marked rise in earnings paired with a marginal growth in administrative expenses. RoRaC is significantly higher as a result of the improved profitability combined with an almost constant level of committed capital.

In the Corporate Customers segment, the earnings before taxes are expected to rise considerably in 2020. Important factors in this development are the slight increase in earnings and the sharp fall in risk-related costs. Administrative expenses are also expected to fall significantly owing to lower internal cost allocation. Due to lower costs and the rise in earnings, the CIR will improve markedly in 2020, while the RoRaC will rise significantly given the higher operating result paired with lower committed capital.

The earnings situation in the Markets segment will depend heavily on market conditions and the Bank's rating. As a result, the earnings situation is expected to perform positively in 2020 (mainly commission and trading profit/loss), which means that earnings before taxes are also set to rise. At the same time, the cost base will continue to be consolidated due to major savings on staff costs, the streamlining of internal processes and inter-company cost allocations. As a result, the CIR should improve greatly in 2020. Despite higher committed capital, the RoRaC will rise slightly as a result of the higher operating result.

At the time of preparing the financial statements, the spread of coronavirus is clearly having an influence on the economic activity of many markets, some of which are significant. The concrete effects on the economy, individual markets and industries cannot be conclusively assessed at the time of preparation. In view of the unfolding dynamics, the forecasts contained in the management report are characterised by a high degree of uncertainty.

At the time of preparation, the currently foreseeable effects have been taken into account in the planning for fiscal year 2020. It cannot be ruled out that further developments regarding the corona crisis will have a significant negative impact on the earnings figures planned for the individual segments and the Group as a whole for the 2020 financial year and beyond. Negative effects may arise in particular with regard to risk provisioning, net interest income and the fair value result, with corresponding consequences for balance sheet and regulatory capital and regulatory ratios. This may also result in considerable liquidity risks.

Exogenous Opportunities and Risks

Economic Factors

In view of uncertain global development, including geo-political tensions and the unpredictability of market interference caused by political or economic developments such as the US trade policy, the impact of Brexit, an easing or worsening of the sovereign debt crisis, as yet unforeseeable effects of coronavirus and a continuation of the low-interest phase, the planning assumptions for 2020 may deviate from economic forecasts in relation to yield curves, exchange rate forecasts and the economic situation, which would present corresponding opportunities and risks for NORD/LB's earnings situation.

Regulatory Environment

Furthermore, potential new regulatory requirements, the level of bank levies and expenses for deposit protection systems may pose a risk to NORD/LB's equity ratio.

Competition

There are challenges from the arrival of new competitors (fintechs) and cooperation between current competitors and fintechs in established markets, which is creating increased competitive pressure. Likewise, competition, including institutional competitors, will increasingly provide customers with alternative financing opportunities (such as pension funds), thus heaping pressure on the NORD/LB Group's future volumes, margins and commissions. 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, with positive effects as a result on earnings before taxes.

Company-Specific Opportunities and Risks

NORD/LB 2024 Transformation Programme

General opportunities but also risks are presented by the implementation of NORD/LB's redimensioning process, although this will not be completed properly until 2024. This process aims to wind down the portfolios in selected areas of business, reduce the number of staff and, as a result, simplify the structure of the Group. Furthermore, there is a risk that the restructuring expenses proposed for the redimensioning process will prove to be insufficient.

In principle, the conservative risk provisioning plans offer up opportunities though there is also the risk that they will have a negative impact on NORD/LB's earnings before taxes in the event of a recession.

If the earmarked measures are not implemented as planned, this could lead to operational risks and pressure on the NORD/LB Group's profitability and KPIs.

Rating

Moody's decision to upgrade NORD/LB's rating from Baa2 to A3/stable on 9 January 2020 following the successful implementation of capital measures results has improved funding conditions and may trigger a further positive impetus for the realigned business model with equivalent opportunities in the development of the earnings situation.

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

The **Private, Commercial and Savings Bank Network Customers** segment faces both opportunities and risks in relation to the ongoing digitalisation that is resulting in radical changes in the banking industry. The changing patterns in customer behaviour are producing opportunities and risks for the current size of the market share and the acquisition of new clients. In the Braunschweigische Landessparkasse 2024 project, specific sales measures to increase earnings and reduce costs were identified in a range of modules and are now due to be implemented. In the real estate sector of the Private and Commercial Customers segment, the expansion of digital brokers platforms presents both an opportunity, e.g. in relation to the cooperation with LBS and the brokering of real estate financing, and a risk as a result of the shortage of property supply.

In the **Corporate Customers** segment, opportunities arise from the sector-oriented sales structure and the forward-looking reorganisation of the NORD/LB Group. Further potential is offered by the segment's good market position with a stable customer base and broad risk identification and with the good positioning of the special areas of agricultural banking, community real estate and leasing.

In the **Markets** segment, there is an opportunity to expand and deepen the customer base, exploit earnings potential and gain market share in this sales market through the planned expansion of the debt capital markets business (primary emissions). New product initiatives and building up the range of existing products will strengthen existing customer relationships and tap into additional earnings potential. However, the planned business initiatives could also result in obstacles and delays.

The utilisation of long-term expertise and the good market position as well as enhancing NORD/LB customer relationships offer opportunities 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. Furthermore, the involvement of institutional investors can be enhanced, for example by developing new products, in order to improve NORD/LB's position amongst its competitors and advance credit syndication activities in investors' interests. The major market-driven challenges in the future will come from increasing competition in a constantly evolving market environment, especially in the renewables segment.

In the **Aircraft Customers** segment, the strong appeal of the aviation industry for the capital market offers NORD/LB the opportunity to use credit syndication for institutional customers and to set up special funds so that it can get involved in larger exposures, including in the interest of investors. The specialist aircraft financing teams in Hanover, New York and Singapore allow for the wide-ranging and comprehensive management of target clients or investors in the regions of Europe/Middle East, North/South America and Asia/Pacific, resulting in additional business opportunities. Looking ahead, there is a fundamental risk in the aviation industry that new or enhanced aircraft models will put pressure on the residual values of existing models with older technical equipment. At the same time, new aircraft models do not always achieve the requisite market penetration, while technical faults upon market launch can prevent swift success. Despite the increases in production, which have been a success in previous years and have now also been announced for 2020, another potential risk is presented by manufacturers' discipline when it comes to avoiding excess supply and therefore ensuring stable value growth in its delivered fleets.

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.

The earnings performance in the **Strategic Portfolio Optimization** segment was affected mainly by the continued reduction of the total ship portfolio. Successful sales activities and future market fluctuations could benefit the reversal of risk provisions and therefore have a positive effect on profitability. Potential negative effects on earnings caused by new risk provisioning requirements are broadly covered by state guarantees.

Extended Risk Report

In the following we present the risk control measures and the risk development in the NORD / LB Group. It cannot be ruled out that further developments regarding the Corona crisis in the 2020 financial year will have a significant negative impact on the risk control parameters.

Risk-Bearing Capacity

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 risk capital on an ongoing basis.

In 2019 the minimum regulatory requirements (Art. 92 CRR plus P2R) with regard to capital holdings (CET1 and T1) were not complied with in the first three quarters. As the restructuring thresholds were likely to be missed, the Bank decided on 5 February 2019 to switch to a state of restructuring. In connection with this, risk appetite was temporarily increased in the restructuring phase. This means that the calculation of risk capital and the derivation of risk limits were based on the assumption of reduced internal requirements for the capital ratios CET1 and T1. The amended management parameters were applied until the implementation of the capital measures. The regulator was informed of this. Within the state of restructuring, the NORD/LB-internal Recovery Plan Committee (RPC) handled the restructuring plan and there was also a regular exchange with the Joint Supervisory Team (JST). Reports were produced on the restructuring indicators on a weekly basis.

With the implementation of the capital-boosting measures on 23 December 2019 and their effectiveness as at the reporting date of 31 December 2019, the risk-strategy-related and regulatory requirements on held capital (CET1, T1 and Total Capital) were met. As a result, the ICAAP management approach was recalibrated and, with this, the risk-bearing capacity limits were adjusted with effect from 1 January 2020. As at the reporting date 31 December 2019, the results were presented in line with the adjusted methodology for reasons of management relevance, and utilisation was shown using the adjusted limit.

The focus here was on the aspects of the reversal of the temporary increase to the risk appetite during the restructuring phase and the implementation of requirements from the ECB guidelines on the ICAAP. In view of this, the methodology for defining the internal risk capital and deriving the limits for risk positions was adjusted under the ICAAP's economic perspective. The RACE model approach therefore remains in force.

In the normative perspective the risk strategy and regulatory requirements were complied with as of 31 December 2019. Under the economic perspective, a maximum risk coverage amount of € 4,600 million was calculated as at 31 December 2019, taking the adjusted methodology into account. The derivation of the risk coverage capital took place on the basis of the stipulated CET1 capital level and risk potential. These were stressed in a model to the minimum compliance with regulatory requirements and the maximum internal capital was therefore calculated. A total of 80 per cent is defined as risk coverage capital; the remaining 20 per cent serves as reserves for covering other risks. The aggregated risk potential of € 2,283 million (based on a confidence level of 99.9 per cent) implies a risk capital utilisation of approx. 50 per cent and is fully covered.

Risk limits are monitored in accordance with the adjusted methodology based on an approved operating limit in the amount of € 3,500 million. As at 31 December 2019, approx. 65 per cent of the operating limit was utilised and the limit was sufficient to cover the risk positions in full.

On implementation of the ECB guidelines on ICAAP there was a merger of the RTF scenarios (previously Business Case and Resolution Case; now: value-at-risk approach as the economic perspective), hidden burdens were taken into account in the economic perspective, the time-related risk was quantified (present-value risk view), the CET1 capital was restricted and a buffer was introduced to take into account the interaction between the normative and economic perspective. Therefore the ability to make comparisons with the previous year's values is restricted.

The reduction in the total exposure continued in the financial year 2019, which reduced counterparty risk. Additionally, as a result of conversion to a cash quantification in the economic perspective, this significant change can be attributed to the first-time use of sector-specific migration matrices and the re-parameterisation of the counterparty risk model, as well as the consideration of the state guarantees for the Aviation, Maritime Industries and Tower Bridge portfolios. The rise in the market-price risk was due mainly to the decline in interest rates in the reporting period. The increase in the liquidity risk was mostly the result of a re-modelling of the savings and demand deposits, which led to stress on the front maturity bands in the liquidity maturity balance sheet. The value-at-risk for operational risk was higher due to the revision of the internal scenarios for company-wide IT risks. The majority of the risk potential arose from counterparty and market-price risk.

The requirements set out in the Group risk strategy in relation to the maximum permitted limit utilisation rate at material risk type level were met as at the current reporting date.

Risk-bearing capacity [1) 2) 3)]	31 Dec. 2019	31 Dec. 2018
Normative perspective		
Common equity tier 1 capital (in € million)	5 792	2 976
Regulatory risk potentials (in € million)	3 187	3 592
Common equity tier 1 capital ratio	14.54%	6.63%
Tier 1 capital ratio	15.33%	7.53%
Total capital ratio	20.76%	12.67%
Economic perspective		
Total risk potential (in € million)	**2 283**	**2 405**
Counterparty risk	768	1 139
Market-price risk	1 055	886
Liquidity risk	92	54
Operational risk	367	325
Limit capital (in € million)	**4 600**	**2 623**
Limit capital utilisation	**49.6%**	**91.7%**

1) Differences in totals are rounding differences.
2) The regulatory disclosure data as at 31 December 2018 was adjusted due to changes in regulatory requirements regarding the reporting of Pillar II requirements and as a result of corrections (see Note (5) Adjustment of prior-year figures for information about these corrections).
3) The modification of the notification data as of the key date 31 December 2018 results in a reduction of the limit capital as of 31 December 2018 by € 2,753 million to € 2,623 million and this increases utilisation from 87.4 percent to 91.7 percent.

Credit Risk – Development in 2019

Analysis of the total exposure

As at 31 December 2019, the NORD/LB Group’s total exposure is € 150 billion and is thus significantly lower than at the end of the prior year (€ 178 billion). At a rate of 74 per cent, this decline in exposure was due to the industries financing institutions / insurance companies (decrease of € 14.7 billion) and transport / messaging (decrease of € 5.9 billion). The focus of the total exposure continued 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. The rating classes in the 18-stage German Savings Banks Association master rating scale can be aligned with the IFD classes.

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.2019	Securities[3)] 31 Dec.2019	Derivates[4)] 31 Dec.2019	Other[5)] 31 Dec.2019	Total exposure 31 Dec.2019	Total exposure 31 Dec. 2018
very good to good	81 567	20 518	4 790	16 391	123 266	142 644
stage 1[6)]	79 711	4 840	–	16 376	100 927	116 503
stage 2	146	–	–	3	149	1 015
fair value	1 710	15 678	4 790	13	22 191	25 127
good / satisfactory	9 102	471	175	1 537	11 285	15 759
stage 1	8 916	–	–	1 532	10 448	12 891
stage 2	128	338	–	5	471	1 341
fair value	58	133	175	–	366	1 527
reasonable / satisfactory	5 091	7	52	980	6 130	5 797
stage 1	4 511	–	–	867	5 378	5 057
stage 2	504	7	–	113	624	630
fair value	76	–	52	–	128	110
increased risk	2 925	183	163	497	3 768	3 965
stage 1	2 189	89	–	346	2 624	2 997
stage 2	691	54	–	151	896	915
fair value	46	40	163	–	249	53
high risk	1 349	–	5	84	1 438	1 239
stage 1	708	–	–	30	738	680
stage 2	631	–	–	54	685	535
fair value	10	–	5	–	15	24
very high risk	865	–	4	62	931	1 136
stage 1	259	–	–	1	260	300
stage 2	601	–	–	62	663	786
fair value	5	–	4	–	9	50
default (=NPL)[7)]	2 804	–	36	95	2 935	7 054
stage 3	2 507	–	–	95	2 602	6 370
fair value	297	–	36	–	333	683
Total	**103 703**	**21 180**	**5 225**	**19 646**	**149 754**	**177 594**
stage 1	96 293	4 929	–	19 151	120 373	138 429
stage 2	2 701	400	–	387	3 488	5 221
stage 3	2 507	–	–	95	2 602	6 370
fair value	2 201	15 851	5 225	13	23 290	27 573

1) The ratings are assigned on the basis of the initiative for Germany as a financial centre (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 risk provisioning stages of the impairment model are shown (net after fair-value deduction).

The items rated in the “very good to good” rating class fell over the reporting period by € 19 378 million. Total exposure ranked in the best rating category (very good to good) rose slightly and was very high at 82 per cent (80 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. Collectively, this business continues to make up a majority share of the total exposure at 52 per cent (54 per cent).

Apart from the rating classes of "reasonable / satisfactory" and "high risk", the exposure dropped in the reporting year in all other rating categories.

Collaterals[1)2)] (in € million)	Loans 31 Dec.2019	Securities[3)] 31 Dec.2019	Derivates[4)] 31 Dec.2019	Other[5)] 31 Dec.2019	Total exposure 31 Dec.2019	Total exposure 31 Dec.2018
Total	103 703	21 180	5 225	19 646	149 754	177 594
Mortgages	15 885	–	–	1 145	17 030	–
Financial collaterals	3 472	–	33	23	3 528	–
Sureties and guarantees	6 518	304	46	448	7 316	–
Others	20	–	–	3	23	–
Stage 1[6)]	96 293	4 929	–	19 151	120 373	138 429
Mortgages	15 653	–	–	1 097	16 750	–
Financial collaterals	3 454	–	–	23	3 478	–
Sureties and guarantees	5 753	125	–	397	6 275	–
Others	18	–	–	2	20	–
Stage 2	2 701	400	–	387	3 488	5 221
Mortgages	192	–	–	43	235	–
Financial collaterals	2	–	–	–	2	–
Sureties and guarantees	525	–	–	47	572	–
Others	1	–	–	1	2	–
Stage 3	2 507	–	–	95	2 602	6 370
Mortgages	13	–	–	5	18	42
Financial collaterals	15	–	–	–	15	14
Sureties and guarantees	195	–	–	4	199	232
Others	–	–	–	–	–	–
Fair value	2 201	15 851	5 225	13	23 290	27 573
Mortgages	27	–	–	–	27	–
Financial collaterals	–	–	33	–	33	–
Sureties and guarantees	46	179	46	–	271	–
Others	–	–	–	–	–	–

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.
2) to 6) Please see the preceding Rating structure table.

As a result of collateral netting, risk-weighted assets of material Group companies as at 31 December 2019 fell by € 12 billion (€ 15 billion), which corresponds to a share of 27 per cent (29 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.

Industries by risk provisioning level[1)2)] (in € million)	stage 1[3)] 31 Dec.2019	stage 2 31 Dec.2019	stage 3 31 Dec.2019	Fair Value 31 Dec.2019	Total exposure 31 Dec.2019	Total exposure 31 Dec. 2018
Financing institutes / insurance companies	42 477	295	47	9 303	52 122	66 851
Service industries / other	47 274	1 448	270	8 946	57 938	62 248
Of which: Land, housing	16 549	316	58	338	17 260	17 615
Of which: Public administration	17 267	341	17	7 761	25 385	28 332
Transport / communications	5 524	655	1 788	825	8 792	14 702
Of which: Shipping	1 352	460	1 759	330	3 900	8 804
Of which: Aviation	965	126	12	20	1 124	1 567
Manufacturing industry	5 254	330	107	385	6 076	7 318
Energy, water and mining	15 181	418	245	1 013	16 856	17 043
Trade, maintenance and repairs	3 527	243	24	180	3 974	4 331
Agriculture, forestry and fishing	2 036	69	116	1	2 223	2 140
Construction	1 458	29	23	138	1 649	1 684
Other	117	–	–	6	123	1 277
Total	**122 848**	**3 487**	**2 621**	**20 796**	**149 753**	**177 594**

1) As with internal reporting, impairments are allocated on the basis of economic criteria.
2) Differences in totals are rounding differences.
3) The risk provisioning stages of the impairment model are shown (net after fair-value deduction).

Industries by products[1)2)] (in € million)	Loans 31 Dec.2019	Securities[3)] 31 Dec.2019	Derivates[4)] 31 Dec.2019	Other[5)] 31 Dec.2019	Total exposure 31 Dec.2019	Total exposure 31 Dec.2018
Financing institutes / insurance companies	30 763	10 943	2 109	8 308	52 122	66 851
Service industries / other	45 344	9 516	1 355	1 723	57 938	62 248
Of which: Land, housing	16 364	–	484	412	17 260	17 615
Of which: Public administration	15 508	9 431	292	155	25 385	28 332
Transport / communications	7 724	188	377	503	8 792	14 702
Of which: Shipping	3 753	–	27	120	3 900	8 804
Of which: Aviation	1 104	12	8	–	1 124	1 567
Manufacturing industry	5 063	108	314	592	6 076	7 318
Energy, water and mining	9 028	381	769	6 677	16 856	17 043
Trade, maintenance and repairs	3 474	39	187	274	3 974	4 331
Agriculture, forestry and fishing	741	–	5	1 477	2 223	2 140
Construction	1 459	–	100	90	1 649	1 684
Total	108	6	8	2	123	1 277
Total	**103 703**	**21 180**	**5 225**	**19 646**	**149 753**	**177 594**

1) As with internal reporting, impairments are allocated on the basis of economic criteria.
2) to 5) please see the preceding Rating structure table.

The breakdown of the total exposure by region shows that the euro area accounts for a hefty 83 per cent (82 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 69 per cent (67 per cent).

Regions[1)2)] (in € million)	Loans 31 Dec.2019	Securities[3)] 31 Dec.2019	Derivates[4)] 31 Dec.2019	Other[5)] 31 Dec.2019	Total exposure 31 Dec.2019	Total exposure 31 Dec.2018
Euro countries	86 691	15 923	2 567	19 424	124 605	145 259
Of which: Germany	73 273	10 375	1 860	18 290	103 798	119 239
Other Europe	8 532	1 779	2 046	192	12 549	15 613
North America	4 341	2 376	282	–	6 999	8 345
Middle and South America	1 574	–	25	–	1 599	1 964
Middle East / Africa	609	7	–	29	645	800
Asia / Australia	1 956	1 094	306	–	3 356	5 613
Other[6)]	–	–	–	–	–	–
Total	**103 703**	**21 180**	**5 225**	**19 646**	**149 753**	**177 594**

1) The figures are reported, as in the internal reports, by the country in which the borrower is legally domiciled.
2) to 5) Please see the preceding Rating structure table.

The exposure in the countries of Greece, Ireland, Italy, Portugal and Spain is € 5.2 billion (€ 5.0 billion). This makes up 3.5 per cent (2.8 per cent) of the total exposure. Receivables vis-à-vis the corresponding countries, regional governments and municipalities fell to € 0.7 billion (€ 0.9 billion) and still make up 0.5 per cent of the total exposure.

31 Dec. 2019 **Exposure in selected European countries[1)2)]** (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
Sovereign Exposure	–	–	617	–	106	723
Of which: CDS	–	–	–	–	–	–
Financing institutes / insurance companies	–	314	26	–	366	707
Corporates / Other	–	3 081	470	41	202	3 794
Total	**–**	**3 395**	**1 113**	**41**	**674**	**5 224**

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. 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.

31.12.2019 **Sovereign Exposure in selected European countries by maturity**[1)2)] (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
up to 1 year	–	–	123	–	70	193
more than 1 up to 5 years	–	–	55	–	35	90
more than 5 years	–	–	439	–	–	439
Total	**–**	**–**	**617**	**–**	**106**	**723**

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.

31.12.2018 **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.

The countries below were selected on the basis of the rating-dependent limit utilisation and a country-specific risk assessment, e.g. current natural disasters, armed conflicts, current or impending epidemics or pandemics, or the specific composition of portfolios. The focus was then refined further based on the criterion of credit risk exposure.

In Australia the NORD/LB Group had an exposure of € 628 million (€ 324 million with Financing institutes / insurance companies and € 300 million with Corporates/Other plus € 4 million sovereign exposure). The investments in Australia included, for example, structured finance customers relating to solar farm installations that really reflect NORD/LB's commitment to renewable energies. In Mexico, NORD/LB has an exposure of € 277 million (exclusively Corporates/Other). In China NORD/LB has an exposure of € 247 million (€ 153 million with Corporates/Other and € 69 million with Financing institutes/insurance companies). The Bank is also represented in China as a partner of German companies, but the focus is on aircraft financing and credit institutions. 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.

Securitisations

During the reporting period, the NORD/LB Group cancelled two originator securitisation transactions and did not enter 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 unsecured protection in the portfolio during the reporting year.

Non-performing loans (NPL)

The strategic realignment of the Bank to reduce the non-performing ship portfolio, which was approved in 2018, was implemented in 2019. Using the Big Ben portfolio transaction and reduction measures on a borrower level, the volume of defaulted ship financing was reduced by two thirds in 2019. In total, the ship exposure was reduced by 56 per cent to € 3.9 billion. The transactions already completed and further goals of the reduction of the ship portfolio are explained in more detail under “Significant Events in the Financial Year”.

The ratio for the portfolio of impaired receivables to the maximum default risk from on-balance-sheet and off-balance-sheet financial instruments was 1.0 per cent in the reporting period (2.5 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. 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 2019 amounted to 2.0 per cent (4.0 per cent). The shipping industry makes up the main portion of this. The volume of the ship and aircraft portfolios covered by the state guarantees are included in the figures presented above. As such, the guarantee effect is not visible in the figures above. Additional information is provided in Note (3) “Explanation of Balance Sheet Effects caused by the Guarantee Contracts”. The state guarantees do not affect the NPL ratio. The impaired exposure of € 2.6 billion (€ 6.4 billion) was significantly reduced and amounted to 1.8 per cent (3.6 per cent) of the total exposure.

Industries[1)2)]	Total exposure of impaired receivables[3)]		Portfolio risk provisions (stage 3)	
(in € 000)	31 Dec.2019	31 Dec.2018	31 Dec.2019	31 Dec.2018
Financing institutes / insurance companies	47 162	41 001	4 793	10 140
Service industries / other	270 488	357 957	108 648	132 940
Transport / communications	1 788 285	5 535 075	966 705	3 535 591
Manufacturing industry	107 301	68 851	91 788	64 414
Energy, water and mining	244 698	170 757	147 741	116 266
Trade, maintenance and repairs	23 508	54 516	18 343	22 041
Agriculture, forestry and fishing	116 319	93 053	57 211	60 738
Construction	23 462	20 950	15 138	15 558
	–	27 996	24 840	–
Total	**2 621 222**	**6 370 156**	**1 435 207**	**3 957 688**

1) As with internal reporting, impairments are allocated on the basis of economic criteria.
2) Differences in totals are rounding differences.
3) Information: the gross carrying amount of NPL requiring valuation allowance is € 4 231 million (€ 5 889 million).

31 Dec. 2019 Industries[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	Portfolio risk provisions (stage 1+2)
Financing institutes / insurance companies	74 422	13 078	–	1	87 502	6 454
Service industries / other	286 872	2 225	6 953	6 999	303 050	65 471
Transport / communications	26 760	280	47 520	79 657	154 216	37 625
Manufacturing industry	32 557	104 623	–	2 665	139 845	17 901
Energy, water and mining	54 063	–	22	3 150	57 236	22 486
Trade, maintenance and repairs	10 516	3 700	–	1 212	15 428	12 545
Agriculture, forestry and fishing	30 238	1 928	43	88	32 297	8 079
Construction	10 507	201	654	291	11 653	3 151
	–	–	–	–	–	13 100
Total	**525 934**	**126 036**	**55 192**	**94 063**	**801 225**	**186 812**

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 Industries[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
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
	–	–	–	–	–	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.

Regions[1)2)]	Total exposure of impaired receivables		Portfolio risk provisions (stage 3)	
(in € 000)	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Euro countries	1 901 397	5 171 477	1 099 813	3 365 717
Other Europe	175 520	120 664	81 432	31 819
North America	28 267	46 605	10 029	11 728
Middle and South America	122 551	252 782	11 489	123 019
Middle East / Africa	125 563	187 416	66 901	103 416
Asia / Australia	267 924	591 212	147 162	321 990
Total	**2 621 222**	**6 370 156**	**1 435 207**	**3 957 688**

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. 2019	Total exposure of overdue, unimpaired receivables					Portfolio risk provisions (stage 1+2)
Regions[1)2)] (in € 000)	up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	
Euro countries	506 238	126 030	22 110	68 889	723 268	142 356
Other Europe	9	–	2	–	10	11 770
North America	–	1	–	–	1	13 395
Middle and South America	–	1	33 080	–	33 082	8 168
Middle East / Africa	–	4	–	25 173	25 177	6 493
Asia / Australia	19 688	1	–	–	19 688	4 630
Total	**525 934**	**126 036**	**55 192**	**94 063**	**801 225**	**186 812**

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

31 Dec. 2018	Total exposure of overdue, unimpaired receivables					General loan loss provisions
Regions[1)2)] (in € 000)	up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	
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.

The exposure of overdue unimpaired receivables rose slightly by € 12 million. This primarily takes place in a time frame up to 3 months. 19 per cent (16 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 66 per cent (75 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 were the main reason why the risk provisioning figures presented for the risk provision stages 1 to 3 amounting to € 1,622 million deviated from the risk provisions including credit provisions in Note (59) Risk provisioning and gross carrying amount, which totalled € 1,667 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 € 100 million in the reporting year (adjusted value for previous year: € 193 million). The high value of the direct depreciation in 2019 as in the previous year results in increased loan derecognitions and sales. Additions to receivables written off amounted to € 48 million as in the previous year. 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.

With an exposure of € 143 million (€ 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 € 392 million (€ 133 million). Both value developments arise from the adjustments to the ship portfolio.

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

Outlook

New valuation allowances incurred during the reporting year, the majority of which can be traced back to one-off measurement effects, were more than compensated for by reversals resulting from successful sales activities and interest payments and repayments, meaning that ship finance could be reduced without any additional risk provisioning expenses. Furthermore, the residual ship credit risk was broadly protected by the guarantees from the state of Lower Saxony since the end of 2019. The NORD/LB Group will continue to monitor developments for all relevant asset classes in 2020. Based on its risk policy, the gradual enhancement of the risk model and risk management process, and the focused business strategy, the NORD/LB Group is well prepared on the whole.

Investment Risk – Development in 2019

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. Worth highlighting here are the sale of indirect investments in Toto-Lotto Niedersachsen GmbH and Porzellanmanufaktur Fürstenberg GmbH to the state of Lower Saxony in the context of the completed capital measures. 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 € 193 million (€ 175 million for unexpected loss and € 18 million for expected loss). This is an increase of € 56 million compared with the last reporting date (restated prior-year figure: € 137 million). This increase is mainly a result of the rise in unexpected loss (+ € 66 million). The reason for this is the clear decline in the credit exposure and the consideration of the state guarantees for the Aviation, Maritime Industries and Tower Bridge portfolios, which leads to a higher share of the investment risk in unexpected loss from an overall portfolio perspective in the integrated model. From a risk perspective, the importance of investments has grown in NORD/LB's new business model. The investment portfolio itself did not grow during the reporting period. There were also no significant changes to the associated risk parameters for the individual material and significant investments. This is reflected in an almost unchanged figure for expected loss (-€ 1 million) for these items.

The parameters for the investment analysis concept of NORD/LB were validated during the reporting period. No anomalies were identified. The materiality thresholds of the investment classification concept were adjusted as at 1 January 2019 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 2019, there were also eleven significant investments that are relevant for the development of risk-bearing capacity for NORD/LB.

Outlook

The main tasks for 2020 will remain the optimisation of the investment portfolio in view of the “NORD/LB 2024” project, support for the strategic business segments and their strategic initiatives through selective investments acquisitions or the creation of subsidiaries, the careful expansion and development of the market position of individual investment companies, taking into account the sources of income, and the value-oriented management of the investment portfolio with adequate returns when measured against capital costs.

Market-Price Risk – Development in 2019

In 2019, developments on the markets were shaped by factors including the trade dispute between the USA and China and Brexit discussions. In the markets relevant for NORD/LB, the following significant changes were observed during the reporting period. From the start of the year until the end of August, there was a clear reduction in capital market yields in the euro area and a flattening of the yield curve. Interest rates for the US dollar also fell significantly during this period. Interest rates did not begin to rise again until the fourth quarter and only at a moderate rate. Due to the ongoing high demand for investments on the market, the credit-spreads in many asset classes fell during the reporting period and share indices were on a positive trajectory. The spread between the US dollar and euro interest-rates narrowed, particularly in the middle of the year, while the EUR-USD basis spreads gradually widened as per the end of the year.

The economic perspective (previously known as the resolution case) of the risk-bearing capacity model is based on a full cash-value measurement of market-price risks. In contrast, the earnings-oriented perspective (previously known as the business case) is focused on market-price risks, which affect the NORD/LB Group’s capital ratios via the income statement or Other comprehensive income (OCI) under IFRS accounting methods. The interest-rate risks in the book are thus integrated into total risk via an earnings-at-risk approach in the earnings-oriented perspective. Market-price risks are split into the three blocks “Trade and Investments”, “Treasury and Bank Control” and “Central Valuation Effects (IFSR)” according to risk strategy aspects. In the economic perspective, the second block dominates the overall risk, while in the earnings-oriented perspective 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 (VaR) 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 2019, the VaR calculated for the NORD/LB Group in the economic perspective amounts to € 1 055 million. This corresponds to a decrease compared to the equivalent reporting date (adjusted prior-year value: € 1 210 million). The VaR in the earnings-oriented perspective increased and was € 940 million on the reporting date (€ 886 million).

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]	Economic perspective					Income oriented view				
in € million	31 Dec. 2019	30 Sep. 2019	30 Jun. 2019	31 Mar. 2019	31 Dec. 2018	31 Dec. 2019	30 Sep. 2019	30 Jun. 2019	31 Mar. 2019	31 Dec. 2018
Interest rate risk	668	825	746	755	599	721	907	712	560	529
Credit-spread-risk	745	939	920	948	975	381	525	565	578	595
Currency risk	101	73	59	65	68	70	79	65	71	79
Stock price and fund price risk	4	27	28	33	27	4	27	28	33	27
Votality risk	20	20	19	18	21	4	3	7	8	19
Other add-ons	55	48	43	43	45	18	18	18	18	18
Total risk[2]	**1 055**	**1 455**	**1 239**	**1 330**	**1 210**[3]	**940**	**1 258**	**1 064**	**934**	**886**

[1] Value at Risk (99.9 per cent; 250 days holding period).
[2] Due to diversification effects, the overall risk is smaller than the sum of the individual risks.
[3] The prior-year figure has been adjusted.

The risks as at 31 December 2019 corresponded to a 69 per cent utilisation of the corresponding limits in the economic perspective and a 93 per cent utilisation in the earnings-oriented perspective.

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 (economic perspective) 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 Interest Book” block is broken down into the corresponding sub-portfolios of NORD/LB AöR, Deutsche Hypo and NORD/LB Luxembourg. For reasons of comparability, the VaR ratios of the subsidiaries Deutsche Hypo and NORD/LB Luxembourg 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 reveals an elevated risk for the portfolios “NORD/LB Interest Book Management” and “Deutsche Hypo Interest Book Management” from August 2019. These increases are the result of the increased volatility of EUR yields paired with a significant decrease in EUR yields, particularly for longer terms. This relates particularly to long-term supply commitments for the portfolio “NORD/LB Interest Book Management”. The risk is only partially mitigated by positive valuation effects from securities in the category “Hold and Sell”.

In the “NORD/LB Bank Assets Allocation” portfolio, a significant reduction in positions led to a decline in risk in the fourth quarter.

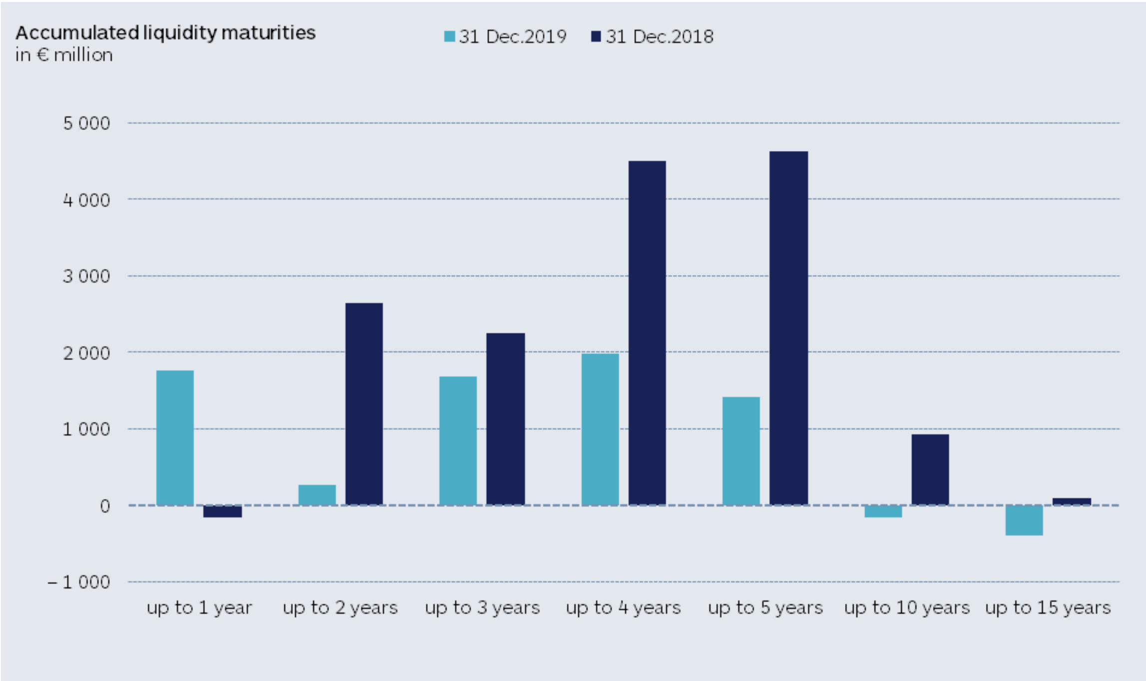
Outlook

The NORD/LB Group will continue to monitor market developments for all relevant asset classes in 2020. Based on its risk policy, the gradual enhancement of the risk model and risk management process, and the focused trade strategy, the NORD/LB Group is well prepared on the whole, even for turbulent market phases. In terms of methodology, the determination of the earnings-oriented VaR and EaR will be omitted in the risk-bearing capacity model in the first quarter of 2020 and replaced by a scenario-based perspective and limitation according to the ICAAP’s normative perspective.

Liquidity Risk – Development in 2019

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 ongoing shipping crisis and resulting need for capital and the long-lasting capital increase process were the owners’ focus. This was taken into account in the daily liquidity stress tests. NORD/LB had sufficient liquidity in 2019. Due to the capital increase in December, there was an excess of liquidity at the end of the year.

The internal liquidity stress scenario relevant for management purposes was managed in 2019 for the NORD/LB Group throughout the green phase and liquidity was sufficient prior to the capital increase (individual amber phases at NORD-LB AöR in September and October 2019); the liquidity situation eased significantly following the capital increase. The liquidity buffers were maintained for one week and one month, in accordance with the Minimum Requirements for Risk Management (MaRisk). The NORD/LB Group's cumulated liquidity maturity balance sheet as at the reporting date shows up to ten and up to fifteen years of liquidity gaps as shown by the sampling points. All other maturities reveal a liquidity surplus. Adjustments in the modelling of deposits removed pressure on shorter terms of up to 2 years and increased the pressure on terms of up to ten years. The liquidity gap was within the limits derived from the risk-bearing capacity model. At NORD/LB Group level the limits were respected in the year under review, both when taking all currencies into account and when taking the key individual currencies into account.



The funding of the NORD/LB Group consists mainly of liabilities to banks with 25 Prozent (29 Prozent), to customers with 41 Prozent (41 Prozent) and securitised liabilities with 21 Prozent (22 Prozent). In addition to unsecured securities, NORD/LB also uses secured securities, including public-sector mortgage bond denominated in euros and US dollars, real estate and aircraft mortgage bonds. There is a total of € 31 billion (€ 36 billion) in mortgage bonds in circulation (including mortgage bonds issued prior to the entry into force of the mortgage bonds Act and Lettres de Gage issued under Luxembourg law) of which public-sector mortgage 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 held securities in the amount of € 27 billion (adjusted prior-year value: € 31 billion), 81 per cent (adjusted prior-year value: 83 per cent) of which 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. As at 31 December 2019, the liquidity coverage ratio (LCR) was 166.5 per cent (150.3 per cent) and was therefore above the regulatory requirement of 100 per cent.

Outlook

At the beginning of 2020, the ratings improved significantly as a result of the implemented and planned measures related to the reduction of the ship portfolio and the completed capital measures. In a difficult environment for profitability with negative interest, liquidity must be managed with a qualitative approach and current excess liquidity must be converted in a targeted manner, while simultaneously reducing the balance sheet total as planned and adhering to key performance indicators.

The increased regulatory and internal requirements placed on management and NORD/LB's reporting system will also be significant in 2020.

Operational Risk – Development in 2019

NORD/LB uses the standard approach of CRD IV (Capital Requirements Directive, Pillar I) to calculate the capital requirement. At Group level, this requirement as at 31 December 2019 amounted to € 321 million.

The NORD/LB Group incurred a loss of € 11.1 million in 2019, which is higher than the prior year (€ 4.1 million). The losses were mainly caused by "Internal Processes". 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.

The material risks in terms of the Bank's overall risk profile were covered by the available capital during the reporting period.

In view of the previous crisis situation starting on 5 February 2019, the Bank was in the regulatory restructuring phase. The regulatory requirements regarding capital valid for 2019 were not achieved apart from the disclosures for November. Owing to the reduction in equity, the Bank also fell below the recommended leverage rating ratio of 3% in this period. Measures to strengthen the Bank's capital were implemented as planned on 23 December 2019. As part of this process, the Bank received a cash capital contribution in the total amount of € 2.8 billion, which was allocated to the share capital. In addition, the state of Lower Saxony is applying capital-relieving measures in the amount of € 800 million (primarily the assumption of guarantees for three of the Bank's credit portfolios and investment purchases). With the capital measures, as at 23 December 2019 the regulatory requirements were met once again. This also applied to the leverage ratio, which has been once again significantly higher than the required 3% since the capital-boosting programme. Liquidity requirements were met at all times. As at 31 December 2019, the total risk exposure amount for the NORD/LB Group was € 39,840 million (equity requirements corresponding to € 3,187 million), with equity totalling € 8,270 million. Likewise, the requirements regarding large exposure limits in line with Art. 387 to 403 CRR and Luxembourg law were also met in full. According to the NORD/LB Group, no going-concern risks currently exist.

Following the capital increase at the end of last year, NORD/LB is now facing a comprehensive redimensioning and reorganisation process. Following the portfolio wind-down and downsizing process, NORD/LB's new organisational structure is due to serve as a basis for new and flexible forms of internal cooperation. On the whole, the total risk exposure amount for the NORD/LB is expected to rise slightly in 2020.

Exogenous Opportunities and Risks
In view of uncertain global development, including geo-political tensions and the unpredictability of market interference caused by political or economic developments such as the US trade policy, the impact of Brexit, an easing or worsening of the sovereign debt crisis, as yet unforeseeable effects of coronavirus and a continuation of the low-interest phase, the planning assumptions for 2020 may deviate from economic forecasts in relation to yield curves, exchange rate forecasts and the economic situation, which would present corresponding opportunities and risks for NORD/LB's earnings situation.

Furthermore, potential new regulatory requirements pose risks for NORD/LB's equity ratio.

Company-Specific Opportunities and Risks
General opportunities but also risks are presented by the implementation of NORD/LB's redimensioning process, although this will not be completed properly until 2024. This process aims to wind down the portfolios in selected areas of business, reduce the number of staff and, as a result, simplify the structure of the Group. Furthermore, there is a risk that the restructuring expenses proposed for the redimensioning process will prove to be insufficient. If the earmarked measures are not implemented as planned, this could lead to operational risks and pressure on the NORD/LB Group's profitability and KPIs.

Moody's decision to upgrade NORD/LB's rating from Baa2 to A3/stable on 9 January 2020 following the successful implementation of capital measures results has improved funding conditions and may trigger a further positive impetus for the realigned business model with equivalent opportunities in the development of the earnings situation.

According to current analyses, NORD/LB feels the potential, foreseeable effects of these influences 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

(In the following text the previous year's figures for the period from 1 January to 31 December 2018 are shown in brackets)

Earnings Position

In the reporting year 2019, NORD/LB AöR's earnings position was affected by the restructuring measures, the decrease in total assets, the reduction in the ship portfolio, and the persistently low interest rates.

The following overview provides details of the breakdown of the accumulated net loss:

	1 Jan.- 31 Dec. 2019 (in € million)	1 Jan.- 31 Dec. 2018 (in € million)	Change (in %)
Net interest income	925	1 198	– 23
Net commission income	114	82	39
Earnings from financial transactions in the trading portfolio	31	30	3
Administrative expenses	952	905	5
Depreciation and value adjustments on intangible assets and property, plant and equipment	91	40	> 100
Other profit / loss	1	– 32	> 100
Operating result before risk provisioning / valuation	**28**	**333**	**– 92**
Valuation result receivables, securities and participations	– 103	– 2 755	– 96
which of: Assumption of investment losses	4	13	– 69
Operating result after risk provisioning / valuation	**– 79**	**– 2 435**	**– 97**
Extraordinary result	– 452	– 196	> 100
Tax expense (previous year: tax income)	12	4	> 100
Income from loss assumptions	23	199	– 88
Annual net income before approriation of profits	**– 520**	**– 2 436**	**– 79**

In the 2019 reporting year, the operating result after risk provisioning/valuation rose by € 2,356 million to -€ 79 (€ -2,435 million). The result was mainly affected by the much lower risk provisioning.

After accounting for the extraordinary profit/loss and the tax expenditure, there was an accumulated net loss for the year of € -520 million (€ - 2,436 million).

Due to persistently low interest rates on the money and capital markets and the reduction in receivables compared with the prior-year period, **net interest income** fell by € 273 million to € 925 million (€ 1,198 million) year-on-year. This reduction in total assets stemmed primarily from the further reduction of the ship portfolio and from the moderate volume of new business. The contribution from interest-rate conditions on the assets side was adversely affected by the declining credit exposure due to the reduction of the ship finance portfolio. Margins in the credit business are largely stable. Furthermore, the contribution from interest-rate conditions on the liabilities side fell due to factors including the reduced base rate advantages. However, income from interest and liquidity risk management rose due to income from the treasury's positioning.

At € 114 million, **net commission income** was around € 32 million higher than the prior-year figure (€ 82 million); this was the result of a servicing fee related to the reduction of the ship financing portfolio. Furthermore, commission from credit brokering rose considerably.

Income from financial transactions in the trading portfolio increased by € 1 million to € 31 million. This was mainly due to sales margins obtained in the trading business amounting to € 63 million. This was offset in particular by € 15 million from the counterparty-specific default risk of external interest derivatives and a € 6 million expense from price losses caused by an adverse change in the credit spread for fixed-interest securities.

Administrative expenses in the field of wages and salaries fell from € 352 million to € 341 million following the start of the downsizing process. This trend was more than offset by allocations to pension provisions caused by a lower interest rate. Furthermore, other administrative expenses rose as a result of increased contributions to the savings banks' deposit protection system and restructuring fund.

Market-value-related one-off depreciation in the amount of € 52 million on land and buildings had a negative effect on **depreciation and value adjustments on intangible assets and property and equipment**.

Other operating profit/loss improved by € 33 million in reporting year to € 1 million (€ -32 million). This change was primarily the result of effects from the guarantee agreed with the state of Lower Saxony for healthcare benefits.

The **valuation result for receivables, securities and investments** improved significantly year on year. In the previous year, risk provisions for the ship portfolio were very high. In the year under review, expenses from risk provisioning in the Corporate Customers business and Energy and Infrastructure Customers segment were particularly high, though these were more than offset by reversals of risk provisioning as part of the ship portfolio reduction. Allocations to lump sum loan loss provisions, which were required following the derecognition of risk provisioning caused by the reduction in the ship exposure, had a particularly adverse impact. A further positive effect on the valuation result for receivables, securities and investments resulted from the proceeds of investment sales.

The **extraordinary result** of € -452 million (€ -196 million) related to expenses for restructuring and reorganisation measures. Restructuring expenses in the amount of € 330 million (€ 112 million) were related to the cost-cutting programme and the associated transformation programmes. These expenses related to personnel costs for the significant number of job cuts already implemented. Reorganisation expenses of € 122 million (€ 84 million) involved activities aimed at securing the future and maintaining competitiveness; these expenses were reported separately due to their significance. The recognised items are non-recurring in nature and are not part of the operating business activities. These expenses arose primarily from consultancy services for strategic, IT and legal advice.

The **tax expenditure** of € 12 million (€ 4 million) was the result of the income tax expense totalling € 7 million and the expenses for other taxes in the amount of € 5 million.

Net Assets and Financial Position

Balance sheet values are summarised as follows:

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Assets			
Loans and advances to banks	25 599	27 926	– 8
Loans and advances to customers	55 503	61 865	– 10
Securities	15 689	20 398	– 23
Trading portfolio	14 239	10 533	35
Participations and shares in companies	1 448	1 565	– 7
Other assets	8 631	8 720	– 1
Total assets	**121 109**	**131 007**	– 8
Liabilities			
Liabilities to banks	33 710	41 257	– 18
Liabilities to customers	47 566	49 770	– 4
Securitised liabilities	14 991	20 787	– 28
Trading portfolio	9 839	5 991	64
Provisions	1 757	1 306	35
Profit participation capital and subordinated liabilities	2 541	2 859	– 11
Liable funds	5 665	3 373	68
Other liabilities	5 040	5 664	– 11
Total assets	**121 109**	**131 007**	**– 8**
Balance sheet notes			
Contingent liabilities	10 491	11 389	– 8
Other obligations	6 854	7 156	– 4
Business volume	**138 454**	**149 552**	**– 7**

Total assets continued to fall as planned and decreased by around € 10 billion in the reporting period. As a result of the capital increase implemented in December 2019 there is a surplus for the Group's liquidity at the end of the year. With regard to the financial situation, we also refer to the risk report.

Loans and advances to banks fell by € 2.3 billion year on year to € 25,599 million. This is attributable mainly to the € 1.5 billion reduction in receivables from promissory notes and the € 1.1 billion decrease in receivables to Deutsche Bundesbank. However, short-term repo transactions increased by around € 900 million.

Loans and advances to customers are the largest balance sheet item at 46 per cent (47 per cent). The decrease of € 6.3 billion to € 55,503 million was mainly the result of the reduction of the ship financing portfolio.

The **securities portfolio** contracted by € 3.4 billion to a total of € 15,689 million, primarily due to the reduction in the bonds and debt securities portfolio. These portfolio reductions were caused primarily by the fact that not all mature securities were replaced and by the sale of securities as part of the reduction of risk-weighted assets. Furthermore, the reversal of a special fund investment in the amount of € 1.2 billion also led to a reduction in the portfolio.

The active **trading portfolio** increased to € 14,239 million. This was caused in particular by the sharp fall in interest, which resulted in a rise to the positive fair values of interest derivatives.

The € 117 million decline in **participations and shares in companies** was caused mainly by disposals of investments as part of NORD/LB's capital-boosting activities.

The main items under **other assets** are cash reserves, assets held in trust, accruals and deferrals and other types of asset.

Liabilities to banks decreased by € 7.5 billion to € 33,710 million. This was mainly due to the € 4 billion reduction in overnight funds and the € 2.1 billion decrease in repo transactions. Together with **liabilities to customers**, they were the biggest driver of volumes in the efforts to reduce total assets. These were also on a downward trajectory, mainly in the area of overnight funds.

The reduction in **securitised liabilities** by € 5.8 billion to € 14,991 million reflected 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 during the course of 2019 was € 200 million and therefore significantly below the total maturities of € 5.6 billion.

The sharp rise in the **trading portfolio** on the liabilities side was caused mainly by the sharp drop in interest and the resulting rise in negative fair values from interest derivatives.

Provisions rose by € 451 million year-on-year. This increase was primarily due to the € 303 million increase in restructuring provisions arising from the transformation programmes. Furthermore, interest-related changes caused pension provisions to rise by € 67 million and benefits provisions to increase by € 27 million.

The **other liabilities** position includes fiduciary obligations, other liabilities, accruals and deferrals and the fund for general banking risks. The decline in this position was mostly due to a reduction in fiduciary obligations.

Equity increased due to the cash capital increase implemented in December 2019. This was offset by the reduction in capital reserves to absorb the loss in the negative prior-year result.

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 Group 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 2019” in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, or HGB) Section 315b para. (1) and (3) as well as Section 315c in conjunction with Section 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 2019” is published in accordance with Section 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/

In addition, NORD/LB also provides reporting about its other social, environmental and Community-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 principles, 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.de/rechtliches/rechtliche-hinweise/corporate-governance/

Consolidated Financial Statements

Income Statement

	Notes	1 Jan.-31 Dec. 2019 (in € million)	1 Jan.-31 Dec. 2018[1] (in € million)	Change (in %)
Interest income from assets		5 487	6 054	– 9
Interest expenses from assets		57	55	4
Interest expenses from liabilities		4 484	4 891	– 8
Interest income from liabilities		78	121	– 36
Net interest income	**24**	**1 024**	**1 229**	**– 17**
Commission income		249	242	3
Commission expenses		178	190	– 6
Net commission income	**25**	**71**	**52**	**37**
Profit/loss from financial assets at fair value	26	201	– 282	> 100
Risk provisioning	27	29	– 1 893	> 100
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss [2]	28	– 30	31	> 100
Profit/loss from hedge accounting	29	22	9	> 100
Profit/loss from shares in companies	30	17	1	> 100
Profit/loss from investments accounted for using the equity method	31	20	21	– 5
Administrative expenses	32	970	999	– 3
Other operating profit	33	45	– 57	> 100
Earnings before restructuring, reorganisation and taxes		**429**	**– 1 888**	**> 100**
Restructuring result	34	– 341	– 133	> 100
Reorganisation expenses	35	118	86	37
Earnings before taxes		**– 30**	**– 2 107**	**– 99**
Income taxes	36	39	297	– 87
Consolidated profit/loss		**– 69**	**– 2 404**	**– 97**
of which: attributable to the owners of NORD/LB		– 75	– 2 364	
of which: attributable to non-controlling interests		6	– 40	

[1] For individual items, the previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.
[2] From the disposal of financial assets valued at amortised costs, there is a loss of € 20 million (€ 4 million).

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. 2019 (in € million)	1 Jan.-31 Dec. 2018[1] (in € million)	Change (in %)
Consolidated profit/loss	**– 69**	**– 2 404**	**– 97**
Other comprehensive income which is not reclassified to the income statement in subsequent periods			
Investments accounted for using the equity method - Share of other comprehensive income	– 15	– 1	> 100
Changes in financial liabilities designated at fair value through profit or loss due to changes in own credit risk	– 135	– 36	> 100
Revaluation of the net liability from defined benefit pension plans	– 358	– 21	> 100
Deferred taxes	46	– 61	> 100
	– 462	**– 119**	**> 100**
Other comprehensive income which is reclassified to the income statement in subsequent periods			
Changes in financial assets at fair value through other comprehensive income			
Unrealised profit/losses	192	– 154	> 100
Reclassification due to profit/loss realisation	– 25	2	> 100
Investments accounted for using the equity method - Share of other comprehensive income	26	– 33	> 100
Translation differences of foreign business units			
Unrealised profit / losses	2	– 1	> 100
Deferred taxes	– 60	59	> 100
	135	**– 127**	**> 100**
Other comprehensive income	**– 327**	**– 246**	**33**
Comprehensive income for the period under review	**– 396**	**– 2 650**	**– 85**
of which: attributable to the owners of NORD/LB	– 402	– 2 608	
of which: attributable to non-controlling interests	6	– 42	

[1] For individual items, the previous year’s figures have been adjusted, see Note (5) Restatement of previous year’s figures.

For 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.2019 (in € million)	31 Dec.2018[1] (in € million)	Change (in %)
Cash reserve	37	3 454	1 519	>100
Trading assets	38	9 359	8 963	4
of which: Loans and advances to customers		*582*	*251*	>100
Financial assets mandatorily at fair value through profit or loss	38	1 768	3 443	– 49
of which: Loans and advances to banks		*63*	*104*	– 39
of which: Loans and advances to customers		*491*	*789*	– 38
Financial assets at fair value through other comprehensive income	39	17 185	20 548	– 16
of which: Loans and advances to banks		*652*	*804*	– 19
of which: Loans and advances to customers		*774*	*1 005*	– 23
Financial assets at amortised cost	40	104 215	114 041	– 9
of which: Loans and advances to banks		*19 986*	*24 498*	– 18
of which: Loans and advances to customers		*80 049*	*85 168*	– 6
Positive fair values from hedge accounting derivatives	41	1 019	1 152	– 12
Balancing item for financial instruments hedged in the portfolio fair value hedge	42	281	114	>100
Shares in companies	43	352	338	4
Investments accounted for using the equity method		147	173	– 15
Property and equipment	44	339	364	– 7
Investment property	45	122	107	14
Intangible assets	46	139	136	2
Assets held for sale	47	81	851	– 90
Current income tax assets	48	17	38	– 55
Deferred income taxes	48	435	431	1
Other assets	49	706	1 794	– 61
Total assets		**139 619**	**154 012**	**– 9**

[1] For individual items, the previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

Liabilities	Notes	31 Dec.2019 (in € million)	31 Dec.2018[1] (in € million)	Change (in %)
Trading liabilities	50	3 331	3 681	– 10
Financial liabilities designated at fair value through profit or loss	50	7 754	7 767	–
of which: Liabilities to banks		*349*	*388*	– 10
of which: Liabilities to customers		*4 254*	*3 941*	8
of which: Securitised liabilities		*3 151*	*3 438*	– 8
Financial liabilities at amortised cost	51	115 487	133 483	– 13
of which: Liabilities to banks		*35 168*	*43 856*	– 20
of which: Liabilities to customers		*53 633*	*58 506*	– 8
of which: Securitised liabilities		*26 270*	*30 379*	– 14
of which: Subordinated liabilities		*3 137*	*3 456*	– 9
Negative fair values from hedge accounting derivatives	52	2 019	1 771	14
Balancing item for financial instruments hedged in the portfolio fair value hedge	53	1 045	734	42
Provisions	54	3 751	2 861	31
Liabilities held for sale		–	7	– 100
Current income tax liabilities	55	35	53	– 34
Deferred income taxes	55	65	43	51
Other liabilities	56	294	250	18
Equity	**57**			
Issued capital		2 835	1 607	76
Capital reserves		2 589	3 332	– 22
Retained earnings		1 081	– 1 144	> 100
Accumulated other comprehensive income (OCI)		– 722	– 404	79
Currency translation reserve		– 9	– 11	– 18
Equity capital attributable to the owners of NORD/LB		**5 774**	**3 380**	**71**
Additional equity		50	50	–
Equity capital attributable to non-controlling interests		14	– 68	> 100
		5 838	**3 362**	**74**
Total liabilities		**139 619**	**154 012**	**– 9**

[1] For individual items, the previous year’s figures have been adjusted, see Note (5) Restatement of previous year’s figures.

Statement of Changes in Equity

The individual components of equity as well as the development of these components in 2018 and 2019 can be seen in the following Statement of Changes in Equity:

(in € million)	Issued capital	Capital reserves	Retained earnings	Accumulated OCI	Currency translation reserve	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 2019	**1 607**	**3 332**	**– 1 096**	**– 412**	**– 11**	**3 420**	**50**	**– 66**	**3 404**
Adjustments according to IAS 8	–	–	– 48	8	–	– 40	–	– 2	– 42
Adjusted equity as at 1 Jan 2019	**1 607**	**3 332**	**– 1 144**	**– 404**	**– 11**	**3 380**	**50**	**– 68**	**3 362**
Consolidated profit/loss	–	–	– 75	–	–	– 75	–	6	– 69
Changes in financial assets at fair value through other comprehensive income	–	–	–	167	–	167	–	–	167
Investments accounted for using the equity method - Share of other comprehensive income	–	–	–	11	–	11	–	–	11
Changes in financial liabilities designated at fair value through profit or loss due to changes in own credit risk	–	–	–	– 135	–	– 135	–	–	– 135
Revaluation of the net liability from defined benefit pension plans	–	–	–	– 358	–	– 358	–	–	– 358
Translation differences of foreign business units	–	–	–	–	2	2	–	–	2
Deferred taxes	–	–	–	– 14	–	**– 14**	–	–	**– 14**
Other comprehensive income	–	–	–	– 329	2	– 327	–	–	– 327
Adjusted comprehensive income for the period under review	**–**	**–**	**– 75**	**– 329**	**2**	**– 402**	**–**	**6**	**– 396**
Capital increases / decreases	1 228	– 743	2 350	–	–	2 835	–	–	2 835
Changes in the basis of consolidation	–	–	– 31	– 1	–	– 32	–	76	44
Other changes in capital	–	–	– 19	12	–	– 7	–	–	– 7
Equity as at 31 Dec 2019	**2 835**	**2 589**	**1 081**	**– 722**	**– 9**	**5 774**	**50**	**14**	**5 838**

(in € million)	Issued capital	Capital reserves	Retained earnings[1)]	Accumulated OCI[1)]	Currency translation reserve	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**
Adjustments according to IAS 8	–	–	–	6	–	**6**	–	–	**6**
Adjusted equity as at 1 Jan 2018	**1 607**	**3 332**	**1 266**	**– 162**	**– 10**	**6 033**	**50**	**– 61**	**6 022**
Consolidated profit/loss	–	–	– 2 362	–	–	**– 2 362**	–	– 42	**– 2 404**
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	–	–	–	– 21	–	**– 21**	–	–	**– 21**
Translation differences of foreign business units	–	–	–	–	– 1	**– 1**	–	–	**– 1**
Deferred taxes	–	–	–	– 1	–	**– 1**	–	–	**– 1**
Other comprehensive income	–	–	–	– 245	– 1	– 246	–	–	– 246
Comprehensive income for the period under review	**–**	**–**	**– 2 362**	**– 245**	**– 1**	**– 2 608**	**–**	**– 42**	**– 2 650**
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**	**– 1 144**	**– 404**	**– 11**	**3 380**	**50**	**– 68**	**3 362**

1) For individual items, the previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

For further information, please refer to the explanation in Note (57) Equity.

Cash Flow Statement

	1 Jan. - 31. Dec. 2019 (in € million)	1 Jan. - 31. Dec. 2018 [1)] (in € million)	Change (in %)
Consolidated profit/loss for the period	**– 69**	**– 2 404**	**– 97**
Non-cash items included in consolidated profit/loss and reconciliation to cash flow from operating activities			
Depreciation, impairment and write-ups	46	653	– 93
Increase / decrease in provisions	454	225	> 100
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	– 1	– 8	– 88
Risk provisioning	– 29	1 893	> 100
Restructuring result	459	133	> 100
Other adjustments net	– 1 211	– 961	26
Sub-total	**– 351**	**– 469**	**– 25**
Changes in assets and liabilities from operating activities:			
Financial assets at amortised costs	9 817	4 191	> 100
Trading assets/liabilities and hedge derivatives	– 442	1 718	> 100
Financial assets mandatorily at fair value through profit or loss	2 002	– 487	> 100
Financial assets designated at fair value through profit or loss	–	–	–
Financial assets at fair value through other comprehensive income	3 710	1 308	> 100
Other assets from operating activities	1 040	– 1 245	> 100
Financial liabilities at amortised costs	– 18 318	– 7 750	> 100
Financial liabilities designated at fair value through profit or loss	– 340	853	> 100
Other liabilities from operating activities	1 350	– 349	> 100
Interest received	5 238	5 766	– 9
Interest paid	– 4 266	– 4 233	1
Income taxes paid	– 8	– 45	– 82
Cash flow from operating activities	**– 568**	**– 742**	**– 23**

1) The previous year's figures were adjusted for individual items, see Note (5) Adjustment of previous year's figures.

	1 Jan. - 31. Dec. 2019 (in € million)	1 Jan. - 31. Dec. 2018[1] (in € million)	Change (in %)
Cash flow from investment activities:			
Cash receipts from the disposal of			
financial assets	154	15	> 100
property and equipment	57	11	> 100
Payments for acquisition of			
financial assets	– 2	– 2	–
property and equipment	– 35	– 36	– 3
Cash receipts from the disposal of consolidated companies and other business units	5	–	–
Net increase / decrease in funds from other investing activities	–	17	–
Cash flow from investment activities	**179**	**5**	**> 100**
Cash flow from financing activities:			
Cash receipts from equity capital contributions	2 835	–	–
Increase in funds from other capital	–	– 56	– 100
Decrease in funds from other capital	– 365	–	–
Interest expenses on subordinated capital	– 171	– 163	5
Redemption share from leasing contracts	9	–	–
Cash flow from financing activities	**2 308**	**– 219**	**> 100**
Cash and cash equivalents as at 1 January	**1 519**	**2 436**	**– 38**
Cash flow from operating activities	– 568	– 742	– 23
Cash flow from investment activities	179	5	> 100
Cash flow from financing activities	2 308	– 219	> 100
Total cash flow	**1 919**	**– 956**	**> 100**
Effects of changes in exchange rates	16	39	– 59
Cash and cash equivalents as at 31 December	**3 454**	**1 519**	**> 100**

[1] The previous year's figures were adjusted for individual items, see Note (5) Adjustment of previous year's figures.

With regard to cash and cash equivalents as at 31 December, please refer to Note (37) 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. With regard to the management of the liquidity risk at the NORD/LB Group, please refer to the information in the 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 2019 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; HGB) were also met.

The Consolidated Financial Statements as at 31 December 2019 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 takes place within the notes in Note (22) Segment reporting by business segment and Note (23) 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.

Assets at the NORD/LB Group are generally measured at amortised cost. The notable exceptions from this are those financial instruments which are measured at fair value in accordance with IFRS 9. Accounting and measurement were based on the assumption of a going concern. Earnings and expenses are accrued or deferred pro rata temporis. They are recognised and reported in the period to which they are economically attributable. The main accounting policies are set out below.

The estimates and assessments required to carry out the accounting 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 assumptions 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 (58) Fair value hierarchy), measurement of provisions for pensions in respect of determining the underlying parameters (Note (19) Provisions for pensions and similar obligations and (20) Other provisions in conjunction with Note (54) Provisions), measurement of loan loss provisions in respect of future cash flows (Note (13) Risk provisioning in conjunction with Note (59) Risk provisioning and gross carrying amount), determination of deferred tax assets in respect of the impairment of unused tax losses (Note (21) Income taxes in conjunction with Note (36) Income taxes, Note (48) Income tax assets and Note (55) Income tax liabilities), measurement of leasing obligations with respect to the incremental borrowing rate of interest and the anticipated useful life (Note (15)). Where more extensive estimates were required, the assumptions made are presented. Please refer to the relevant information on sensitivity in Note (58) Fair value hierarchy for the impact of using assumptions to measure level 3 financial instruments.

The estimates 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 (12) in conjunction with Note (38) Financial assets at fair value through profit or loss and Note (50) Financial liabilities at fair value through profit or loss (50), application of the classification rules under IFRS 9 (Note (12)), the distinction between finance leases and operating leases (Note (15) Leases in conjunction with Note (71) Lease agreements), the recognition of provisions (Note (19) Provisions for pensions and similar obligations and Note (20) Other provisions in conjunction with Note (54) Provisions), the existence of assets held for sale (Note (18) Assets held for sale in conjunction with Note (47) 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 (8) Basis of consolidation in conjunction with Note (75) Disclosures concerning Shares in companies).

The reporting currency for the Consolidated Financial Statements is the 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 17 March 2020 and approved for forwarding to the Supervisory Board.

(2) Risk Coverage and Capital Strengthening Measures

On 31 January 2019, the institutional protection scheme of the Savings Banks Finance Group established that the Bank was eligible for support from its fund. Subsequently, on 21 June 2019, the owners and the Bank concluded a notarised basic agreement with the Deutscher Sparkassen- und Giroverband e. V. (DSGV) to strengthen capital at NORD/LB. In this agreement, the parties agreed on the material legal framework conditions governing a capital boost with a total capital effect of around € 3.6 billion and the long-term restructuring of the Bank. Building on this basic agreement, intensive negotiations took place in the second half of 2019 between the old and new owners and the Bank regarding the details of the capital increase.

The final regulations were set down in what is termed the support contract, which was agreed by the parties on 17 December 2019. The support contract contains, inter alia, material regulations on capital strengthening through a combination of a capital increase in cash and risk-mitigating measures for the Bank's corporate governance, the information and monitoring rights by DSGV, restructuring and reorganisation of the Bank and on ending the support measures when the stipulated targets have been achieved.

The cash capital increase resulting from the incoming payment of the old and new owners totalling € 2,835 million resulted in the following composition of the NORD/LB nominal capital:

31 Dec.2019	Issued capital (in million €)	Rate (in %)
Niedersachsen Invest GmbH (NIG) 1)	1 276	45
Hannoversche Beteiligungsgesellschaft Niedersachsen mbH 1)	226	8
Land Niedersachsen 2)	0	0
Land Sachsen-Anhalt	198	7
Sparkassenverband Niedersachsen	283	10
Sparkassenbeteiligungsverband Sachsen-Anhalt	57	2
Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern	39	2
FIDES Gamma GmbH 3)	378	13
FIDES Delta GmbH 3)	378	13
Gesamt	**2 835**	**100**

1) NIG and Hannoversche Beteiligungsgesellschaft Niedersachsen mbH act for the state of Lower Saxony.
2) The state of Lower Saxony directly holds nominal capital in the amount of € 1,000.59.
3) These are two companies founded by DSGV that are fully owned by them.

In addition to the capital increase in cash of € 2 835 million, the support contract provides for various risk-mitigating measures with a total capital effect of up to € 800 million towards capital strengthening:

- Sale of the Bank's participation in Fürstenberg Holding GmbH to NIG as an investment company attributable to the state of Lower Saxony following transfer of the Bank's holding in Toto-Lotto Niedersachsen GmbH and the porcelain manufacturer Fürstenberg GmbH through a transfer and spin-off agreement respectively for a total purchase price of € 150 million.
- Granting of three guarantees by the state of Lower Saxony to protect specific loan portfolios from the Ship Customers/Maritime Industries Customers and Aircraft Customers segments with effect from the date of execution of the support contract. For the Ship Customers/Maritime Industries Customers the guarantees cover the net book value of a ship finance portfolio with non-performing loans totalling around €1.5 billion to protect the total guarantee amount of maximum € 1.0 billion and another portfolio with performing loans to protect the gross book value with a total guarantee amount of around € 1.7 billion. For the Aircraft Customers segment, a portfolio with a gross carrying amount of around € 1.8 billion was secured. The guarantee amounts referring to the protected gross carrying amounts derive from the original loan amounts in the foreign currency and other foreign currency elements.
- Furthermore, the support contract provides for an exemption of the Bank by the state of Lower Saxony from risks associated with the potentially increased health-care benefits payable by NORD/LB to its retirees and employees up to an amount of € 200 million.

Following the advance submission of the final document package (support contract including appendices and explanatory documents on the business plan and guarantee contracts) to the European Commission, the latter confirmed on 5 December 2019 that the measures provided for in the support contract were compliant with market terms.

Following the agreement of the Managing Board, the owners and the parliaments of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania, the capital contributions in cash were paid on 23 December 2019 to the account of NORD/LB, upon which the capital measures were completed and the statutes came into force (date of execution).

With the payment of the capital and the acknowledgement by the supervisory body, the material prerequisites for exiting the financial restructuring phase are fulfilled. On recommendation by the Recovery Plan Committee, the Managing Board has established an internal committee to advise the Managing Board on issues relating to the restructuring plan and on 21 January 2020 passed the transition from the Reorganisation Phase to the Early Warning Phase.

(3) Explanation of the Impact of the Guarantee Contracts on the Balance Sheet

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

The guarantee contracts each comprise two reference portfolios from the segments Ship Customers/Maritime Industries Customers and one reference portfolio from the segment Aircraft Customers with relevant loans including the associated customer derivatives and a number of loan commitments, sureties and overdraft facilities. The total amount up to which the state of Lower Saxony will guarantee payment obligations is limited on an individual basis for each contract. As at 23 December 2019, the guaranteed Ship Customers/Maritime Industries Customers non-performing loans portfolio comprised transactions with a hedged net carrying amount of approximately € 0.9 billion. The guarantee for the performing loans portfolio involves a reference portfolio with a gross carrying amount of approx. € 1.4 billion plus contingent liabilities of approximately € 0.4 billion as at the reporting date. The guarantee contract to hedge a sub-portfolio of the Aircraft Customers segment refers to a gross carrying amount of around € 1.7 billion plus contingent liabilities worth around € 150 million as at the Balance Sheet date. Based on the guarantee contracts, payment claims in the amount of the expected loss against the state of Lower Saxony will arise upon occurrence of one or more guarantee cases. The guarantee cases cover the following circumstances:

- shortfall resulting from amounts not being paid either in whole or in part as at the due date,
- capital reduction through contractual reduction in the nominal amount owed without corresponding settlement payment and/or
- loss arising from early repayment of capital amounts and/or a negative market value in the event of the premature sale of a customer derivative.

In the consolidated Balance Sheet of NORD/LB, the guarantee agreements are posted as credit derivatives and measured at fair value, as, viewed individually, they do not fulfil the prerequisites of applicable accounting standards for a financial guarantee. Taking into consideration the individual measurement principle, these derivatives cannot be offset in the Balance Sheet to mitigate risks as securities for the transactions contained in the hedged portfolios. As a result, all transactions in the guarantee portfolio remain subject to risk provisioning and ongoing fair value measurement, even after conclusion of the guarantee contracts. The hedging effect of the derivatives is visible at the level of the Income Statement of the NORD/LB Group by way of the compensative recording of the counterbalancing valuation effects arising from the hedged risks (risk provisioning and fair value changes) of the guarantee portfolio and of the performance of the derivatives in the subsequent periods. A time delay can occur here with respect to the compensative effect over the lifetime of the guarantees due to the differences in evaluation methods. This only involves temporary differences, as over the term of the relevant guarantee the market value of the derivatives converges to the final settlement amount, which corresponds to the sum of the contractual payment obligations of the guarantor arising from the guarantee cases.

In return for granting the guarantees, NORD/LB pays the state of Lower Saxony a commission for each one. With respect to the guarantee for the NPL portfolio, this is determined variably as a percentage of the total guarantee amount which reduces in line with the portfolio reduction and is charged monthly. For the two PL portfolios, a fixed guarantee fee is stipulated which is payable in defined quarterly instalments (Note (25) Net commission income and (73) Other financial obligations).

The guarantee contracts end no earlier than either the time at which the relevant guarantee portfolio has been completely wound up and all outstanding payment obligations have been settled (variable maturity date), or on 31 December 2024 (fixed maturity date; does not apply to the NPL portfolio guarantee), whichever is earlier. The fixed maturity date can be extended by one year in each case within the first ten business days of a year, insofar as incongruities between the residual term of the guarantee contracts and the collateralised claims exist. The extension option was utilised for the first time in 2020.

(4) Guarantee Portfolios as at 31 December 2019

As at the Balance Sheet date 31 December 2019, in the Ship Customers/Maritime Industries Customers segment, the non-performing loans portfolio with a net carrying amount of approximately € 873 million (of which € 253 million is measured at fair value) and the performing loan portfolio with a gross carrying amount of around € 1.4 million plus € 434 million in contingent liabilities are hedged. The guarantee contract to hedge a sub-portfolio of the Aircraft Customers segment refers to a gross carrying amount of around € 1.7 billion plus loan commitments worth € 158 million as at the Balance Sheet date. The following table contain the relevant Balance Sheet date holdings of the three portfolios divided according to Balance Sheet items and valuation approach, and also the off-balance-sheet transactions and the IFRS 9 risk provisioning for the portfolios by impairment stage. The gross carrying amounts of the receivables valued at amortised costs and contained in the hedged portfolios of the Ship Customers/Maritime Industries Customers and Aircraft Customers segments are offset in particular by risk provisioning in stages 1 and 2 of € 5 million and € 14 million respectively. The hedged net carrying amount of the NPL portfolio contains stage 3 risk provision of € 669 million for the receivables valued at amortised cost.

The fair values of the derivatives listed in the table below show the anticipated and realised guarantee payments of the guarantor as well as future guarantee fee payments. The fair value of the derivatives contains all valuation-relevant changes, that refer back to the hedged risks, in particular, credit default risks. Given the short term of the guarantees starting from 23 December 2019, the derivatives as at 31 December 2019 only display a low fair value share due to risks that are hedged against change. The fair value of the derivatives totalling € -12 million is signaficantly influenced as at the Balance Sheet date by hedged guarantee commissions in the amount of € 15.5 million.

31 Dec.2019 (in € million)	Ship customers / Maritime industry customers Hedging Net carrying amount	Ship customers / Maritime industry customers Hedging Gross carrying amount	Aircraft customers Hedging Gross carrying amount
Assets			
Trading assets - Loans and advances to customers	–	17	25
Trading assets - Positive fair values from derivatives	3	15	21
Financial assets mandatorily at fair value through profit or loss - Loans and advances to customers	208	21	–
Financial assets at amortised cost - Gross carrying amount from Loans and advances to customers	1 289	1 362	1 609
Risk provisioning - Stage 1	–	– 4	– 1
Risk provisioning - Stage 2	–	– 14	–
Risk provisioning - Stage 3	– 669	– 7	–
Assets held for sale - Financial assets at fair value through profit or loss	42	–	–
Total	**873**	**1 390**	**1 654**
Liabilities			
Trading liabilities - Negative fair values from derivatives	–	2	1
Financial liabilities at amortised cost - Liabilities to customers	7	1	–
Provisions in lending business - Stage 3	1	–	–
Total	**8**	**3**	**1**
Contingent liabilities			
Credit commitments	13	312	158
Financial guarantees	–	3	–
Other Off-balance-sheet liabilities	–	119	–
Total	**13**	**434**	**158**
Value of the hedged portfolio	**878**	**1 821**	**1 811**
Hedging derivative	**– 2**	**29**	**– 39**

(5) 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 consolidated financial statements as at 31 December 2018, seven loans provided for syndication were posted as financial assets at fair value through profit or loss instead of as trading assets. This resulted in a deferral between the named items of € 91 million. This adjustment had no impact on the presentation of the figures in the Income Statement as at 31 December 2018.

In the Consolidated Financial Statements as at 31 December 2018, incorrect assumptions were made regarding the anticipated cash flows as part of the valuation of the silent participations measured at amortised cost. Due to the contract conditions, payments are not made unless a positive annual result is achieved. This requires estimates that lead to new expected payment flows. The corresponding correction led to an increase, with respect to the previous year's figures in these consolidated financial statements, in the Balance Sheet value of the silent participations of € 50 million. The correction relates to the Subordinate securitised liabilities within the Balance Sheet item Financial liabilities at amortised costs. With regard to the Income Statement for the Consolidated Financial Statements to 31 December 2018, this resulted in an overall reduction in interest income totalling € 59 million and in interest expenses totalling € 9 million. In this context, disclosure of figures was also adjusted. With respect to the adjustments of the regulatory key figures, we refer to Note (68) Regulatory Data.

In the consolidated financial statements as at 31 December 2018 a property was reported in the Property and equipment category although individually rented building parts were rented and shown as a finance lease arrangement. This resulted in a transfer from the Property and equipment category to Investment property totalling € 21 million (01 January 2018: € 21 million). This adjustment had no impact on the presentation of the figures in the Income Statement as at 31 December 2018.

Due to an incorrect calculation within the expert actuarial report to determine the health-care benefit provision, the health-care benefit obligations for financial years 2017 and 2018 contained in the pension provisions of the NORD/LB Group were too high. Due to this and with respect to comparable figures in these financial statements, a correction had to be made in reported pension provisions of around € - 8 million (01 January 2018: € 6 million) with a corresponding balancing posting in the Cumulative other comprehensive income. Other comprehensive income (OCI) in the 2018 financial year increased by € 2 million, while the correction had no impact to the figures in the Income Statement for 2018.

In accordance with IAS 8.14 the following adjustment was made:

As at 30 June 2019, in order to conform with regulatory requirements, the expenses for the deposit protection fund were posted together with the bank levy in Other operating profit/loss instead of in Administrative expenses, as was the case previously. The previous year's figures in these consolidated financial statements were adjusted in the amount of € 12 million.

Adjustment of the Balance Sheet values as at 31 December 2018:

31 Dec.2018 (in € million)	Before adjustment	Adjustment syndication	Adjustment silent participation	Adjustment Investment Properties	Adjustment aid	After adjustment
Assets						
Cash reserve	1 519	–	–	–	–	1 519
Trading assets	8 872	91	–	–	–	8 963
of which: Loans and advances to customers	*160*	*91*	–	–	–	*251*
Financial assets at fair value through profit or loss	3 534	– 91	–	–	–	3 443
of which: Loans and advances to banks	*104*	–	–	–	–	*104*
of which: Loans and advances to customers	*880*	*– 91*	–	–	–	*789*
Property and equipment	385	–	–	– 21	–	364
Investment property	86	–	–	21	–	107
Further assets	139 616	–	–	–	–	139 616
Total assets	**154 012**	**–**	**–**	**–**	**–**	**154 012**
Liabilities						
Financial liabilities at amortised cost	133 433	–	50	–	–	133 483
of which: Liabilities to banks	*43 856*	–	–	–	–	*43 856*
of which: Liabilities to customers	*58 506*	–	–	–	–	*58 506*
of which: Securitised liabilities	*30 329*	–	*50*	–	–	*30 379*
of which: Subordinated liabilities	*3 406*	–	*50*	–	–	*3 456*
Provisions	2 869	–	–	–	– 8	2 861
Further liabilities	14 306	–	–	–	–	14 306
Equity						
Issued capital	1 607	–	–	–	–	1 607
Capital reserves	3 332	–	–	–	–	3 332
Retained earnings	– 1 096	–	– 48	–	–	– 1 144
Accumulated other OCI	– 412	–	–	–	8	– 404
Currency translation reserve	– 11	–	–	–	–	– 11
Equity capital attributable to the owners of NORD/LB	**3 420**	**–**	**– 48**	**–**	**8**	**3 380**
Additional equity	50	–	–	–	–	50
Equity capital attributable to non-controlling interests	– 66	–	– 2	–	–	– 68
	3 404	**–**	**– 50**	**–**	**8**	**3 362**
Total liabilities and equity	**154 012**	**–**	**–**	**–**	**–**	**154 012**

Adjustment of consolidated profit/loss and comprehensive income for the period from 1 January to 31 December 2018:

1 Jan. - 31 Dec.2018 (in € million)	Before adjustment	Adjustment silent participation	Adjustment of Deposit Protection Fund	Adjustment aid	After adjustment
Interest income from assets	6 154	– 100	–	–	6 054
Interest expenses from assets	55	–	–	–	55
Interest expenses from liabilities	4 900	– 9	–	–	4 891
Interest income from liabilities	80	41	–	–	121
Net interest income	**1 279**	**– 50**	**–**	**–**	**1 229**
Administrative expenses	1 011	–	– 12	–	**999**
Other operating profit / loss	– 45	–	– 12	–	**– 57**
	– 2 061	–	–		– 2 061
Earnings before restructuring, reorganisation and taxes	**– 1 838**	**– 50**	**–**	**–**	**– 1 888**
Restructuring result	– 133	–	–	–	– 133
Reorganisation expenses	86	–	–	–	86
Earnings before taxes	**– 2 057**	**– 50**	**–**	**–**	**– 2 107**
Income taxes	297	–	–	–	297
Consolidated profit/loss	**– 2 354**	**– 50**	**–**	**–**	**– 2 404**
of which: attributable to the owners of NORD/LB	*– 2 314*	*– 50*	–	–	*– 2 364*
of which: attributable to non controlling interests	*– 40*	–	–	–	*– 40*
Other comprehensive income	**– 248**	**–**	**–**	**2**	**– 246**
Comprehensive income for the period under review	**– 2 602**	**– 50**	**–**	**2**	**– 2 650**
of which: attributable to the owners of NORD/LB	*– 2 561*	*– 50*			*– 2 611*
of which: attributable to non-controlling interests	*– 40*	–			*– 40*

The respective restatements were also taken into account in the following notes: (22) Segment reporting by business segment, (23) Segment reporting by geographical segment (24) Net interest income, (32) Administrative expenses, (33) Other operating profit/loss, (38) Financial assets at fair value through profit or loss, (44) Property and equipment, (45) Investment property, (51)Financial liabilities at amortised cost, (58) Fair value hierarchy, (68) Regulatory data.

In Note (76) Related parties, a correction was made to the previous year's figures with respect to transactions with subsidiaries and other income and expenses with related parties.

(6) Applicable IFRS

In these consolidated financial statements, all standards, interpretations and their respective changes are applied insofar as they were recognised by the EU as part of the endorsement process and are relevant for the NORD/LB Group in the 2019 reporting year.

In the reporting period, account was taken of the following standards, amendments to standards and interpretations applicable to the NORD/LB Group for the first time as at 1 January 2019:

IFRS 16 – Leasing

On 1 January 2019, IFRS 16 replaced the regulations on the accounting of lease agreements as set out in IAS 17 in conjunction with the interpretations IFRIC 4, SIC-15 and SIC-27. The NORD/LB Group applies the rules of IFRS 16 to all leases identified under IAS 17 on a modified retrospective basis. Previous-year figures will not be adjusted. Instead the cumulative effects of the first-time application of IFRS 16 will be taken into consideration in the opening balance of the retained earnings as at 1 January 2019. As the usage rights and leasing liabilities offset each other evenly at this time, there is no effect on retained earnings.

The NORD/LB Group as the lessee is utilising the option to treat leases that end in 2019 as short-term lease agreements. Furthermore, at the time of first application of IFRS 16, it was decided not to perform an impairment review of the rights of use arising from the leases. There were no onerous contracts from the leases. In addition, the NORD/LB Group will exercise the option not to record leasing arrangements for 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 rights of use 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 have been 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 based on the future minimum lease payments:

	(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	
Low value leasing assets	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**

The weighted average value of the incremental borrowing rate of interest, which the NORD/LB Group used for the leasing liability posted in the Balance Sheet at the time of the first application of IFRS 16 is 2.14 percent.

As of 2019, breaking down leasing expenses into a depreciation and an interest component using the effective interest-rate method, rather than recognising the leasing expense under Administrative expenses as in the past, results in the degressive development of expenses 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 results in changes to the Notes.

With respect to the individual provisions, please refer to Note (15) Leases and (71) Lease agreements. The NORD/LB Group applies IFRS 16 in accordance with the transitional guidelines contained therein.

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 of whether the compensation is paid by the borrower or the lender. The NORD/LB Group has taken the clarification into account since 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 costs 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 in IAS 12, that the income-tax-related consequences of a dividend payment must be recorded in the same way as the underlying transactions, coincides with the current procedure in the NORD/LB Group. The clarification of IAS 23 with respect to considering the costs of debt capital in the context of procuring qualified assets when determining the financing cost rate of general borrowing did not impact on the consolidated financial statements of NORD/LB either.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the application of the recognition and evaluation provisions of IAS 12, where uncertainty exists regarding income tax treatment. The mandatory application of IFRIC Interpretation 23 from 1 January 2019 does not impact materially on the NORD/LB consolidated financial statements.

The NORD/LB Group has refrained, permissibly, from the early application of the following standard amendments which have been adopted into European law and do not have to be applied to the NORD/LB consolidated financial statements until after 31 December 2019:

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

In September 2019, the IASB issued amendments to the standards IFRS 9, IAS 39 and IFRS 7, in order to respond to the potential consequences on financial reporting of interest rate benchmark reform (IBOR reform). Until the interest rate benchmark reform has been completed, reliefs will be provided for the accounting of hedging transactions so that the IBOR reform should not generally cause hedging transactions to be terminated. The amendments must be applied to financial years starting on or after 1 January 2020. The

NORD/LB Group will utilise the reliefs in order to counteract the consequences of the IBOR reform and to be able to continue its hedging transactions.

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 1 January 2020. No material impact can be expected on the consolidated financial statements of NORD/LB.

Amendments to references to the conceptual framework in IFRS standards

In conjunction with the 2018 amendments to the IASB's conceptual framework, the IASB statement "Amendments to References to the Conceptual Framework in IFRS Standards" was also released, which amended the references to the conceptual framework in various standards and interpretations. The amendments to be applied as of 1 January 2020 are not expected to have an material impact on the NORD/LB consolidated financial statements.

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 published the new standard, IFRS 17 regarding the accounting of insurance contracts, which replaced the former standard IFRS 4 Insurance contracts. This regulates anew the principles in relation to the recognition, evaluation and reporting 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. This is not expected to result in any material changes compared with the current accounting practice of the NORD/LB Group.

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 as no relevant circumstances currently exist.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current

On 23 January 2020, the IASB issued changes to IAS 1, which must be applied as of 1 January 2022 and clarify that the classification of liabilities as current or non-current is determined in principle by the rights that exist on the Balance Sheet date. Consequently, liabilities are categorised as non-current, for example, if the substantial right exists to postpone fulfilment of the debt by at least 12 months after the Balance Sheet date. The amendments to IAS 1 may result in the need to make corresponding reclassifications in the Group Notes from 2022.

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 2019 is planned for the respective initial adoption date.

(7) Consolidation Fundamentals

The consolidated financial statements of the NORD/LB Group are drawn up according to the uniform 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.

The 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, 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 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 are presented according to the acquisition method. For this purpose, all assets and liabilities of subsidiaries are 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 by 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 a participating 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.

(8) Basis of Consolidation

In addition to NORD/LB as parent, the consolidated financial statements include 19 (31) 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 7 (9) associates are recognised. The joint ventures and the associates are accounted for using the equity method.

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

In the case of nine previously fully consolidated one-ship companies, the ships were sold as their material asset or the underlying ship mortgage receivables were sold individually or as part of a portfolio transaction. Consequently, the Group no longer has control over the following subsidiaries (incl. an intermediate holding company):

- MS "Arian" Schiffahrtsgesellschaft mbH & Co. KG, Elsfleth
- MS "Tammo" Schiffahrtsgesellschaft mbH & Co. KG, Elsfleth
- QUADRIGA Beteiligungsgesellschaft mbH & Co. KG, Elsfleth
- Rhea Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg
- Titan Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg
- Hyperion Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg
- Primavera Beteiligungsgesellschaft mbH & Co. KG, Elsfleth
- MS Mistral Strait UG (limited liability) & Co. KG, Bremen

- First Fleet Rita UG (limited liability) & Co. KG, Bremen
- GEBAB Ocean Shipping III GmbH & Co. KG, Hamburg

After the departure of the limited partner as at 1 January 2019, BGG Marktcarré GmbH & Co. KG, Bremen became part of NORD/LB.

After the departure of the limited partner as at 30 August 2019, TLN-Beteiligung Anstalt des öffentlichen Rechts & Co. KG, Hanover became part of NORD/LB.

The special fund NORD/LB AM ALCO was dissolved in the fourth quarter of 2019 following the complete redemption of all share certificates by NORD/LB.

Thus the named subsidiaries are no longer included by means of full consolidation in the consolidated financial statements as at 31 December 2019.

The special fund, newly created by the NORD/LB Group in the first half of the fiscal year as part of the asset fund concept, called

- NORDLB SICAV-RAIF S.C.Sp. - Infrastructure & Renewables GBP 2, Luxembourg

was included in the basis of consolidation as a fully consolidated subsidiary for the first time as at 30 June 2019.

The company Warburg Investment Holding GmbH, Hanover, is no longer accounted for as an associate using the equity method following the acquisition in full of all the capital shares by the majority shareholder as at the reporting date 30 June 2019.

In addition, the sale of Toto Lotto Niedersachsen GmbH, Hanover took place on 23 December 2019 which was previously accounted for as an associate using the equity method. A deconsolidation profit in the amount of € 115 million resulted.

The subsidiaries, joint ventures and associates included in the consolidated financial statements are listed in Note (79) Equity holdings.

(9) 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 which are to be consolidated and whose functional currency is not the euro are translated at ECB reference exchange rates on the measurement date. With the exception of Accumulated 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 expenses 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.

(10) 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 rate method, and is recognised under Interest income or Interest expenses.

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 recorded as dividends when the right to receive the dividend is established.

(11) Commission

The NORD/LB Group recognises income in compliance with the respective accounting standard. IFRS 15 is particularly relevant for the NORD/LB Group with regard to commissions. Commission income that must be received at a specific point in time is recognised in the Income Statement when the service is performed. This relates primarily to commission income from payment transactions as well as to brokerage business. The control over agreed services passes directly to customers when the services are rendered by NORD/LB, 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 securities syndicate business and asset management. In the NORD/LB Group, services that relate to a specified period of time are usually rendered on an ongoing basis in equal increments over the relevant time period whereby the Group usually has a claim to remuneration from the customer that corresponds directly to the equivalent value of the service 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 already paid by customers for services not yet performed 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, the 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 are usually agreed, i.e. variable transaction prices only exist in part. Variable remunerations are not estimated. Variable remunerations are generally not limited by separate additional constraints, i.e. a material reclaim of cumulated income by the customer is not expected. Customer contracts do not contain material non-financial compensation. If a distribution is relevant, the transaction price is allocated 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.

(12) Financial Instruments

A financial instrument is defined as a contract which results in a financial asset for one entity and in a financial liability or equity instrument for another entity. The NORD/LB Group's financial instruments are recognised accordingly on the Balance Sheet and accounted for in accordance with the accounting principles of IFRS 9.

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 or substantial contractual amendments are made. 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 or loss; on resale of own debt instruments 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 upon recognition. As regards financial instruments not measured at fair value through profit or loss, the transaction costs are included in amortised cost insofar as these can be directly allocated. They are recognised at nominal value or at the redemption amount as part of the distribution of premiums and discounts at a constant effective interest rate. For financial instruments which are measured at fair value through profit or loss, the transaction costs are immediately recognised in profit or 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
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 Group 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 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 allocation of the assessment units with their corresponding objective-based IFRS 9 business models is reviewed at least once a year the segment strategies are reviewed or adjusted.

IFRS 9 provides for three possible business models for financial assets: "Hold", "Hold and sell", and "Other". The "Hold" business model includes financial assets for which the objective is to receive the contractual cash flows from these assets until they mature. When assessing whether this business model is applicable, the NORD/LB Group 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 applies to 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. On an ad hoc basis it is reviewed 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 objective of covering the daily liquidity requirement or achieving a specific (interest) income profile are allocated to this business model.

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 of realising 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 nominal amount, interest payments linked to shares, commodity prices or other indices, or a nominal 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 refinancing 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 NORD/LB Group does not assess the cash flow criterion is in respect of contractual components that have only a 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. For the assessment, a benchmark test is to be performed during which the undiscounted cash flows of the modified instrument will be compared with those of an unmodified instrument which represents the benchmark instrument. If there are significant deviations, the cash flow criterion (SPPI criterion) is not fulfilled.

bc) Modification

When modifying existing loan agreements, qualitative criteria supplemented by a present-value-based quantitative criterion are used to review whether the loan's cash flows are exposed to a material change as a result of the modification and whether the derecognition criteria of IFRS 9 are met. Firstly, the modification measures are classified using qualitative assessment criteria. Measures, the effects of which are empirically unsubstantial do not require further quantitative review (e.g a change to the principal payment or interest rate agreement with a term of up to one year or the amendment of a contractual term without an amendment to the interest rate). Measures for which the contractual change can be substantial are subjected to an additional present-value-based review as to whether the cash flows change significantly as a result of the contractual modification (e.g. no interest payable until the end of the term). The last category of measures includes those that are empirically substantial and therefore require no further quantitative review (e.g. debt equity swap). In the case of a substantial modification, 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 NORD/LB Group depending on the classification of the business model and whether the cash flow criterion is met:

bd) Financial assets at amortised costs

This category includes non-derivative financial debt instruments 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 (13) Risk Provisioning, (27) Profit/loss from Risk Provisioning and (59) Risk Provisioning and Gross Carrying Amount). Allocations to and reversals of risk provisioning are recognised in the Income Statement under 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 those the Group does not generally intend to hold until maturity. In the lending business, this category was 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 or loss using the effective interest method. Interest is recognised in Net interest income; commissions are recognised in Net commission income.

In addition, the debt instruments allocated to this category are subject to the same impairment regulations as financial assets at amortised cost (see Notes (13) Risk Provisioning, (27) Profit/loss from Risk Provisioning and (59) Risk Provisioning and Gross Carrying Amount). Allocations to and reversals of risk provisioning are also recognised here through profit or loss under 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 NORD/LB Goup 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 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. This option was not utilised in the reporting year.

bf) Financial assets at fair value through profit or loss

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

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 in the NORD/LB Group comprise primarily debt securities and derivatives.

ii) Financial assets requiring measurement 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 final compensation” 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 cash flows generated by the financed asset (look-through test) confirms that, from an economic perspective and loan-specifically, 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 for the relevant segment. 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) Designated financial assets 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 NORD/LB Group does not currently use this category.

c) Classification and measurement of financial liabilities

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 rate method. Interest is recognised in Net interest income; commissions are recognised in 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 or loss. There is no separate amortisation of premiums and discounts at constant effective interest rates. Interest and commissions are recognised in Net interest income and Net commission income.

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 financial assets at fair value.

ii) Designated financial liabilities at fair value through profit or loss
Financial liabilities otherwise measured at amortised cost on initial recognition which the Group has irrevocably designated at fair value through profit or loss can be designated in this subcategory. The NORD/LB Group uses the fair value option to minimise or avoid accounting mismatches. 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) – unless this would cause or increase an accounting mismatch. When the transactions are derecognised, these fair value changes are reclassified into Retained earnings. Other fair value changes are recognised in the Profit/loss from financial assets at fair value in the Income Statement – in the event of an accounting mismatch, so are the changes in the Group's own credit risk. Further 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 (50) Financial liabilities at fair value through profit or loss.

d) Reclassifications

In accordance with the provisions of IFRS 9 reclassifications of financial assets may be made only as a result of a significant change in the IFRS 9 business model. A significant change in the business model according IFRS 9 can only be the result of internal or external changes, which are significant for the work processes and are transparent for external parties. Additionally, a change to the business model must be specified by the Managing Board. At the time of reclassification, the financial assets are classified taking into consideration the changed IFRS 9 business model and subsequently valued. Any differences in value resulting from the reclassification are recorded in the Income Statement or in Other comprehensive income (OCI). No reclassifications were required in the NORD/LB Group during the period under review.

e) Determination of fair value
The unit of account underlying the measurement of financial instruments is determined on the basis of the aforementioned categorisation according to 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 the 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 using 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 in 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

Within the fair value hierarchy, 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 without transaction reference from traders and brokers will be used for the measurement. 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 determined 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. level 1 input factors are not regularly corrected.

Level 1 financial instruments include trading assets and liabilities, financial assets requiring measurement at fair value through profit or loss, financial instruments designated 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 in 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 securities as assetes 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 assigned to level 2 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 designated 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 and Other liabilities.

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, amongst others, 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.

Furthermore, all loans measured at fair value and loan commitments intended for syndication that are presented as derivatives, are regularly assigned to level 3. The portfolio guarantees of the state of Lower Saxony which are accounted for as credit derivatives are also 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 designated at fair value through profit or loss, financial assets at fair value through other comprehensive income, shares in companies, designated assets held for sale at fair value and 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 posted in 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 current loans/advances and liabilities to banks and customers (demand deposits), the nominal 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 non-current loans/advances and liabilities to banks and customers or for deposits, since there are no observable primary or secondary markets. The fair value for these financial instruments is determined with the help of recognised measurement methods (discounted-cash-flow model). Input data for this model are the risk-free interest rate, a risk premium and (as appropriate) additional premiums to cover administrative and equity costs.

Further information on the fair value hierarchy and the fair values of financial instruments is given in Note (58) Fair Value Hierarchy.

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 (58) Fair Value Hierarchy).

With the capitalised-earnings-value method, the fair value is determined from the present value of future net inflows to the shareholders associated with ownership in the company (present value of future profits).

The net earnings of shareholders, which are to be 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 affiliated company (planning phase II). These expected future profits are discounted as at 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 affiliated company 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 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 relevant entity to be measured. The beta factor, as a relative measure, describes the extent to which the yield of the respective share in the affiliated company 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. Thus 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 by the fair 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 pursuant to CRR, these are largely recognised as own funds.

Subordinated liabilities are recognised on the Balance Sheet at amortised cost. 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 the previous year. 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 principal payments were reassessed in the previous year and discounted at the original effective interest rate, applying IFRS 9.B5.4.6. The difference between these was recognised in profit or loss in the 2018 reporting year and amortised based on constant effective interest rates in the subsequent years. When new knowledge becomes known about previous assumptions underlying the profit forecast of the NORD/LB Group, 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 contract regarding the structured product, so these products constitute a legal unit and cannot be treated separately from one another due to the contractual unit.

Under IFRS 9 the host contract and the derivative for hybrid financial assets must be classified in their entirety. 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 as part of the trading portfolio, or as a hedging derivative, at fair value through profit or 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 due to the use of different measurement approaches for underlying transactions and hedging investments.

The NORD/LB Group continues to apply the existing regulations of IAS 39 with respect to hedge accounting. These differentiate 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 the interest-rate risk. Changes to fair values arising from the assets or liabilities are hedged in euro 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 transactions 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 transactions. 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. At times, the regression method is used 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 the portfolio fair value hedge, the hedged risk is the interest rate risk which is represented by the risk-free interest-rate curve and is measurable. In compliance with the market, the OIS curve in the relevant currency is considered a risk-free interest rate curve. This means that to determine the interest rate induced value change of the underlying portfolio, the hedge fair values are formed using a discounted cashflow method with the aid of the OIS curve. Furthermore, the residual term effect is not designated as a risk to be hedged. Therefore, fair value changes, which result solely from the pull-to-par effect, are separated when measuring the effectiveness of the hedge. The pull-to-par effect is recorded in Net interest income.

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 (41) and Note (52) Positive/Negative fair values from hedge accounting derivatives). Measurement changes are recognised in the Income Statement (Note (29) 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 affected 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 Other comprehensive income (OCI).

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). When hedging interest-rate risks 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 Adjustment item for financial instruments hedged in the portfolio fair value hedge, 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 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 hedging transactions in the portfolio fair value hedge accounting are entered into for a period of one month. For hedging instruments and underlying transactions in effective hedges, see Note (29).

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.

No non-genuine securities transactions were concluded in the NORD/LB Group.

The policies for the balance-sheet recognition of genuine repurchase transactions apply as appropriate to securities lending. Securities lent are carried as security portfolios and measured in accordance with 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 repos and securities lending, 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. On principle, loan commitments are not recognised on the Balance Sheet. In these cases, provisions are created to take the expected credit loss into account.

The financial guarantees of the NORD/LB Group also contain financial guarantees in accordance with the definition of IFRS 9 (see Note (73) 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.

With respect to the guarantees of the state of Lower Saxony on certain loan portfolios, these are not treated on the Balance Sheet as financial guarantees within the meaning of the IFRS, but as credit derivatives (see Note (4)).

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 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

The "three stage model" of IFRS 9 recognises anticipated creditworthiness-induced losses of the financial assets on initial recognition on the basis of an expected loss model. 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 derive from the present value of the payment defaults expected from potential default events over the next twelve months. The losses expected to arise are determined 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. 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 it is determined that the default risk has increased significantly since initial recognition, even though objective indications of impairment do not exist, the underlying financial assets have to transferred 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 with matching 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 objective evidence of impairment, the financial asset have to transferred 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 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 to the borrower, such as deferral of principal payments, exemption from interest or waiver of claim.

The definition used in the NORD/LB Group of an event triggering an impairment is 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 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 independent of the development of its credit quality. The simplified approach is also not used in the NORD/LB Group.

The impairment model is based on a symmetric approach. If as at the financial reporting date the NORD/LB Group determines a significantly higher default risk is no longer present, the respective financial asset must be transferred from Stage 2 to Stage 1. Likewise a financial asset must also be transferred from Stage 3 to Stage 2 if there is no longer any evidence of an objective impairment. 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 in the NORD/LB Group before the transfer can take place.

Risk provisioning is calculated in the NORD/LB Group based on each individual financial asset. The NORD/LB Group 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 taking into consideration 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 claim. Different scenarios look at factors such as the timing and amount of expected cash flows in response to specific events (continuation of the exposure or disposal) as well as their estimated probability of occurrence.

In the case of assets at amortised cost, the risk provisioning determined 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 Group 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 as loan loss provisions.

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 at the time of becoming aware default pursuant to CRR are written off directly. Cash inflows for written-off receivables are recognised through profit or 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.

(14) Property and Equipment

Property and equipment is recognised on acquisition, at cost. Subsequent costs are recognised 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 the amortised costs or amortised production costs. Scheduled 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
Buildings	5-50
Operating and office equipment	3-25
Other property and equipment	3-25

(15) Leases

Under IAS 17 and up to and including the 2018 reporting year, leases were classified as finance leases or operating leases at the start of the lease. If all risks and rewards of ownership were essentially transferred to the lessee, the lease agreement had to be classified as a finance lease; the leased asset was accounted for by the lessee. If all risks and rewards of ownership were not essentially transferred to the lessee, the lease had to be classified as an operating lease; the leased asset was accounted for by the lessor.

Finance lease

If the NORD/LB Group served as the lessee, the leased asset was recognised at fair value or at the present value of the future minimum lease payments, provided that this was lower than the fair value; at the same time, an obligation for future rental payments due was recognised as a liability. Initial direct costs incurred were recorded together with the leased asset. The asset was carried under Property and equipment, Investment property or Intangible assets; the liability (lease payments still due) was carried as a liability.

If the NORD/LB Group served as the lessor, a receivable in the sum of the lessee's payment obligations arising from the lease was recognised on the Balance Sheet on commencement of the lease term. The receivable was recognised at net investment value (difference between gross investment in the lease and unearned financial income) and carried under Receivables. Any ancillary costs were distributed over the contract term.

Lease payments under the terms of the finance lease were split into a principal component and an interest component. The principal component was deducted from the receivables [(lessor) or liabilities (lessee)]. The interest component was recognised through profit and loss as Interest income (lessor) or an Interest expense (lessee).

Operating lease

If the Group served as the lessee in the case of an operating lease, the lease payments made were recognised as an expense under Administrative expenses. Initial direct costs (such as experts' fees) were immediately recognised through profit and loss.

If the Group served as the lessor, the item leased was recognised in the Balance Sheet at the start of the lease agreement; initial direct costs were recorded with the leased item. The leased item was measured as an asset at amortised cost. The lease payments received were recognised as leasing income under Other operating income; the interest expense from the financing of the leased item was recognised under Other operating expenses. Scheduled depreciations were recognised under Administrative expenses, while impairments as well as reversals of impairment losses were recognised under Other operating profit/loss.

Finance lease agreements were written down over a period of two to 20 years. Operating lease agreements were written down over a period of 25 years.

Under IFRS 16, a uniform accounting model for lessees applies as of 2019, according to which right-of-use assets and lease liabilities arising from leases must be accounted for. 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.

At the start of the lease, the NORD/LB Group as the lessee recognises a leasing liability in the amount of the discounted, as yet unpaid lease payments payable over the contractually agreed term under the Balance Sheet item, Other liabilities. To this end, the interest rate or incremental borrowing rate of interest underlying the lease for equivalent secured borrowings in the relevant contract currency is applied. This rate reflects the term of the lease with similar collateralisation and a similar value of the right-of-use in a comparable commercial situation and the creditworthiness of the Group company concluding the contract. In the event of negative incremental borrowing rates of interest, the as yet unpaid lease payments are not discounted. Received options with respect to extensions, termination or purchase are taken into consideration when their exercise is highly probable. Below, the lease liability is increased by the expense arising from the accrued interest and reduced by the lease payments made.

At the start of the lease, the NORD/LB Group as the lessee also recognises a right-of-use in the amount of the lease liability under the item Property and equipment. Initial directly attributable costs incurred are recorded together with the leased asset. Below, the right-of-use is measured at amortised cost. The associated accruing scheduled depreciation is recognised under Administrative expenses, while impairments as well as reversals of impairment losses are recognised under Other operating profit/loss.

As a lessee, the NORD/LB Group exercises the option to not record rights of use or leasing liabilities for short-term and low-value leases. Instead, the expenses from these contracts are recognised in the periods in which they occur in the Income Statement as Administrative expenses. Leases that on initial recognition have a term of 12 months or less are considered short-term. Leases are considered low-value when the new value does not exceed € 5,000.

The lease liability and corresponding right-of-use is remeasured to reflect changes in the recognised lease.

For the NORD/LB Group as lessor, IFRS 16 does not result in material changes to the accounting policies. 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 must be classified as a finance lease. If all risks and rewards of ownership are not essentially transferred to the lessee, the lease must be classified as an operating lease.

If the NORD/LB Group serves as the lessor in a finance lease, 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 NORD/LB Group recognises the receivable at the net investment value (difference between gross investment in the lease and unearned financial income) and carries it under Receivables. Directly attributable ancillary costs are distributed over the contract term. Lease 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. The interest component is recognised through profit and loss as interest income received.

If the Group is the lessor in an operating lease, the item leased is recognised in the Balance Sheet at the start of the lease agreement; initial directly attributable costs are recorded with the leased item. The leased item is measured as an asset at amortised cost. The lease 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. Scheduled depreciations are recognised under Administrative expenses, while impairments as well as reversals of impairment losses are recognised under Other operating profit/loss. The assets in operating leases are written down over a period of 31 - 50 years.

(16) 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 added up to the acquisition costs provided that they result in a significant improvement of the asset and increase its future economic benefit.

Subsequent measurement of investment properties takes account of scheduled, straight-line depreciation. Impairments are applied at the amount at which the carrying amount exceeds the higher amount of fair value less the costs of disposal and value in use of the asset. If the reasons for an impairment no longer apply, a write-up is implemented up to a maximum of the amortised costs or amortised production costs. Scheduled 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 31 to 50 years.

The capitalised earnings value method is applied together with market data to determine the fair value of investment properties. In some cases, this value was determined by independent experts with corresponding qualifications and up-to-date experience.

(17) Intangible Assets

The main items recognised under Intangible assets are acquired and internally developed software.

Intangible assets acquired by the NORD/LB Group are recognised on the Balance Sheet at cost of acquisition. Internally developed intangible assets are recognised at cost if the inflow of economic benefits is likely and expenses can be determined reliably. If recognition criteria are not met, costs are recognised immediately through profit and loss. Recognised costs of internally developed software comprise expenses for internal and external services incurred during the development phase which are directly attributable (for customising and testing activities in particular). Subsequent costs are added up to the asset provided that they result in a significant improvement of the asset and increase its future economic benefit.

For intangible assets with a finite useful life, scheduled straight-line depreciation is taken into account according to 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 amortised costs or amortised production costs. Scheduled 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.

The NORD/LB Group does not have any intangible assets with indefinite useful lives.

(18) 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 amount is lower than the carrying amount. Non-current assets classified as held for sale are no longer subject to scheduled depreciation as from the reclassification date. Impairment losses resulting from non-current assets and disposal groups 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.

(19) Provisions for Pensions and Similar Obligations

According to IAS 19, direct and indirect pension liabilities from defined benefit pension plans are determined as at the Balance Sheet date by independent actuaries using 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 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 are taken into account under Administrative expenses in 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. The defined benefit obligation is determined based on the following actuarial assumptions:

(in %)	31 Dec. 2019	31 Dec. 2018
Domestic		
Actuarial interest rate	1.50	2.20
Salary development (weighted)	2.00	2.00
Pension development (contingent on the occupational pension scheme)	2.75	2.75
Cost increase rate for medical allowance	3.50	3.50
Mortality, invalidity, etc.	Grundlage Heubeck Sterbetafel 2018 G	Grundlage Heubeck Sterbetafel 2018 G
Abroad (weighted parameters)		
Actuarial interest rate	2.05	2.83
Salary development (weighted)	2.69	2.67
Pension development	3.23	3.21
Mortality, invalidity, etc.	USA RP-2014, GB S1PMA Light/S1PFA light base tables with CMI 2014 projections basis, LUX DAV 2004 R	USA RP-2014, GB S1PMA Light/S1PFA light base tables with CMI 2014 projections basis, LUX DAV 2004 R
Inflation	3.07	3.25

(20) Other Provisions

Other 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 specialists' opinions 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.

(21) 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. In the event that the amounts stated in the tax returns may not be realised (uncertain tax items) current income tax liabilities have been formed. The amount is determined from the best-possible estimate of the expected tax payment (expected value or most likely value of the uncertain tax). Current income tax assets from uncertain tax assets are shown on the balance if it is likely that they can be realised. Only if there is a tax loss carried forward, no current income tax assets or liabilities for uncertain tax items are shown on the Balance Sheet rather deferred tax claims are modified for tax losses carried forward that have not yet been used.

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 requirements for offsetting are met. No discounting is applied. Depending on the treatment of the underlying fact, 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 item in the Group's Income Statement.

Segment Reporting

Segment reporting provides information on 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 shown uniformly for the business segments and the Group, pursuant to CRR/CRD IV as at the financial reporting date.

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. 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 range offered comprises traditional credit and syndicate business, savings and checking products, securities, foreign exchange and derivative transactions, complex structured financing solutions, private banking products, liquidity and risk management, as well as services such as account management, payment transactions, securities trading, brokerage activities, documentary business, credit processing, sureties, guarantees and advisory services for asset management.

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

Within the Bank, every interest-bearing customer transaction is applied to the balancing provision held by the Treasury as the central cash management unit. There are no direct business relationships among market divisions within the Bank. For this reason, no inter-segment 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 or loss, such as profit/loss from hedge accounting and the disposal profit/loss from financial instruments not measured at fair value through profit or loss, is not allocated to the Bank's operational business fields, but rather to the Group Management/Others segment.

In addition to the profit or loss account figures, the attributable total risk exposure amount, segment assets and liabilities, capital employed 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. 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 financial instruments at fair value measurement, Disposal profit/loss from financial instruments 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 and Other operating profit/loss.

The calculation of the RoRaC in the segments relates the earnings before taxes to the capital employed.

Capital employed in the segments is calculated on the basis of average annual values. The amount of the reconciliation between the capital employed recognised in the segments and the long-term equity under commercial law at company level is included in the reconciliations segment. A reconciliation of long-term equity under commercial law to reported equity is presented separately at the end of the segment reporting.

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 conceptual 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, 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/Maritime Industries 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 objective is to tailor the project requirements and cash flow processes to the respective customer.

Ship Customers/Maritime Industries Customers

The ship financing activities of NORD/LB in Germany and abroad fall within the remit of this segment. Customers in the Ship Customers/Maritime Industries 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 results in an 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 fall within the remit of 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 is 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 are shown here. It also includes reclassifications of profit or loss items that are recognised differently in the internal management system compared with the external reporting.

Segment reporting by region

Regional distribution of income before risk provisioning, 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.

(22) Segment Reporting by Business Segment

1 Jan. - 31 Dec. 2019 (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	159	343	108	54	166	11	78	186	92	– 174	1 024
Net commission income	63	41	21	10	43	26	3	3	– 97	– 41	71
Profit/loss from financial instruments at fair value	–	2	12	– 2	10	56	1	7	87	28	201
Risk provisioning	8	– 77	1	– 15	– 53	160	– 4	–	1	8	29
Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss	–	–	–	–	–	–	–	–	– 35	6	– 30
Profit/loss from hedge accounting	–	–	–	–	–	–	–	–	22	–	22
Profit/loss from shares in companies	–	–	–	–	–	–	–	–	17	–	17
Profit/loss from investments accounted for using the equity method	2	–	–	–	–	–	–	–	18	–	20
Administrative expenses	172	190	109	62	97	58	35	62	177	8	970
Other operating profit/loss	– 2	–	1	–	3	1	–	1	105	– 64	45
Earnings before restructuring, reorganisation and taxes	**57**	**119**	**35**	**– 15**	**71**	**196**	**44**	**136**	**31**	**– 245**	**429**
Restructuring result	–	–	–	–	–	–	–	–	– 341	–	– 341
Reorganisation expenses	–	–	–	–	–	–	–	–	118	–	118
Earnings before taxes	**57**	**119**	**35**	**– 15**	**71**	**196**	**44**	**136**	**– 428**	**– 245**	**– 30**
Income taxes	–	–	–	–	–	–	–	–	–	39	39
Consolidated profit/loss	**57**	**119**	**35**	**– 15**	**71**	**196**	**44**	**136**	**– 428**	**– 283**	**– 69**
Segment assets	7 172	23 785	13 401	18 219	15 326	4 273	4 573	13 195	39 895	– 219	139 619
of which: investments at equity	44	–	–	–	–	–	–	–	103	–	147
Segment liabilities	7 939	5 023	35 603	3 081	2 764	815	380	153	83 310	550	139 619
Total risk exposure amount	4 206	12 462	2 774	1 068	5 681	671	3 076	5 498	466	3 939	39 841
Capital employed[1]	568	1 863	522	168	797	373	590	769	1 099	– 109	6 638
CIR	77.8%	49.3%	76.0%	100.1%	43.8%	62.2%	42.1%	31.4%			71.7%
RoRaC/RoE[2]	10.1%	6.4%	6.7%	-8.9%	8.9%	52.5%	7.4%	17.6%			-0.5%

1 Jan. - 31 Dec. 2018 [3] (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	– 11	– 71	1 229
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	256	8	999
Other operating profit/loss	– 5	1	– 2	–	9	1	1	– 1	– 47	– 14	– 57
Earnings before restructuring, reorganisation and taxes	**50**	**182**	**54**	**23**	**84**	**– 1 926**	**77**	**142**	**– 516**	**– 58**	**– 1 888**
Restructuring result	–	–	–	–	–	–	–	–	– 134	1	– 133
Reorganisation expenses	–	–	–	–	–	–	–	–	85	1	86
Earnings before taxes	**50**	**182**	**54**	**23**	**84**	**– 1 926**	**77**	**142**	**– 735**	**– 58**	**– 2 107**
Income taxes	–	–	–	–	–	–	–	–	–	297	297
Consolidated profit/loss	**50**	**182**	**54**	**23**	**84**	**– 1 926**	**77**	**142**	**– 735**	**– 355**	**– 2 404**
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	1 059	2 926	44 895
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%			99.5%
RoRaC/RoE[2]	12.5%	13.6%	13.4%	16.2%	13.7%	-313.4%	17.0%	26.7%			-34.1%

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

(in € million)	31 Dec. 2019	31 Dec. 2018
Long-term equity under commercial law	6 638	6 180
Accumulated OCI	– 730	– 415
Earnings after taxes	– 69	– 2 404
Reported equity	**5 838**	**3 362**

[2] RoRaC at the business level:
Earnings before taxes / capital employed
RoE at the company level:
Earnings before taxes/long-term equity under commercial law (see table above)

[3] For individual items, the previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

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

(23) Segment Reporting by Geographical Segment

1 Jan. - 31. Dec.2019 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings [1]	1 103	180	52	28	– 10	1 353
Earnings before taxes (EBT)	– 103	102	11	– 11	– 30	– 30
Segment assets	134 687	17 541	3 613	1 777	– 18 000	139 619
Segment liabilities	136 645	15 584	3 613	1 777	– 18 000	139 619
Total risk exposure amount	37 260	7 568	1 666	466	– 7 118	39 841
Capital employed	5 486	828	234	118	– 29	6 638
CIR	81.0%	36.2%	76.1%	95.3%		71.7%
RoRaC/RoE[2]	-1.9%	12.3%	4.6%	-9.1%		-0.5%

1 Jan. - 31 Dec. 2018 [3] (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings [1]	948	101	66	49	– 159	1 004
Earnings before taxes (EBT)	– 2 073	30	28	– 4	– 89	– 2 107
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	40 473	7 806	1 390	805	– 5 579	44 895
Capital employed	5 354	589	134	104	–	6 180
CIR	97.5%	70.8%	58.1%	50.8%		99.5%
RoRaC/RoE[2]	-38.7%	5.1%	20.8%	-3.5%		-34.1%

[1] Earnings are defined as the sum of Net interest income, Net commission income, Profit/loss from financial instruments at fair value, Profit/loss from hedge accounting, Profit/loss from investments accounted for using the equity method, Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss and other Operating profit/loss.

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

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

[3] For individual items, the previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

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

Note to the Income Statement

(24) Net Interest Income

The interest income and interest expenses items include paid and received interest, accrued interest and pro rata amortisation 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, the corresponding expenses and income are likewise recognised in Net interest income.

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018[1] (in € million)	Change (in %)
Interest income from assets			
Interest income from financial assets at fair value through profit or loss			
Interest income from trading assets	2 363	2 534	– 7
of which: from trading and hedge accounting deriva-tives	2 274	2 436	– 7
of which: from debt securities and other fixed interest securities	11	17	– 35
of which: from loans and advances	78	81	– 4
Interest income from financial instruments mandatorily at fair value through profit or loss	70	106	– 34
of which: from debt securities and other fixed interest securities	20	25	– 20
of which: from loans and advances	50	81	– 38
	2 433	**2 640**	**– 8**
Interest income from financial assets at fair value through other comprehensive income			
Interest income from debt securities and other fixed interest securities	192	224	– 14
Interest income from loans and advances	35	49	– 29
	227	**273**	**– 17**
Interest income from financial assets at amortised cost			
Interest income from debt securities and other fixed interest securities	112	122	– 8
Interest income from loans and advances	2 221	2 420	– 8
Interest income from impaired debt securities and other fixed interest securities as well as loans and advances	42	68	– 38
	2 375	**2 610**	**– 9**
Dividend income	**10**	**9**	**11**
Other interest income and similar income			
Interest income from hedge accounting amortisations	394	459	– 14
Other interest income and similar income	48	63	– 24
	442	522	**– 15**
	5 487	**6 054**	**– 9**

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan - 31 Dec. 2018 [1] (in € million)	Change (in %)
Interest expenses from assets	**57**	**55**	**4**
Interest expenses from liabilities			
Interest expenses from financial labilities at fair value through profit or loss			
of which: from trading liabilities	2 342	2 484	– 6
of which: from trading and hedge accounting derivatives	2 330	2 474	– 6
of which: from deposits	12	10	20
Interest expenses from financial labilities designated at fair value through profit or loss	151	152	– 1
of which: from deposits	105	108	– 3
of which: from securitised liabilities	46	44	5
	2 493	**2 636**	**– 5**
Interest expenses from financial liabilities at amortised cost			
Interest expenses from deposits	1 159	1 291	– 10
Interest expenses from securitised liabilities	360	400	– 10
	1 519	**1 691**	**– 10**
Other interest expenses and similar expenses			
Interest expenses from hedge accounting amortisations	405	516	– 22
Other interest expenses and similar expenses	67	48	40
	472	**564**	– 16
	4 484	**4 891**	**– 8**
Interest income from liabilities	**78**	**121**	**– 36**
Total	**1 024**	**1 229**	**– 17**

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

The Interest expenses from assets and the Interest income from liabilities refer in the main to the Group's lending and money market transactions. In addition, Interest income from liabilities contains a valuation result stemming from the application of IFRS 9.B5.4.6 in the amount of € -30 million (€ 30 million), which results from the new valuation of the cash flows associated with the silent participations of the NORD/LB Group (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 € 16 million (€ 53 million).

(25) Net Commission Income

	1 Jan. - 31. Dec. 2019 (in € million)	1 Jan. - 31. Dec. 2018 (in € million)	Change (in %)
Commission income			
Lending and guarantee business	113	104	9
Account management and payment transactions	46	46	–
Trust activities	1	1	–
Security transactions and custody service	45	43	5
Brokerage business	35	29	21
Other commission income	9	19	– 53
	249	**242**	**3**
Commission expenses			
Lending and guarantee business	145	155	– 6
Account management and payment transactions	3	3	–
Security transactions and custody service	15	18	– 17
Brokerage business	3	4	– 25
Other commission expenses	12	10	20
	178	**190**	**– 6**
Total	**71**	**52**	**37**

Commission income includes income from financial instruments not measured at fair value through profit and loss and amounting to € 204 million (€ 193 million) and expenses from financial instruments not measured at fair value through profit and loss in the amount of € 162 million (€ 176 million).

(26) Profit/loss from Financial Assets at Fair Value through Profit or Loss

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (in € million)	Change (in %)
Trading result			
Profit/loss from derivatives			
Interest-rate risks	68	23	> 100
Currency risks	– 14	– 86	– 84
Share-price and other price risks	– 11	11	> 100
Credit derivatives	48	– 2	> 100
	91	**– 54**	**> 100**
Profit/loss from equity instruments	–	– 4	– 100
Profit/loss from debt-securities and other fixed-interest securities	52	– 11	> 100
Profit/loss from receivables held for trading	130	– 8	> 100
Profit/loss from short sales	3	– 3	> 100
Other trading result	– 1	– 6	– 83
	275	**– 86**	**> 100**
Profit/loss from financial assets at fair value through profit or loss			
Profit/loss from equity instruments	8	– 15	> 100
Profit/loss from debt-securities and other fixed-interest securities	36	– 31	> 100
Profit/loss from receivables	63	– 162	> 100
	107	**– 208**	**> 100**
Profit/loss from designated financial liabilities at fair value through profit or loss			
Profit/loss from deposits	– 214	3	> 100
Profit/loss from securitised liabilties	– 13	6	> 100
	– 227	**9**	**> 100**
Foreign exchange result	**46**	**3**	**> 100**
Total	**201**	**– 282**	**> 100**

(27) Risk Provisioning

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (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	2	1	100
	2	**1**	**100**
Expenses from allocations to risk provisions for			
Debt securities and other fixed interest securities	1	3	– 67
	1	**3**	**– 67**
	1	**– 2**	**> 100**
Risk provisionig of financial assets at amortised cost			
Income from the reversal of risk provisioning for			
Debt securities and other fixed interest securities	6	4	50
Loans and advances	579	838	– 31
	585	**842**	**– 31**
Expenses from allocations to risk provisions for			
Debt securities and other fixed interest securities	–	1	– 100
Loans and advances	487	2 574	– 81
	487	**2 575**	**– 81**
	98	**– 1 733**	**> 100**
Provisions in lending business			
Income from the reversal	48	32	50
Expenses from allocation	68	51	33
	– 20	**– 19**	**5**
Recoveries of receivables written off	**48**	**48**	**–**
Direct write-offs	**99**	**192**	**– 48**
Modification results	**1**	**5**	**– 80**
Total	**29**	**– 1 893**	**> 100**

€ 1 million (€ 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 € 471 million (€ 400 million) prior to modifications.

(28) Disposal Profit/Loss from Financial Instruments that are not measured at Fair Value through Profit or Loss

	1 Jan.-30 Dec. 2019 (in € million)	1 Jan.-30 Dec. 2018 (in € million)	Change (in %)
Disposal profit/loss from financial assets at fair value through other comprehensive income			
Disposal profit/los of			
of which: Debt securities and other fixed interest securities	17	47	– 64
	17	47	– 64
Disposal profit/loss from financial assets at amortised cost			
Disposal profit/los of			
of which: Debt securities and other fixed interest securities	5	–	–
of which:Loans and advances	– 25	– 4	> 100
	– 20	– 4	> 100
Disposal profit/loss from financial liabilities at amortised cost			
Disposal profit/los of			
of which: Deposits	– 23	– 11	> 100
of which: Securitised liabilities	– 4	– 1	> 100
	– 27	– 12	> 100
Total	**– 30**	**31**	**> 100**

(29) Profit/Loss from Hedge Accounting

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

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (in € million)	Change (in %)
Profit/loss from micro fair value hedges			
from hedged items	299	– 23	> 100
from derivatives designated as hedging instruments	– 279	28	> 100
	20	**5**	**> 100**
Profit/loss from portfolio fair value hedges			
from hedged items	– 281	– 183	54
from derivatives designated as hedging instruments	283	187	51
	2	**4**	**– 50**
Total	**22**	**9**	**> 100**

(30) 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. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (in € million)	Change (in %)
Profit/loss from shares in subsidiaries	– 4	–	–
Profit/loss from shares in joint ventures	1	–	–
Profit/loss from shares in associated companies	4	– 2	> 100
Profit/loss from other shares in companies	16	3	> 100
Total	**17**	**1**	**> 100**

(31) Profit/Loss from Investments accounted for using the Equity Method

The profit/loss from investments accounted for using the equity method is shown below. This contains the contributions to profit and loss from joint ventures and associates accounted for using the equity method.

	1 Jan.-30 Dec. 2019 (in € million)	1 Jan.-30 Dec. 2018 (in € million)	Change (in %)
Shares in joint ventures	1	1	
Shares in associated companies	19	20	
Total	**20**	**21**	**– 5**

(32) Administrative Expenses

	1 Jan.-31 Dec. 2019 (in € million)	1 Jan.-31 Dec. 2018[1] (in € million)	Change (in %)
Staff expenses			
Wages and salaries	403	415	– 3
Social insurance contributions	59	61	– 3
Expenditure on pension schemes and other benefits	48	53	– 9
Other staff expenses	6	6	–
	516	**535**	**– 4**
Other administrative expenses			
Costs for IT and communications	230	235	– 2
Building occupancy costs	29	45	– 36
Expenses for marketing, communications and entertainment	15	17	– 12
Personnel-related material expenses	14	17	– 18
Costs for legal, auditing, appraisal and consulting services	48	58	– 17
Levies and contributions	21	18	17
Expenses for operating and office equipment	5	6	– 17
Expenses for leasing	4	–	–
Other administrative expenses	23	17	35
	389	**413**	**– 6**
Amortisation and depreciation			
Property and equipment	37	24	54
Investment property	2	3	– 33
Intangible assets	26	24	8
	65	**51**	**27**
Total	**970**	**999**	**– 3**

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

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

(33) Other Operating Profit/Loss

	1 Jan.-31 Dec. 2019 (in € million)	1 Jan.-31 Dec. 2018 [1] (in € million)	Change (in %)
Other operating income			
Income from the reversal of provisions	21	28	– 25
Income from the chartering of vessels related to restructuring lending commitments	5	18	– 72
Rental income from investment property	12	12	–
Income from the disposal of non-financial assets	–	7	– 100
Reimbursements	10	11	– 9
Other operating income	154	35	> 100
	202	**111**	**82**
Other operating expenses			
Expenses from bank levy and deposit protection fund	85	68	25
Expenses from allocation to provisions	–	4	– 100
Expenses from additions of impairment losses on non-financial assets	32	23	39
Expenses for the achievement of charter revenues from vessels	3	15	– 80
Expenses from Investment property	2	3	– 33
Other taxes	7	4	75
Other operating expenses	28	51	– 45
	157	**168**	**– 7**
Total	**45**	**– 57**	**> 100**

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

Other operating earnings and expenses primarily include earnings in the amount of € 130 million and expenses in the amount of € 6 million from the sale of associated companies and subsidiaries.

(34) Restructuring Result

Profit/loss from restructuring totalling € - 341 million results from the formation of provisions for restructuring measures which meet the requirements of IAS 37. The result for the current reporting period is connected to the NORD/LB Group's programme NORD/LB 2024, a successor project to the One Bank transformation program, and relates to staff expenses. In the previous year, the result included € - 133 million restructuring expenses in the context of the One Bank transformation programme.

(35) Reorganisation Expenses

This item involves measures aimed at securing the future and maintaining the competitiveness of the NORD/LB Group. The expenses totalling € 118 million (€ 86 million) are not to be assigned to the operating business activities of the NORD/LB Group, but instead serve the comprehensive strategic reorganisation of the Group. Given their significance and extraordinary, non-recurring nature, these expenses are reported separately and are not assigned to administrative expenses. They result from consulting services for strategy, transformation, IT and legal advice for the creation of the prerequisites for the required capital measures, the redimensioning of the risk-beariing business and the realignment of the Bank's IT systems.

(36) Income Taxes

	1 Jan.-31 Dec. 2019 (in € million)	1 Jan.-31 Dec. 2018 (in € million)	Change (in %)
Current taxes on income and earnings			
Tax expenses / income for the current year	14	20	– 30
Tax expenses / income for previous years	– 3	1	> 100
	11	**21**	**– 48**
Deferred taxes			
Deferred taxes due to the accrual / reversal of temporary differences and tax losses / tax credits not previously considered	23	59	– 61
Deferred taxes due to changes in tax legislation / tax rates	– 1	–	–
Deferred taxes due to temporary differences in previous periods not previously considered	6	217	– 97
	28	**276**	**– 90**
Total	**39**	**297**	**– 87**

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.

	1 Jan.-31 Dec. 2019 (in € million)	1 Jan.-31 Dec. 2018 (in € million)
IFRS earnings before taxes	**– 30**	**– 2 107**
Anticipated income tax expenditure	– 10	– 674
Effects of reconciliation:		
Effects of differing tax rates	– 6	– 5
Taxes from previous years reported in the reporting period	3	218
Effects of changes in tax rates	– 1	–
Non-creditable income taxes	–	1
Non-deductible operational expenditure	26	40
Effects of tax-free earnings	– 37	– 6
Effect of permanent accounting-related effects	– 9	– 2
Effects of write-ups / write-downs / recognition adjustments	79	732
Other effects	– 6	– 7
Reported income tax expenses	**39**	**297**

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 2019. 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 differing 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. 2019 Amount before taxes	1 Jan. - 31 Dec. 2019 Income tax effect	1 Jan. - 31 Dec. 2019 Amount after taxes	1 Jan. - 31 Dec. 2018 Amount before taxes	1 Jan. - 31 Dec. 2018 Income tax effect	1 Jan. - 31 Dec. 2018 Amount after taxes
Investments accounted for using the equity method - Share of other comprehensive income	11	– 3	8	– 34	12	– 22
Changes in financial liabilities designated at fair value through profit or loss due to changes in own credit risk	– 135	39	– 96	– 36	11	– 25
Revaluation of the net liability from defined benefit pension plans	– 358	2	– 356	– 21	– 72	– 93
Changes in financial assets at fair value through other comprehensive income	167	– 52	115	– 153	48	– 105
Translation differences of foreign business units	2	–	2	– 1	–	– 1
Other comprehensive income	**– 313**	**– 14**	**– 327**	**– 245**	**– 1**	**– 246**

The item Revaluation of the net liability from defined benefit pension plans includes the performance obligation of the state of Lower Saxony in the amount of € 59 million vis-à-vis NORD/LB arising from the exemption for health-care benefits payable agreed in the support contract.

Notes to the Balance Sheet

(37) Cash Reserve

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Cash on hand	58	69	– 16
Cash balances at Central Banks	3 396	1 450	> 100
Total	**3 454**	**1 519**	**> 100**

(38) Financial Assets at Fair Value through Profit or Loss

This item includes the trading assets, financial assets mandatorily at fair value through profit or loss and financial assets at fair value through profit or loss of the NORD/LB Group.

The trading assets comprise the Group's derivative financial instruments not used in hedge accounting. Furthermore the item includes trading in debt securities and other fixed interest securities and, to a minor extent, in equity instruments. The financial assets mandatorily at fair value through profit or loss category recognises financial instruments which are required to be measured at fair value through profit or loss due to the cash flow criterion or business model as per IFRS 9.

	31 Dec. 2019 (in € million)	31 Dec. 2018[1] (in € million)	Change (in %)
Trading assets			
Positive fair values from derivatives			
Interest-rate risks	4 222	3 760	12
Currency risks	321	397	– 19
Share-price and other price risks	1	3	– 67
Credit derivatives	53	62	– 15
	4 597	**4 222**	**9**
Equity instruments	–	3	– 100
Debt securities and other fixed interest securities	1 666	1 697	– 2
Loans and advances to customers	582	251	> 100
Registered securities	2 514	2 790	– 10
	9 359	**8 963**	**4**
Financial assets mandatorily at fair value through profit or loss			
Equity instruments	21	70	– 70
Debt securities and other fixed interest securities	1 193	2 480	– 52
Loans and advances to banks	63	104	– 39
Loans and advances to customers	491	789	– 38
	1 768	**3 443**	**– 49**
Total	**11 127**	**12 406**	**– 10**

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

The credit derivatives posted under trading assets contain as at 31 December 2019 the guarantees received on 23 December 2019 from the state of Lower Saxony within the framework of strengthening the capital of

NORD/LB for specific portfolios of the Ship Customers/Maritime Industries Customers and Aircraft Customers segments. These guarantees are accounted for as credit derivatives according to IFRS and have a carrying amount as at the reporting date of € 29 million.

When initially adopting IFRS 9 as at 1 January 2018, 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 this time.

(39) Financial Assets at Fair Value through other Comprehensive Income

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Debt securities and other fixed interest securities	15 759	18 739	– 16
Loans and advances to banks	652	804	– 19
Loans and advances to customers	774	1 005	– 23
Total	**17 185**	**20 548**	**– 16**

The change in the risk provisioning recognised in other comprehensive income (OCI) related to this item is presented under Note(59) Risk provisioning and gross carrying amount.

(40) Financial Assets at Amortised Cost

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Debt securities and other fixed interest securities	4 180	4 375	– 4
Loans and advances to banks	19 986	24 498	– 18
Loans and advances to customers	80 049	85 168	– 6
Total	**104 215**	**114 041**	**– 9**

The change in the risk provisioning recognised in this item is presented under Note (59) Risk provisioning and gross carrying amount.

(41) Positive Fair Values from Hedge Accounting Derivates

This item comprises positive fair values of hedging instruments in effective micro and portfolio fair value hedging relationships.

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Micro fair value hedge derivative	998	981	2
Portfolio fair value hedge derivative	21	171	– 88
Total	**1 019**	**1 152**	**– 12**

(42) Balancing Items for Financial Instruments hedged in the Portfolio Fair Value Hedge

This item includes fair-value changes attributable to the hedged risk of assets, which are included as hedged item in a portfolio fair value hedge.

(43) Shares in Companies

The Balance Sheet item Shares in companies includes all shares in companies 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. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Subsidiaries	25	36	– 31
Joint Ventures	7	6	17
Associated companies	39	36	8
Other shares in companies	281	260	8
Total	**352**	**338**	**4**

(44) Property and Equipment

	31 Dec. 2019 (in € million)	31 Dec. 2018[1] (in € million)	Change (in %)
Land and buildings	213	290	– 27
Operating and office equipment	38	44	– 14
Ships	–	29	– 100
Other property and equipment	1	1	–
Property, plant and equipment under construction	1	–	–
Advance payments for property and equipment	–	1	– 100
Right-of-use assets from leasing	87	–	–
Total	**339**	**364**	**– 7**

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

Changes to property, plant and equipment are presented under Note (45) Investment property.

(45) Investment Property

Investment property has a total carrying amount of € 122 million (€ 107 million[1]). The corresponding fair value of the investment property is € 177 million (€ 168 million[1]) and falls, according to the fair value hierarchy of IFRS 13 completely within level 2.

The profit/loss from investment property is as follows:

	1 Jan. - 31 Dec. 2019 (in € million)	1. Jan.-31. Dec. 2018[1] (in € million)
Rental income	12	12
Direct operating expenses	2	3

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

Property and equipment and Investment property changed as follows:

(in Mio €)	Land and buildings[1]	Operating and office equipment	Ships	Other property equipment	Right-of-use-assets from leasing	**Total**	Investment property[1]
Cost as at 1 January 2018	**635**	**254**	**252**	**3**	**–**	**1 144**	**152**
Additions	2	6	12	1	–	**21**	–
Disposals	–	9	92	–	–	**101**	23
Transfers	– 8	2	–	– 3	–	**– 9**	9
Change from the basis of consolidation	–	–	– 98	–	–	**– 98**	–
Change from currency translation	–	–	1	–	–	**1**	–
Total 31 December 2018	**629**	**253**	**75**	**1**	**–**	**958**	**138**
Accumulated depreciation as at 1 January 2018	**331**	**206**	**146**	**–**	**–**	**683**	**44**
Scheduled depreciation	9	12	4	–	–	**25**	2
Impairments (non-scheduled)	–	–	22	–	–	**22**	–
Transfers	– 1	–	–	–	–	**– 1**	1
Disposals	–	9	62	–	–	**71**	16
Change from the basis of consolidation	–	–	– 64	–	–	**– 64**	–
Total 31 December 2018	**339**	**209**	**46**	**–**	**–**	**594**	**31**
Closing balance as at 31 December 2018	**290**	**44**	**29**	**1**	**–**	**364**	**107**
Cost as at 1 January 2019	**629**	**253**	**75**	**1**	**100**	**1 058**	**138**
Additions	–	6	–	1	4	**11**	–
Disposals	–	38	75	1	–	**114**	23
Transfers	– 55	– 1	–	–	–	**– 56**	52
Total 31 December 2019	**574**	**220**	**–**	**1**	**104**	**899**	**167**
Accumulated depreciation as at 1 January 2019	**339**	**209**	**46**	**–**	**–**	**594**	**31**
Scheduled depreciation	9	11	–	–	17	**37**	2
Impairments (non-scheduled)	27	–	2	–	–	**29**	4
Transfers	– 11	–	–	–	–	**– 11**	11
Disposals	3	38	48	–	–	**89**	3
Total 31 December 2019	**361**	**182**	**–**	**–**	**17**	**560**	**45**
Closing balance as at 31 December 2019	**213**	**38**	**–**	**1**	**87**	**339**	**122**

[1] The previous year's figures have been adjusted, see Note (5) Restatement of previous year's figures.

The transfers to Investment property relate to additions from Property and equipment.

(46) Intangible Assets

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Software			
Purchased	73	71	3
Internally generated	46	42	10
	119	**113**	**5**
Prepayments and intangible assets under development and preparation	13	8	63
Leasing assets			
Leasing property from finance lease	–	2	– 100
Leased software	7	–	–
	7	**2**	**> 100**
Other intangible assets	–	13	– 100
Total	**139**	**136**	**2**

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.2019	31 Dec.2018	31 Dec.2019	31 Dec.2018
IT applications	38	53	8	10
Internally developed software	44	39	7	10

Intangible assets changed as follows:

(in € million)	Software purchased	Software internally generated	Prepayments and intangible assets under development and preparation	Leasing items from finance lease	Leasing items from operate lease	Other intangible assets	Total
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**
Cost as at 1 January 2019	**212**	**299**	**8**	**5**	**8**	**13**	**785**
Additions	5	7	11	–	1	–	**24**
Disposals	33	–	–	–	–	–	**33**
Transfers	13	5	– 6	– 5	–	– 13	**– 6**
Total at 31 December 2019	**197**	**311**	**13**	**–**	**9**	**–**	**770**
Accumulated depreciation as at 1 January 2019	**141**	**257**	**–**	**3**	**–**	**–**	**641**
Scheduled depreciation	17	7	–	–	2	–	**26**
Transfers	– 1	1	–	– 3	–	–	**– 3**
Disposals	33	–	–	–	–	–	**33**
Total at 31 December 2019	**124**	**265**	**–**	**–**	**2**	**–**	**631**
Closing balance as at 31 December 2019	**73**	**46**	**13**	**–**	**7**	**–**	**139**

(47) Assets Held for Sale

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

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Financial assets at fair value through profit or loss	42	84	– 50
Financial assets at amortised costs	18	737	– 98
Property and equipment	1	30	– 97
Investment property	20	–	–
Total	**81**	**851**	**– 90**

As at 31 December 2018, receivables arising from ship finance totalling € 821 million was posted under Assets held for sale in the items Financial assets measured at fair value through profit or loss or Financial assets measured at amortised cost. The wind-down portfolio intended to reduce the ship-related NPL exposure belonged to the Ship Customers/Maritime Industries Customers segment and was sold to an investor on 9 April 2019 as part of a portfolio transaction. The portfolio also included three fully consolidated one-ship companies, the net carrying amount (ships) of which was recorded as € 15 million under Property and equipment shown in this position. When the portfolio was sold, there were still adjustments to be made as part of the final purchase price allocation with respect to risk provisioning and the fair value result of the individual exposures totalling € 17 million.

The item also included as property and equipment assets (ships) of two fully consolidated subsidiaries (one-ship companies) from the segment Group Controlling/Others amounting to € 15 million The Group sold and derecognised these ships on 13 and 15 February 2019.

As at 31 December 2019, the items Property and equipment and Investment property included two properties to be sold from the segment Group Controlling/Others, which are to be sold in the 1st quarter of 2020.

As at 31 December 2019, receivables arising from ship finance totalling € 60 million were recognised for the first time under Assets held for sale in the items Financial assets measured at fair value through profit or loss or Financial assets measured at amortised cost. These are assigned to the segment Ship Customers/Maritime Industries Customers. The sale of the receivables was successfully completed by the end of February 2020.

(48) Income Tax Assets

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Current income tax assets	17	38	– 55
Deferred tax assets	435	431	1
Total	**452**	**469**	**– 4**

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 € 150 million (€ 117 million) as at 31 December 2019.

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

	31 Dec.2019 (in € million]	31 Dec.2018 (in € million]	Change (in %)
Assets			
Financial assets at fair value through profit or loss	30	49	– 39
Financial assets at fair value through other comprehensive income	2	11	– 82
Financial assets at amortised costs	142	178	– 20
Shares in companies	14	14	–
Property and equipment	37	54	– 31
Other assets	107	118	– 9
Liabilities			
Trading liabilities	329	38	> 100
Designated financial liabilities at fair value through profit or loss	89	12	> 100
Financial liabilities at amortised costs	481	369	30
Negative fair values from hedge accounting derivatives	714	580	23
Provisions	751	616	22
Liabilities held for sale	–	2	– 100
Other liabilities	117	6	> 100
Tax loss carried forward	–	1	– 100
Total	**2 813**	**2 048**	**37**
Net	2 378	1 617	47
Total	**435**	**431**	**1**

In addition to deferred taxes recognised in the Income Statement, netted deferred income tax assets include € 31 million (€ 0 million) from Designated financial liabilities at fair value through profit or loss , € 6 million (€ 7 million) from Other assets and € 113 million (€ 110 million) from provisions, which are recognised in other comprehensive income (OCI).

In the case of loss carryforwards from corporate tax amounting to € 2,612 million (€ 2,630 million) and from trade tax amounting to € 2,580 million (€ 2,595 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 2019.

Tax losses carried forward from corporate tax totalling € 3 million (€ 1 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 € 356 million (€ 343 million) for companies that suffered a loss for the current year as at 31 December 2019. The value of deferred tax assets is the result of positive future results, primarily due to relief arising from the risk shield on the shipping portfolio.

No deferred taxes were recognised for € 2,001 million (€ 1,502 million) of temporary differences that can be carried forward indefinitely.

(49) Other Assets

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Refund claims to provident fund NORD/LB	561	426	32
Loans and advances on interim accounts	44	1 284	– 97
Rights to reimbursement from defined benefit plans	1	12	– 92
Deferred item	15	8	88
Receivabales	1	1	–
Contract assets	9	9	–
Other assets	75	54	39
Total	**706**	**1 794**	**– 61**

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. Refer to Note (54) Provisions for details on the changes in the reimbursement claim.

The loans and advances on interim accounts primarily relate to loans and advances in relation to the lending business, the securities business, 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:

	Receivables		Contract assets	
(in € million)	2019	2018	2019	2018
1 Jan.	**1**	**10**	**9**	**11**
Satisfaction of performance obligations	4	– 6	1	– 2
Consideration received	– 4	– 3	– 1	–
31 Dec.	**1**	**1**	**9**	**9**

(50) Financial Liabilities at Fair Value through Profit or Loss

This item includes trading liabilities and designated financial liabilities at fair value through profit or 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 or loss includes liabilities to banks and customers and securitised liabilities.

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Trading liabilities			
Negative fair values from derivatives			
Interest-rate risks	2 735	2 641	4
Currency risks	492	672	– 27
Share-price and other price risks	1	6	– 83
Credit derivatives	41	9	> 100
	3 269	**3 328**	**– 2**
Delivery obligations from short-sales	62	353	– 82
	3 331	**3 681**	**– 10**
Financial liabilities designated at fair value through profit or loss			
Deposits			
Liabilities to banks	349	388	– 10
Liabilities to customers	4 254	3 941	8
	4 603	**4 329**	**6**
Securitised liabilities			
Securitised liabilities	3 151	3 438	– 8
	3 151	3 438	– 8
	7 754	**7 767**	**– 0**
Total	**11 085**	**11 448**	**– 3**

The change in fair value attributable to changes in the Bank's credit risk of financial liabilities designated at fair value through profit or loss is recognised in Other comprehensive income (OCI). For the reporting period it is € - 142 million (€ - 44 million).

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 a daily basis based on current market figures as well as the current NORD/LB spread curves and the fair value calculated using market data without the NORD/LB spread curves.

The carrying amount of liabilities designated at fair value through profit or loss as at 31 December 2019 is € 690 million (€ 169 million) higher than the corresponding repayment amount. The difference stems largely from the higher interest rates on liabilities compared to the current market rate.

(51) Financial Liabilities at Amortised Cost

	31 Dec. 2019 (in € million)	31 Dec. 2018[1)] (in € million)	Change (in %)
Deposits			
Deposits from banks	6 037	15 932	– 62
Saving deposits from customers	1 061	1 150	– 8
Other liabililities	81 703	85 280	– 4
Subordinated liabilities	416	742	– 44
	89 217	**103 104**	**– 13**
Securitised Liabilities			
Mortgage bonds	10 779	10 573	2
Municipal debentures	4 026	6 947	– 42
Other securitised Liabilities	8 744	10 145	– 14
Subordinated securitised liabilities	2 721	2 714	–
	26 270	**30 379**	**– 14**
Total	**115 487**	**133 483**	**– 13**

[1)] The previous year's figures were adjusted for individual items, see Note (5) Restatement of previous year's figures.

(52) 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.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Micro fair value hedge derivatives	2 001	1 750	14
Portfolio fair value hedge derivatives	18	21	– 14
Total	**2 019**	**1 771**	**14**

(53) Balancing Items for Financial Instruments hedged in the Portfolio Fair Value Hedge

This item includes fair value changes financial liabilities attributable to the hedged risk that are included as underlying transactions in a portfolio fair value hedge.

(54) Provisions

Provisions are broken down as follows:

	31 Dec.2019 (in € million)	31 Dec.2018[1] (in € million)	Change (in %)
Provisions for pensions and other obligations	**2 977**	**2 402**	**24**
Other provisions			
Provisions for personnel	68	79	– 14
Provisions in lending business	94	66	42
Provisions for litigation and recourse risks	21	41	– 49
Provisions for restructuring measures	539	228	> 100
Other provisions	52	45	16
	774	**459**	**69**
Total	**3 751**	**2 861**	**31**

[1] The previous year's figures were adjusted for individual items, see Note (5) Restatement of previous year's figures.

Pensionens and similar Oblgations

The net liability from defined benefit pension plans breaks down as follows:

	31 Dec. 2019 (in € million)	31 Dec. 2018 (in € million)	Change (in %)
Present value of defined benefit obligations	3 024	2 570	18
Less fair value of plan assets	47	168	– 72
Total	**2 977**	**2 402**	**24**

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, the amount of which 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 the amount depends on factors like expected salary and wage increases, age, duration of employment and pension trend forecasts (defined benefit plan). These are mainly 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 and equity instruments. 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's provident fund, NORD/LB 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 (49).

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.

In addition, all Bank employees have the option to finance an additional pension provision from deferred compensation via the BVV Versicherungsverein 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 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 volatility over time. This may have a positive or negative effect on funded status. Volatility 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 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 for multiple employers

The NORD/LB Group, along with other financial institutions in Germany, is a member company of the BVV Versorgungskasse des Bankgewerbes e.V. (Banking Industry Pension Fund), or BVV. Both the Group as an employer and eligible employees make regular old-age pension contributions to the BVV. The BVV's rates provide for fixed pension payments with profit sharing.

The 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:

(in € million)	Defined benefit obligation 2019	2018	Fair value of plan assets 2019	2018	Negative balance (net indebtness) 2019	2018	Change (in %)
Opening balance	**2 570**	**2 544**	**168**	**187**	**2 402**	**2 357**	**2**
Current service cost	37	41	–	–	37	41	– 10
Interest income (interest expense)	57	54	4	4	53	50	6
Change from Consolidation	–	– 4	–	–	–	– 4	– 100
Effects from settlements / assignments (compensation payments	–	4	– 124	1	124	3	> 100
Changes from currency translation	2	–	2	–	–	–	–
Benefits paid	– 72	– 71	– 17	– 18	– 55	– 53	4
Employer contributions	–	–	3	2	– 3	– 2	50
Reversals	1	–	–	–	– 1	–	–
	2 595	**2 568**	**36**	**176**	**2 559**	**2 392**	**7**
Revaluation							
Adjustments made on the basis of experience	45	4	–	–	45	4	> 100
Profit / losses from the change in demographic assumptions	11	24	–	–	11	24	– 54
Profit / losses from the change in financial assumptions	373	– 26	–	–	373	– 26	> 100
Income from plan assets (Without interest income)	–	–	11	– 8	– 11	8	> 100
Closing balance	**3 024**	**2 570**	**47**	**168**	**2 977**	**2 402**	**24**

In addition to the pension commitments, the present value of the defined benefit obligation includes commitments to benefit payments of € 346 million (€ 283 million).

The defined benefit obligation is divided as at the reporting date into amounts of € 3,016 million (€ 2,582 million) from defined benefit plans which are not financed through a fund, and amounts of € 7 million (€ 7 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.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Equity instruments			
active market	18	17	6
	18	**17**	**6**
Debt instruments			
active market	18	66	– 73
	18	**66**	**– 73**
Other financial assets			
active market	7	70	– 90
inactive market	4	4	–
	11	**74**	– 85
Payment/ cash equivalent	–	11	– 100
Total	**47**	**168**	**– 72**

The Fair value of plan assets no longer contains own debt instruments (previous year: € 1 million). Other own-use assets, own equity instruments and real estate in own use are not included in the Fair value of plan assets. Other assets contain asset values of reinsurance policies totalling € 4 million (€ 29 million).

Within the framework of an amendment to the articles of association of the provident fund of the Bremer Landesbank Kreditanstalt Oldenburg GmbH, the plan asset characteristic for the actual assets of the provident fund was abandoned. The actual assets shown to date as plan assets of Bremer Unterstützungskasse GmbH are reported as of 31 December 2019 as a reimbursement right.

The fair value of the reimbursement right to NORD/LB's and the former Bremer Landesbank provident funds changed as follows:

(in € million)	2019 (in € million)	2018 (in € million)	Change (in %)
Opening balance 1 January	**426**	**462**	**– 8**
Benefits paid on reimbursement	– 43	– 47	– 9
Capital contribution by owner companies	45	–	–
Calculated interest income on reimbursement	7	10	– 30
Revaluation (OCI)	2	1	100
Other changes in value (P&L)	124	–	–
Closing balance 31 December	**561**	**426**	**32**

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

(in € million)	Pensions expenses 31 Dec.2019	Pensions expenses 31 Dec.2018
Less than 1 year	75	71
between 1 and 2 years	77	74
between 2 and 3 years	79	76
between 3 and 4 years	82	78
between 4 and 5 years	85	81
Total	**398**	**380**

The duration of the defined benefit pension obligation is 21 (20) years and is reviewed annually by an actuarial appraiser.

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.2019	Decline 31 Dec.2019	Increase 31 Dec.2018	Decline 31 Dec.2018
Actuarial interest rate	321	277	266	231
Wages	23	23	31	30
Pensions	77	71	63	60
Cost increase rate for allowance payments	78	59	64	49
Mortality, invalidity, etc.	151	149	120	119

For the actuarial interest rate, a sensitivity of -/+ 0.50 (0.50) 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 arise when life expectancy increases, mortality probabilities were reduced to 88.2 (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 materiality, 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**
1.1.	**79**	**66**	**41**	**228**	**45**	**459**
Utilisation	15	1	1	10	13	**40**
Resolutions	2	48	19	–	1	**70**
Additions	5	68	–	347	21	**441**
Reversals	–	–	–	– 26	–	**– 26**
Effects on changes of currency translation and other changes	1	9	–	–	–	**10**
31 Dec.	**68**	**94**	**21**	**539**	**52**	**774**

The provisions for reorganisation measures stem largely from the “One Bank” transformation programme of the NORD/LB Group and the continuation of the transformation through the “NORD/LB 2024” programme. They relate to human resource measures referring to the removal of synergies in the NORD/LB Group and the resizing of the Group when implementing the new business model. The use of the provisions for “One Bank” is mainly planned for 2020. For the “NORD/LB 2024” programme, at the time the provision was formed there were uncertainties about the level and timing of use of the provisions as the age structure of the employees relating to the planned job losses was not finally known. Large elements are planned for use in the years 2020 to 2023.

The majority of the provisions for human resources liabilities are long term. They also include provisions for reorganisation expenses amounting to € 16 million (€ 41 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. The provisions due to reorganisation expenses as well as the provisions owing to early retirement schemes contained in the provisions for obligations arising from human resources totalling € 9 million (€ 9 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.

With regard to the provisions for 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.

(55) Income Tax Liabilities

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Current income tax liabilities	35	53	– 34
Deferred income taxes	65	43	51
Total	**100**	**96**	**4**

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 € 71 million (€ 27 million) as at 31 December 2019.

The deferred tax liabilities are related to the following Balance Sheet items:

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Assets			
Trading assets	686	207	> 100
Financial assets at fair value through profit or loss	13	19	– 32
Financial assets at fair value through other comprehensive income	235	146	61
Financial assets at amortised costs	443	455	– 3
Positive fair values from hedge accounting derivatives	376	312	21
Shares in companies	5	4	25
Property and equipment	132	24	> 100
Intangible assets	16	13	23
Assets held for sale	–	2	– 100
Other assets	251	180	39
Liabilities			
Designated financial liabilities at fair value through profit or loss	2	3	– 33
Financial liabilities at amortised costs	261	198	32
Provisions	11	19	– 42
Other laibilities	12	78	– 85
Total	**2 443**	**1 660**	**47**
Net	2 378	1 617	47
Total	**65**	**43**	**51**

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 € 71 million (€ 18 million) and financial liabilities designated at fair value through profit or loss of € 0 million (€ 9 million), which are recognised in other comprehensive income (OCI). No deferred tax liabilities were recorded for taxable differences from shares in subsidiaries amounting to € 24 million (€ 21 million), in accordance with IAS 12.39.

(56) Other Liabilities

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Liabilities from interim accounts	48	59	– 19
Liabilities from short-term employee remuneration	5	6	– 17
Liabilities resulting from unsettled invoices	29	47	– 38
Liabilities from payable taxes and social insurance contributions	14	7	100
Defferred item	8	9	– 11
Liabilities from leasing	94	–	–
Other liabilities	96	122	– 21
Total	**294**	**250**	**18**

The liabilities from interim accounts primarily relate to liabilities connected to the lending business, securities trading business and transactions on payment accounts.

With regard to the liabilities from leases, please refer to the Notes (15) Leasing transactions and (71) Leasing conditions.

(57) Equity

Breakdown of equity:

	31 Dec.2019 (in € million)	31 Dec.2018[1)] (in € million)	Change (in %)
Issued capital	2 835	1 607	76
Capital reserve	2 589	3 332	– 22
Retained earnings	1 081	– 1 144[2)]	> 100
Accumulated OCI	– 722	– 404	79
Currency translation reserve	– 9	– 11	– 18
Equity attributable to the owners of NORD/LB	**5 774**	**3 380**	**71**
Additional equity	50	50	–
Non-controlling interests	14	– 68	> 100
Total	**5 838**	**3 362**	**74**

[1)] The previous year's figures were adjusted for individual items, see Note (5) Restatement of previous year's figures.
[2)] Due in particular to the consolidated profit/loss for 2018 of € – 2 314 million (cf. Statement of Changes in Equity).

When strengthening the NORD/LB capital, the issued capital was increased with effect from 23 December 2019. On the key reporting date, the owners of NORD/LB are Niedersächsische Invest GmbH with 45.0 percent (0 percent), Hannoversche Beteiligungsgesellschaft mbH with 7.98 percent (0 percent), the state of Lower-Saxony with 0 percent (59.13 percent), the state of Saxony-Anhalt with 6.98 percent (5.57 percent), the companies FIDES Gamma GmbH and FIDES Delta GmbH each with 13.35 percent (0 percent), Sparkassenverband Niedersachsen (SVN) with 9.97 percent (26.23 percent), Sparkassenbeteiligungsverband Sachsen-Anhalt (SBV) with 1.99 percent (5.28 percent) and Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern (SZV) with 1.38 percent (3.66 percent).

The capital reserve contains the amounts (premium) paid in connection with capital increases by the owners of NORD/LB through the issued capital and silent participations of € 10 million (€ 10 million) in total, which due to their economic nature constitute equity capital as per IAS 32. The profit participation for silent participations is € 0 million (€ 0 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 or 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 2018, nor is any dividend planned for 2019.

Notes to the Cash Flow Statement

The Cash Flow Statement shows how cash and cash equivalents for the reporting year were changed by cash flows from operating activities, investment activities and financing activities.

Cash and cash equivalents are defined here as a cash reserve (cash on hand and balances with central banks). There are no disposal constraints with regard to cash and cash equivalents.

The cash flow from operating activities is determined by the indirect method based on consolidated profit/loss. The expenses and income to be allocated or deducted, respectively, are those that were no-cash items in the reporting year. In addition, all expenses and income that were cash items, but not allocated to operating activities, are eliminated. These payments are taken into account in the cash flow from investment activities or financing activities.

In accordance with the IASB's recommendations, payment transactions from loans and advances to banks and customers, from securities in the trading portfolio, from liabilities to banks and customers, and from liabilities are recognised under cash flow from operating activities.

The cash flow from investing activities includes payment transactions for the investment portfolio as well as 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, the opening and closing balances of liabilities where the cash flows are assigned to financing activity is presented below:

	Equity		Subordinated capital	
(in € million)	2019	2018 [1]	2019	2018
01 January	**3 362**	**6 016**	**3 406**	**3 531**
Consolidated profit/loss	– 69	– 2 404	–	–
Repayment	–	–	– 365	– 56
Changes due to acquisition or loss of control of subsidiaries or other business operations	44	– 7	–	–
Exchange rate-related changes	2	– 1	15	35
Other changes	2 499	– 242	80	– 104
31 December	**5 838**	**3 362**	**3 136**	**3 406**

[1] For individual items, the previous year`s figures have been adjusted, see Note (5) Restatement of previous year`s figures.

For transactions that resulted in gaining or losing control of subsidiaries and other business units in the reporting period, no remuneration (€ 24 million) was paid and € 206 million (€ 67 million) was received in 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. 2019	Acquisition of control 31 Dec. 2018	Loss of control 31 Dec. 2019	Loss of control 31 Dec. 2018
Financial assets at fair value through profit or loss	43	18	220	13
Designated financial assets at fair value through profit or loss	–	–	–	3
Financial assets at amortised costs	–	–	422	1
Investments accounted for using the equity method	–	–	35	–
Property and equipment	–	27	20	40
Intangible assets	–	–	–	2
Assets held for sale	–	–	37	8
Current income tax assets	–	–	–	1
Other assets	–	–	1	2
Total assets	**43**	**45**	**735**	**70**

Liabilities (in € million)	Acquisition of control 31 Dec. 2019	Acquisition of control 31 Dec. 2018	Loss of control 31 Dec. 2019	Loss of control 31 Dec. 2018
Financial liabilities at amortised costs	–	–	9	–
Provisions	–	4	–	–
Deferred income taxes	–	–	6	–
Other liabilities	–	4	20	2
Total liabilities	**–**	**8**	**35**	**2**

Other Disclosures

Notes to Financial Instruments

(58) 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.

	31 Dec.2019					
(in € million)	Level 1	Level 2	Level 3	Total fair values	Carrying amount	Difference
Assets						
Cash reserve	**3 454**	**–**	**–**	**3 454**	**3 454**	**–**
Trading assets	**128**	**7 380**	**1 851**	**9 359**	**9 359**	**–**
Positive fair values from derivatives	–	4 556	41	4 597	4 597	–
Interest-rate risks	–	4 211	11	4 222	4 222	–
Currency risks	–	321	–	321	321	–
Share-price and other price risks	–	1	–	1	1	–
Credit derivatives	–	23	30	53	53	–
Debt-securities and other fixed-interest securities	128	1 510	28	1 666	1 666	–
Loans and advances	–	1 314	1 782	3 096	3 096	–
Financial assets mandatorily at fair value through profit or loss	**843**	**568**	**357**	**1 768**	**1 768**	**–**
Equity instruments	19	2	–	21	21	–
Debt securities and other fixed interest securities	824	369	–	1 193	1 193	–
Loans and advances	–	197	357	554	554	–
Financial assets at fair value through other comprehensive income	**5 204**	**10 509**	**1 472**	**17 185**	**17 185**	**–**
Debt securities and other fixed interest securities	5 204	10 509	45	15 758	15 758	–
Loans and advances	–	–	1 427	1 427	1 427	–
Financial assets at amortised cost	**5 396**	**6 845**	**94 960**	**107 201**	**104 215**	**2 986**
Debt securities and other fixed interest securities	327	3 827	–	4 154	4 180	– 26
Loans and advances	5 069	3 018	94 960	103 047	100 035	3 012
Positive fair values from hedge accounting derivatives	**–**	**1 019**	**–**	**1 019**	**1 019**	**–**
Positive fair values from allocated micro fair value hedge derivatives	–	998	–	998	998	–
Interest-rate risks	–	970	–	970	970	–
Currency risks	–	28	–	28	28	–
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]	**281**	**– 281**
Shares in companies	**24**	**–**	**328**	**352**	**352**	**–**
Financial assets held for sale measured at fair value	**–**	**–**	**42**	**42**	**42**	**–**
Financial assets held for sale not recognised at fair value	**–**	**–**	**14**	**14**	**14**	**–**
Other assets (only financial instruments) measured at fair value	**–**	**35**	**–**	**35**	**35**	**–**
Total	**15 049**	**26 356**	**99 024**	**140 429**	**137 724**	**2 705**

[1] Contributions relating to the assets item Balancing items for financial instruments hedged in the portfolio fair value hedge are shown in the fair values of the hedged financial instruments.

(in € million)	31 Dec. 2018 [2] 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**	**444**	**8 963**	**8 963**	**–**
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	442	3 041	3 041	–
Financial assets mandatorily at fair value through profit or loss	**1 196**	**1 557**	**690**	**3 443**	**3 443**	**–**
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	690	893	893	–
Financial assets at fair value through other comprehensive 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**	**–**
Other assets (only financial instruments) not recognised at fair value	**–**	**–**	**–**	**–**	**1**	**– 1**
Total	**16 356**	**30 088**	**106 800**	**153 244**	**150 942**	**2 302**

[1] Contributions relating to the assets item Balancing items for financial instruments hedged in the portfolio fair value hedge are shown in the fair values of the hedged financial instruments.
[2] The previous year's figures were restated for individual items, for more see Note (5) 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.2019					
(in € million)	Level 1	Level 2	Level 3	Total fair values	Carrying amount	Difference
Liabilities						
Trading liabilities	**10**	**3 211**	**110**	**3 331**	**3 331**	**–**
Negative fair values from derivatives	–	3 159	110	3 269	3 269	–
Interest-rate risks	–	2 666	69	2 735	2 735	–
Currency risks	–	492	–	492	492	–
Share-price and other price risks	–	1	–	1	1	–
Credit derivatives	–	–	41	41	41	–
Delivery obligations from short-sales	10	52	–	62	62	–
Financial liabilities designated at fair value through profit or loss	**1 107**	**5 032**	**1 615**	**7 754**	**7 754**	**–**
Deposits	–	2 988	1 615	4 603	4 603	–
Securitised liabilities	1 107	2 044	–	3 151	3 151	–
Financial liabilities measured at amortised cost	**2 075**	**34 038**	**82 375**	**118 488**	**115 487**	**3 001**
Deposits	294	11 867	79 775	91 936	89 217	2 719
Securitised liabilities	1 781	22 171	2 600	26 552	26 270	282
Negative fair values from hedge accounting derivatives	**–**	**2 018**	**–**	**2 018**	**2 019**	**– 1**
Negative fair values from allocated micro fair value hedge derivatives	–	2 000	–	2 000	2 001	– 1
Interest-rate risks	–	1 795	–	1 795	1 796	– 1
Currency risks	–	205	–	205	205	–
Negative fair values from allocated portfolio fair value hedge derivatives	–	18	–	18	18	–
Interest-rate risks	–	18	–	18	18	–
Balancing items for financial instruments hedged in in the portfolio fair value hedge	**–**	**–**	**–**	**–**[1]	**1 045**	**– 1 045**
Other liabilities (only financial instruments) measured at fair value	**–**	**30**	**–**	**30**	**30**	**–**
Other liabilities (only financial instruments) not recognised at fair value	**–**	**–**	**1**	**1**	**1**	**–**
Total	**3 192**	**44 329**	**84 101**	**131 622**	**129 667**	**1 955**

[1] Contributions relating to the liabilities item Balancing items for financial instruments hedged in the portfolio fair value hedge are shown in the fair values of the hedged financial instruments.

(in € million)	31 Dec. 2018 [2] 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	–
Financial liabilities designated 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	**3 286**	**37 513**	**94 541**	**135 340**	**133 483**	**1 857**
Deposits	541	12 489	92 188	105 218	103 104	2 114
Securitised liabilities	2 745	25 024	2 353	30 122	30 379	– 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	–
Negative 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	**4 478**	**48 068**	**96 031**	**148 577**	**147 454**	**1 123**

[1] Contributions relating to the assets item Balancing items for financial instruments hedged in the portfolio fair value hedge are shown in the fair values of the hedged financial instruments.
[2] The previous year's figures were restated for individual items, for more see Note (5) Restatement of previous year's figures.

In the case of designated assets held for sale and reported at fair value these are non-recurring fair value measurements (see Note (18) Assets held for sale).

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

2019 (in € million)	From level 1 to level 2	From level 2 to level 1	From level 2 to level 3	From level 3 to level 2
Trading assets	**7**	**–**	**443**	**54**
Debt securities and other fixed interest securities	7	–	–	–
Loans and advances	–	–	443	54
Financial assets at fair value through profit or loss	**–**	**24**	**–**	**–**
Debt securities and other fixed interest securities	–	24	–	–
Financial assets at fair value through other comprehensive income	**1 466**	**1 556**	**–**	**55**
Debt securities and other fixed interest securities	1 466	1 556	–	55
Trading liabilities	**–**	**–**	**–**	**1**
Negative fair values from derivatives	–	–	–	1
Interest-rate risks	–	–	–	1
Designated financial liabilities at fair value through profit or loss	**–**	**–**	**3**	**87**
Deposits	–	–	3	87

2018 (in € million)	From level 1 to level 2	From level 2 to level 1	From level 2 to level 3	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 comprehensive 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	–

Asset-side financial instruments are allocated to a level on the basis of the individual transaction pursuant to IDW RS 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 2018 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 1 as a result of a change in market activity.

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

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

	Trading assets							
	Positive fair values from derivatives Iterest-rate risks		Positive fair values from derivatives credit derivatives		Debt securities and other fixed interest securities		Loans and advances to trading and other trading assets	
(in € million)	2019	2018	2019	2018	2019	2018	2019	2018
1 Jan.	**1**	**–**	**1**	**–**	**–**	**–**	**442**	**66**
Effect in the income statement [1]	1	–	–	–	6	–	– 2	3
Addition through purchase or issue	9	–	29	1	237	–	1 711	499
Disposal from sale	–	–	–	–	215	–	715	96
Repayment/exercise	–	–	–	–	–	–	88	71
Addition from level 1 and 2	–	1	–	–	–	–	443	23
Disposal to level 1 and 2	–	–	–	–	–	–	54	–
Changes from the basis of consolidation	–	–	–	–	–	–	44	18
Change from currency translation	–	–	–	–	–	–	1	–
31 Dec.	**11**	**1**	**30**	**1**	**28**	**–**	**1 782**	**442**
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 financial assets at fair value.

	Financial assets at fair value through profit or loss			
	Debt securities and other fixed interest securities		Loans and advances	
(in € million)	2019	2018	2019	2018
1 Jan.	**–**	**2**	**690**	**1 079**
Effect in the income statement [1]	–	–	505	– 43
Addition through purchase or issue	–	–	184	114
Disposal from sale	–	–	–	73
Repayment/exercise	–	–	1 024	385
Disposal to level 1 and 2	–	2	–	–
Changes from the basis of consolidation	–	–	2	– 2
31 Dec.	**–**	**–**	**357**	**690**
For information: Effect on income statement for financial instruments still held [1]	–	–	– 174	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 financial assets at fair value.

(in € million)	Financial assets at fair value through other comprehensive income – Debt securities and other fixed interest securities 2019	2018	Loans and advances 2019	2018
1 Jan.	**95**	**–**	**1 808**	**2 115**
Effect in the income statement [1]	–	–	– 17	– 16
Effect in other comprehensive income (OCI)	4	–	– 3	– 57
Addition through purchase or issue	34	30	–	15
Disposal from sale	33	–	–	–
Repayment/exercise	–	–	361	249
Addition from level 1 and 2	–	65	–	–
Disposal to level 1 and 2	55	–	–	–
31 Dec.	**45**	**95**	**1 427**	**1 808**
For information: Effect on income statement for financial instruments still held [1]	–	–	– 11	–

[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 Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss.

(in € million)	Shares in companies 2019	2018	Financial assets held for sale measured at fair value 2019	2018
1 Jan.	321	326	84	–
Effect in the income statement [1]	18	1	–	–
Effect in other comprehensive income (OCI)	–	– 2	–	–
Addition through purchase or issue	91	2	42	84
Disposal from sale	102	6	84	–
31 Dec.	**328**	**321**	**42**	**84**
For information: Effect on income statement for financial instruments still held [1]	18	1	–	–

[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 financial assets at fair value, Risk provisioning, Disposal profit/loss from financial instruments that are not measured at fair value through profit or loss, Profit/loss from shares in companies, Administrative expenses and Other operating result.

(in € million)	Trading liabilities – Negative fair values from derivatives interest-rate risks 2019	2018	Negative fair values from derivatives credit derivatives 2019	2018
1 Jan.	**6**	**–**	**3**	**2**
Effect on the income statement [1]	– 5	–	– 2	– 2
Addition through purchase or issue	69	6	40	3
Disposal to level 1 and 2	1	–	–	–
31 Dec.	**69**	**6**	**41**	**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 financial assets at fair value.

	Designated financial liabilities at fair value through profit or loss			
		Deposits		Securitised liabilities
(in € million)	2019	2018	2019	2018
1 Jan.	**1 459**	**–**	**4**	**10**
Effect in the income statement [1]	146	– 2	–	–
Effect in other comprehensive income (OCI)	75	1	–	–
Addition through purchase or issue	27	92	–	–
Repayment/exercise	8	–	4	6
Addition from level 1 and 2	3	1 368	–	–
Disposal to level 1 and 2	87	–	–	–
31 Dec.	**1 615**	**1 459**	**–**	**4**
For information: Effect on income statement for financial instruments still held [1]	146	– 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 financial assets at fair value.

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.2019 (in € million)	Significant non-observable input data in the fair value measurement	Spread of the used input data	Weighted average
Interest-bearing bonds (assets)	1 277	Discount rate	-0.33 - 0.62%	0.50%
Participations	328	Discount rate	7-9 %	5%
Loans (assets)	2 107	Rating	Rating Class (27er DSGV-Skala) 1-22	Averaged Rating 4
	296	Cashflow	-	-
Loans (liabilities)	– 1 600	Discount rate	0.66-1.94%	1,45%
	– 15	historical volatilities	11%	11%
Derivatives (assets)	29	Rating	Rating Class (27er DSGV-Skala) 6-10	averaged Rating 9
	2	Correlation	0.8	0.8
	9	price of underlyings	88-130	96
Derivatives (liabilities)	– 41	Rating	Rating Class (27er DSGV-Skala) 1-22	averaged Rating 10
	– 69	price of underlyings	101-171	124

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 interest 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 € 7.9 million (€ 3.2 million) in the fair values of interest-bearing securities at level 3 with a corresponding impact on Other comprehensive income (OCI)/the Income Statement.

A significant input parameter which cannot be observed on the market for the fair value measurement of investments is the discount interest rate. Significant changes to the input parameter may result in a significantly higher or lower fair value. As part of the sensitivity analysis, the risk-free interest rate was increased in the measurement by 50 basis points. Accordingly, a presumed change to the parameters based on the assumptions results in a change of € -11.2 million (€ -15.9 million) in the fair values of level 3 investments, with a corresponding impact on the Income Statement. If the risk-free discount interest rate falls into the negative range, in terms of the theoretical model it can be assumed that this change is compensated for through a higher market risk premium that the investors demand for the capital invested, so that this only results in marginal positive effects on the fair value of + € 0.6 million (€ 15.9 million).

With regard to silent participations, there was a disposal from the consolidated Balance Sheet in the second half of 2019. 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 € 4 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 level 3 fair value measurement of part of the asset-side loans is the internal rating based on the default risk. 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 € 2 million (€ 0.7 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 level 3 fair value measurement of impaired asset-side loans is the anticipated 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 € 3 million (€ 42.2 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 interest rate. Significant changes to the input parameter result in a significantly higher or lower fair value. As part of the sensitivity analysis, the discount interest 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 € 25.5 million (€ 35.2 million) in the fair values of these level 3 loans, 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 parameters which cannot be observed on the market for the fair value measurement of asset-side derivatives are the rating, the correlation, haircuts to expert opinion values and the price of the underlying. Significant changes to this input data result in a significantly higher or lower fair value. As part of the sensitivity analysis, the rating was stressed by an improvement and deterioration by one class, while the correlation improved and deteriorated by five per cent and the haircut and price of the underlying by one per cent. This analysis showed that the presumed changes would result in a change of € -10 million or

€ 26 million (€ 0.3 million) in the fair value of the derivatives at level 3, with a corresponding effect on the Income Statement.

A significant input parameter which cannot be observed on the market for the fair value measurement of liability-side derivatives is the price of the underlying and the rating. Significant changes to the price of the underlying or rating lead to a significantly higher or lower fair value. As part of the sensitivity analysis, the price of the underlying was increased and decreased by one per cent and the rating by one grade. This analysis showed that the presumed changes to the underlying and rating would result in a change of € -90 million or € 150 million (€ 0.4 million) in the fair value of the derivatives at 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.

(59) Risk Provisions and Gross Carrying Amount

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).

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 key drivers for a significant reduction in the risk provisioning in the reporting year was the removal of the ship financing portfolio with the associated risk provisioning utilisations.

The following overview presents the change during the reporting period in the risk provisioning for financial assets not measured at fair value through profit or loss and for off-balance-sheet items:

		Transfer			Addition risk provisioning		Reversal/utilisation risk provisioning			Other changes					
(in € million)	Opening blanance 1 Jan. 2019	Stage 1	Stage 2	Stage 3	Credit-related additions	Addition of assets	Credit-related reversals	Utilisation	Disposal of assets	Modification of assets	Unwinding	Currency translation	Change from the basis of consolidation	Other changes	Closing balance 31 Dec. 2019
Financial assets at fair value through other comprehensive income															
Stage 1															
Debt securities	1	–	–	–	–	2	1	–	1	–	–	–	–	–	1
	1	–	–	–	–	2	1	–	1	–	–	–	–	–	1
Stage 2															
Debt securities	4	–	–	–	–	–	1	–	–	–	–	–	–	–	3
	4	–	–	–	–	–	1	–	–	–	–	–	–	–	3
	5	**–**	**–**	**–**	**–**	**2**	**2**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**4**
Financial assets at amortised cost															
Stage 1															
Debt securities	1	4	–	–	–	–	4	–	–	–	–	–	–	–	1
Loans and advances	66	27	– 4	–	16	50	73	–	30	–	–	– 3	–	–	49
	67	31	– 4	–	16	50	77	–	30	–	–	– 3	–	–	50
Stage 2															
Debt securities	11	– 4	–	–	–	–	2	–	1	–	–	–	–	–	4
Loans and advances	123	– 26	4	– 3	83	21	53	–	79	–	–	24	–	–	94
	134	– 30	4	– 3	83	21	55	–	80	–	–	24	–	–	98
Stage 3															
Loans and advances	3 782	– 1	–	3	786	196	173	2 377	840	1	– 41	63	53	–	1 452
	3 782	– 1	–	3	786	196	173	2 377	840	1	– 41	63	53	–	1 452
	3 983	**–**	**–**	**–**	**885**	**267**	**305**	**2 377**	**950**	**1**	**– 41**	**84**	**53**	**–**	**1 600**
Total	**3 988**	**–**	**–**	**–**	**885**	**269**	**307**	**2 377**	**951**	**1**	**– 41**	**84**	**53**	**–**	**1 604**

(in € million)	Opening balance 1 Jan. 2019	Transfer			Addition risk provisioning		Reversal/utilisation risk provisioning			Other changes					Closing balance 31 Dec. 2019
		Stage 1	Stage 2	Stage 3	Credit-related additions	Addition of assets	Credit-related reversals	Utilisation	Disposal of assets	Modification of assets	Unwinding	Currency translation	Change from the basis of consolidation	Other changes	
Off-balance sheet liabilities															
Stage 1															
Loan commitments	4	–	–	–	3	19	18	–	4	–	–	–	–	–	4
Financial guarantees	1	1	–	–	3	1	2	–	3	–	–	–	–	–	1
Off-balance-sheet liabilities	5	–	–	–	1	13	14	–	2	–	–	–	–	–	3
	10	1	–	–	7	33	34	–	9	–	–	–	–	–	8
Stage 2															
Loan commitments	4	–	–	–	2	2	2	–	2	–	–	– 2	–	–	2
Financial guarantees	12	– 1	–	–	3	–	3	–	3	–	–	–	–	–	8
Off-balance-sheet liabilities	–	–	–	–	3	–	–	–	3	–	–	2	–	–	2
	16	– 1	–	–	8	2	5	–	8	–	–	–	–	–	12
Stage 3															
Loan commitments	9	–	–	–	3	7	2	–	11	–	–	2	–	–	8
Financial guarantees	7	–	–	–	1	2	–	–	1	–	–	–	–	–	9
Off-balance-sheet liabilities	20	–	–	–	11	37	20	1	1	–	–	– 22	–	–	24
	36	–	–	–	15	46	22	1	13	–	–	– 20	–	–	41
Total	**62**	**–**	**–**	**–**	**30**	**81**	**61**	**1**	**30**	**–**	**–**	**– 20**	**–**	**–**	**61**

The closing balance of risk provisioning as at 31.12.2019 includes € 47 million of risk provisions recognised for assets held for sale.

The following overview presents the change during the previous year in the risk provisioning for financial assets not measured at fair value through profit or loss and for off-balance-sheet items.

(in € million)	Opening balance 1 Jan. 2018	Transfer: Stage 1	Transfer: Stage 2	Transfer: Stage 3	Addition risk provisioning: Credit-related additions	Addition risk provisioning: Addition of assets	Reversal/utilisation risk provisioning: Credit-related reversals	Reversal/utilisation risk provisioning: Utilisation	Reversal/utilisation risk provisioning: Disposal of assets	Other changes: Modification of assets	Other changes: Unwinding	Other changes: Currency translation	Other changes: Change from the basis of consolidation	Other changes: 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)		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	Currency translation	Change from the basis of consolidation	Other changes	Closing balance 31 Dec. 2018
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 31.12.2018 includes € 1,324 million of risk provisions recognised for assets and liabilities held for sale.

The development of the gross carrying amounts in the reporting period for financial assets not measured at fair value through profit or loss is shown in the following overview.

(in € million)	Opening balance 1 Jan. 2019	Transfer			Addition of assets	Disposal of assets	Other changes					Closing balance 31 Dec. 2019
		Stage 1	Stage 2	Stage 3			Direct write-offs of assets	Modification of assets	Currency translation	Change from the basis of consolidation	Other changes	
Financial assets at fair value through other comprehensive income												
Stage 1												
Debt securities	17 959	76	–	–	2 101	5 287	–	–	23	–	–	14 872
Loans and advances	1 736	–	–	–	–	378	–	–	–	–	–	1 358
	19 695	76	–	–	2 101	5 665	–	–	23	–	–	16 230
Stage 2												
Debt securities	185	– 76	–	–	1	7	–	–	–	–	–	103
	185	– 76	–	–	1	7	–	–	–	–	–	103
	19 880	–	–	–	2 102	5 672	–	–	23	–	–	16 333
Financial assets at amortised cost												
Stage 1												
Debt securities	3 707	225	1	–	281	377	–	–	40	–	–	3 877
Loans and advances	107 024	735	– 1 263	– 211	20 509	30 228	19	– 1	303	– 667	–	96 182
Cash reserve	1 519	–	–	–	7 257	5 377	–	–	53	2	–	3 454
	112 250	960	– 1 262	– 211	28 047	35 982	19	– 1	396	– 665	–	103 513
Stage 2												
Debt securities	680	– 226	– 1	–	17	168	–	–	6	–	–	308
Loans and advances	2 524	– 726	1 286	– 27	647	1 035	4	–	23	–	–	2 688
	3 204	– 952	1 285	– 27	664	1 203	4	–	29	–	–	2 996
Stage 3												
Loans and advances	2 765	– 8	– 23	238	2 142	1 293	1 196	2	71	16	–	2 714
	2 765	– 8	– 23	238	2 142	1 293	1 196	2	71	16	–	2 714
	118 219	–	–	–	30 853	38 478	1 219	1	496	– 649	–	109 223
Total	138 099	–	–	–	32 955	44 150	1 219	1	519	– 649	–	125 556

The following overview presents the change over the previous year in the gross carrying amounts of financial assets not measured at fair value through profit or loss.

(in € million)	Opening balance 1 Jan. 2018	Transfer			Addition of assets	Disposal of assets	Other changes					Closing balance 31 Dec. 2018[1)]
		Stage 1	Stage 2	Stage 3			Direct write-offs of assets	Modification of assets	Currency translation	Change from the basis of consolidation	Other changes	
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	–	709	1 317	–	–	49	–	– 2	3 707
Loans and advances	111 428	883	– 1 105	– 614	22 563	26 370	–	5	409	5	– 180	107 024
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

1) Deferral in the amount of € 440 million within the Financial assets at amortised cost, level 1.

(60) Net Gains or Losses by Measurement Category

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (in € million)	Change (in %)
Trading profit/loss	275	– 86	> 100
Financial assets at fair value through profit or loss	107	– 208	> 100
Designated financial assets at fair value through profit or loss - Net result in the income statement	– 227	9	> 100
Designated financial assets at fair value through profit or loss - Net result OCI	– 136	– 36	> 100
Financial assets at fair value through other comprehensive income - Net result in the income statement	17	45	– 62
Financial assets at fair value through other comprehensive income - Net result OCI	167	– 152	> 100
Financial assets at amortised cost	29	– 1 876	> 100
Financial liabilities at amortised cost	– 27	– 12	> 100
Total	**205**	**– 2 316**	**> 100**

Net gains or losses in the Income Statement from financial assets at fair value through other comprehensive income and from financial assets measured at amortised cost comprises risk provisioning 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 at amortised cost equate to the disposal profit/loss.

The profit/loss from hedge accounting is not included in the net gains or losses since it is not assigned to any of the categories.

(61) Offsetting of Financial Assets and Financial Liabilities

The effects of rights of set-off in connection with financial assets and liabilities are set out in the following table.

31 Dec.2019	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	1 720	68	**1 652**	–	–	–	**1 652**
Derivatives	13 585	7 999	**5 586**	2 584	–	746	**2 256**
Securities lending and repos	1 407	–	**1 407**	1 340	67	–	**–**
Liabilities							
Offsetting of current accounts	11 870	68	**11 802**	–	–	–	**11 802**
Derivatives	13 249	7 999	**5 250**	2 576	–	2 360	**314**
Securities lending and repos	7 758	–	**7 758**	1 340	6 384	10	**24**

31 Dec.2018 (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	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**

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.

(62) 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.2019 (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	**3**	**–**	**3**	**–**	**3**
Debt securities and other fixed interest securities	3	–	3	–	3
Financial assets at fair value through profit or loss	**678**	**572**	**678**	**583**	**95**
Debt securities and other fixed interest securities	671	567	671	578	93
Loans and advances	7	5	7	5	2
Financial assets at fair value through other comprehensive income	**6 131**	**6 367**	**4 655**	**4 898**	**– 243**
Debt securities and other fixed interest securities	6 131	6 367	4 655	4 898	– 243
Financial assets at amortised cost	**6 192**	**4 137**	**6 414**	**4 415**	**1 999**
Debt securities and other fixed interest securities	1 930	935	1 841	923	918
Loans and advances	4 262	3 202	4 573	3 492	1 081
Total	**13 004**	**11 076**	**11 750**	**9 896**	**1 854**

31 Dec.2018 (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	**9**	**191**	**9**	**191**	**– 182**
Debt securities and other fixed interest securities	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**
Debt securities and other fixed interest securities	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**

Transferred financial assets within the items Trading assets, Financial assets at fair value through other comprehensive income and Financial assets 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.

(63) 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:

	Nominal values		Fair value positive		Fair value negative	
(in € million)	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Interest-rate risk						
OTC options	5 930	7 374	114	136	371	344
Other OTC derivatives	305 902	294 512	5 098	4 729	4 178	3 901
Other exchange-traded derivatives	208	548	–	–	–	1
	312 040	**302 434**	**5 212**	**4 865**	**4 549**	**4 246**
Currency risk						
OTC options	350	191	3	1	3	2
Other OTC derivatives	32 753	35 035	347	442	695	835
	33 103	**35 226**	**350**	**443**	**698**	**837**
Share price and other price risks						
Credit spread option	34	19	1	–	1	2
Total return swap	–	37	–	–	–	4
Other credit derivatives	–	66	–	2	–	–
	34	**122**	**1**	**2**	**1**	**6**
Credit derivatives risks						
OTC options	4 882	3 494	53	62	41	10
	4 882	**3 494**	**53**	**62**	**41**	**10**
Total	**350 059**	**341 276**	**5 616**	**5 372**	**5 289**	**5 099**

(64) Hedging Instruments and Underlying Transactions in Effective Hedges

Derivative assets and liabilities that are hedging instruments in a hedging transaction under IAS 39 are recognised in separate Balance Sheet items. Financial assets and liabilities that are underlying transactions 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 (42) Financial Instruments Hedged in the Portfolio Fair Value Hedge and note (53) Financial Instruments Hedged in the portfolio fair value hedge. 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 (29) Profit/loss from hedge accounting.

To hedge changes in fair value with regard to interest-rate risk, interest-rate or cross-currency interest rate swaps are used as hedging instruments in micro fair value hedge.

31 Dec.2019 (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	24 706	970	1 795	Positive/negative fair values from hedge accounting derivatives	– 280	Profit/loss from hedge accounting
Interest rate currency swaps	896	28	205	Positive/negative fair values from hedge accounting derivatives	–	Profit/loss from hedge accounting

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 financial liabilities are used as underlying transactions in a micro fair value hedge.

31 Dec.2019 (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	2 969	*439*	50	Profit/Loss from hedge accounting
Financial assets at amortised cost	11 101	*1 411*	428	Profit/Loss from hedge accounting
Financial liabilities at amortised cost	14 404	*1 101*	– 179	Profit/Loss from hedge accounting

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	Profit/Loss from hedge accounting
Financial assets at amortised cost	11 056	*1 084*	– 28	Profit/Loss from hedge accounting
Financial liabilities at amortised cost	15 158	*939*	37	Profit/Loss from hedge accounting

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. 2019	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019	31 Dec. 2019
Interest-rate risks	415	421	1 945	2 401	9 789	9 778	12 557	13 316	24 706	25 916
Currency risks	10	45	194	–	399	514	293	331	896	890
Total	**425**	**466**	**2 139**	**2 401**	**10 188**	**10 292**	**12 850**	**13 647**	**25 602**	**26 806**

The remaining term is defined as the period from the Balance Sheet date to the contractual maturity date.

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.2019 (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	20 422	21	18	Positive/negative fair values from hedge accounting derivatives	283	Profit/loss from hedge accounting

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.2019 (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	402	85	Profit/loss from hedge accounting
Financial assets at amortised cost	2 917	188	Profit/loss from hedge accounting
Financial liabilities at amortised cost	9 896	– 553	Profit/loss from 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

(65) Residual Terms of Financial Liabilities

31 Dec.2019 (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	**290**	**339**	**1 206**	**4 671**	**4 279**	**10 785**
Derivatives	290	339	1 202	4 655	4 237	10 723
Delivery obligations from short-sales	–	–	4	16	42	62
Designated financial assets at fair value through profit or loss	**26**	**88**	**353**	**2 652**	**6 642**	**9 761**
Deposits	8	63	100	612	5 696	6 479
Securitised liabilities	18	25	253	2 040	946	3 282
Financial liabilities at amortised costs	**36 097**	**8 089**	**11 043**	**32 431**	**34 360**	**122 020**
Deposits	35 466	6 659	8 435	18 669	25 536	94 765
Securitised liabilities	631	1 430	2 608	13 762	8 824	27 255
Negative fair values from hedge accounting derivatives	**44**	**65**	**233**	**1 096**	**1 489**	**2 927**
Issued loan commitments	**15 780**	**164**	**657**	**1 578**	**133**	**18 312**
Issued financial guarantees	**397**	**2**	**3**	**12**	**38**	**452**
Total	**52 634**	**8 747**	**13 495**	**42 440**	**46 941**	**164 257**

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**

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.

(66) The NORD/LB Group as Assignor and Assignee

The following assets have been transferred as collateral for liabilities (carrying amounts):

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Trading assets	5	11	– 55
Financial assets at fair value through profit or loss	1 003	1 235	– 19
Financial assets at fair value through other comprehensive income	6 774	10 127	– 33
Financial assets at amortised costs	57 181	58 724	– 3
Total	**64 963**	**70 097**	**– 7**

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 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 € 5,197 million (€ 7,689 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.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Trading liabilities	2 941	3 039	– 3
Designated financial liabilities at fair value through profit or loss	1 206	1 184	2
Securitsed liabilities	21 845	24 572	– 11
Hedge accounting derivatives	1 703	1 475	15
Total	**27 695**	**30 270**	**– 9**

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 2019 or the previous year.

For collateral received, particularly in the context of securities repos and lending transactions that may be repledged or resold even if the assignor does not default, the fair value is € 1,082 million (€ 3,048 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 € 1,034 million (€ 1,769 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

(67) 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 (CET11), core 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 significantly exceeded these minimum equity ratios on the reporting date. However, during the 2019 reporting year the equity ratios fell significantly below the minimum levels. The main reason for this was a significant consolidated loss after taxes in 2018, which resulted in a significant reduction in the CET1 capital from 31 December 2018. To counteract this effect, the owners of NORD/LB increased the Bank's share capital in December 2019 by € 2.835 billion and conducted additional measures to strengthen the regulatory equity ratios. 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 (68) 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 designing and technically implementing the measures listed above to strengthen the 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 complying again 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. Developments are reported to the management, the supervisory committees, 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 or – as in the reporting year – more comprehensive measures to strengthen equity are undertaken.

In addition, equity management also forms the basis for planning and managing the so-called MREL ratio. Thus according to Directive 2014/59/EU for establishing a framework for the recovery and resolution of financial institutions and investment firms (BRRD), MREL is the legal framework for structuring the "minimum requirements for equity and liabilities that can be offset" which banks in the EU must maintain for loss absorption in the potential event of resolution. To comply with the MREL minimum requirements, the interaction between equity and "eligible liabilities" must be taken into account accordingly in equity management, which may require modifications to the Group's capital structure.

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).

(68) Regulatory Data

The following consolidated regulatory capital data for the Group were calculated as at the reporting date in accordance with the provisions of Regulation (EU) No. 575/2013 on prudential requirements for banks and investment firms (CRR).

	31 Dec.2019 (in € million)	31 Dec 2018[1] (in € million)
Total risk exposure amount	**39 840**	**44 895**
Capital requirements for credit risk	2 659	2 901
Capital requirements for operational risks	321	392
Capital requirements for market risks	154	225
Capital requirements for settlement risks	–	2
Capital requirements for loan amount adjustments	53	71
Capital requirements	**3 187**	**3 592**

[1] The regulatory registration data as of 31 December 2018 was modified as a result of the adjusted regulatory requirements to show the Pillar 2 requirements and due to the corrections (on corrections see Note (5) Adjustments of previous year's figures).

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

	31 Dec.2019 (in € million)	31 Dec 2018[1] (in € million)
Paid-up capital including premium	5 414	4 930
Retained êarnings	1 363	– 900
Accumulated OCI	– 744	– 435
Regulatory adjustments	– 93	– 186
Common Equity Tier 1 intstruments based on grandfathering	33	23
– Deductible items (from CET 1 capital)	– 181	– 461
Adjustments due to transition rules	–	5
Common Equity Tier 1 capital	**5 792**	**2 976**
Paid-in instruments of additional Tier 1 capital	50	50
Additional Tier 1 Capital components due to grandfathering	266	355
Additional Tier 1 capital	**316**	**405**
Tier 1 capital	**6 108**	**3 380**
Paid-up instruments of Tier 2 capital	2 292	2 487
Other components of Tier 2 capital	149	182
– Deductible items (from Tier 2 capital)	– 10	– 23
Adjustments due to transition rules	– 269	– 338
Tier 2 capital	**2 162**	**2 307**
Own funds	**8 270**	**5 687**

[1] The regulatory registration data as of 31 December 2018 was modified as a result of the adjusted regulatory requirements to show the Pillar 2 requirements and due to the corrections (on corrections see Note (5) Adjustments of previous year's figures).

	31 Dec.2019 (in %)	31 Dec 2018[1] (in %)
Common equity tier 1 capital ratio	14.54%	6.63%
Tier 1 capital ratio	15.33%	7.53%
Total capital ratio	20.76%	12.67%

[1] The regulatory registration data as of 31 December 2018 was modified as a result of the adjusted regulatory requirements to show the Pillar II requirements and due to the corrections (on corrections see Note (5) Adjustments of previous year's figures).

Due to the presentation in million €, the reproduction of mathematical operations in the tables at hand can lead to minor differences.

(69) Foreign Currency Volume

As at 31 December 2019 and 31 December 2018 the NORD/LB Group had the following financial assets and liabilities in foreign currencies:

(in € million)	USD	GBP	JPY	Other	Total 31 Dec. 2019	Total 31 Dec. 2018
Assets						
Cash reserve	139	10	–	12	161	1 273
Trading assets	8 366	2 941	342	1 591	13 240	12 202
Financial assets at fair value through profit or loss	236	99	–	6	341	778
Financial assets at fair value through other comprehensive income	568	82	52	179	881	954
Financial assets at amortised costs	10 393	4 593	259	943	16 188	20 209
Positive fair values from hedge accounting derivatives	9	17	11	–	37	51
Balancing items for financial instruments hedged in in the portfolio fair value hedge	16	–	–	–	16	– 21
Shares in companies - not accounted for using the equity method	–	–	–	3	3	12
Tangible assets	2	–	–	2	4	5
Intangible assets	1	–	–	–	1	–
Assets held for sale	60	–	–	–	60	–
Income tax assets	6	–	–	–	6	13
Other assets	11	24	–	1	36	15
Total	**19 807**	**7 766**	**664**	**2 737**	**30 974**	**35 491**
Liabilities						
Trading liabilities	13 090	5 492	394	1 993	20 969	23 368
Designated financial liabilities at fair value through profit or loss	614	–	–	–	614	593
Financial liabilities at amortised costs	6 509	828	250	631	8 218	12 239
Negative fair values from hedge accounting derivatives	437	80	25	45	587	481
Balancing items for financial instruments hedged in in the portfolio fair value hedge	6	–	–	–	6	– 5
Provisions	2	1	–	–	3	16
Income tax liabilities	1	2	–	3	6	9
Other liabilities	30	5	–	11	46	19
Total	**20 689**	**6 408**	**669**	**2 683**	**30 449**	**36 720**

Exchange rate risks are eliminated by concluding countertrades with matching terms.

(70) Longer-term Assets and Liabilities

For Balance Sheet items that contain both short-term and long-term assets, the assets and liabilities that are realised or settled after more than twelve months are shown below.

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Assets			
Trading assets	4 565	3 884	18
Derivatives	4 192	3 742	12
Loans and advances	373	142	> 100
Financial assets at fair value through profit or loss	1 504	2 898	– 48
Equity instruments	2	2	–
Debt securities and other fixed interest securities	1 003	2 094	– 52
Loans and advances	499	802	– 38
Financial assets at fair value through other comprehensive income	14 619	16 735	– 13
Debt securities and other fixed interest securities	13 563	15 325	– 11
Loans and advances	1 056	1 410	– 25
Financial assets at amortised costs	76 373	82 584	– 8
Debt securities and other fixed interest securities	4 008	4 212	– 5
Loans and advances	72 365	78 372	– 8
Positive fair values from hedge accounting derivatives	898	1 000	– 10
Balancing items for financial instruments hedged in in the portfolio fair value hedge	–	116	– 100
Other assets	–	1	– 100
Total	**97 959**	**107 218**	**– 9**
Liabilities			
Trading liabilities	2 682	2 802	– 4
Derivatives	2 682	2 798	– 4
Short positions	–	4	– 100
Designated financial liabilities at fair value through profit or loss	7 371	7 513	– 2
Deposits	4 486	4 231	6
Securitised liabilities	2 885	3 282	– 12
Financial liabilities at amortised costs	60 717	65 746	– 8
Deposits	39 285	42 812	– 8
Securitised liabilities	21 432	22 934	– 7
Negative fair values from hedge accounting derivatives	1 906	1 639	16
Balancing items for financial instruments hedged in in the portfolio fair value hedge	–	710	– 100
Provisions	104	98	6
Other liabilities	–	1	– 100
Total	**72 780**	**78 509**	**– 7**

(71) Lease Agreements

The NORD/LB Group is shown in the 2019 reporting year as the **lessee** for **operating lease agreements** under IFRS 16, mainly for real estate, vehicles and hardware.

There are service contracts for 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 10 years in the context of the operating lease agreements. The leasing agreement can be renewed up to two times. Lease payment adjustments are possible.

Furthermore, there are operate lease agreements for vehicles and hardware. The average rental contract term for the fleet is 3 years; hardware is rented on average for 7 years.

Assets with a maximum term of 12 months are not shown. The relief option for low-value assets valued up to EUR 5,000 was also used.

The following earnings and expenses were incurred by NORD/LB Group as the lessee:

	1 Jan. - 31 Dec.2019 (in € million)	Item in profit or loss
Interest expense on lease liabilities	2	Interest expenses from liabilities
Expense relating to short-term leases	1	Administrative expenses
Expense relating to leases of low-value assets	3	Administrative expenses

The payment outflows for leasing agreements in the reporting period are € 14 million.

There could be future payment outflows that were not taken into account when valuing lease liabilities. These outflows may result in variable leasing payments, extension and termination options, outstanding value guarantees and leasing relationships that start in the future. There are currently extension and termination options totalling € 2 million.

The development of usage rights from leasing including inflows is presented under Note **Fehler! Verweisquelle konnte nicht gefunden werden.** Investment property.

The following table shows the carrying amounts and depreciation of the usage rights from leasing and is divided into classes:

	Carrying amount	Depreciation
(in € million)	31 Dec.2019	1 Jan. - 31 Dec.2019
Immovables	79	12
Vehicles	1	1
Hardware	5	4
Other right-of-use assets	2	–

The remaining terms of the undiscounted financial obligations from leasing relationships are shown below. They are defined as the period from the Balance Sheet date to the contractual maturity date.

31 Dec.2019 (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
Lease liabilities	2	–	–	2	19	23

The NORD/LB Group appears as a **lessor** in the context of **operating lease agreements** under IFRS 16 in the 2019 reporting year.

Lessor relationships as a result of operating lease agreements exist exclusively as a result of renting owned real estate. The real estate is primarily rented at the Hanover, Bremen, Magdeburg and Braunschweig locations. This concerns the rental of commercial, residential and office properties whereby the rental contracts are set individually with extension options. The rental contracts for residential property are usually for an undefined period of time.

The leasing income from operating lease agreements are recorded in the Other operating profit/loss.

(in € million)	31 Dec.2019 (in € million)
Lease income from Investment Property	12
Lease income from other lease transactions	5
Total	**17**

The following table shows the total of the undiscounted, future leasing payments from operating lease relationships to which the Group is entitled:

	31 Dec.2019 (in € million)
Future lease payments up to 1 year	11
Future lease payments more than 1 year up to 2 years	8
Future lease payments more than 2 years up to 3 years	8
Future lease payments more than 3 years up to 4 years	8
Future lease payments more than 4 years up to 5 years	7
Future lease payments more than 5 years	223
Total undiscounted, future lease payments	**265**

The NORD/LB Group appears as a lessor in the context of **finance lease agreements** under IFRS 16.

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 interest income from finance lease agreements is recognised in the net interest income. The carrying amount of the net investment in financial lease relationships mainly changes as a result of the leasing payments received.

The following table shows the transition of the present value of undiscounted, future lease payments to gross and net investment in the Group's finance lease agreements:

	31 Dec.2019 (in € million)
Future lease payments up to 1 year	4
Future lease payments more than 1 year up to 2 years	2
Future lease payments more than 2 years up to 3 years	1
Future lease payments more than 3 years up to 4 years	1
Future lease payments more than 5 years	25
Total undiscounted, future lease payments	**33**
Less financial income not yet realised	5
Plus discounted, unguaranteed residual values	2
Net investment in finance leases	**30**

Notes under IAS 17 – leasing for the 2018 year

The NORD/LB Group appears as a lessee in the context of operating lease agreements in 2018.

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 was five years.

Furthermore, there was 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 at the end of the 2018 reporting year:

	31 Dec.2018 (in € million)
Future minimum leasing lease payments up to 1 year	18
Future minimum leasing lease payments more than 1 year up to 5 years	46
Future minimum leasing lease payments more than 5 years	47
Total future minimum leasing lease payments	**111**

In the context of the operating lease agreements, minimum lease payments of € 18 million were recognised as an expense in the 2018 reporting year. No income 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 up to one year were expected in the 2018 year due to the chartering of vessels.

The NORD/LB Group appeared as a lessor in the context of finance lease agreements mainly for vehicles and machines in the 2018 year. In addition, the Group had 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 2018 outstanding minimum lease payments to gross and net investment in the Group's finance lease agreements:

	31 Dec.2018 (in € million)
Present value of outstanding minimum lease payments up to 1 year	7
Present value of outstanding minimum lease payments more than 1 year up to 5 years	14
Present value of outstanding minimum lease payments more than 5 years	16
Total present value of outstanding minimum lease payments	**37**
Plus interest	14
Total minimum lease payments	**51**
Total gross investment	**51**
Of which: up to 1 year	7
Of which: 1 year to 5 years	15
Of which: more than 5 years	30
Net investment	**51**

The minimum lease payments guarantee residual values of € 3 million in the 2018 reporting year.

(72) Contingent Liabilities and Other Obligations

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	3 805	3 977	– 4
Other contingent liabilities	58	41	41
	3 863	**4 018**	**– 4**
Other obligations			
Irrevocable credit commitments	7 994	6 837	17
Total	**11 857**	**10 855**	**9**

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.

(73) 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 (one company) 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 € 50 million (€ 143 million) in the form of securities.

Payment obligations for shares and other interests amounted to € 7 million (€ 7 million) as at year end.

The NORD/LB Group has concluded several securitisation transactions in order to reduce the charge on regulatory equity:

This affects the securitisation of a loan portfolio in the amount of € 6.0 billion as at 31 December 2019. The mezzanine tranche in the amount of € 315 million was hedged against default risks using an external guarantee. The NORD/LB Group will itself bear the losses attributable to the first loss tranche.

Further loan portfolios in the amount of € 1.5 billion as at 31 December 2019 were securitised. The mezzanine tranche in the amount of € 85 million was hedged using an external financial guarantee. The NORD/LB Group will itself bear the losses attributable to the first loss tranche.

In addition, a loan portfolio totalling € 827 million was securitised in the NORD/LB Group. The mezzanine tranche in the amount of € 50 million was hedged using an external financial guarantee. The NORD/LB Group will itself bear the losses attributable to the first loss tranche. Securitisation was terminated with effect from 25 March 2020.

Additional securitisations totalling € 9.3 billion were terminated for 2019, one retroactively in 2020 with effect from 31 December 2019.

As long as and provided that it is not yet possible to use the respective guarantee to settle losses exceeding the respective first loss to be borne by the NORD/LB Group, no claim for compensation can be enforced against the respective guarantors.

The annual premiums for the provision of guarantees are recorded in Commission expenses and amount to € 112.4 million for the current fiscal year, and to € 47.5 million provisionally for the following year.

On the basis of the measures agreed in the basic agreement to boost capital, NORD/LB concluded three guarantee contracts to secure loss risks and reduce the regulatory equity with the state of Lower Saxony with effect from the support contract on 23 December 2019. The guarantee portfolio covers two reference portfolios from the segment Ship Customers/Maritime Industries Customers (hedging the net book value of an NPL portfolio and the gross book value of a PL portfolio) and a reference portfolio from the Aircraft Customers segment. In return for granting the guarantees, NORD/LB pays the state of Lower Saxony a commission for each one. This is determined for the guarantee for the non-performing ship finance portfolio variably totalling 7.15% p.a. (expected to be €58.5 million) of the guarantee amount to be melted as part of the portfolio reduction minus the sales revenues received. There is a fixed guarantee charge totalling € 224.7 million for the guarantee for the performing loan ship finance portfolio and € 57.2 million for the reference portfolio from the Aircraft Customers segment that is to be paid in fixed quarterly instalments.

There is a framework contract with Wincor Nixdorf International GmbH, Paderborn governing collaboration in the area of information technology. The contract, which bundles the IT infrastructure services with one service provider, went into effect on 1 July 2013 and is due to expire on 30 June 2020. The annual costs are volume-dependent; the total volume of the contract over the remaining term is approximately € 7 million (€ 20 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 € 156 million (€ 106 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 € 30 million (€ 22 million) and € 28 million (€ 19 million) respectively are covered by cash collateral.

Related Parties

(74) 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. 2019	Male 1 Jan. - 31 Dec. 2018	Female 1 Jan. - 31 Dec. 2019	Female 1 Jan. - 31 Dec. 2018	Total 1 Jan. - 31 Dec. 2019	Total 1 Jan. - 31 Dec. 2018
NORD/LB	2 289	2 510	2 309	2 501	4 598	5 011
NORD/LB Luxemburg CBB	115	120	50	58	165	178
Deutsche Hypothekenbank	229	240	187	190	416	430
Other	122	129	188	175	310	304
Group	**2 755**	**2 999**	**2 734**	**2 924**	**5 489**	**5 923**

(75) Disclosures concerning Shares in Companies

Consolidated subsidiaries

Of the 19 (31) subsidiaries included in the consolidated financial statements, 8 (18) are structured companies under IFRS 12. Neither at 31 December 2019 nor at 31 December 2018 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/loss.

Statutory, contractual or regulatory restrictions and property rights of non-controlling interests, 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 (66) 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 (54) Provisions.

As indicated in Note (7) 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 provided financial support to no (one) consolidated structured shipping companies/company as of 31 December 2019, although it is not contractually obligated to do so. The support payments from the previous year relate to deferral agreements in the context of loan restructuring measures and amount to € 22 million.

Associated companies and joint ventures

Among the seven (nine) associated companies and one (one) joint venture company included in the consolidated financial statements, no associated company is 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.2019 (in € million)	31 Dec.2018 (in € million)
Carrying amount of the shares of non-significant associated companies	146	171
NORD/LB Group's share in		
Profit/loss from continuing operations	19	20
Other income	8	– 23
Comprehensive income	**27**	**– 3**

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

	31 Dec.2019 (in € million)	31 Dec.2018 (in € million)
Carrying amount of the shares of non-significant joint ventures	3	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 € 58 million (€ 114 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 lessee. Financing of leasing companies also occurs in the domain of project financing and in the context of aeroplane acquisitions.

Property and project financing

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 does not therefore 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 its business activities. It can therefore be determined differently from one company to the next. The NORD/LB Group considers the following key figures as appropriate indicators for the size of the structured companies:

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.2019 (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	–	9 376	85	2 134	14	–	**11 609**
Trading assets	–	–	–	5	–	–	**5**
Financial assets at fair value through profit or loss	–	165	24	–	6	–	**195**
Financial assets at amortised costs	–	8	–	917	7	–	**932**
Assets reported in the balance sheet of the NORD/LB Group	**–**	**173**	**24**	**922**	**13**	**–**	**1 132**
Financial liabilities at amortised costs	–	–	–	2	–	–	**2**
Liabilities reported in the balance sheet of the NORD/LB Group	**–**	**–**	**–**	**2**	**–**	**–**	**2**
Off-balance-sheet positions	–	–	–	29	–	–	**29**
Maximum risk of loss	–	173	24	960	13	–	**1 170**

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**

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. the NORD/LB Group is the originator of the structured company).

The NORD/LB Group sponsors various securitisation companies, whose founding it was involved in or is the originator. In financial year 2019, default risks from loan receivables in the amount of € 14 million (€ 39 million) were transferred to these companies by means of a financial guarantee or within the scope of syndicate agreements (see Note (73) Other financial obligations).

(76) 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 2018 and 2019 (not including those to be eliminated under consolidation) can be seen in the following lists:

31 Dec.2019 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Assets						
Trading assets	**362**	**–**	**–**	**81**	**–**	**8**
Derivates	82	–	–	81	–	8
Debt securities and other fixed interest securities	82	–	–	–	–	–
Loans and advances	198	–	–	–	–	–
Financial assets mandatorily at fair value through profit or loss	**–**	**20**	**–**	**–**	**–**	**–**
Equity instruments	–	20	–	–	–	–
Financial assets at fair value through other comprehensive income	**1 101**	**–**	**–**	**–**	**–**	**–**
Debt securities and other fixed interest securities	1 029	–	–	–	–	–
Loans and advances	72	–	–	–	–	–
Financial assets at amortised costs	**1 718**	**1**	**–**	**360**	**2**	**711**
Loans and advances	1 718	1	–	360	2	711
Other assets	**89**	**5**	**–**	**–**	**–**	**–**
Total	**3 270**	**26**	**–**	**441**	**2**	**719**

31 Dec.2019 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Liabilities						
Trading liabilities	**145**	**–**	**–**	**21**	**–**	**–**
Derivates	145	–	–	21	–	–
Financial liabilities designated at fair value through profit or loss	**39**	**–**	**–**	**–**	**–**	**77**
Deposits	39	–	–	–	–	77
Financial liabilities at amortised costs	**260**	**75**	**–**	**265**	**2**	**320**
Deposits	260	25	–	265	2	320
Other financial liabilities	–	50	–	–	–	–
Other liabilities	**–**	**1**	**–**	**–**	**–**	**–**
Total	**444**	**76**	**–**	**286**	**2**	**397**
Guarantees and sureties received	60	–	–	–	–	–
Guarantees and sureties granted	–	–	–	1	–	5

1 Jan. - 31 Dec.2019 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest income	91	3	–	10	–	9
Interest expense	24	3	–	10	–	7
Commission income	6	–	–	–	–	–
Commission expenses	16	–	–	–	–	–
Other income/expense	– 60	8	–	– 6	– 5	– 4
Total	**– 3**	**8**	**–**	**– 6**	**– 5**	**– 2**

31 Dec.2018 (in € million)	Companies with significant influence	Subsidaries before correction[1)]	Subsidaries after correction[1)]	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 mandatorily 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 costs	**1 746**	**2 737**	**3**	**297**	**1**	**374**
Loans and advances	1 746	2 737	3	297	1	374
Other assets	**87**	**7**	**7**	**–**	**–**	**–**
Total	**3 821**	**6 400**	**10**	**337**	**1**	**393**

31 Dec.2018 (in € million)	Companies with significant influence	Subsidaries before correction[1)]	Subsidaries after correction[1)]	Associated companies	Persons in key positions	Other related parties
Liabilities						
Trading liabilities	**47**	**342**	**–**	**9**	**–**	**–**
Derivates	47	339	–	9	–	–
Delivery obligations from short-sales	–	3	–	–	–	–
Financial liabilities designated at fair value through profit or loss	**47**	**–**	**–**	**–**	**–**	**73**
Deposits	47	–	–	–	–	73
Financial liabilities at amortised costs	**430**	**774**	**82**	**428**	**2**	**428**
Deposits	430	739	32	428	2	427
Securitised liabilities	–	–	–	–	–	1
Other financial liabilities	–	35	50	–	–	–
Other liabilities	**–**	**1**	**1**	**–**	**–**	**–**
Total	**524**	**1 117**	**83**	**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 before correction[1]	Subsidaries after correction[1]	Associated companies	Persons in key positions	Other related parties
Interest income	111	174	9	11	–	14
Interest expense	46	51	3	14	–	10
Commission income	6	3	–	–	–	–
Commission expenses	–	–	–	2	–	–
Other income/expense [2]	9	–	4	– 5	– 5	–
Total	**80**	**126**	**10**	**– 10**	**– 5**	**4**

[1] The previous year's figures regarding transactions with subsidiaries were corrected because intragroup transactions had not been eliminated in accordance with IAS 8.42.
[2] The previous year's figures were adjusted in accordance with IAS 8.42 in the item Other income and expenses by € -21 million with respect to companies with significant influence, by € 4 million with respect to subsidiaries and by € -6 million with respect to affiliated companies.

There were no assets with respect to joint ventures as at 31 December 2018. There were liabilities from participations reported at amortised cost of € 0 million (€ 3 million).

As at the reporting date, there are valuation allowances for loans and advances to associated companies amounting to € 0 million (€ 2 million), and for loans and advances to unconsolidated subsidiaries totalling € 1 million (€ 22 million).

With regard to the recapitalisation of NORD/LB and assumption of guarantees by the state of Lower Saxony, refer to Note (2) Risk coverage and capital strengthening measures, (3) Information on the impact on the balance sheet of guarantees and (4) Guarantee portfolios as at 31 December 2019.

The following table shows the maximum balances for NORD/LB transactions with related parties in the reporting period and the previous year.

	2019 (in € million)	2018[1] (in € million)
Assets		
Trading assets	451	596
Financial assets at amortised costs	2 792	2 421
Other assets	1 498	1 907
Total	**4 741**	**4 924**
Liabilities		
Trading liabilities	166	56
Financial liabilities at amortised costs	1 045	1 595
Other liabilities	126	124
Total	**1 337**	**1 775**
Guarantees and sureties received	70	105
Guarantees and sureties granted	14	166

[1] The previous year's figures were corrected because intragroup transactions relating to transactions with subsidiaries had not been eliminated.

Key personnel are remunerated as follows:

	2019 (in € million)	2018 (in € million)
Employment-related payments due in the short term	5	5
Post-employment payments	1	1
Total remuneration	**6**	**6**

Total remuneration and loans to executive bodies in accordance with commercial regulations are shown in Note (77) Remuneration of and loans to governing bodies.

(77) Remuneration of and Loans to Govering Bodies

	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (in € million)
Total emoluments paid to active members of governing bodies		
Managing Board	3	4
Total emoluments paid to former members of governing bodies and their dependants		
Managing Board	6	6

Total remuneration to active members of the Supervisory Board was € 416 thousand (€ 412 thousand).

In the reporting year, remuneration of € 25 thousand (€ 64 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 2019 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 € 1,302 thousand (€ 204 thousand) and € 36 thousand (€ 33 thousand), respectively. Of the loans and advance payments granted to the members of the Managing Board and the Supervisory Board, € 224 thousand (€ 49 thousand) and € 9 thousand (€ 13 thousand) was paid back in the reporting year.

There are pension obligations of € 124 million (€ 109 million) to former members of the Managing Board and their surviving dependants.

(78) Group Auditor’s Fees

(in € million)	1 Jan. - 31 Dec. 2019 (in € million)	1 Jan. - 31 Dec. 2018 (in € million)
Group auditor’s fees for		
The statutory audit [1)]	14	12
Other audit-related services	1	–

[1)] The figures given for the 2019 financial year include € 2 million in services that are attributable to 2018.

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 2019:

- Voluntary annual audits, reviews of annual financial statements and half-year financial reports, audits in accordance with IDW PS 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 in the context of IT Compliance
- 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 § 89 of the German Securities Trading Act (WpHG)
- Assurance services related to the issue of comfort letters
- Other services related to supervisory law or based on contractual obligations. This encompasses, inter alia, reporting obligations from onsight inspections with respect to the Supervisory Board, the evaluation of the Supervisory Board's activities, quality assurance of the voluntary wind down plan and an expert opinion on the capital measures.

The other services have a total below € 0.5 million (€ 0.5 million).

(79) 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	–
BLB Immobilien GmbH, Bremen [3)]	–	100.00
Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover [3)]	–	100.00
GBH Beteiligungs-GmbH, Bremen	–	100.00
KreditServices Nord GmbH, Braunschweig [3)]	–	100.00
Nieba GmbH, Hannover [3)]	–	100.00
NORD/FM Norddeutsche Facility Management GmbH, Hannover [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

ab) Special Purpose Entities included in the consolidated financial statements		
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal	–	–
Fürstenberg Capital Erste GmbH, Fürstenberg/Weser	–	–
Fürstenberg Capital II. GmbH, Fürstenberg/Weser	–	–
Hannover Funding Company LLC, Dover / USA	–	–
KMU Shipping Invest GmbH, Hamburg	–	–
NORD/LB Objekt Magdeburg GmbH & Co. KG, Pullach im Isartal	–	–
ac) Investment funds included in the consolidated financial statements		
NORD/LB, SICAV-RAIF S.C.Sp. Aviation 1, Luxemburg	–	100.00
NORD/LB SICAV-RAIF S.C.Sp.-Infrastructure & Renewables GBP 2, Luxemburg	–	100.00

ad) Companies / investment funds accounted for in the consolidated financial statements using the equity method		
Joint Ventures		
caplantic GmbH, Hannover	–	45.00
Associated companies	**–**	**–**
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	–	32.26
GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg	–	22.22
LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hannover	–	44.00
LINOVO Productions GmbH & Co. KG, Pöcking	–	45.17
NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hannover	–	28.66
Öffentliche Lebensversicherung Braunschweig, Braunschweig [2)]	–	75.00
Öffentliche Sachversicherung Braunschweig, Braunschweig [2)]	–	75.00

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 or equal +/-€ 1 million			
BGG Oldenburg GmbH & Co. KG, Bremen [4]	100.00	10 518	769
Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [3] [4]	100.00	6 000	–
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [4]	100.00	2 768	912
finpair GmbH, Hannover [4]	100.00	1 528	– 282
NBN Grundstücks- und Verwaltungs-GmbH, Hannover [4]	100.00	1 906	70
NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hannover [4]	90.00	2 689	– 6
SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [4]	100.00	1 098	74
NORD/LB SICAV-RAIF S.C.Sp., Luxemburg	99.01	k.A.	k.A.
Skandifinanz AG, Zürich / Schweiz [4]	100.00	12 207	– 138
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [4] [5]	100.00	129 983	2 250
Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung [3] [4]	100.00	1 278	–

Company name and registered office	Share of capital held (in %)	Equity[1] (in Tsd €)	Profit/Loss (in Tsd €)
c) Capital share of greater or equal 20 % in companies with an equity capital of greater or equal +/– € 1 million			
Joint Ventures/ associated companies / other			
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [4]	49.00	6 232	2 582
Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [4]	50.00	2 900	340
Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [4]	20.89	16 637	75
Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [4]	20.44	15 999	387
FinTech Fonds GmbH & Co. KG, Köln [4]	39.60	6 194	– 436
Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [4]	20.46	13 317	580
Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. - Objekt Zietenterrassen - KG, Göttingen [4]	50.00	4 557	– 292
LUNI Productions GmbH & Co. KG, Pöcking [4]	24.29	– 115 816	78
Marktcarré Grundbesitz-GmbH [4]	25.00	3 119	– 881
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [4]	26.00	15 950	1 521
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hannover [4]	39.82	14 309	671
NBV Beteiligungs-GmbH, Hannover [4]	42.66	12 823	2 209
Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [4]	21.72	20 355	435

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, Hannover	100.00
FL FINANZ-LEASING GmbH, Wiesbaden	58.00
LBT Holding Corporation Inc., Wilmington / USA	100.00
NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hannover	100.00
NORD/LB Informationstechnologie GmbH, Hannover [3)]	100.00
NORD/LB Project Holding Ltd., London / Großbritannien	100.00
NORD/LB RP Investments LLC, Wilmington / USA	100.00
PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hannover	100.00
Ricklinger Kreisel Beteiligungs GmbH, Hannover	100.00
Themis 1 Inc., Wilmington / USA	100.00

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 affiliated company due to its structure under company law.
[3)] A profit/loss transfer agreement is in place with the company.
[4)] Data is available as at 31.12.2018.
[5)] Not subject to consolidation under IFRS 10.4 (b).

(80) Subsequent Events

As part of the annual strategy process, the NORD/LB Group's business strategy was aligned with the capital-boosting business plan and NORD/LB's restructure as presented to the European Commission (EUC).

As a result of this, NORD/LB's former eight-pillared business model was adapted to a new business model with five strategic business segments based on the EUC business plan. This change takes into account NORD/LB's redimensioning targets and allows for its future focus on selected areas of business and groups of customers. The new five-pillared business model was given final approval in the Managing Board's strategy meeting on 29 October 2019 and entered into force at the same time as the planned switch to Financial Controlling's segment reporting on 1 January 2020.

In the new business model, the former strategic business segments of "Private and Commercial Customers" and "Savings Banks and Regional Customers" were consolidated to create the strategic business segment "Private and Commercial Customers and Savings Banks Customers". The strategic business segments "Energy and Infrastructure Customers" and "Aircraft Customers" have become the new strategic business segment "Structured Finance Customers", which consolidates NORD/LB's structuring expertise in the field of cash-flow and item-based financing. The previous strategic business segment "Ship Customers/Maritime Industries Customers" has been dissolved on the basis of the business decision to withdraw from the ship finance sector. The ship credit portfolio has been transferred to the internal "Strategic Portfolio Optimisation" (SPO) unit so that the value-preserving portfolio reduction process can take place in a consolidated manner.

Both NORD/LB and the former Bremer Landesbank have implemented provident funds as means of implementing occupational pension provision - firstly, the "Unterstützungskasse Norddeutsche Landesbank Girozentrale Hannover/Braunschweig e.V." (NORD/LB UK), secondly, the "Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH" (BLB UK). Following the merger of the former Bremer Landesbank with NORD/LB, a project to gradually wind up BLB UK was commissioned. With effect from 1 January 2020, the obligations from Bremer Landesbank's pension benefit plan were taken over by NORD/LB UK by means of debt assumption and the obligations from aid agreements were taken over by NORD/LB. At the same time, the fund assets of BLB UK were transferred pro rata to NORD/LB UK and NORD/LB respectively. BLB UK was subsequently liquidated and deleted in the Commercial Register.

With the payment of the capital and the acknowledgement by the supervisory body, the material prerequisites for exiting the rehabilitation phase are fulfilled. Upon the recommendation of the Recovery Plan Committee, the Managing Board therefore agreed to transition from the reorganisation phase to the early warning phase on 21 January 2020.

With effect from 01 January 2020, Mr. Olof Seidel was appointed to the Managing Board of the NORD/LB Group. As at 31 January 2020, Dr. Hinrich Holm resigned from the Managing Board of the NORD/LB Group.

At the time that the financial statements were being prepared, the spread of the coronavirus was in some cases having a significant effect on economic activity in many markets. The actual impact on the state of the economy, individual markets and sectors could not be definitively determined at the time the report was being prepared. The forecasts contained in the Management Report are fraught with uncertainty as a result of the unfolding, fluid situation.

Therefore it is possible that, depending on how events unfold, the coronavirus crisis may weigh on the earnings targeted for the 2020 financial year, both at individual divisions and NORD/LB as a whole. Negative effects may in particular arise on risk provisions, interest income and therefore on the result of the valuation of assets measured at fair value with corresponding effects on the Balance Sheet and regulatory capital and the regulatory ratios. This may also give rise to considerable liquidity risks.

Statement and Audit

Audit Opinion of the independent Group Auditor

To the Norddeutsche Landesbank – Girozentrale-, Hannover, Braunschweig and Magdeburg

Report on the Audit of the Consolidated Financial State-ments and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Norddeutsche Landesbank - Girozentrale -, Hannover, Braunschweig and Magdeburg (NORD/LB) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year from 1 January to 31 December 2019, 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 from 1 January to 31 December 2019.

The combined management report of NORD/LB contains cross-references to the NORD / LB website that are not required by law. In accordance with the German legal require-ments, we have not audited the content of these cross-references and the information to which the cross-references refer.

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 IFRSs 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 these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, 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. The management report contains cross-references to the NORD / LB website that are not required by law. Our audit opinion does not cover the cross-references or the information to which the cross-references refer.

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 of the combined management report in accordance with Section 317 HGB and 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)(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 on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. 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 and note 58 'Fair value hierarchy' in the notes.

THE FINANCIAL STATEMENT RISK

The 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 4.597 million), derivative liabilities held for trading (EUR 3.269 million) as well as bonds and other fixed-income securities that are required to be measured at fair value through profit or loss (EUR 369 million). It also relates to deposits and securitised liabilities designated at fair value through profit or loss in the amount of EUR 6.647 million. In addition, bonds and other fixed-income securities measured at fair value through other comprehensive income amount to EUR 10.554 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. The risk for the consolidated financial statements is that appropriate valuation models or inputs are not used for the calculation of fair values and changes in fair value and that 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 compre-hensive 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

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed 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 measurement of financial instruments for which no market prices are observable, we conducted surveys with the involvement of our valuation specialists and gained insight into relevant documents. After carrying out this test of design, we as-sessed 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 implemented and documented and whether the implemented valuation models as well as the inputs incorporated for the respective product are 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 remeasurement for a select group of products based on materiality and risk aspects. In addition, we randomly selected other products for remeasurement from the remaining universe.

Inputs observable in the market were used for the remeasurement where possible. We then compared the results of our remeasurement 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 appropri-ate models in compliance with the applicable accounting policies. The Group's inputs underlying the measurement are appropriate.

Determination of stage 3 (credit-impaired) provisions for expected credit losses on loans and advances in specific areas of the commercial lending business

For the accounting policies of NORD/LB applied, please refer to note 13 'Risk provisioning' in the notes.

THE FINANCIAL STATEMENT RISK

Commensurate with IFRS 9 the measurement of provisions for expected credit losses is generally based on probability-weighted scenarios. This also concerns loans and advances that are credit-impaired (stage 3 provisions for expected credit losses). In this context, the influence of macroeconomic factors on credit risk must also be taken into account. Significant judgements for the measurement of stage 3 provisions for expected credit losses arise in the business areas of corporate customers, energy and infrastructure customers, shipping customers/maritime industry customers, aircraft customers and real estate customers. Provisions for expected credit losses for the portfolios amounted to EUR 27 million in financial year 2019.

Determining the number and nature of scenarios, deriving the cash flows expected in each scenario and estimating the probabilities of occurrence require considerable judge-ment. 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 including the dependence on macroeconomic factors. We also considered it important that the selection of specific scenarios, estimates of probability for each scenario and estimates of cash flows expected in each scenario were verifiably, justifiably and consistently performed and documented.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

First, we gained a comprehensive overview of the development of the examined loan portfolios, the related counterparty credit risks and the internal control system in respect of the monitoring and measurement of the counterparty credit risks.

Our audit included system and compliance testing of the internal control system with particular focus on assessing the internal financial reporting approach with regard to measuring impaired loans and advances. For the IT systems and individual data processing systems used, we first verified the effectiveness of rules and procedures relating to numerous IT applications and supporting the effectiveness of application controls, with the involvement of our IT experts.

Based on these findings, we also assessed, within the scope of our selection of loan exposures defined in accordance with materiality and risk criteria, 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 financing in each case and the factors likely determining further exposure to risk and verified whether the assumptions underlying the scenarios were consistent with the forecasts of general macroeconomic conditions used at NORD/LB.

We then assessed the cash flows derived for the scenarios including the payment dates assumed. Our assessment included an evaluation of collateral depending on the exposure strategy pursued by the NORD/LB. Lastly, we verified that the expected value of stage 3 provisions for expected credit losses was accurately calculated.

OUR OBSERVATIONS

For the loans and advances allocated to stage 3 provisions for expected credit losses that we examined, we found that the selection of specific scenarios, estimates of probability for each scenario and the estimate of cash flows expected in each scenario, including the dependence on macroeconomic factors, were verifiable, objectively justified and consistently performed and documented.

Recognition and measurement of restructuring provisions

For the accounting policies of NORD/LB applied and the assumptions used, please refer to note 20 'Other provisions' and note 54 'Provisions' in the notes.

THE FINANCIAL STATEMENT RISK

As at 31 December 2019, NORD/LB recorded restructuring provisions for personnel measures totalling EUR 539 million in its consolidated financial statements. Of this, EUR 347 million is related to the restructuring plan which was decided upon in financial year 2019 as a result of the strategic realignment of the business model as part of the "NORD/LB 2024" programme.

Commensurate provisions are to be recognised for personnel measures resulting from the realignment of the business model if the recognition criteria of the relevant provisions are satisfied. This matter is particularly significant, as the recognition and measurement of expenses that are significant in terms of amount are largely dependent on assumptions and estimates, particularly with regard to the reduction of staffing and amounts paid for early retirement and severance.

The risks for the annual financial statements are that the criteria for the recognition of these provisions have not been satisfied and/or that their amounts have been inaccurately measured.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

First, we evaluated the recognition criteria based on the resolutions passed and the measures taken in financial year 2019, particularly assessing whether the necessary valid expectation had arisen at 31 December 2019 among those affected that, due to the announcement of the key elements of the restructuring plan, the restructuring measures concerning those affected were to be implemented. To this end, we evaluated whether the corresponding resolution of the Managing Board on implementing the restructuring plan was adopted and communicated to the General Staff Council and employees.

We then received an explanation of the assumptions and estimates underlying the measurement of provisions. We assessed the consistency of the significant assumptions and estimates based on the detailed, formal restructuring plan. We also compared and critically evaluated the assumptions against the workforce reduction measures previously implemented by NORD/LB. Finally, we verified the computational accuracy of the calculation of the provision.

OUR OBSERVATIONS

The assumptions and estimates used for the recognition and the measurement of restructuring provisions are appropriate, verifiable and – in terms of computation – accurately derived from available information.

Effects of the risk relief measures on the financial reporting

With effect from 23 December 2019 NORD/LG concluded three guarantee agreements with the state of Lower Saxony in respect of risk relief for two portfolios in the Strategic Portfolio Optimisation business area and one portfolio for aircraft customers.

For an explanation of the effects of risk relief measures on the financial statements and a description of the accounting policies applied please refer to note 1 'Principles for the preparation of the consolidated financial statements' and note 2 'Risk shield and capital strengthening measures' in the notes.

THE FINANCIAL STATEMENT RISK

The risk relief measures in the form of guarantee agreements represent significant trans-actions with the state of Lower Saxony, which is a related party as majority shareholder of NORD/LB. The guarantee agreements are classified as credit derivatives in the finan-cial statements.

The risk for the financial statements is that the models, assumptions and (measurement) parameters underlying the measurement of credit derivatives are not appropriately and verifiably derived and thus that the credit derivatives are inaccurately measured.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

First, based on enquiries of management, inspections of committee and Managing Board minutes and a review of the three guarantee agreements and of the accounting concept, we assessed the effects on the financial statements as at 31 December 2019.

In respect of the method to record and measure credit derivatives for which no market prices are observable, we carried out enquiries as part of the test of design and inspect-ed the relevant documents, including the documentation of the new product process conducted in this regard. We reviewed whether the implemented valuation models are suitable and the incorporated assumptions and (measurement) parameters are appropriate.

With the involvement of our valuation specialists, we verified the measurement of the three credit derivatives in the course of substantive audit procedures.

OUR OBSERVATIONS

The three guarantee agreements classified as credit derivatives were measured using suitable valuation models. The underlying assumptions and (measurement) parameters are appropriate and verifiably derived from the relevant information.

Other Information

Management is responsible for the other information. The other information comprises:

- the separate summarized non-financial report of the NORD / LB and the Group, which is expected to be made available to us after the date of this auditor's report, which will be published together with the management report, and
- the annual 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 so doing, 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.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs 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 Group's assets, liabilities, financial position and financial performance. In addition, management is responsible for such internal control 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 as-sessing 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 misstatements, 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 state-ments and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and 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 controls.

- Obtain an understanding of internal control 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 prospec-tive 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 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 elected as Group auditor by the Supervisory Board on 18 April 2019. We were engaged by the Chairperson of the Supervisory Board on 5 July 2019. We have been the Group auditor of NORD/LB without interruption since 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 engagement is Volker Bormann.

Hannover, 19 March 2019
KPMG AG
Wirtschaftsprüfungsgesellschaft

Wiechens	Bormann
Wirtschaftsprüfer	Wirtschaftsprüfer

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, 17 March 2020

Norddeutsche Landesbank Girozentrale

The Managing Board

Bürkle　　Dieng　　Schulz

Seidel　　Tallner

Further Information

Country-by-Country-Reporting in accordance with §26a of the German Banking Act as at 31 December 2019

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	5 092	1 299	-181	-11	–
China	25	4	-1	0	–
UK	64	35	15	-6	–
Luxembourg	165	131	91	-21	–
Singapore	74	30	-10	3	–
USA	69	54	11	-4	–

	Type of activity	Country	Location
BGG Bremen GmbH & Co. KG	Other company	Germany	Bremen
BLB Immobilien GmbH	Other company	Germany	Bremen
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Other company	Germany	Pullach i. Isartal
Deutsche Hypothekenbank (Actien-Gesellschaft)	Bank	Germany	Hanover
Fürstenberg Capital Erste GmbH	Other company	Germany	Fürstenberg
Fürstenberg Capital II. GmbH	Other company	Germany	Fürstenberg
GBH Beteiligungs-GmbH	Other company	Germany	Oldenburg
Hannover Funding Company LLC	Finance company	USA	Dover (Delaware)
KMU Shipping Invest GmbH	Other company	Germany	Hamburg
KreditServices Nord GmbH	Provider of financial services	Germany	Braunschweig
Nieba GmbH	Finance company	Germany	Hanover
Norddeutsche Landesbank Girozentrale	Bank	Germany	Hanover
Norddeutsche Landesbank Girozentrale Niederlassung London	Bank	United Kingdom	London
Norddeutsche Landesbank Girozentrale Niederlassung New York	Bank	USA	New York
Norddeutsche Landesbank Girozentrale Niederlassung Shanghai	Bank	China	Shanghai
Norddeutsche Landesbank Girozentrale Niederlassung Singapur	Bank	Singapore	Singapore
Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank	Bank	Luxembourg	Luxemburg-Findel
NORD/FM Norddeutsche Facility Management GmbH	Other company	Germany	Oldenburg
NORD/LB Leasing GmbH	Financial Services Institute	Germany	Hanover
NORD/LB Objekt Magdeburg GmbH & Co. KG	Provider of ancillary service	Germany	Pullach i. Isartal
NORD/LB, SICAV-RAIF S.C.Sp. - Aviation 1	Other company	Luxembourg	Luxemburg
NORD/LB, SICAV-RAIF S.C.Sp. - Infrastructure & Renewables GBP 2	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

The average return on capital is -0.1 per cent. This is calculated from the earnings after tax and the total assets in the IFRS consolidated financial statements as at 31 December 2019.

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 2019)

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 6 December 2019 between the state of Lower Saxony, the state of Saxony-Anhalt and the state of Mecklenburg-Western Pomerania concerning Norddeutsche Landesbank Girozentrale, which entered into force on 10 December 2019.

Statutes of Norddeutsche Landesbank Girozentrale in accordance with the resolution of the Owners' Meeting of 6 December 2019. These Statutes entered into force on 23 December 2019.

Legal Form

Public-law institution with legal capacity

Owners

State of Lower Saxony
Niedersachsen Invest GmbH
Hannoversche Beteiligungsgestellschaft mbH
Niedersächsischer Sparkassen- und Giroverband
State of Saxony-Anhalt
Sparkassenbeteiligungsverband Saxony-Anhalt
Sparkassenbeteiligungszweckverband Mecklenburg-Western Pomerania
FIDES Gamma GmbH
FIDES Delta GmbH

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 Hannover

Brunswick
Friedrich-Wilhelm-Platz
38100 Braunschweig

Magdeburg
Breiter Weg 7
39104 Magdeburg

Development Banks

Investitionsbank Sachsen-Anhalt
Domplatz 12
39104 Magdeburg

Landesförderinstitut Mecklenburg-Vorpommern
Werkstraße 213
19061 Schwerin

Branches in Germany

Hanover Branch
Georgsplatz 1
30159 Hannover

Bremen Branch
Domhof 26
28195 Bremen

Duesseldorf Branch
Königsallee 63-65
40215 Düsseldorf

Hamburg Branch
Brodschrangen 4
20457 Hamburg

Magdeburg Branch
Landesbank for Saxony-Anhalt
Breiter Weg 7
39104 Magdeburg

Munich Branch
Maximiliansplatz 14
80333 München

Oldenburg Branch
Markt 12
26122 Oldenburg

Schwerin Branch
Graf-Schack-Allee 10/10A
19053 Schwerin

Stuttgart Branch
Kronprinzstraße 11
70173 Stuttgart

Branches Worldwide (in alphabetical Order)

NORD/LB London
One Wood Street
London EC2V 7WT
Great Britain

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, NY 10036
USA

NORD/LB Shanghai
37/F Jinmao Tower
88 Century Avenue
Shanghai 200120
PR China

NORD/LB Singapore
CapitaGreen
138 Market Street
36-03
Singapore 048946

Locations of Deutsche Hypo in Germany and worldwide

http://www.deutsche-hypo.de/en/aboutus/locations

Branches of Braunschweigische Landessparkasse

www.blsk.de

Investments

https://www.nordlb.com/nordlb/about-us/investments/

caplantic GmbH
Waldstraße 1
30163 Hannover

Deutsche Hypothekenbank
(Actiengesellschaft)
Osterstraße 31
30159 Hannover

finpair GmbH
Friedrichswall 10
30159 Hannover

KreditServices Nord GmbH
Friedrich-Wilhelm-Platz
38100 Braunschweig

LBS Norddeutsche Landesbausparkasse Berlin-Hannover
Kattenbrookstrift 33
30539 Hannover

Nieba GmbH*
Friedrichswall 10
30159 Hannover

* with investment holding
DekaBank Dt. Girozentrale
Mainzer Landstraße 16
60325 Frankfurt am Main

NORD/FM Norddeutsche Facility Management GmbH
Breite Str. 10
30159 Hannover

NORD/LB 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

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
Dr. Matthias Bergner
Managing Director
FIDES Delta GmbH

2nd Deputy Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

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 Markurth
Mayor of Brunswick

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

Michael Richter
Minister
Ministry of Finance Saxony-Anhalt

Stefanie Rieke
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Felix von Nathusius
Businessman
Inteb-M GmbH

Matthias Wagers
Graduate in Economics

Owners' Meeting

Chairman
Reinhold Hilbers
Minister
Ministry of Finance Lower Saxony

1st Deputy Chairman
Helmuth Schleweis
President
Deutscher Sparkassen- und Giroverband

2nd Deputy Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

Niedersachsen Invest GmbH
Doris Nordmann
State Secretary
Ministry of Finance Lower Saxony

Dr. Anne Deter
Conductor of Ministry Department
Ministry of Finance Lower Saxony

Hannoversche Beteiligungsgesellschaft
Ulricht Bökmann
Assistant Head of a Government
Ministry of Finance Lower Saxony

State of Saxony-Anhalt

Michael Richter
Minister
Ministry of Finance Saxony-Anhalt

Heinrich Heine
Assistant Head of a Government
Ministry of Finance Saxony-Anhalt

Saxony-Anhalt Savings Banks Holding Association
Dr Jürgen Fox
CEO
Saalesparkasse

Michael Ziche
District Administrator
Altmarkkreis Salzwedel

Special Purpose Holding Association of the Mecklenburg-Western Pomerania Savings Banks
Frank Berg
CEO
OstseeSparkasse Rostock

Dr.-Ing. Alexander Badrow
Mayor of the Hanseatic City of Stralsund

Lower Saxony Savings Banks and Giro Association
Ludwig Momann
CEO
Sparkasse Emsland

FIDES Gamma GmbH
Ralf Fleischer
CEO
Stadtsparkasse München

Matthias Wargers
Graduate in Economics

FIDES Delta GmbH
Dr. Matthias Bergner
Managing Director
FIDES Delta GmbH

Economic Council

Chairman
Dr Jürgen Fox
CEO
Saalesparkasse

Deputy Chairman
Frank Berg
CEO
OstseeSparkasse Rostock

Members
Jürgen Abromeit
CEO
INDUS Holding AG

Peter Ahlgrim
CEO
ÖSA Öffentliche Versicherungen Sachsen-Anhalt

Caspar Baumgart
Member of the Managing Board
WEMAG AG

Dr Heinz-Jürgen Bertram
CEO
Symrise AG

Dr Jörg Boche
General Representative
Volkswagen AG

Richard Borek jun.
Managing Director
Richard Borek GmbH & Co. KG

Paolo Dell‘ Antonio
Member of the Managing Board
Wilh. Werhahn KG

Michael Eggenschwiler
Chairman of the Board
Flughafen Hamburg GmbH

Achim Fahrenkamp
Managing Director
Porta Service & Beratungs GmbH & Co. KG

Dr Heiner Feldhaus
CEO
Concordia Versicherungen

Peter M Feldmann
Managing Director
Via Invest GmbH

Sven Fischer
Managing Director
Madsack Mediengruppe

Thomas Flemming
Chairman of the Boards
Mecklenburgische Versicherungsgruppe

Prof Dr-Ing Heinz Jörg Fuhrmann
CEO
Salzgitter AG

Hans-Christoph Gallenkamp
Chief Executive Officer/President
Felix Schoeller Holding GmbH & Co. KG

Dr Karl Gerhold
Managing Director
Getec Energie Holding GmbH

Prof Dr Werner Görg
Chairman of the Supervisory Boards at Gothaer Group
Gothaer Versicherungsbank VvaG

Dr Bernard große Broermann
Sole Shareholder
Asklepios-Kliniken GmbH

Dr Christof Günther
Managing Director
InfraLeuna GmbH

Karin Hardekopf
Member of the Managing Board
GP Günter Papenburg AG

Alfred Hartmann
Chairman of the Supervisory Board
Hartmann AG

Helmut Bernhard Herdt
Management Spokesperson
Städtische Werke Magdeburg GmbH u. Co. KG

Matthias Herter
Managing Director
meravis Wohnungsbau- und Immobillien GmbH

Reinhold Hilbers
Minister
Ministry of Finance Lower Saxony

Hermann Kasten
CEO
VGH Versicherungsgruppe Hannover

Martin Kind
KIND Hörgeräte GmbH & Co. KG

Dr Dieter Köster
Managing Director
HomeStead GmbH & Co. KG

Dr Joachim Kreuzburg
CEO
Sartorius AG

Thomas Mang
President
Sparkassenverband, Lower Saxony

Dr. Wolfgang Matz
CEO
KKH Kaufmännische Krankenkasse

Knud Maywald
CEO
Öffentliche Versicherung Braunschweig

Dirk Meinecke
Managing Director
H. Butting GmbH & Co. KG

Graduate Engineer Bernard Meyer
Managing Director
MEYER WERFT GmbH

Dr Michael Noth
Member of the Managing Board
Hellmann Worldwide Logistics SE & Co. KG

Dr Jürgen Peter
CEO
AOK – Die Gesundheitskasse für Niedersachsen

Uwe H Reuter
CEO
VHV Holding AG

Bernd Rosemeyer
Spokesperson of the Managing Board
ISR Information Products AG

Wolfgang Schäfer
Member of the Managing Board
Continental AG

Jens Aurel Scharner
Managing Director
ROSTOCK PORT GmbH

Andreas Schober

Michael Richter
Minister
Ministry of Finance Saxony-Anhalt

Tim Alexander Schwencke
Member of the Managing Board
SARIA SE & Co. KG

Rudolf Sonnemann

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CEO
Dr. Schmidt-Gruppe

Graduate in Business, MBM, Georg Weber
Managing Director
MKN Maschinenfabrik Kurt Neubauer GmbH & Co. KG

Graduate in Economics Klaus-Peter Wennemann
Business Consultant

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Chairwoman of the Managing Board
Stadtwerke Hannover AG

Savings Banks Advisory Board

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Graduate in Economics

Deputy Chairman
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Minister
Ministry of Finance Lower Saxony

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Dr Matthias Bergmann
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Sparkasse Einbeck

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Sparkasse Altmarkt-West

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Saalesparkasse

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Sparkasse Mecklenburg-Schwerin

Heiko Menz
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Sparkasse Wunstorf

Thomas Scheffler
CEO
Kreis- und Stadtsparkasse Münden

Michael Richter
Minister
Ministry of Finance Saxony-Anhalt

Andreas Sommer
CEO
Sparkasse Harburg-Buxtehude

Thomas Mang
President
Sparkassenverband, Lower Saxony

Hans-Michael Strube
CEO
Salzlandsparkasse

Thomas Toebe
CEO
Sparkasse Osterode am Harz

Wolfgang Wilke
CEO
Sparkasse Nienburg

Hubert Winter
CEO
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Sparkasse Uecker-Randow

Advisory Board for Public Affairs and Administration

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CEO
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Deputy Chairman
Frank Berg
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SPD Parliamentary Party in Parliament of Lower Saxony

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Niedersächsischer Städtetag

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Helmstedt District

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SPD Parliamentary Party in Parliament of Lower Saxony

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Parliament of Lower Saxony

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Conductor of Ministry Department
Lower Saxony Ministry of Finance

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FDP Parliamentary Party in Parliament of Lower Saxony

Frauke Heiligenstadt
Member of Parliament
SPD Parliamentary Party in Parliament of Lower Saxony

Reinhold Hilbers
Minister
Ministry of Finance Lower Saxony

Dr Gert Hoffmann
Mayor (off-duty)

Manfred Hugo
District Administrator (off-duty)

Hauke Jagau
Regional President
Hanover Region

Peter Kuras
Mayor of Dessau-Roßlau

Dr Berend Lindner
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Ministry of Economy, Labor, Transport and Digitalisation

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Sparkassenverband, Lower Saxony

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Executive Presidential Member
District Association of Lower Saxony

Dr Jörg Mielke
State Secretary
Head of State Chancellery
State Chancellery Lower Saxony

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SPD Faction in the Lower Saxony State Parliament

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Mayor of Duderstadt

Doris Nordmann
State Secretary
Ministry of Finance Lower Saxony

Dr Mehrdad Payandeh
Chairman
DGB district Lower Saxony - Bremen - Saxony-Anhalt

Michael Richter
Minister
Lower Saxony Ministry of Finance

Angela Schürzeberg
District Administrator
Holzminden District

Ulf Thiele
Member of the State Parliament
CDU parliamentary group in the Lower Saxony state parliament

Dirk Toepffer
Parliamentary Chairman
CDU parliamentary group in the Lower Saxony state parliament

Dr Marco Trips
President
Lower Saxony Association of Cities and Municipalities

Matthias Wunderling-Weilbier
State Representative for Regional Development
Office of Regional Development, Brunswick

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District Administrator
Altmarkkreis Salzwedel

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Dr Harald Isermeyer
Farmer

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Detlef Kurrek
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Bauernverband Mecklenburg-Vorpommern e.V.

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Getreide AG

Graduate Engineer agr Doris Schröder
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Lower Saxony Agrifood Competence Centre

Albert Schulte to Brinke
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Landvolk Niedersachsen – Landesbauernverband e.V.

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Sparkasse Uecker-Randow

Regional Advisory Board of Saxony-Anhalt

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CEO
Saalesparkasse

Deputy Chairman
Michael Richter
Minister
Ministry of Finance Saxony-Anhalt

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Management Spokesperson
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Sparkasse Burgenlandkreis

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Mansfeld-Südharz District

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BÜNDNIS 90/DIE GRÜNEN Parliamentary Party in Saxony-Anhalt Parliament

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Industriebau Wernigerode GmbH

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District Association of Saxony-Anhalt

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Die Linke, Parliamentary Party in Saxony-Anhalt Parliament

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State Secretary
Saxony-Anhalt Ministry for Environment, Agriculture and Energy

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Avella GmbH

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Mayor
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CEO
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Vorpommern e.V.

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CEO
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Managing Director
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District Administrator
District Nordwest-Mecklenburg

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Managing Director
Gerüstbau und Bauhandwerksbetrieb Bernd Werdermann

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Chairwoman of the Managing Board
Sparkasse Uecker-Randow

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Managing Director
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Chief Executive and I. Syndic of the Chamber of the Commerce
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Günter Günnemann
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Ingo Kramer
J. Heinr. Kramer Holding GmbH & Co. KG

Jürgen Krogmann
Mayor
Stadt Oldenburg

Jürgen Lange
CEO
Sparkasse Scheeßel, Zweckverbandssparkasse

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President
Sparkassenverband Niedersachsen

Ekkehart Siering
State Councillor
The Senator for Economics, Labor and Ports

Gert Stuke
President
Oldenburgische Industrie- und Handelskammer

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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 Brunswick

1st Deputy Chairperson
Angela Schürzeberg
District Administrator
Holzminden District

2nd Deputy Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

Members

Edda Döpke
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Gerald Heere
Bündnis 90/Die Grünen Lower Saxony

Frank Hildebrandt
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Frank Klingebiel
Mayor of Salzgitter

Thorsten Köster
Chairman CDU Council Group

Freddy Pedersen
Deputy Managing Director
ver.di Vereinte Dienstleistungsgewerkschaft

Gerhard Radek
District Administrator
Helmstedt DistrictStefanie Rieke
Bank Employee
Saxony-Anhalt Development Bank

Stefanie Rieke
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Christiana Steinbrügge
District Administrator
Wolfenbüttel District

Glossary

Investment property

Land or buildings which are held solely to achieve rental income or for capital appreciation purposes.

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.

Derivative financial instrument

Derivatives or derivative financial instruments are financial assets and liabilities, whose value changes depending on a defined underlying instrument (interest, currency, share etc.), which requires no or only a small initial investment and which will be fulfilled in future.

“Three-stage model” for risk provisioning

The impairment model defined in IFRS 9 provides for credit-related losses not only being recognised when there are objective indications of impairment but on initial measurement following accrual on the basis of an expected loss model. In so doing, the financial assets are allocated to one of three stages. Depending on the stage to which it is allocated, the present value of the expected losses is determined over the next 12 months (stage 1) or over the remaining maturity of the financial instrument (stages 2 and 3). Loan receivables in default are allocated to stage 3.

Effective interest rate method

Method for calculating the amortised cost of financial assets or liabilities and the allocation of interest income and expenses to the respective periods. The effective interest rate is the interest rate by which the estimated future incoming and outgoing payments are discounted exactly over the expected maturity of the financial instrument to its 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 must be accounted 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.

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. 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 breaks down into the three sub-categories "trading assets", "financial assets at fair value through profit or loss", "designated financial assets 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 liabilities at fair value through profit or loss

This category breaks down into two sub-categories "trading liabilities" and "designated financial liabilities at fair value through profit of loss".

Expected Loss

Expected loss, which can be calculated for the bank's credit portfolio on the basis of available loss data. Depending on which stage of the risk provisioning the financial instrument is allocated to, the present value of the expected loss is calculated over 12 months or over its remaining maturity.

Fair Value

Price, which would be received when selling an asset in a normal transaction between market participants on the measurement date or would be paid when transferring a liability.

Financial instrument

A financial instrument is a contract which results simultaneously in a financial asset for the one entity and in a financial liability or equity instrument for the other entity.

Amortised cost

Amount at which the financial assets or liabilities were measured when recognised for the first time, less repayments, plus or less the accumulated amortisation of discounts and premiums using the effective interest rate method and less possible impairments.

Business model for financial assets

Financial assets are assigned to an IFRS 9 business model corresponding to their economic objective at an aggregate level. IFRS 9 provides three possible business models “hold”, “hold and sell” and “do not hold”.

Hedged underlying transaction

Financial assets or liabilities, firm commitments and future transactions that are highly likely to occur or net investments in foreign sub-units, which expose the company to the risk of a change in the fair value or the future cash flows and were designed as part of an effective hedging transaction.

Goodwill

Future economic benefits from assets resulting from business combinations which cannot be individually identified and separately recognised.

Trading assets

Financial assets, which were acquired with the intention of selling them in the short-term and derivative financial instruments, which are not hedging instruments in an effective hedging transaction.

Trading liabilities

Financial liabilities, which were entered into with the intention of repurchasing them in the short-term as well as derivative financial instruments, which are not hedging instruments in an

Hedge accounting

Depiction of hedging relationships between underlying transactions and hedging investments in the balance sheet to avoid or reduce fluctuations in the income statement and equity, which result from the underlying transactions and hedging investments being measured differently.

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.

Confidence level

In the context of the value-at-risk model, the confidence level describes the probability with which a potential loss will not exceed a maximum loss limit defined by the associated value-at-risk.

Deferred taxes

If the carrying amounts in the tax balance sheet differ from the carrying amounts of assets and liabilities in the IFRS balance sheet and these differences are not permanent as far as tax is concerned, the income taxes payable or receivable in future are recognised as deferred taxes.

Level 1, level 2, level 3

The respective level of the fair value hierarchy 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.

Modification

As part of a modification, existing financial instruments (such as in the event of a restructuring) are checked using qualitative and quantitative criteria to determine whether the cash flows associated with the financial instrument are subject to material change as a result of the modification and the disposal criteria of IFRS 9 are therefore 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).

Hedging instrument

Derivative or (in the case of hedging currency risks) non-derivative financial instruments, their fair value or cash flows are expected to offset changes in the fair value or the cash flows of a designated underlying transaction in an effective hedging transaction.

Stress Test

Method that models the effects of unscheduled but plausible possible events.

Unexpected Loss

Measuring unit for quantifying a risk as a possible deviation between potential and expected future loss, where the potential loss is dependent on the confidence level chosen.

Value-at-Risk (VaR)

The value-at-risk describes the potential future loss, which is not exceeded in a specific period with a specific confidence level.

Securitisation

Receivables are combined within the framework of securitisations and, if applicable, assigned to a special purpose vehicle, which raises funding through the issue of securities.

Financial assets requiring measurement 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.

Volatility

Measure for measuring fluctuations (such as fluctuations in the price of securities or currencies). Considerable volatility shows a higher range of fluctuation in the period under consideration suggests a higher risk in future.

Cash flow criterion for financial assets

All financial assets 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.

Financial assets or liabilities at amortised cost

This category includes non-derivative financial assets on the assets side allocated to the “Hold” business model 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, insofar as such liabilities were not designated for measurement at fair value under the fair value option.

Designated financial assets or liabilities at fair value through profit or loss

This subcategory, which is known as the fair value option, can include all financial assets or liabilities 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.

Report of the Supervisory Board

During the reporting year 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 additionally adopted regulations.

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. Furthermore, the Supervisory Board also looked at the status of the protection scheme of the Savings Banks Finance Group.

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements and the consolidated financial statements of NORD/LB for the 2019 reporting year and issued an unqualified audit opinion. The auditors also took part in the sitting of the Supervisory Board to discuss the annual report, which was held on 24 April 2020, and reported on the findings of their audit.

The Supervisory Board agreed to the results of the auditors' audit and passed the proposal to the Owners' Meeting to confirm the annual financial statements 2019 of NORD/LB AöR and approve the consolidated accounts for 2019.

The Supervisory Board also recommended to the Owners' Meeting to discharge the Managing Board.

The following persons left the Supervisory Board:

as at 20 June 2019	Mr André Schröder
as at 22 December 2019	Mr Ludwig Momann
as at 22 December 2019	Mr Ulrich Mädge

The following persons were appointed to the Supervisory Board:

as at 20 June 2019	Mr Michael Richter
as at 23 December 2019	Dr Matthias Bergner
as at 23 December 2019	Mr Matthias Wargers

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 2019.

Hanover / Braunschweig / Magdeburg

April 2020

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.

In addition, the Owners' Meeting held discussions mainly on the capital measures at NORD/LB in its 2019 meetings and prepared the resolutions required to implement the capital measures.

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements and the consolidated financial statements of NORD/LB for the 2019 reporting year and issued an unqualified audit opinion. The auditors also took part in the sitting of the Owner's Meeting to discuss the annual report, which was held on 24 April 2020, and reported on the findings of their audit.

The Owners' Meeting approved the results of the audit performed by the auditor; the conclusive results of its own examination did not give any cause for objections either. In its meeting on 24 April 2020 the Owners' Meeting adopted NORD/LB AöR's annual report for 2019 as proposed by the Supervisory Board and approved the consolidated financial statements for 2019.

The Owners' Meeting discharged the Managing Board and the Supervisory Board.

The following persons left the Owners' Meeting:

as at 10 July 2019	Mr Frank Bannert
as at 22 December 2019	Ms Silke Korthals

The following persons were appointed to the Owners' Meeting:

as at 11 November 2019	Mr Michael Ziche
as at 23 December 2019	Dr Anne Deter
as at 23 December 2019	Mr Reinhold Hilbers
as at 23 December 2019	Mr Helmut Schleweis
as at 23 December 2019	Mr Ralf Fleischer
as at 23 December 2019	Dr Matthias Bergner
as at 23 ecember 2019	Mr Matthias Wargers
as at 23 December 2019	Mr Ludwig Momann

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the Bank's employees for their work in 2019.

Hanover / Braunschweig / Magdeburg

April 2020

Reinhold Hilbers
Minister of Finance
State of Lower Saxony

Our annual and interim reports are available for download at www.nordlb.com/reports.

For questions about the reports, please contact our Investor Relations department.
Tel.: +49 511 361 - 53 82
Email: ir@nordlb.de

NORD/LB
Norddeutsche Landesbank Girozentrale
Friedrichswall 10
30159 Hanover
Tel: +49 511 361 – 0
Fax: +49 511 361 – 25 02
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 over 100 branches and self-service centres in the business territory covered by Braunschweigische Landessparkasse.
Details can be found at https://www.blsk.de

Foreign branches
London, New York, Singapore, Shanghai