Norddeutsche Landesbank Girozentrale

(Public-law institution)

Annual Report 2016

NORD/LB at a Glance

Figures of success (in € million)	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015	Change (in %)
Net interest income	1 379	1 520	– 9
Net commission income	189	185	2
Profit / loss from trading portfolio	117	66	76
Administrative expenses	825	815	1
Other operating profit / loss	– 288	– 98	> 100
Operating result before risk provisioning / valuation	**571**	**858**	**– 33**
Valuation result of receivables, securities and investments	**1 805**	570	> 100
Assumption of investment losses	5	46	– 89
Allocation to funds for general banking risks	–	–	–
Operating result after risk provisioning / valuation	**- 1 239**	**242**	**> 100**
Extraordinary profit / loss	– 23	– 25	– 10
Partial profit transfer	–	73	– 100
Tax expense	– 54	– 107	– 50
Income from the dissolution of the fund for general banking risks	853	–	–
Income from assumption of losses	33	–	–
Profit for the year before appropriation of earnings (profit for the year in the previous year)	**– 430**	**37**	**> 100**

Balance figures (in € million)	31 Dec.. 2016	31 Dec. 2015	Change (in %)
Total assets	122 998	122 960	–
Liabilities to customers	41 054	43 017	-5
Loans and advances to customers	55 978	58 955	-5
Equity	5 890	6 689	-10
Regulatory key figures			
Common equity tier 1 capital (in € million)	5 968	6 409	
Tier 1 capital (in € million)	8 292	8 283	
Total capital ratio (in %)	20,22	19,00	

Total differences are rounding differences and may cause minor deviations in the calculation of percentages.

Management Report

The Bank – Basic Information

Business Model

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

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

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

As the Landesbank for the federal states of Lower Saxony and Saxony-Anhalt, the Bank is responsible for fulfilling the functions of a central bank for the savings banks. The Bank also handles promotional business on behalf of the federal states through the Saxony-Anhalt Development Bank – part of Norddeutsche Landesbank Girozentrale – and through the Mecklenburg-Western Pomerania Promotion Institute, a business division of Norddeutsche Landesbank Girozentrale.

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

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

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

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

Business Segments

Private and Commercial Customers

The "Private and Commercial Customers' segment of NORD/LB comprises the business with retail and private banking customers as well as with business, commercial and corporate customers in the region of Braunschweig and in Hanover. In Hamburg, services are provided for retail and private banking customers. While NORD/LB uses its own name when serving customers in the last two locations, in the Braunschweig region it trades under the name of "Braunschweigische Landessparkasse" (BLSK).

Braunschweigische Landessparkasse is a sales savings bank with an extensive presence in the three areas of Braunschweig, North/East and South/West. The North/East includes Helmstedt, Vorsfelde, Wolfenbüttel and Bad Harzburg, while the South/West includes Salzgitter, Seesen and Holzminden. The Braunschweigische Landessparkasse carries out its business in 93 locations. Over and above this, customers receive services by telephone and via an online branch, regardless of where they are.

The aim is to strengthen the leading market position in the business by expanding market share in the promising fields of the private and commercial customer segment. Moreover, NORD/LB also wants to become the partner of choice in private banking among business customers on the market thanks to its excellent service and outstanding advisory services.

Corporate Customers

NORD/LB conducts its corporate customer business in its core region (excluding the business region of the Braunschweigische Landessparkasse) and in other selected locations around Germany. This comprises SME customers as well as agricultural banking and housing. As regards network business, NORD/LB supports the savings banks and their customers with an extensive range of products as part of syndicate business.

NORD/LB provides its corporate customers with a variety of traditional banking products and banking services. Its services include transaction management, tailored corporate financing, management of interest and currency risk, and complex corporate financing. Professional liquidity and risk management, the structuring of equity measures and innovative financing instruments supplement the product range.

The aim within the corporate customer business is to position NORD/LB as one of the top SME partners thanks not only to its reputation as a quality service provider in the core region but also based on nationwide business activity. By expanding the client base as well as extending the range of products and reinforcing sales channels, the objective is to intensify existing customer relations, win promising new customers and therefore increase the granularity of the customer and business portfolio. The main goal is to achieve core bank status with customers.

Markets

By means of the Markets segment, NORD/LB AöR accesses the market for financial market activities conducted on behalf of customers. The segment is also responsible for the sales of savings banks and institutional customers. These customers mainly include insurance companies, asset managers, investment companies, banks and savings/regional banks, central banks, pension funds, the German federal government and the individual federal state governments as well as social insurance funds. Corporate Sales provides advice and support for financial market products in other business segments.

Traditional capital market products as well as alternative products not found in mass banking, including derivatives, e.g. special types of debt security, and tailored capital-market products for institutional customers such as corporate promissory note, the structuring of special funds, pool fund solutions, portfolio management mandates and institutional public funds are all offered. The secondary business includes sales and trading with all kinds of securities.

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

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

Within its savings bank network the Markets segment of NORD/LB provides the savings banks with both retail and capital market products. The savings bank network business also includes the KfW promotional business and the relationship function with the publicly-owned savings banks.

Energy and Infrastructure Customers

In the Energy and Infrastructure Customers segment the focus is placed on financing the growth industry of renewable energies and public infrastructure. The key locations are Hanover and London, while customers are also advised and supported from New York and Singapore. The activities include the structuring and provision of tailored financing solutions for project transactions. The involvement of institutional investors in hybrid financing structures and the improved refinancing opportunities as a result highlight the market conformity of this segment.

In the field of energy, the financing relates mostly to new constructions and capacity expansions of wind and photovoltaic plants. The core business area is Germany and other selected European countries, based on cooperation with established project developers, operators and plant manufacturers. Based on advisory mandates, NORD/LB supports the international spread of German project development know-how as well as the export of German technology. NORD/LB was a pioneer in this business segment, where it has been an active player for around 30 years. Gas power plants and gas pipeline projects are also financed on the US market.

The main focus in the Infrastructure segment is financing projects in the social and public sectors (public-private partnerships / public-finance initiatives), such as the building of universities, schools or public hospitals, or the development of transport infrastructure. NORD/LB supports its customers with professional expertise and many years of local industry knowledge, from the beginning of tenders right through to the end of the contract.

The purposeful expansion of business volumes in these growth sectors helps to diversify risks and bolster the long-term earnings stability of NORD/LB. Growing the number of worldwide advisory mandates and bringing in new institutional structuring partners are modernising tried-and-tested syndication structures and opening up new earnings opportunities. This area is consolidating its position on the market through the regional expansion of advisory and structuring activities, and raising its long-term commission revenues.

Ship Customers

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

Since there has been a sustained drop in the outlook for the global ship industry, a decision was made in 2016 to scale back exposures to ship financing considerably by the end of 2018.

Nonetheless, ship financing remains a key segment for NORD/LB, which will continue to position itself as a competent partner in the ship financing market. Business volumes are being purposefully increased with cruise ships and ferries as well as in the special tonnage category, alongside a marked reduction for commercial shipping. Appropriate placement and refinancing instruments are also used with a view to managing and optimising the portfolio proactively. The target customers are principally shipping companies and domestic shipyards that have good credit ratings backed up by convincing and crisis-tested market strategies.

The business approach is being purposefully developed further through the continued diversification of the portfolio based on a more balanced distribution of assets and regions and by developing and expanding the range of products.

Aircraft Customers

In the Aircraft Customers segment the business activities focus on asset financing, where the range of products focuses on the needs of aircraft leasing companies and airlines.

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

The range of products covers traditional and innovative types of financing that centre around operating leases and portfolio transactions. Alongside credit products, advisory, agency and cross-selling services are provided too in order to satisfy the needs of customers and investors to the full.

In terms of assets, NORD/LB primarily deals with modern and fungible commercial aircraft made by renowned manufacturers. For two years now, efforts have also been made to broaden know-how towards helicopter financing. Proactive portfolio management and optimisation through appropriate placement and refinancing instruments are used to reinforce the good position held by this segment.

Real Estate Banking Customers

Deutsche Hypo is the competence centre for commercial real estate financing segment at the NORD/LB Group. This is why the commercial real estate business is located here. NORD/LB has a small credit portfolio on risk, handled by Deutsche Hypo as part of an agency contract.

This real estate portfolio of NORD/LB largely comprises existing financing in the markets of Germany, the United Kingdom, France and the Benelux countries. NORD/LB also has financing from the USA. Alongside financing for office and retail properties, the portfolio also contains financing for multi-storey buildings, hotels and logistics real estate.

Generally speaking, NORD/LB no longer takes on any new business. The real estate financing portfolio is to be phased out in the coming years as planned. The further strategic development of the commercial real estate financing segment will be driven forward at Deutsche Hypo.

Group Controlling/Others

Group Controlling/Others comprises all sources of income with a direct link to business activity but which are not managed by the individual segments. In particular, this contains investment and financing revenue not allocated to profit centres (including from participations) as well as administrative expenses from the bank levy, unallocated residual costs from the service centre and from bank-wide projects. Parts of other operating profit and certain provisions and valuation as well as valuation requirements and revenue from the investment and liquidity reserves are also found in this segment. Furthermore, reconciliation items between internal accounting and the external income statement are recognised here.

The Financial Markets segments also shown here are responsible for managing interest rate, exchange rate and liquidity risks as well as for refinancing, and provide access to the national and international financial markets (Treasury). For short-term refinancing and liquidity management the Financial Markets segments use the interbank and repo market as well as the various instruments of the European Central Bank. The refinancing mix is supplemented by new issues in euros and US dollars. Furthermore, investments are made in the banking book as part of overall bank management and managing the total risk exposure (Bank Asset Allocation). The portfolios are managed by the NORD/LB Asset Liability Committee. Credit Asset Management (CAM) is another Financial Markets division, a group-wide competence centre for marketing alternative assets to institutional investors. In this context the division links the bank's credit divisions with the capital market. Both credit and capital market customers can benefit from the asset know-how and structuring expertise of NORD/LB in Hanover, and also at locations in London, New York and Singapore. Here CAM intends to position the bank on the capital market as one of the leading providers of alternative assets, and make further improvements to the NORD/LB loan book from a risk/return perspective.

Strategic Development of NORD/LB

NORD/LB is a customer-centric bank that focuses on its lending business. With its business activities this business model reflects its role as a commercial bank, Landesbank (federal state bank) and the central institution for savings banks. Granularity, diversification and a prudent risk policy are the principles for its basic strategic direction. Alongside strict financing principles, NORD/LB’s risk philosophy is expressed in an asset-based financing approach for complex assets, such as ships and aircraft; besides the high collateralisation rates and protection against inflation, this approach also offers other advantages via opportunities for secured refinancing with cover-pool assets (e.g. aircraft Pfandbriefe). Overall, NORD/LB is targeting a business mix in the long term which strikes a balance between large-volume, structured finance business with Ship and Aircraft as well as Energy and Infrastructure customers on the one hand, and business activities with granular risk structures in the Private and Corporate customer business segment and with institutional customers and savings banks on the other. NORD/LB expects this will help it to continue to benefit from the broad diversification in its business portfolio in the future, with activities in sectors with different market cycles. Emphasis is also placed on separating new business growth from total asset growth. NORD/LB therefore aims to expand its value chain by using its competencies in structuring the complex financing of assets and its associated expertise in various sectors to offer credit investment products to institutional capital market investors. Alongside portfolio-related aspects of diversification, NORD/LB’s business activities continue to be strongly influenced by the interests and needs of its owners and the economic structures of its owner states. The strategic goal for 2021 at the level of NORD/LB AöR is to increase return on equity (RoE) to over nine per cent and at the same time keep the cost-income ratio (CIR) below 55 per cent. The negative result at present, caused primarily by the ongoing shipping crisis, is pressuring the current RoE. Through countermeasures, such as redimensioning the portfolio in the ship financing segment, we anticipate a prompt return to profits that will also enable us to attain the planned RoE. However, there are significant planning uncertainties here as regards whether – and to what extent – the shipping markets will actually recover. In addition to the economic objectives, satisfying regulatory requirements is also a focal point.

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

Private and Commercial Customers

With a history of over 250 years through the founding institutions of NORD/LB, the Private and Commercial Customers segment represents the core of today’s bank; it has always been very important for NORD/LB and represents a key pillar of the business model. Taking into account changing customer needs and demographic developments, the strategic focus in the retail business especially is to be placed on driving product innovations as well as continuously automating and improving value-adding processes and digital sales. The objectives for 2021 are a CIR of roughly 80 per cent and a RoRaC of at least six per cent.

Corporate Customers

Providing credit to the regional economy is one of the primary tasks of a Landesbank. Nothing defines the Lower Saxony economy more than its successful automotive industry, but it has many other sides too. Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania are states with vast expanses of land. The quality of the soil and the flat topography provide ideal conditions for high-yield and efficient farming. Agriculture therefore accounts for major parts of economic activity in this region. This is reflected in NORD/LB's business model, with the Agricultural Customers business forming a key part of the Corporate Customers segment. The financing of municipal an municipal based housing companies constitutes a further speciality of the Corporate Customers segment. NORD/LB's Corporate Customers segment also covers a wide range of other sectors in which NORD/LB finances regional SMEs in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania. In doing so it works closely with the regional savings banks. NORD/LB has expanded and established its Corporate Customers business beyond the region of its owners with offices in Hamburg, Dusseldorf, Stuttgart and Munich. By 2021, NORD/LB is targeting CIR of less than 35 per cent and RoRaC of around 12 per cent.

Savings Bank Network

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

Markets

The main activities centre around sales of capital market products and products based on the capital market to institutional customers. Given that NORD/LB covers large parts of its own funding requirements with capital market instruments, it began early on to exploit its relevant market know-how and skills to advise issuers of debt securities on the structuring and placement of such instruments. Today it is one of the main market players in issuing and trading public-sector debt instruments, Pfandbriefe and other interest-bearing securities in Germany. The Bank's current market position in fixed-income flow products is to be expanded further (based on existing products). The strategic goals for the Markets segment by 2021 are a CIR of less than 50 per cent and a RoRaC of between 20 and 25 per cent.

Ship Customers

All of the major German sea ports are located in the North Sea and Baltic Sea regions, so many German shipping companies are based here as well. This is why NORD/LB expanded its expertise in ship financing, and today this is an important part of the business model. Ship financing will remain a key pillar of the business model in future as well. In anticipation of a lengthy crisis in commercial shipping, a significant redimensioning of the Group's shipping portfolio is planned by 2018 to around €12-14 billion. The purposeful expansion of the cruise ship, ferry and special tonnage segments at the expense of commercial shipping should facilitate greater diversification and a balanced risk structure. These measures to achieve the strategic goals for 2021 should counter the shipping crisis. A RoRaC of around 9 per cent and a CIR of roughly 30 per cent is expected in 2021.

Aircraft Customers

Lower Saxony is the third largest location for the aviation and aerospace industry in the world after Seattle and Toulouse. In addition to the Airbus locations in Buxtehude, Stade, Varel and Nordenham, a large number of SME suppliers scattered throughout the federal state play an important role in this industry. NORD/LB is one of the main players in commercial aircraft financing that offers good growth and earnings potential for the Bank, especially in Asia, and this business is already being developed by means of a stronger emphasis on these business activities. In the aircraft sector, higher-margin and complex credit products are being added to the current range of products. The CIR should remain strong at around 22 per cent in 2021. The strategic RoRaC target for this business segment is around 14 per cent.

Energy and Infrastructure Customers

The favourable climatic conditions in Northern Germany mean NORD/LB can support economically viable projects. This has helped the region become the leading producer of renewable energies in particular in Germany. The focus here is on building wind farms as well as solar and photovoltaic plants. Gas plants and pipeline projects coupled with LPG plants and high-voltage networks are also financed. The renewable energies business and infrastructure projects will continue to play an important role in NORD/LB's business model. The business volume is to be expanded in these segments specifically, and also internationally to some extent, in order to achieve greater country diversification as well. The increase in advisory and structuring services is designed to drive a sustainable rise in commission income. All of these measures should result in a CIR of less than 40 per cent and a RoRaC of more than eleven per cent in 2021.

Control Systems

NORD/LB’s management system is based on an annual process in which strategic objectives are confirmed or revised in the spring by the Managing Board; these are then used to set the targets for the following year’s planning in the autumn. The top-down, bottom-up planning is synchronised in the form of a bidirectional process and is agreed at the end of the year.

The key control indicators here are return on equity (RoE) at overall bank level, and at business segment level the return on risk-adjusted capital (RoRaC), as well as the cost-income ratio (CIR) and operating profit after risk provisioning and valuation adjustments at overall bank and business segment level.[1] Key financial performance indicators as per DRS 20 are stated in full in the Management Report. There are no key non-financial performance indicators as per DRS 20.

Return on equity (RoE) for the overall bank	Net income before taxes / Long-term equity under commercial law Long-term equity under commercial law = reported equity capital - silent participations - net income after taxes + fund for general banking risks –
Return on risk adjusted capital at segment level (RoRaC) for the business segments	Earnings before taxes[2] / committed core capital (8 per cent of the higher of the total risk exposure amount[3] limits and the amount called on) –
Cost-income ratio (CIR)	Administrative expenses / Total earnings[4]

1) This corresponds to the profit from ordinary activities as per the income statement.
2) Contribution of business segments to net profit before tax.
3) The total risk exposure in accordance with Art. 92 (3) CRR is the denominator of the ratio used to calculate equity indicators. It comprises the risk-weighted exposure amounts for credit and dilution risk, the counterparty risk arising from the trading book business, market-price risks from the trading book business, the CVA risk (credit valuation adjustments) and the operational risk.
4) Sum of net interest income, net commission income, net income from trading and other operating profit/loss..

In the following chapters, arrows are used to illustrate developments. 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

Risik Management

Fundamentals

The business activity of a bank inevitably entails the conscious undertaking of risks. Efficient risk management in terms of a risk/return based allocation of equity is therefore a key component of modern bank management and a high priority for NORD/LB. Risk management primarily means controlling risks.

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

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

As NORD/LB is a lending bank, credit risks are by far the most significant type of risks. Market-price risks are also material. Further key risks include investment risk and liquidity risk. Operational risk is important in this respect but is secondary to the others. Material risk types thus include credit risk, investment risk, market-price risk, liquidity risk and operational risk. Also relevant are business and strategic risk, reputational risk, pension risk and real estate risk. All material risk types are handled by NORD/LB’s risk management system. The material risk types take account of all relevant risks.

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

Risk reporting by the NORD/LB Group includes consolidated companies that are material from a risk perspective. These include:

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

The risks are generally presented in risk reporting after the application of risk mitigation measures. One example of an exception is the presentation of credit exposure.

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

Strategies

Handling risks responsibly is the topmost priority in the NORD/LB business policy. The risk strategy drafted with this in mind is defined in accordance with the business model, the business strategy, and the risk strategy policy of the NORD/LB Group, and is reviewed at least once a year and when required. It contains information on the principles of risk strategy, the organisation of risk management and on sub-strategies for risks relating to material risks.

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

The maximum allocation of risk capital to the material risk types is also determined as part of the risk strategy based on the RBC model. Most of the cover pool is allocated to credit risks, reflecting NORD/LB’s focus on customer-oriented lending business. NORD/LB is responsible for determining its own allocation, but this must be consistent with the NORD/LB Group allocation.

The purpose of the risk strategy is to ensure all material risk types are managed efficiently and presented in a transparent manner to the management, the supervisory bodies and other third parties with a justified interest. In this context, NORD/LB has a variety of additional instruments at operational level, which ensure there is sufficient transparency of the risk situation whilst also structuring the required limitations and portfolio diversification in a way that can be managed and monitored. These instruments are described in detail in NORD/LB’s risk handbook.

Furthermore, NORD/LB also has commitments in the restructuring plan agreed with the EU, which are considered part of risk management.

Structure and Organisation

Responsibility for NORD/LB's risk management lies with the Managing Board of NORD/LB. The Managing Board coordinates the Group risk strategy and any amendments in the Erweiterter Konzernvorstand (Extended Group Managing Board), which also includes the Chairmen of Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. After the Group risk strategy and the NORD/LB risk strategy are adopted by the NORD/LB Managing Board, these are submitted to the Supervisory Board of NORD/LB for information, and discussed. The risk strategies of the NORD/LB Group and NORD/LB were reviewed and updated again in the reporting year as scheduled.

NORD/LB’s Chief Risk Officer (CRO), in consultation with the heads of the market departments, is responsible for drawing up and monitoring the risk strategy. This includes monitoring all material risks, including risk reporting.

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

In addition to the Extended Group Managing Board, various other bodies are involved in the NORD/LB risk management at the level of NORD/LB and the NORD/LB Group:

- Group Control Committees: Group Control Committees (GCC), whose members, depending on the GCC, include various members of the Managing Board and departmental heads of NORD/LB companies significant from a risk perspective, support control processes throughout the Group.
- Methods Board risk management: here standards are developed and approved for key risk controlling methods and reports at NORD/LB Group level. The members are the heads of specialist departments at NORD/LB Group companies significant from a risk perspective.
- Group Risk Committee: The Group Risk Committee (GRC) is chaired by the Chief Risk Officer. Other permanent members are the department heads responsible for Structured Finance/Corporate Customers and for Financial Markets/Corporate Finance, the Chief Operating Officer and the head of Finance and Risk Controlling, Credit Risk Management and Special

Credit Management at NORD/LB as well as the risk officers of NORD/LB Group companies significant from a risk perspective. Further participants are invited when required. The GRC supports the Managing Board with its risk management responsibilities. The GRC adopts an integrated approach to examining risks at the NORD/LB Group, taking the overall portfolio into account. There are also regular reports in the GRC about the activity of the US Risk Committee (USRC), which monitors risk management at the branch in New York. The Chief Risk Officer of NORD/LB chairs the USRC meetings.

- Credit-ALCO: Credit-ALCO was established in the reporting year as an advisory body for the Managing Board with regard to managing the credit portfolio (including commercial real estate financing of Deutsche Hypo). Recommendations are given for measures to optimise profitability and risk indicators in view of the targets, risk assessments, aspects to optimise portfolios and restrictions as well as current market trends. Implications for strategy and further business developments are discussed and presented. The Head of Financial Markets chairs the Credit-ALCO meetings. Further permanent members include the Head of Credit Markets and the Chief Risk Officer as well as the heads of Credit Asset Management, Corporate Customers, Ship and Aircraft Financing, Structured Finance, Credit Risk Management, Finance and Risk Controlling, Treasury, Special Credit Management and Commercial Real Estate Financing (including Deutsche Hypo). Further participants can be invited to the meetings when required. Every member of the NORD/LB Managing Board is entitled to participate in Credit-ALCO meetings as a guest.
- Further advisory committees: The Managing Board is supported by a number of other committees that advise in specific areas. These include the Asset Liability Committee (investment strategies) for example as well as the Risk Round Table (governance, Op-Risk and compliance issues).

The structure and organisation of risk management at NORD/LB meets the MaRisk requirements. The risk management process is subject to constant review and further development. 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 Internal Audit at NORD/LB. Reporting to the Managing Board, they are part of the internal monitoring process. The objectives of Internal Audit include monitoring the effectiveness, efficiency and correctness of business activities. They also help to optimise business processes as well as controlling and monitoring procedures.

Procedures with new products, new markets, new sales channels, new services and variations thereof are regulated in the new product process (NPP). The main objective of the NPP is to identify, analyse and assess all potential risks for NORD/LB prior to starting the new business. This means involving all of the essential audit areas, documenting the new business activities, managing them in the overall operational process, making decisions to start the business and, where applicable, any associated restrictions.

More detailed information on the structure and organisation of risk management can be found in the sections below on structure and organisation by risk type.

Risk-bearing capacity model

The RBC model constitutes the methodical basis for monitoring NORD/LB's risk strategies. This monitoring is carried out by Finance and Risk Controlling at NORD/LB.

The risk-bearing capacity model involves the regular quantitative reconciliation of risk exposures from material risks with the capital available to cover such risks. During the reconciliation and over and above the aggregate risk analysis (primary criterion), strategy guidelines in the form of limits at the level of material risk types are monitored (secondary criterion).

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

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

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

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

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

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

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

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

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

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

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

Credit risk

Credit risk is a component of counterparty risk and is broken down into traditional credit risk and counterparty risk in trading. Traditional credit risk defines the risk of a loss when a borrower defaults or when their credit rating deteriorates. Counterparty risk in trading defines the risk of loss when a borrower or contract partner in trading transactions defaults 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 defines the risk of the contract partner defaulting in a pending transaction with a positive market value, and this transaction having to be replaced with a loss.
- Settlement risk is broken down into advance performance risk and clearing risk. Advance performance risk defines the risk during a transaction when no consideration is received from the contracting partner after the other party has provided their service, or if services are offset, then the equalisation payment is not made. Clearing risk defines the risk of transactions not being able to be cleared by either party upon or after the expiry of the contractually agreed performance date.
- Issuer risk defines the risk of a loss when an issuer or reference issuer defaults or when their credit rating deteriorates.

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

Management

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

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

New lending business focuses on concluding agreements with customers that have good credit ratings. NORD/LB also concentrates on business with counterparties of good standing in the capital market business. Business is only conducted with customers that do not have the above credit rating after careful consideration of their opportunity and risk profiles.

NORD/LB's credit portfolio is managed based on opportunities and risks. The aim is to ensure competitive profitability, while paying attention to efficiency and flexibility in terms of the active management of credit risk positions to minimise unexpected losses.

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

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

Structure and organisation

A risk-related organisational structure and the functions, responsibilities and competencies of the divisions involved in risk processes are clearly 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, low-risk exposures and public-sector loans, the market divisions in some cases also bear sole responsibility for the risk (unilateral authorisation) as well as responsibility for analysing and observing these risks.

Analysis tasks (including defining ratings) and risk observations as well as specifying collateral values are all bundled into the Credit Risk Management (CRM) back-office division. Real estate and special appraisals are exceptions here, which are carried out 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 in view of the large exposure management. As part of a multi-stage reporting system, the division also prepares sector portfolio reports on selected sub-segments at regular intervals.

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

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

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

Credit decision authorisations are classified in accordance with the total liability and the 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 (dual authorisation). The second vote is prepared in units independent of the market divisions in accordance with specified criteria. Besides fulfilling the regulatory requirement of a functional separation for credit votes, this ensures that quality credit decisions are made on the basis of uniform standards.

The Managing Board is responsible for overall control of NORD/LB’s credit portfolio. To this end, the Board consults with the Group Risk Committee (GRC) among others, thereby linking individual credit decisions to portfolio management and ensuring a holistic approach across risk types. For this, the GRC recommends various instruments to the Managing Board, such as ordering an acquisition stop, limiting national, industrial or counterparty-related concentrations or placing exposures or subportfolios. Within the general guidelines set by the Managing Board, where necessary the GRC also determines individual strategies for individual groups of related customers, countries and industries

within the strategic limit systems. The Managing Board retains responsibility for the individual credit decision.

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

Finance and Risk Controlling is responsible for the methods for measuring credit risks and for credit risk control instruments. They also carry out the independent monitoring of credit and investment risks at portfolio level and compile relevant reports.

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. NORD/LB therefore accepts domestic and foreign collateral in the form of property and rights (loan collateral) to reduce credit risk. When accepting collateral, the cost-benefit relationship of the collateral is taken into account.

The collateral is assessed on a case-by-case basis both at the time the loan is granted and during the subsequent ongoing monitoring (normally at least once a year) as to whether it appears recoverable at the assumed value based on foreseeable economic developments during the (remaining) term of the loan.

The credit guidelines and lending principles of NORD/LB specify which fundamental types of collateral and loan collateral can be used, and what is the maximum credit which may be lent against them (lending limit). Sureties, credit collateral similar to sureties, assignments of receivables and other rights, chattel mortgages, real estate, receivables and other rights as well as the collateral assignment of chattel are accepted as credit collateral. Other collateral can be contracted with the borrower, but this does not reduce the unsecured portion of the exposure.

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

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

Control and monitoring

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

To manage the risks, a specific limit is stipulated for each borrower at individual transaction level 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 quantified in the credit risk model. Risk concentrations are also restricted by country and industry limits at portfolio level as well as by the Large Exposure Management model for groups of related customers. The latter defines a segment-specific, loss-at-default limit for every rating which takes into account NORD/LB's risk-bearing capacity.

Securitisations

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

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

Securitisation transactions are all subject to strict approval and monitoring to enable identification and control of potential risks before and after a contract is concluded. NORD/LB 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, NORD/LB pursues a prudent exposure strategy.

NORD/LB’s exposure strategy centres around a wind-down portfolio and customer-focused new business. A strategy is in place to scale back NORD/LB’s remaining investor portfolio, which comprises sales and reductions of regulatory capital whilst maintaining successful interests. New business concentrates on selected large, customers of NORD/LB, and offers the financing of receivables through the conduit of Hannover Funding LLC.

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

NORD/LB did not have any re-securitisation positions or securitisation positions with unfunded protection in the portfolio during the reporting year.

Assessment

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

The unexpected loss for credit risk is quantified using an economic credit risk model for different confidence levels and a time frame of one year. The credit risk model used by NORD/LB includes correlations and concentrations in the risk assessment and is subject to an annual review and validation.

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

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

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.

Reporting

NORD/LB's Finance and Risk Controlling Division compiles the Finance and Risk Compass for NORD/LB among other things, which presents and analyses all of the material structural features and parameters required for controlling NORD/LB's credit portfolio. The Finance and Risk Compass also includes in-depth analyses and stress scenarios for the credit portfolio. It is submitted to the Managing Board every quarter and is further specified for individual sub-segments by industry portfolio reports.

The NORD/LB Managing Board also receives other regular and ad-hoc reports on the NORD/LB credit portfolio from the CRM Division, e.g. on risk concentrations with groups of related customers, country and industry concentrations and exposures that need monitoring (credit watchlist).

Investment risk

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

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

Management

Securing and improving own market position is the key motive behind NORD/LB's investment policy. Investments are generally carried out to purposefully strengthen universal banking activities and fulfil joint responsibilities resulting from the role as a federal state bank and a central savings bank. To support NORD/LB's business model, there is a deliberate focus on banks and financial companies.

The strategic objective of significant investments is to forge closer links to support NORD/LB's customer-oriented business model. With all other investments, however, the general objective is to systematically reduce them, provided this makes economic and business sense.

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

Structure and organisation

Investment risks are managed by NORD/LB's Investment Management in close cooperation with other divisions, in particular Finance and Risk Controlling and Finance/Tax. Domestic and foreign investments are all supervised centrally by Investment Management. Minor exposures are managed and supervised by the divisions initiating the exposure in each case, given their close relationship. This happens in close cooperation with Investment Management. The management of investment-specific data is the responsibility of Investment Management.

The result of the materiality review is crucial in terms of the intensity of supervision at all NORD/LB divisions. There is additional risk-related differentiation of the treatment of significant investments. Significant investments based on the quantitative criteria of Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo are included in internal and external reporting at the level of individual risk types. Significant investments based on qualitative criteria (NORD/LB Asset Management Holding GmbH and Öffentliche Versicherung Braunschweig), are reported on together with important and other investments as investment risks, but are subject to closer analysis by the divisions involved in Investment Management.

Control and monitoring

Investments are monitored regularly by analysing reports drawn up during the year, interim and annual reports, as well as audit reports. Control procedures are conducted by NORD/LB representatives on the supervisory boards, advisory boards, shareholders' meetings, annual general meetings and owners' meetings as well as based on 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/loss transfer agreements and letters of comfort. Within the investment risk category, a risk model has been used to quantify the risk potential for different confidence levels and a period of one year; the parameters used are based on the event of a loss from an investment position. Further calculations were based on the Gordy model. The model employed calculates how much individual investments contribute towards expected and unexpected loss at portfolio level, which together add up to the risk potential for the portfolio. As of 31 December 2016 a consolidated counterparty risk model was rolled out for credit and investment risks. The integration approach is designed in such a way that the investment and credit risks are simulated in mutual dependency, in order to take account of concentration risks between risk types. This does not change the modelling of credit risks.

Reporting

Investment Management reports to the Managing Board and the NORD/LB supervisory bodies twice a year on the investment portfolio. Among other things, the report includes an analysis of current developments and, for significant and key investments, the strengths and weaknesses of the investments.

In addition, significant and important investments are reported on quarterly in the Finance and Risk Compass by Finance and Risk Controlling. Furthermore, realised or anticipated profit/loss from investments is reported on monthly to Finance/Taxes. Also monthly, Finance and Risk Controlling submits a report to NORD/LB’s Managing Board on the profit/loss and profitability of NORD/LB's largest investments consolidated under commercial law.

Marekt-price Risk

Market-price risk is defined as the potential losses which may be sustained as a result of changes in market parameters. Market-price risk is subdivided into interest-rate risk, credit-spread risk, currency risk, share-price risk, fund-price 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 several interest rates or to changes in complete yield curves, and these changes may consequently reduce the value of the position (present-value approach) or reduce the interest income (earnings-oriented approach). The 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 mapped in the internal model acknowledged by the regulator also includes the credit-spread risk, while the specific interest-rate risk determined according to the standard procedure corresponds to the issuer risk.
- Credit-spread risks arise in case of changes to the credit spread valid for the given issuer, borrower or reference debtor used for market or model measurement of the item.
- Credit-spread risks thus stem from securities, credit derivatives and promissory notes held for trading purposes. Credit products held for placement purposes are also relevant here.
- Other partial risks relevant for NORD/LB include the risk that the value of an item reacts to changes in one or more currency exchange rates (currency risk), share prices or share indices (share-price risk), fund prices (fund-price risk) or volatilities applied for valuing options (volatility risk) and the changes reduce the value of the item.
- As the bank has no business with commodities, the sub-risk category of commodity risks is not relevant for NORD/LB. This sub-risk is not included in either reports on market-price risk nor in the risk-bearing capacity.

Management

The activities of NORD/LB associated with market-price risks concentrate on selected markets, customers and product segments. The positioning on money, currency and capital markets should be in line with the significance and size of the bank, and is primarily geared towards the needs of customers and supporting overall bank management.

NORD/LB does not assume any positions on an opportunistic basis.

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

Credit investments in securities and credit derivatives create significant credit-spread risks. NORD/LB generally aims to use the credit spreads until the exposure matures, and to gradually reduce the amount of these credit investments by trimming down the portfolio.

Structure and organisation

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

The strategic control of market-price risks is supported by the Asset Liability Committee (ALCO). The ALCO is an advisory body that generally meets on a monthly basis at NORD/LB level. It supports the strategic management of market-price risk positions, liquidity positions and the investment portfolio with the aim of optimising the profitability of risk capital tied up in the positions. For this purpose, recommendations for action are developed as a basis for decision-making for the Head of Financial Markets. The ALCO members with voting rights, in addition to the Head of Financial Markets, are the ALCO Managing Director and the heads of the trading divisions. The head and representatives of Finance and Risk Controlling, Research/Economy, and Finance/Taxes also take part. The measures are implemented by the Bank Assets Allocation and Treasury divisions.

Market-price risks are monitored by Finance and 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, Finance and Risk Control also performs comprehensive monitoring, limiting and reporting activities for NORD/LB (including its foreign branches). This also includes calculating eligible amounts based on the internal risk model for the CRR reporting. The responsibility for developing and validating the risk model also lies with Finance and Risk Controlling.

Control and monitoring

For the internal control and monitoring of market-price risks, including limiting, Value-at-Risk (VaR) methods are generally employed for all significant portfolios. The VaR limit for market-price risks overall is derived from the RBC model, allocated by Managing Board resolution to the Head of Financial Markets, and it is he who delegates to the subordinate organisational units.

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

The Financial Markets units also include Treasury, which plans the interest-rate, liquidity and currency risks from the bank's lending and deposit business in the banking book. This planning takes place on a macro-control basis. Securities, interest derivatives and money and foreign exchange products are used as hedges. Details on the accounting treatment of hedging instruments and the type of hedging transactions can be found in the notes.

Assessment

The VaR indicators are calculated daily using the historical simulation method. A unilateral confidence level of 95 per cent and a holding period of one trading day are used. At the end of each quarter, NORD/LB also prepares a VaR calculation when determining the risk-bearing capacity.

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

VaR models are particularly suitable for measuring market-price risks under normal market conditions. The historical simulation method used is based on historical data, and in this respect is dependent on the reliability of the time series used. The VaR is calculated based on the figures entered at the end of the day, and therefore does not show any changes in positions during the course of the day.

The prediction quality of the VaR model is verified by means of comprehensive backtesting analyses. This involves comparing the daily change in value of the respective portfolio with the VaR of the previous day. There is a backtesting exception if the negative change in value observed exceeds the amount of the VaR. The backtesting of the VaR model showed no particular abnormalities during the reporting period. The number of exceptions was acceptable.

Alongside the VaR, daily stress-test analyses are used to examine the effects of extreme market changes on the risk positions of NORD/LB. For all of the market-price risk types, interest, currency, share-price, fund-price, volatility and credit-spread risk, various stress scenarios were defined that approximately reflect the average of the highest observed changes in the given risk factors and are combined with scenarios spanning the types of market price risk. The risk factors observed were selected so as to cover the material risks for the overall NORD/LB portfolio and for the individual sub-portfolios of the trading divisions.

In addition, other stress-test analyses are conducted at least once a quarter, including strategy-related stress tests for selected trading positions and specific stress scenarios for spread and basis risks in the banking book. Further stress tests for all risk types are conducted on a quarterly basis within the context of reporting on risk-bearing capacity. The stress-test parameters are reviewed on at least an annual basis and adjusted to changes in the market situation where necessary.

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

Reporting

In compliance with MaRisk, Risk Controlling, which is independent of the divisions responsible for the positions, reports daily on NORD/LB market-price risks to the respective department head.

In addition to this, the market-price risks under a gone-concern scenario, which also include the credit-spread risks under fixed assets, are reported on at least a weekly basis. The Managing Board is informed in detail once a quarter about NORD/LB’s and the NORD/LB Group’s market-price risks and the earnings position of the trading divisions.

Liquidity risk

Liquidity risks are risks that can stem from disruptions in the liquidity of individual market segments, unexpected events in lending, deposit or issue business, or changes in own funding conditions. As part of the risk inventory for the overall risk profile, the sub-division of the liquidity risk was adjusted in the reporting year and now comprises two instead of three types of sub-risk. Traditional liquidity risk is unchanged, funding risk was replaced by the liquidity-spread risk. The consideration of market liquidity risks is implied based on the definition below. Accordingly, the liquidity risk is sub-divided into traditional liquidity risk (also including intraday liquidity risk) and liquidity-spread risk. Both liquidity risk types 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 placed on observing the next 12 months on the one hand, and on intraday risk on the other. For 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. The intraday perspective (also intraday liquidity risk) plays a role in whether an institute manages intraday liquidity effectively. Intraday risk occurs when payments cannot be made at the planned time and therefore this influences the liquidity situation of the bank or others. Possible causes of risks are market disruptions (delayed/defaulted payments from market participants), and the ability to estimate one's own intraday liquidity situation at any time and forecast the size and timing of expected payment flows as fully as possible. The focus here is intraday planning and management of liquidity and the ability of the institute to meets its own payment obligations even under conditions of stress.
- Liquidity-spread risk describes the potential losses caused by changes in own refinancing conditions on the money or capital market. This can result from a change in the assessment of the bank's credit rating by other market participants, or from general market developments. In addition to the funding risk which is explicitly relevant for an institution’s long-term liquidity and is crucial in case of liquidity gaps, there can also be a so-called reinvestment risk if future liquidity surpluses are present. But this does not lead to a traditional liquidity risk (in the sense of a future risk of inability to pay), instead, under certain circumstances it can merely have a negative impact on future earnings if it is subsequently not possible to service costs under liabilities from assets. Risk drivers for reinvestment risk can also include the liquidity spread, if it is assumed that this is passed over to assets. The focus here is on the entire range of maturities. Model assumptions are made for positions without any fixed maturities. By considering individual currencies in the liquidity risk, spread risks from cross-currency swaps are also tacitly taken into account 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. In NORD/LB's view, placement risk is also part of liquidity risk. This describes the risk that own issues on the market cannot be placed at all, or only under worse conditions.

Management

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

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

To limit market-liquidity risk, NORD/LB primarily carries out securities transactions in markets that have proven themselves to be sufficiently liquid in the tight market phases during and after the financial crisis.

The business policies for liquidity-risk management in the NORD/LB Group are set forth in the Global Group Liquidity Policy. NORD/LB also has liquidity management policies which describe the basic strategic guidelines for ensuring a sufficient supply of liquidity. Liquidity management measures in cases of emergency and in crisis situations are specified in contingency plans.

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

Structure and organisation

In addition to Treasury, the trading divisions of Markets and Bank Asset Allocation as well as Finance and Risk Controlling are included in 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 position to the Asset Liability Committee, and makes recommendations for action concerning future strategic planning if necessary.

Finance and 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. Finance and Risk Controlling monitors compliance with the Liquidity Coverage Ratio (LCR) too.

A Global Liquidity Management crisis team is available in the event of a liquidity crisis and assumes responsibility for liquidity management in close cooperation with the Managing Board.

Control and monitoring

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

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

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

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

Market-liquidity risks are implicitly considered by means of classifying securities in the liquidity maturity balance sheet in accordance with their market liquidity. Securities are allocated based on a detailed security category concept to one of eleven main categories, with one to eight subcategories (e.g. by eligibility and rating). The liquidity maturity balance sheet is presented by liquidity category, with the maturities ranging from due on demand to final maturity.

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

Assessment

NORD/LB 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 quantified in a risk-bearing capacity concept, on the basis of a present-value consideration of the liquidity-spread risk.

The calculation of dynamic and static stress scenarios for modelling traditional liquidity risk is based on current liquidity maturities. These are stressed until they reflect a crisis. For example, a reduced amount of position liquidities and an increased utilisation of credit commitments is presumed. The stress scenarios can be used to present the effects of unexpected events on the liquidity situation. This facilitates planning for the future and helps to be well prepared for emergencies.

Analyses of stress scenarios take into consideration the key importance of the market liquidity of all of the securities in the portfolio. 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

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

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

The monthly liquidity spread risk reports are prepared in euros and in the key foreign currencies. The maturity balance sheets underlying the liquidity-spread risk are presented together with the stress tests to the Asset Liability Committee that convenes monthly.

In addition to this, NORD/LB’s biggest customers in the deposit business are monitored regularly.

The relevant report is made available via the Liquidity Risk Cockpit.

Operational Risk

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

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

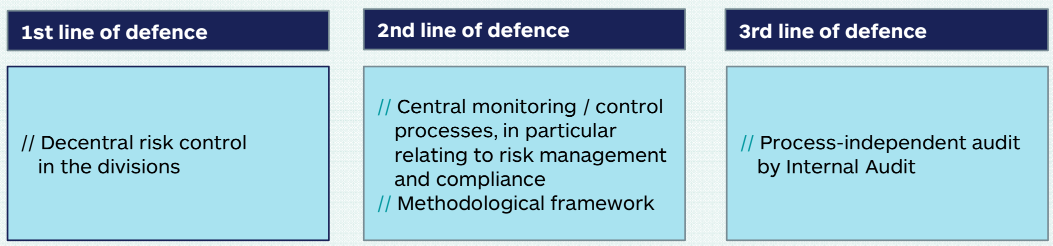
NORD/LB pursues the goal of efficient and sustainable management of operational risks, i.e.:

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

Management

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

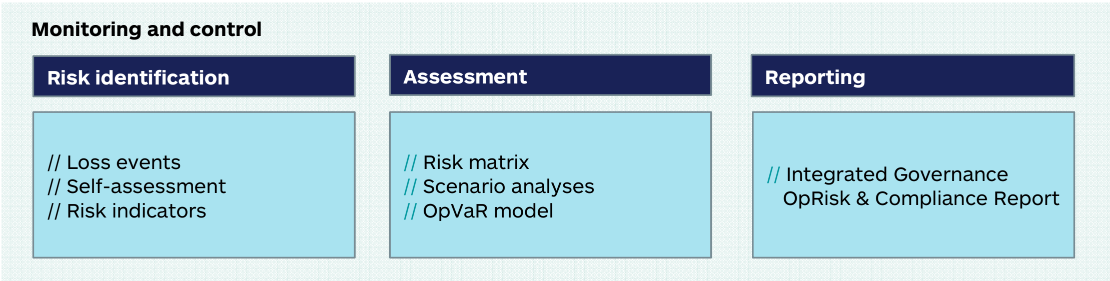
Three lines of defence model



NORD/LB pursues an integrated approach to managing operational risks and continuously develops this. The aim is to link the processes along the second line of defence optimally with one another. In this context, operational risks are shown as part of a consolidated Governance, OpRisk & Compliance Report with greater transparency. In addition, method-based consolidation processes were promoted.

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

Monitoring and Controlling



NORD/LB 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 in anonymous form in the Data Consortium of Operational Risks (DakOR) with other banks. The consortium data is added to the data used for the internal model. In addition, information is available in the ÖffSchOR database, in which press reports on major losses resulting from operational risk are collected, structured and processed.

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

Detailed insight is gained into the risk situation at topic or process level in scenario analyses, and relevant measures are derived as necessary. Analysis planning ensues on a risk-oriented basis drawing on all the data available (e.g. losses, self-assessments, audit reports, results of the ICS control cycle). The results are included in the internal OpVaR model and improve measurement accuracy as a result.

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

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

One particular feature of the bank's protection against operational risks lies in developing and expanding a high level of awareness and establishing an open risk culture. Employee awareness of risks is enhanced with classroom and online training, a regular Governance, OpRisk & Compliance newsletter and ad-hoc information. "Lessons learned" from events that actually occurred play a key role here.

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

Personnel risk is countered by an appropriate quality and quantity of staff. The aim is to ensure that all employees have the required skills for their tasks. Staff shortages form part of contingency planning.

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

Protection against legal risks is ensured by using contract templates and holding close consultations with the Legal Department. To ensure there are no unintended loopholes in contracts, the Compliance Department identifies new banking regulatory requirements, informs the divisions concerned of the resulting action points and provides information across all divisions. The aim is to ensure compliance with legal regulations and requirements by implementing effective procedures in the divisions.

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

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

Accounting-related ICS

In view of accounting processes, NORD/LB's ICS also covers all the principles, procedures and measures implemented by management that are aimed at the organisational implementation of management decisions relating to

- the correctness and reliability of external accounting,

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

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

The accounting-related ICS is integrated into NORD/LB's overall ICS concept, and consists of a hierarchy of controls and key controls which are carried out periodically or as and when required, and the results are documented. The key controls are reviewed annually with regard to appropriateness and effectiveness. The testing is part of a control cycle that ensures the quality of the internal control system.

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

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

The accounting processes of NORD/LB and its foreign branches are essentially independent, and they have their own accounting-related control processes. The foreign branches are integrated within NORD/LB’s overall ICS concept.

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

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

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

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

For the risk-bearing capacity (Pillar II) and internal management purposes, a Value-at-Risk model based on a loss distribution approach is used. The distribution parameters are calculated based on internal data, scenario analyses and external data from the DakOR consortium. An allocation process combining size indicators with risk-sensitive elements is used to distribute the model results to the individual institutions. Risk indicators in the warning zone impact on the models. The model parameters are regularly subject to comprehensive validation and stress tests. Mitigation effects due to insurance or other instruments used to spread risk are currently not considered in the quantification model. However, NORD/LB considers the use of customary insurance products to be part of active risk management. A simplified internal OpRisk model for the NORD/LB Group was developed and rolled out as of 31 December 2016. It is still aligned with the advanced measurement approach with regard to the data basis and modelling.

Reputation risk

Reputation risk defines the risk of the bank sustaining serious or permanent losses due to a loss of trust among customers / business partners, the general public, employees or the owners. The step-in risk is part of the reputational risk.

The step-in risk describes the risk that a bank provides financial support to a company in financial difficulties without being contractually obliged to do so, or this support exceeds an existing contractual obligation.

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

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

Management

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

Using general and bank-wide rules for preventing reputational risks, the scope for decision-making is defined. In this context the following main rules apply:

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

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

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

In addition to the continuous, bank-wide exchange of reputation-related information, NORD/LB has an early-warning system made up of several indicators that is continually developed. These indicators are introduced where issues relevant for the reputation of NORD/LB can potentially be identified early.

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

Economic Report

General Economic and Industry-specific Environment

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

As expected, the economic recovery in the eurozone continued in 2016. Quarter-on-quarter growth was at least 0.3 per cent in every quarter. For 2016 as a whole, overall economic growth was 1.7 per cent. However, the general economic development was once again quite divergent in 2016. Among the major economies, Spain stands out again with its very high economic growth, which once again exceeded 3.0 per cent for the year. The Netherlands and Germany also posted above-average growth rates. By contrast, economic development in France and Italy was muted. The two countries continue to suffer from structural problems. As in the preceding year, economic performance in France (+1.1 per cent) and Italy (+1.0 per cent) lagged well behind the rest of the single currency area. Bringing up the rear again in 2016 was Greece, but at least it managed to stabilise its economic performance over the course of the year – albeit from a very low level. The Central Statistics Office in Ireland is once again expected to post the most impressive growth. After recording an incredible growth rate of 26 per cent in 2015, the Emerald Island is set to post GDP growth of more than 4.0 per cent for 2016. However, these figures should be viewed with some caution, as they mainly reflect tax-induced corporate transactions and offshoring. Thus, Ireland has been profiting from its corporate tax rates, which are very low by international comparison. While foreign trade once again remained weak throughout the eurozone, domestic demand has supported growth. The high rate of expansion of real private consumption was also once again supported by very low inflation (+0.2 per cent) and a perceptible reduction in the unemployment rate to an annual average of +10.0 per cent.

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

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

Banks

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

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

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

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

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

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

Aircraft

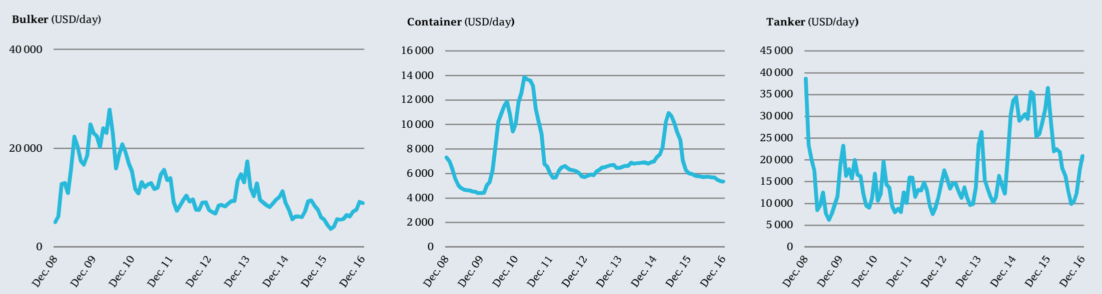
According to the calculations of the International Air Transportation Organisation (IATA), global passenger numbers (RPK, revenue passenger kilometres) increased by 6.3 per cent in the market as a whole in 2016 year-on-year. The growth rates were 6.7 per cent for international traffic and 5.7 per cent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

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

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

Shipping

Development of the carter rates[1)]



1) Clarkson Research Services Limited 2016; ClarkSea Index: A weighted average index of earnings for the main vessel types

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

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

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

Real Estate

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

Significant Events in the Financial Year

Regulatory Requirements Concerning Minimum Capital

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

In addition to these statutory minimum equity ratios, the European Central Bank (ECB), as the supervisory authority responsible for NORD/LB at Group level, required that for the period from 1 January 2016 to 30 December 2016 an individual minimum equity ratio of 9.25 per cent be maintained in respect of Common Equity Tier 1 in accordance with the CRR methodology, taking into account the transitional provisions. As at 31 December 2016, this minimum ratio rose to 9.75 per cent and included the capital conservation buffer that has been a statutory requirement since the start of 2016.

With effect from the start of 2017, the ECB modified the definition and amount of this minimum ratio. Excluding the capital buffer, the total capital ratio requirement arising from the Supervisory Reporting Process (SREP) for the NORD/LB Group is 10.25 per cent. In addition to the statutory minimum capital ratio of 8 per cent, this includes a requirement of 2.25 per cent that must consist entirely of Common Equity Tier 1 capital. In addition, in 2017 NORD/LB must observe the statutory capital conservation buffer of 1.25 per cent, and, as a national institution of systemic importance, must also maintain a capital buffer for other institutions of systemic importance of 0.33 per cent. Both capital buffers must be covered from Common Equity Tier 1 capital and result in a total requirement of 8.33 per cent of Common Equity Tier 1 capital at Group level.

Capital measures

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

In financial year 2016, NORD/LB fully liquidated the fund for general banking risks in the amount of € 853 million in accordance with § 340g of the German Commercial Code. Even taking this liquidation into account, the Bank reported an accumulated net loss according to the German Commercial Code of € 430 million, which, taking account of the profit of € 8 million carried forward from the prior year, resulted in an accumulated loss of € 422 million according to the German Commercial Code. Following the full liquidation of reserves in accordance with § 340g of the German Commercial Code, the fund for general banking risks still has reserves of € 60 million in accordance with § 340e of the German Commercial Code..

The accumulated net loss and the liquidation of the funds resulted in a decrease in Common Equity Tier 1 capital at the individual institution level at the end of 2016. Based on the transitional provisions of the CRR, only a portion of the accumulated net loss was charged against Tier 1 capital in 2016. Accordingly, the full effect of the accumulated net loss on Common Equity Tier 1 capital at the individual institution level will only be visible toward the end of the first quarter of 2017, when it reduces the Common Equity tier 1 capital ratio.

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

In addition to their impact on capital, the accumulated net loss and the accumulated loss also affect the interest on and valuation of the silent participations recognised in the balance sheet in accordance with the German Commercial Code. As a result, the contractually agreed interest on the silent participations will no longer apply for 2016 and as a result, the expenses in the income statement are reduced. Furthermore, in accordance with the German Commercial Code, the contributions of silent partners participate contractually in the accumulated net loss or accumulated loss as of the reporting date in proportion to the relative share they represent of the overall liable equity on the reporting date. For this reason, the balance sheet value of the individual silent participations on the reporting date have been reduced by the amount of the respective share of the loss. Income from the transfer of losses of € 33 million equating to the reduced total is reported in the income statement.

EU Process: Restructuring Plan and Commitments made by NORD/LB
The prerequisite for the completion of the corporate actions undertaken in 2011 and 2012 was a state aid assessment and authorisation of the actions by the European Commission. The authorisation of the corporate actions was based on a restructuring plan agreed by the Bank, its owners, the federal government and the European Commission in 2012. An independent trustee monitors the fulfilment of the commitments entered into.

NORD/LB, the Federal Republic of Germany and the European Commission agreed on the key points, which were the future focus of the Group's business segments on various focal points, a reduction of the Group total assets and optimisation of cost levels.

In addition, NORD/LB decided at the start of 2011, with the agreement of its owners, to stabilise the NORD/LB Group's administrative expenses at € 1.1 billion. In order to achieve this goal, NORD/LB implemented specific measures that affected its structures and processes in order to reduce material and personnel costs.

Based on the commitments, which were valid through the end of 2016 at the latest, NORD/LB continued to focus on pursuing its proven business model. NORD/LB anticipates that the trustee's final report as at 31 December 2016 will confirm that it implemented all remaining commitments by the end of 2016 as required.

Bank stress test
The results of the Europe-wide bank stress tests were published this July. NORD/LB's diversified business model again proved robust. Despite high charges resulting from the shipping crisis, the Bank's performance was average for the German banking sector.

Furthermore, NORD/LB submitted the ECB's transparency exercise survey in September, The data collected from all banks surveyed was published on the website of the European Banking Authority (EBA) in December.

IT Roadmap
NORD/LB's IT is based on established standard industry practices. In large part it is provided alongside the Savings Banks Financial Group's finance IT.

NORD/LB continuously invests in the updating and further development of its IT, in order to support its business processes optimally and cost-efficiently and fulfil the national, international and European regulatory requirements relating to IT. In financial year 2016, the focus is on consolidating significant elements of the IT infrastructure relating to finance IT, updating the loan IT systems and modifying the bank management systems. The service expenditures necessary to do this can be found under administrative expenses.

UK's exit from the EU (Brexit)
In the EU membership referendum held on 23 June 2016, the UK voted to leave the European Union (EU). The withdrawal may make free access to the Single European Market more difficult for the UK, which would mean the loss of a strong economic partner for

the EU. The effects that this will have on individual asset classes (such as project financing, structured finance and real estate financing) depend on the results of the negotiations between the UK government and the EU Commission, which will be assessed by the Bank in a timely and appropriate manner.

Securing the future of Bremer Landesbank

The market-induced significant increase in risk provisioning in financial year 2016 in the crisis-plagued ship financing segment, to which Bremer Landesbank (BLB) is traditionally heavily exposed, and the ensuing pressure on capital ratios led in the third quarter to the conclusion of an agreement in principle regarding the total acquisition of the already fully consolidated Bremer Landesbank (BLB). On 7 November 2016, NORD/LB acquired all BLB shares held by the Free Hanseatic City of Bremen and the Savings Banks Association of Lower Saxony, with legal effect from 1 January 2017. The share acquisition took effect on 1 January 2017 subject to the conditions precedent, including the approval of the German Federal Cartel Office, the revision of the state treaty and the approval of the Supervisory Board and Owners' Meeting.

The initial recognition of the shares will take place in fiscal 2017, for which a provision for contingent losses in the amount of € 190 million was formed in 2016. NORD/LB also undertook valuation allowances on its existing shares in BLB during the year under review and put aside the real estate transfer tax resulting from the share acquisition.

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

As a result of further extensive risk provisioning expenditures, BLB was no longer able to meet the minimum Tier 1 capital ratio requirement at the end of 2016, and it did not have risk-bearing capacity in accordance with MaRisk. For this reason, it was necessary for NORD/LB to make a capital increase in order to strengthen BLB's capital reserves and reduce the pressure on its regulatory capital ratios. The capital measure in the amount of € 400 million was carried out with effect from 21 March 2017.

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

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

HETA Asset Resolution AG (HETA)

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

Assets, Financial and Earnings Position

Earnings Position

The ongoing shipping crisis had a strong impact on NORD/LB earnings in the 2016 reporting year.

The following overview provides details of the composition of the annual net profit:

	1 Jan. – 31 Dec. 2016 in € million	1 Jan. – 31 Dec. 2015 in € million	Change (in %)
Net interest income	1 379	1 520	– 9
Net commission income	189	185	2
Profit / loss from trading portfolio	117	66	76
Administrative expenses	825	815	1
Other operating profit / loss	– 288	– 98	> 100
Operating result before risk provisioning / valuation	**571**	**858**	**– 33**
Valuation result of receivables, securities and investments	**1 805**	570	> 100
Assumption of investment losses	5	46	– 89
Allocation to funds for general banking risks	–	–	–
Operating result after risk provisioning / valuation	**- 1 239**	**242**	**> 100**
Extraordinary profit / loss	– 23	– 25	– 10
Partial profit transfer	–	73	– 100
Tax expense	– 54	– 107	– 50
Income from the dissolution of the fund for general banking risks	853	–	–
Income from assumption of losses	33	–	–
Profit for the year before appropriation of earnings (profit for the year in the previous year)	**– 430**	**37**	**> 100**

In the 2016 reporting year, the **operating result before risk provisioning/valuation result** fell by € 287 million. Two influencing factors in particular were responsible for this development. First, net interest income fell as a result of decreases in interest income of € 141 million from banks and the customer segment. Second, the provisions for contingent losses of € 190 million resulting from the acquisition of the outstanding shares in Bremer Landesbank had an impact on other operating profit/loss. In addition, other administrative expenses for IT and information services rose. This was offset by higher net commission income as a result of the transfer of a depositary function and higher net earnings from financial transactions in the trading portfolio as a result of increased margin income. .

Compared to 2015 the risk level in 2016 is significantly higher, due to the effects of the shipping crisis. Overall, net risk provisions for liabilities and the **valuation result for securities and investments**, including the assumption of losses, rose sharply to € 1,810 million (€ 616 million). However, this was offset by the income from the reversal of the fund for general banking risks in accordance with § 340g of the German Commercial Code in the amount of € 853 million and the write-down of silent participations in the amount of € 33 million. Including the specified positions, the "**Operating result after risk provisioning/valuation result**" position decreased to € - 1,239 million (€ 242 million).

After accounting for the extraordinary profit/loss and the tax expenditure, there is an **accumulated net loss (prior year: profit) for the year before appropriation of earnings** of € 430 million (€ 37 million).

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

	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015 (in € million)	Change (in %)
Interest income from lending and money market transactions	2 215	2 366	– 6
Interest income from fixed-interest securities and debt register claims	340	393	– 13
Interest income from trading portfolio	1 218	978	25
Negative interest income from lending and money market transactions	-13	– 6	> 100
Income from investments	154	138	12
	3 914	**3 869**	**1**
Interest expenses from lending and money market transactions	887	605	47
Interest expenses from securitised liabilities	312	582	– 46
Interest expenses from subordinated capital	136	154	– 12
Interest expenses from trading portfolio	1 230	1 026	20
Positive interest income from lending and money market transactions	– 29	– 18	63
	2 535	**2 349**	**8**
Interest income	**1 379**	**1 520**	**– 9**

Due to persistently low interest rates on the money and capital markets and lower funding requirements, **net interest income** declined by € 141 million to € 1,379 million year-on-year. This was due to lower earnings and simultaneously higher expenses. In particular, interest income from lending and money market transactions with savings banks and other credit institutions fell on the income side. In 2015, security portfolios with high coupons were disposed of and fixed interest periods expired. As a result of market conditions, the terms for reinvestments were worse in 2016. There was also a positive effect last year as a result of increased income from settlement payments from swap terminations in the amount of € 51 million.

With volumes lower, the contribution from interest-rate conditions on the assets side benefited from an increase in margins, but it was also impacted by lower earnings on swap terminations and decreased interest income from trading portfolios. Furthermore, because of low interest rates the contribution from interest-rate conditions on the liabilities side (due to reduced base rate advantages) and income from equity investments both fell. In addition, there were higher interest expenses for the subordinated bonds that were issued.

Investment income rose by € 16 million and, in addition to current income from investments in the amount of € 35 million, primarily includes the profit transferred from Deutsche Hypothekenbank for 2016 in the amount of € 102 million (€ 62 million). It also includes the profit transferred from Nieba GmbH in the amount of € 7 million (€ 9 million).

At € 189 million, **net commission income** is € 4 million above last year's result. In the 2016 reporting year, commission income increased by € 6 million, from € 287 million to € 293 million, while commission expenses rose by € 2 million, from € 102 million to € 104 million. There were two main points of note on the earnings side. Firstly the decline in the lending and securities business in the amount of € 10 million and secondly the transfer of the custody business to Landesbank Baden-Württemberg (LBBW). Due to the transfer the significant increase in other commission income compared with the prior year becomes explicable. NORD/LB achieved income of € 30 million in the year under review from the contract concluded to that end. This effect was offset by increased commission expenses in the lending business of € 5 million, mainly as a result of higher guarantee fees for the Northvest guarantee.

Net earnings from financial transactions in the trading portfolio increased by € 51 million to € 117 million (€ 66 million). This result was mainly driven by margins obtained in the trading business in the amount € 82 million, which is used to manage market-price risk.. There were also positive effects on net earnings from financial transactions in the trading portfolio from counterparty-specific default risks in the derivatives business (€ 25 million) and the foreign exchange result (€ 22 million). The positive effects from counterparty-specific default risks in the derivatives business result from CVA/ DVA in the amount of € 4 million and follow-up postings of € 21 million. This was set against expenses in the amount of € -15 million as a result of the initial inclusion of a funding valuation adjustment for material unsecured OTC interest rate derivatives.

Administrative expenses increased by € 10 million in 2016 to € 825 million (€ 815 million). In particular, this development was result of the € 38 million rise in service expenses in connection with the continuous development of the IT roadmap and the € 9 million increase in consulting expenses. In contrast, expenses for cost allocations and contributions fell by € 7 million, which is attributable to the NORD/LB Group's reduced expenses in relation to the Landesbanks' security reserves and its contributions to the ECB provision. The annual contribution to the restructuring fund for banks in the amount of € 33 million (€ 35 million) fell year-on-year. Personnel expenses decreased by € 26 million. The implementation of savings programmes and savings in the area of profit-sharing more than offset the impact of wage increases.

The negative **other operating profit/loss** fell by € 190 million in 2016 to € -288 million (€ -98 million). This development can be explained by a provision for contingent losses from the acquisition of the outstanding shares in Bremer Landesbank. The following effects continued to impact on other operating profit/loss. On the income side, there were profits from hedge derivatives/own issues in the amount of € 68 million and earnings from the reversal of provisions in the amount of € 42 million. On the expenses side, there were price losses from the redemption of registered bonds in the amount of € 193 million and interest expenses from the valuation of provisions in the amount of € 41 million.

As in previous years, the **valuation result of receivables, securities and investments** during the reporting year under review was affected substantially by the ongoing shipping crisis. Accordingly, there was a negative valuation result in the amount of € 1,805 million(€ 570 million), largely as a result of net provisions for loans and advances in the amount of € 1,600 million (€ 702 million). The net risk provisions mainly comprise the difference between allocations and reversals of valuation allowances plus the liquidation of the contingency reserves as defined in § 340 f of the German Commercial Code, as well as direct write-downs. In addition, write-downs on the shares of Bremer Landesbank and LBS Hanover/Berlin had a negative impact of € 413 million. This was offset by the realised profit of € 22 million from the exchange of HETA bonds (see section 5.2.2) and the sale of promissory notes/registered bonds with a realised profit of € 49 million. In addition, there was a profit of € 2 million from the sale of shares of Visa Europe Ltd. and € 7 million from the sale of shares of EURO Kartensysteme GmbH.

The **losses transferred** from investments amounted to € 5 million (€ 46 million) and were primarily the result of the increased accrual in Nord-Ostdeutschen Bankbeteiligungs GmbH (NOB).

In addition to the transitional effects as a result of the initial application of the German Accounting Law Modernisation Act (BiMoG) in the amount of € 19 million (€ 19 million), the **extraordinary result** also includes reorganisation expenses from the efficiency improvement programme of € 4 million (€ 6 million). These concern employee-related expenses for measures that largely serve to reduce staff expenses.

The tax expenditure in the amount of € 54 million is the result of the expense for income taxes in the amount of € 35 million and the expense for other taxes in the amount of € 19 million. While the expense for income taxes is largely due to provisions formed for current income taxes for foreign Group entities as well as tax expenditures for previous years, the expense for other taxes also include the provisions for real estate transfer tax of € 14 million for the sale of shares of Bremer Landesbank.

During the reporting year under review, total irrevocable credit commitments increased by nearly € 296 million and amounted to € 6.49 billion as at the balance sheet date.

Assets and Financial Position

The following overview shows a condensed view of the balance sheet items as at 31 December 2016 and the corresponding figures for the prior year.

	31 Dec. 2016 (in € million)	31 Dec. 2015 (in € million)	Change (in %)
Assets			
Loans and advances to banks	23 175	20 862	11
Loans and advances to customers	55 978	58 955	– 5
Securities	22 278	22 552	– 1
Trading portfolio	12 259	10 867	13
Investments and investments in affiliated companies	1 569	2 189	– 28
Other assets	7 740	7 536	3
Total assets	**122 998**	**122 960**	**0**
Liabilities			
Liabilities to banks	34 815	33 114	5
Liabilities to customers	41 054	43 017	– 5
Securitised liabilities	23 345	22 377	4
Trading portfolio	6 220	4 865	28
Provisions	1 142	1 004	14
Participatory capital and subordinated liabilities	2 636	2 495	6
Bank's own funds	5 890	6 689	– 12
Other liabilities	7 896	9 400	– 16
Total liabilities	**122 998**	**122 960**	**0**
Balance sheet data			
Contingent liabilities	7 952	6 938	15
Other obligations	6 494	6 198	5
Business volume	**137 444**	**136 096**	**1**

The balance sheet total increased slightly compared to the prior-year balance sheet date. The reduction in interest rates and the associated valuation-related increase in the trading portfolio bolstered this development.

Loans and advances to banks increased by 11 per cent to € 23 billion year-on-year. In particular, this increase is related to an increase in receivables against the Bundesbank in the amount of € 1,850 million. The increase as a result of overnight loans to the Bundesbank is partly offset by the decline in overnight loans to savings banks in the amount of € 460 million, loans to NBank in the amount of € 20 million and loans to savings banks in the amount of € 93 million. In addition, liabilities as a result of promissory notes fell by € 367 million.

Loans and advances to customers are the most significant balance sheet item at 46 per cent. The five per cent reduction compared to the prior year is the result of a decline in liabilities for ship mortgage loans in the amount of € 1,016 million and the variation margin in the amount of € 435 million that was paid. Other effects include the € 953 million rise in the valuation allowances and the liquidation of the contingency reserves as defined in § 340 f of the German Commercial Code in the amount of € 117 million.

Within the **Securities** position, holdings of bonds and debt securities as well as money market instruments were reduced by a total of € 274 million. This effect is mainly due to the decrease in bonds and debt securities at the head office in Hanover and the foreign branch in Singapore in the amount of € 1,071 million. This was offset by the increase in the portfolio of money market instruments at the foreign branch in New York in the amount of € 797 million. By contrast, holdings of shares and other non fixed-interest securities remained relatively constant.

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

The **investment portfolio and shares in affiliated companies** fell during the 2016 reporting period by € 620 million, from € 2.2 billion to € 1.6 billion. There are two relevant effects in the area of affiliated companies. The change in the risk provisioning and income situation at Bremer Landesbank gave rise to a depreciation in the carrying amount of the previous shareholding of 55 per cent from € 406 million to a pro memoria item. The increase in Nord-Ostdeutsche Bankbeteiligungs GmbH (NOB) in the amount of € 290 million continued to have a negative impact. This was contrasted with the effect of the contribution by Skandfinanz AG in the amount of € 12 million as a result of the increase in NOB. Also as a result of the accrual of NOB, LBS made a contribution in the amount of € 61 million in the area of investments. Additional write-ups and write-downs resulted in a net positive effect of € 8 million. These include write-downs on shares of SALEG, ÖVB Leben, Medicis Nexus and LBS. There was also a write-up on the investment in FinTech GmbH & Co. KG.

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

Liabilities to banks rose by € 1,701 million year-on-year to € 34,815 million. The increase was mainly attributable to the increase in futures and repo transactions. Among other things, this resulted in gains in the repo business with EUREX Clearing in the amount of € 828 million, the Bank for International Settlement in the amount of € 858 million and Credit Suisse in the amount of € 556 million. By contrast, there was a decline of € 866 million in the area of overnight money.

Liabilities to customers fell by € 1,963 million year-on-year to € 41,054 million. The decrease was largely the result of a reduction in giro deposits by institutional customers in the amount of € 1,021 million and the redemption of registered bonds in the amount of € 1,038 million.

The rise in **securitised liabilities** to € 23 billion (€22 billion) reflects the increase in holdings of other debt securities in the amount of € 2 billion. This effect countered the decline in public-sector Pfandbriefe in the amount of € 1 billion.

Provisions rose by € 138 million year-on-year. This is explained in part by the fact that NORD/LB is forming a provision of € 190 million for imminent losses on pending transactions in connection with its acquisition of the remaining shares in Bremer Landesbank (45 per cent). Provisions for aid are also rising considerably. In contrast, there was a reduction in some provisions, in particular due to a further transfer of pension obligations to the provident fund. There was also less need for provisions for profit sharing and the lending business.

The **Other Liabilities** position includes fiduciary obligations, other liabilities, deferred income and the fund for general banking risks. The decline in this position is mainly the result of the reversal of the fund for general banking risks. This occurred as a result of a reversal recognised in profit and loss in accordance with § 340g of the German Commercial Code of € 853 million.

The capital structure was optimised further in 2016. Launched in 2012, the capital-boosting programme has devolved into an ongoing active control mechanism for risk-weighted assets and into targeted measures to optimise the capital structure. To this end, the Bank took on subordinated liabilities in 2016, and at the end of 2015 was able to repay its cancelled silent participations with a nominal amount of USD 500 million (translated: 336,3 Mio €) that had been hedged for foreign currency exposure. The impact on earnings as a result of the decrease in the nominal value of the silent participations by a total of € 33 million is also discussed in chapter 6.3 (position 25) and chapter 7.1.1.7.

The **equity ratio** was 4.8 per cent on the reporting date (prior year: 5.4 per cent). As at 31 December 2016, the regulatory capital amounted to € 8,292 million (prior year: € 8,283 million). Of this, € 5,968 million is attributable to Tier 1 capital (prior year: € 6,409 million). The total capital ratio is 20.22 per cent (prior year: 19.0 per cent). and the Tier 1 capital ratio is 14.55 per cent (prior year: 14.7 per cent).

The increase in **contingent liabilities** to € 8 billion (€ 7 billion) is the result of higher liabilities from guarantees and indemnity agreements.

The increase in **other obligations** is due solely to the increase in the volume of irrevocable credit commitments of around € 296 million. Addition details regarding refinancing and liquidity can be found in the risk report.

Significant developments in the business segments

31 Dec.2016 (in € million)[1]	NORD/LB Private and Commercial Customers	NORD/LB Corporate Customers	NORD/LB Markets	NORD/LB Energy and Infrastructure Customers	NORD/LB Shipping Customers	NORD/LB Aircraft Customers	NORD/LB Real Estate Banking Customers	NORD/LB Group Controlling / Others	Income Statement NORD/LB
Operating result before risk provisioning / valuation	37	232	169	133	174	104	25	– 301	571
risk provisioning / valuation	0	– 72	– 0	– 11	– 1 570	1	– 3	-155	– 1,810
Operating result after risk provisioning / valuation	37	160	168	122	– 1 396	105	22	- 456	– 1,239
Previous year	49	191	118	83	– 283	115	64	– 95	242
CIR	80,5%	32,8%	39,4%	36,7%	26,1%	20,6%	21,7%		59,1%
CIR for the previous year	73,8%	33,3%	49,0%	43,6%	20,4%	17,9%	27,3%		48,7%
RoRaC / RoE	12,6%	17,2%	47,3%	27,3%	-172,1%	22,9%	24,4%		-6,3%
RoRaC / RoE for the previous year	15,7%	20,5%	28,4%	17,6%	-17,1%	24,5%	43,3%		2,1%

1) Summendifferenzen sind Rundungsdifferenzen

Overall bank

31 Dec.2016 (in € million)	Overall bank	Trend	Development
Earnings before taxes (EBT)	– 1 239	↓	- The operating result is negative and therefore substantially lower than the prior year. - Net interest income declined noticeably because a special effect recognised in 2015 in connection with the Fürstenberg International redemption no longer applied, net interest received from the investment of pension provisions declined following the outsourcing of pensions to the provident fund in 2015, profits from the deposit business and equity investments decreased as a result of the low interest level and higher interest expenses for subordinated bonds. - Net commission income is slightly better as a result of higher earnings from the sale of the custodian bank business. - The earnings from financial transactions are up sharply as a result of sales successes in the customer business as well as the valuation of securities and derivatives. - Administrative expenses are slightly higher. The effect of noticeably lower staff expenses as a result of the decision to largely forgo special payments is almost entirely offset by appreciably higher other administrative expenses as a result of project and ongoing IT costs. - Other operating profit/loss significantly worse than in the prior year due to the provision formed for contingent losses from pending transactions in connection with the acquisition of the remaining shares in BLB. - Risk provisioning is up sharply as a result of higher valuation allowances on the ship portfolio. - The valuation result from securities and investments is down substantially because the profit from a sale posted in 2015 is no longer recognised and value corrections had to be made on the investment in Bremer Landesbank.
Cost-Income-Ratio (CIR)	59,1%	↑	- CIR well above the prior year. - Significant decline in income from other operating profit/loss and net interest income, as well as slightly higher administrative expenses.
Return-on-Equity (RoE)	-6,3%	↓	- RoE negative and thus considerably worse than the prior year. - Affected in particular by the high risk provisioning for the ship portfolio and value corrections on the investment in Bremer Landesbank.

Private and Commercial Customers

31 Dec.2016 (in € million)	Private and Commercial Customers	Trend	Development
Operating result after risk provisioning / valuation	37	↓	- Operating result well below the prior year. - Net interest income includes lower earnings from the deposit business and the investment of tied-up capital as a result of low interest rates. In addition, earnings from the lending business are down slightly (because the special effect as a result of the reversal of provisions for the lending business is no longer recognised). - Net commission income is almost the same, despite slight changes in the securities business and payment transactions positions as a result of a change to the account management models. - As a result of lower staff costs there is another slight reduction in operating costs. - Other operating profit/loss noticeably better as a result of a reduction in internal charges. - Instead of recognising valuation allowances in the mid-single digits as in the prior year, there were modest risk provisioning reversals during the reporting year.
Cost-Income-Ratio (CIR)	80,5%	↗	- CIR is slightly above the prior-year value. - Lower earnings are a significant factor.
Return-on-Risk-adjusted-Capital (RoRaC)	12,6%	↓	- This year’s figure is much lower because of reduced earnings.

Braunschweigische Landessparkasse (BLSK) expanded its digital product and service offering for all target groups in 2016 in order to meet customer demand for greater digitalisation of business relationships. In addition to expanded online offerings, such as the ability to conclude personal loans, various models were introduced to improve the convenience of account management and payment transactions. Examples include the “Kwitt” payment transaction process, the ability to send transfers using mobile cameras and account alerts.

A partnership was established with fintech company OptioPay that allows BLSK customers to use OptioPay’s gift card portal, which offers higher-value gift cards as a payment method. The “paydirekt” online payment system was also introduced during the reporting year. This system provides customers with a secure online payment option.

Issues related to handling people’s digital data after their death are becoming increasingly important in private banking as part of succession planning. A project was carried out with Eastphalia University of Applied Sciences related to the issue of “digital estates”. The findings will be used to improve advisory services and customer events.

We responded to customer demand for an expanded digital sales channel in 2015 with the establishment of the online and phone-based sales channel. This sales channel firmly established itself during the reporting year. The average monthly customer call volume was around 8,200 calls. Another 11,339 requests were submitted online. This is the highest total of any savings bank. Surveys confirm the high level of customer satisfaction with this offering.

BLSK’s real estate business was impacted by the introduction of the residential property loan directive. Thanks to early and consistent planning for the introduction of this directive, we were able to offer customers user-friendly solutions. Real estate brokerage also added new construction projects to its existing marketing portfolio.

Another goal was to be able to offer customers the complete value chain in BLSK's real estate business, from financing for real estate development for corporate customers through the brokering of individual properties to property financing for consumers in the private and corporate customer segment. Several locations managed to do this very successfully, with a corresponding increase in earnings.

Pensions were once again a major topic of advising in 2016. With the introduction and establishment of the new LöwenRente Garant+ pension insurance product by the Braunschweig public insurance fund, there is another old-age pension product available in the product range, offering a combination of capital protection and yield potential.

In the corporate customer segment, there was a heavy focus on strengthening regional ties. For example, the partnership with the economic development corporation Wirtschaftsförderung Region Goslar GmbH und Co. KG (WiReGo) was expanded, with initial funding in the amount of € 10 million provided to BLSK. In addition, a customer event on the topic of foreign financing was held in conjunction with Sparkasse Goslar/Harz and WiReGo.

The SME network was strengthened and expanded further, supported by various measures intended to increase its profile in the region. For example, there is now a collaboration with the Welfenakademie vocational institute in order to actively involve its students in the network and enable them to gain practical experience.

In the Braunschweig location, the freelancer segment has been repositioned with a comprehensive advisory approach for medical, legal, tax and accounting professionals. Comprehensive advice is provided by advisory specialists across all life phases.

Corporate Customers

31 Dec.2016 (in € million)	Corporate Customers	Trend	Development
Operating result after risk provisioning / valuation	160	↓	- Result much lower than prior year, mainly as a result of higher risk provisioning. - Net interest income well above prior year because of an expansion of business. - Net commission income moderately higher than prior-year level, primarily because of lower one-off commissions. - Trading profit/loss somewhat stronger than prior year because of the improved development of counterparty-specific default risk for derivatives. - Administrative expenses nearly the same. Higher staff expenses are offset by lower overhead costs. - Other operating profit/loss only has minor relevance for the results in this segment. - Considerably higher allocations to risk provisioning. However, risk provisioning in prior year on a low level.
Cost-Income-Ratio (CIR)	32,8%	→	- CIR slightly improved over the prior year. - Rising earnings (growth case) and nearly unchanged administrative expenses are significant factors.
Return-on-Risk-adjusted-Capital (RoRaC)	17,2%	↓	- Substantially lower RoRaC. - This is mainly due to lower operating results as a result of high risk provisioning.

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

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

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

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

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

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

Markets

31 Dec.2016 (in € million)	Markets	Trend	Development
Operating result after risk provisioning / valuation	168	↑	- Operating result after risk provisioning and valuation rose sharply. - Much lower net interest income from securities holdings year-on-year as a result of persistently low interest rates. - The special effect from the sale of custodian bank activities had a significant positive impact on net commission income. - In particular, substantially lower losses in the value of securities holdings and positive valuation effects from interest-rate and credit derivatives lead to a considerably improved trading result. Solid profits from margins on structured products also contribute to the very good trading result. - Slight reduction in operating costs, particularly as a result of lower material costs (IT) and operating costs allocated internally. - Other operating profit/loss only has minor relevance for the results in this segment. - The risk provisioning in this segment is not significant.
Cost-Income-Ratio (CIR)	39,4%	↓	- Substantial improvement of the CIR year-on-year. - A major reason for this are considerably higher earnings, driven by income from the sale of custodian bank activities and the trading result with simultaneously lower administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	47,3%	↑	- RoRaC well above the prior year. - Significant increase in earnings and a noticeable reduction in capital commitment in the derivative position.

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

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

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

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

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

As part of its own refinancing activities, in addition to private placements NORD/LB also placed a

10-year Pfandbrief benchmark issue and the second NORD/LB unsecured benchmark in a challenging market environment.

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

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

Energy and Infrastructure Customers

31 Dec.2016 (in € million)	Energy and Infrastructure Customers	Trend	Development
Operating result after risk provisioning / valuation	122	↑	- Contribution to operating results after risk provisioning and valuation rose considerably year-on-year. - Moderately positive development of net interest income as a result of increased holdings. - Commission income rose sharply as a result of business brokered in the prior year but not implemented until 2016, as well as an unplanned spike in new business. - The trading result rose sharply, particularly as a result of derivative earnings. - Administrative expenses increased slightly because of overhead costs allocated internally. - Other operating profit/loss fell significantly as a result of lower earnings from offsets with the foreign branches. - Substantially lower recognition of risk provisioning.
Cost-Income-Ratio (CIR)	36,7%	↓	- Sharp decline in CIR as a result of a substantial increase in earnings but modestly higher administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	27,3%	↑	- Significantly higher RoRaC. - Sharp rise in the contribution to the operating result but decreased capital commitment.

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

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

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

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

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

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

Ship Customers

31 Dec.2016 (in € million)	Ship Customers	Trend	Development
Operating result after risk provisioning / valuation	– 1 396	↓	- The operating result after risk provisioning and valuation remains significantly negative and is much worse than the prior year. - Development of net interest income very negative as a result of a reduction in holdings. - Net commission income reduced sharply as a result of constraints on new business. - Trading profit down substantially as a result of the lower number of transactions. - Administrative expenses slightly lower as a result of the reduction in headcount in connection with the decrease in volume. - Because of the lack of one-off income generated in the prior year in connection with factoring, the other operating profit down sharply. - Allocations to risk provisioning up sharply at a high level as a result of the ongoing ship crisis.
Cost-Income-Ratio (CIR)	26,1%	↑	- Significant deterioration of the CIR. - Slightly lower administrative expenses and considerably lower earnings.
Return-on-Risk-adjusted-Capital (RoRaC)	-172,1%	↓	- Significant deterioration of RoRaC. - Substantially lower capital commitment as a result of a sharply reduced shortfall and a reduction in holdings cannot offset the negative effects of risk provisioning and earnings.

In the Ship Customers segment, NORD/LB focused mainly on reducing its portfolio in 2016 based on a strategic decision by the Managing Board in the prior year. For this purpose, a team of specialists was established that concentrates solely on this reduction and has access to an extensive network. The initial successes were realised at the end of 2016 when about € 2 billion in exposure was reduced.

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

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

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

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

Aircraft Customers

31 Dec.2016 (in € million)	Aircraft Customers	Trend	Development
Operating result after risk provisioning / valuation	105	↘	- Operating result after risk provisioning and valuation down slightly year-on-year. - Net interest income reduced appreciably as a result of lower average holdings because of the low volume of new business in the first half of the year and decreased margins. - Sharp rise in net commission income because of derivatives brokering. - Trading result almost unchanged. - Administrative expenses modestly higher as a result of an increase in headcount (at the branch in Singapore, among other places) and increased inter-company cost allocations. - Reversals of risk provisioning and income from depreciated receivables have a positive impact on the contribution to the operating result.
Cost-Income-Ratio (CIR)	20,6%	↑	- Sharp rise in the CIR as a result of lower earnings and increased administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	23,0%	↘	- Modest decline in RoRaC. - This comes against a background of lower earnings before taxes and disproportionately lower capital commitment.

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

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

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

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

Real Estate Banking Customers

31 Dec.2016 (in € million)	Real Estate Banking Customers	Trend	Development
Operating result after risk provisioning / valuation	22	↓	- Within the reduction portfolio, the operating result after risk provisioning and valuation fell sharply year-on-year. In addition to falling interest income, this is mainly due to significant reversals of risk provisioning in the prior year. - As a consequence of scheduled and unscheduled repayments, net interest income fell sharply year-on-year, as expected. - Negative net commission income at nearly the same level as a result of the compensation expense for the agency agreement with Deutsche Hypothekenbank. - The significantly higher trading result compared to the prior year is largely the result of the valuation of the counterparty-specific default risk for derivatives. - The portfolio reduction means substantially lower administrative expenses. Both staff and material costs as well as internally allocated costs have been reduced. - There was new risk provisioning, compared to the reversals recognised in the previous portfolio in the prior year.
Cost-Income-Ratio (CIR)	21,7%	↓	- The CIR is well below the prior-year level. - Substantially lower administrative expenses are offset by slightly higher earnings.
Return-on-Risk-adjusted-Capital (RoRaC)	24,4%	↓	- Sharp reduction of the RoRaC. - The relative decline in the operating result exceeds the relative decline in capital commitment as a result of the reduction of the portfolio.

In the NORD/LB Real Estate banking customers segment, there were no significant developments in 2016, as the portfolio in this segment is being reduced. This is reflected in the decreasing level of financing. As a result, NORD/LB generally no longer takes on any new commercial real estate business. The competence centre for commercial real estate financed has been moved to Deutsche Hypo.

Group Management/Others

31 Dec.2016 (in € million)	Group Management/ Others	Trend	Development
Operating result after risk provisioning / valuation	-456	↓	- Substantial earnings decline due to the considerably worse result from risk provisioning and valuation significantly lower earnings and slightly higher administrative expenses - Decline in earnings largely due to the provision formed for contingent losses from pending transactions in other operating profit/loss in connection with the acquisition of the remaining shares in BLB and a sharp reduction in net interest income, as the prior year was positively impacted by the Fürstenberg International redemption and in 2016 there were increased interest expenses for subordinated capital and less interest received from the investment of pension provisions following the outsourcing to the provident fund in 2015 - Moderate rise in administrative expenses as a result of increased advisory work on projects and higher ongoing IT costs - Negative contribution by the result from risk provisioning and valuation, as the decline in the valuation from investments in particular due to the value corrections which had to be made on the investment in Bremer Landesbank.

Target v Actual Comparison

31 Dec.2016 (in € million)	Forecast previous year	Actual amount	Accounting variance	Statement
Operating result after risk provisioning and valuation	↓	– 1 239	↓	- The operating result after risk provisioning/valuation is much lower than the target. - The target for earnings (including Other operating profit/loss) slightly lower.. - As expected, net interest income was down, but by much less than anticipated in planning, particularly as a result of higher profit transfers from investments, interest-rate effects from swap terminations and interest-rate and liquidity risk management. Interest income slightly above target as a result of margin and volume effects. - Net commission income well below target as a result of lower fees in nearly all segments; Energy and Infrastructure customers was the only segment with service fee income well above target. - The result from financial transactions was slightly below target, in particular because of unplanned valuation effects for derivatives (FVA). - Administrative expenses moderately above target by 7 per cent: Staff expenses slightly below target as a result of substantially lower special payments. Other administrative expenses more than offset the effect of staff expenses because the amount for bank levies is recognised under administrative expenses (rather than under other operating profit/loss, as planned) and because of higher project costs (related to IT and banking supervision). - Other operating profit/loss significantly worse than the negative target, primarily due to the provision formed for contingent losses from pending transactions in connection with the acquisition of the remaining shares in BLB. - Risk provisioning exceeds the target by more than fourfold (mainly in the shipping portfolio). - The valuation result from securities and investments is negative and significantly below the planned negative value; impacted by valuation corrections in the investment portfolio (mainly as a result of write-downs on shares of Bremer Landesbank); however, this could not be offset by value gains on the holdings in HETA Asset Resolution and sales of promissory notes.
Cost-Income-Ratio (CIR)	↗	59,1%	↗	- CIR considerably worse than planned. - Income at the planned value. - Administrative expenses moderately higher than planned, particularly as a result of project and IT expenses and as a result of the recognition of European bank levies under administrative expenses rather than the planned position.
Return-on-Equity (RoE)	↓	-6,3%	↓	- RoE negative and well below plan. - Net profit before taxes well short of the target as a result of high risk provisioning.

NORD/LB fell well short of its targets in 2016, with an unsatisfactory negative operating result after risk provisioning and valuation. This development was largely the result of high risk provisioning, which is also responsible for the annual result after taxes being negative and thus well short of the target. The operating result before risk provisioning and value was slightly short of the target, despite the decline in net interest income being lower than anticipated, due to the provision formed for contingent losses from pending transactions in connection with the acquisition of the remaining shares in BLB.

With the exception of the Ship customers segment, whose contribution to the operating result after risk provisioning and valuation was substantially negative as a result of unexpectedly high risk provisioning, and the Corporate Customers segment, which fell slightly below its planned contribution to the operating result after risk provisioning and valuation as a result of higher than anticipated valuation allowances, all other business segments of the Bank made their planned contribution to the operating result (Aircraft Customers, Private and Commercial Customers) and some even exceeded it significantly (Energy and Infrastructure Customers, Markets, Real Estate Banking Customers), thus partly offsetting the cyclical effects in shipping.

The target-actual development of the key figures is comparable among the segments: Because earnings are good and administrative expenses stable or declining, the CIR in nearly every business segment is close to (Corporate Customers, Ship Customers) or better (Energy and Infrastructure Customers, Markets, Real Estate Banking Customers) than planned. The CIR only exceeds the target slightly in the Aircraft Customers and Private and Commercial Customers segments. In 2016, the actual RoRaC is either close to (Private and Commercial Customers, Corporate Customers, Aircraft Customers) or above (Energy and Infrastructure Customers, Markets, Real Estate Banking Customers) expectations in all segments – except the Ship customers segment – as a result of the change in the contribution to operating result or the contribution to total risk exposure.

Overall Assessment

NORD/LB's net assets, financial position and earnings were in good shape in financial year 2016, despite a market environment that remains challenging. Thanks to the Bank's diversified business model, its operational business has been satisfactory over the last few months. As a result, individual business segments had positive results. However, the results were impacted by higher-than-planned risk provisioning, especially in the Ship Customers segment. Consequently, the reporting year closed with an accumulated net loss in the amount of € 430 million. In order to further reduce existing risks, additional measures to reduce the shipping portfolio were initiated.

Personnel- und Sustainability Report

Personnel Report

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

Ongoing pressure on earnings and costs was another defining feature of NORD/LB's human resources work in 2016: With respect to personnel, it was necessary to ensure investment flexibility for the Bank and at the same time achieve the Bank's cost objectives. On the basis of these requirements, NORD/LB used its human resources tools to retain, develop and create jobs in 2016.

Stable stategic direction

NORD/LB's HR-related activities are based on a personnel strategy derived from the Bank's business and risk strategy. In 2016, there was a focus on controlling:

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

NORD/LB's strategic parameters also provide a framework to guide the activities of the entire NORD/LB Group in order to ensure cooperation and harmonisation.

Value added resource management and recruitment of junior staff

At the end of 2016, NORD/LB employed 4,240 people (compared to 4,187 people in 2015). Thus, NORD/LB's headcount increased slightly by 1.3 per cent. This was possible thanks to the optimal allocation of resources and consistent cost management. In order to achieve its goals, NORD/LB used state-of-the-art resource management tools, such as internalisation tools to reduce costs and early succession planning in order to become less dependent on key resources. It had to increase resources for regulatory and IT-related issues in a targeted manner. In the short term, it did this by contracting professionals; with a view to the medium term, it built up its own talent pipeline with qualified junior staff. To this end, the Bank's talent pools, such as the ALUMNI network, were given a more performance-oriented focus.

Thanks to the Bank's social/economic policy training mandate, its specific resource needs and its very good experience with the integration of apprentices into the Bank's career paths, NORD/LB was able to increase its training ratio from 4.1 per cent in 2015 to 4.2 per cent in 2016. Consequently, the number of junior staff in training (apprentices and trainees) also rose to 179 (2015: 172). The Bank's very high hiring rate compared to other German companies that offer training (according to the BIBB company panel on qualification) demonstrate the importance of junior staff training and development at NORD/LB. The training offerings at NORD/LB mainly comprise commercial occupations, some as part of dual studies as well as various trainee programmes. Specifically in order to meet the enormous demand for IT employees, a new occupation requiring specialised training was launched in addition to the current IT training offerings – IT specialist. In order to meet the Bank's regulatory and technological requirements, special regulatory and technical trainee programmes were developed and launched in 2016.

NORD/LB maintains active partnerships with educational institutions, with a focus on regional colleges and universities, including Leibniz University of Hanover, the University of Göttingen, the Braunschweig University of Technology, the Leuphana University of Lüneburg, the Leibniz School of Business and the Hanover Center of Finance e.V. (HCF). The cooperation with the Hasso Plattner Institute in Potsdam was expanded in 2016.

Holistic remuneration

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

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

Increase of motivation, performance and strenghthening of company health

In 2016, NORD/LB's potential-oriented personnel policy focused on the product offering. There were three main objectives: promote a focus on performance and the ability of employees to make decisions; work on the skills of employees and managers; and increase the Bank's attractiveness as an employer in order to find and retain the right employees.

In addition, the Bank established a job structure/architecture in which all positions within the company are allocated based on their relative added value. This transparent structure comprises four different career paths (front office, back office, sales and management) with different levels and thus forms the basis for the promotion of a performance culture at NORD/LB. The NORD/LB competence model, which provides a uniform definition of duties, positions and competencies, was fully integrated in 2016 – right down to the application process for junior staff. The 360 degree management feedback in 2016 demonstrates the effectiveness of this new model. The feedback looks at management competencies by comparing them to the Bank's specific target profile.

In order to meet the challenges the Bank faces, NORD/LB provides an environment in which all employees are treated equally, irrespective of gender, nationality, ethnic origin, religion or ideology, disability, age, sexual orientation or identity. NORD/LB's work in the area of diversity focuses on the benefits of difference within the Bank, i.e. differing views, experiences, approaches and values. This results in good development prospects and opportunities for all employees. The Bank also improved opportunities for women through targeted measures. The diversity figures at NORD/LB, with the proportion of women as a share of total staff at 49.9 per cent (2015: 50.3 per cent) and the proportion of women in management positions at 20.6 per cent (2015: 21.1 per cent) has long moved within a stable range with few fluctuations. At 27.8 per cent, the proportion of female members of the Supervisory Board is the same as the prior year. Because the number of members of the Board of Directors was decreased, the proportion of women on the Board of Directors increased to 20.0 per cent (from 16.7 per cent in 2015). NORD/LB employs people from 28 different countries (2015: 26 countries).

The health of its employees is an essential value-adding factor for the economic success of NORD/LB. There is a relationship between the working conditions at the Bank and the performance of its employees, and NORD/LB tries to manage this relationship by optimising working conditions and strengthening personal resources. In 2016, NORD/LB offered its employees proactive and preventive support tools through its professional corporate health management system. Basic offerings, such as workplace integration management, seminars on improving resilience and information on maintaining physical health were supplemented with special measures to make management aware of these issues as well as specific work situation analyses. Family-friendly benefits in the overall package for employees also help to maintain the health of workers. ELTERN magazine and statistics company Statista recognised NORD/LB's good offering in the banking and financial services sector in the areas of "Compatibility of family and career" and "Structuring working time", among others. As a result, despite increasing requirements employee illness rates in 2016 (the amount of time missed due to illness) was, at 4.9 per cent, within the long-term average (five-year average) (2015: 4.6 per cent).

Qualification of personnel for changes

Because of the growing requirements placed on NORD/LB staff, not only in terms of skills and performance but also with respect to agility, NORD/LB developed measures to allow employees to deal with change. Tools to consolidate and transfer knowledge were introduced via lean management and a corresponding lean sustainability approach to make the Bank a learning organisation and, for example, improve know-how across sub-organisations. In addition, design thinking was implemented as a method for making an initial contribution to the promotion of agility within the Bank. Design thinking was also made an integral component of junior staff training for the first time in 2016.

Sustainability Report

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

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

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

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

Forecast, Opportunities and Risik Report

General Economic Development

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

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

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

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

In the eurozone, the European Central Bank (ECB) will continue its very expansive monetary policy in 2017, according to its December 2016 announcement. Most members of the ECB's Governing Council seemed unimpressed with the recent increase in inflation. Mario Draghi will continue to emphasise the downside risks of the forecast and in looking at the development of prices he will focus more on the core rate and thus domestic price pressure. However, starting in April the ECB will take its foot off the gas a bit, reducing its expanded asset purchase programme (EAAP) to its original level of € 60 billion per month. A rate hike in 2017, however, is extremely unlikely. However, NORD/LB expects a more intensive debate about the tapering process in the second half of the year and a gradual exit from the asset purchase programme starting in 2018.

Against this background, European government bond yields – especially those with longer maturities – have risen sharply. With deposit facility rates stable, money market rates will remain stuck in negative territory. With inflation normalising and if there are no further political shocks, long-term government bond yields should continue to rise; at present, a yield of just under 1.0 per cent on 10-year Bunds seems possible by the end of 2017.

Divergent monetary policies on either side of the Atlantic mean the US dollar will likely continue to remain relatively strong in the short term. However, NORD/LB believes the Euro will strengthen somewhat in the medium term, especially with the discussions regarding UK's exit debate from the EU looming in the second half of the year outside of and – in particular – within the ECB. Within 12 months, the EUR/USD exchange rate could once again approach 1.11. Political risks are the main uncertainty for the markets this year, so volatility will therefore remain high. In view of this projected exchange rate development, EUR/USD cross-currency basis swaps should stabilise over the short- to medium-term maturity segment in a range from -35 to -45 basis points.

Banking Market Development

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

Uncertainty has risen sharply since the Brexit decision, especially in the UK, but also in countries with substantial European links and thus a heavy reliance on exports. With respect to the banking sector, the crucial factor will be the extent to which transactions can be conducted with Continental Europe from the UK without membership in the European domestic market. There are now plans to move such transactions to locations in Continental Europe.

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

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

Shipping

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

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

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

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

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

Aircraft

For 2017, IATA is expecting growth in global passenger traffic (RPK) of 5.1 per cent, which is below the average growth over the past ten years of 5.7%. It is also forecasting that global airlines will post lower net profits of USD 29.8 billion in 2017 (forecast for 2016: USD 35.6 billion). This would correspond to a net margin of approximately 4.1 per cent (forecast for 2016: 5.1 per cent). As in previous years, there are substantial geographical differences predicted in terms of the respective traffic and earnings trends. The largest growth in traffic (RPK) is predicted for the Middle East (9.0 per cent) and Asia/Pacific (7.0 per cent). There is uncertainty regarding IATA's predictions, especially because of the rising price of oil, the effect of Brexit and the economic policy of the new US administration.

Regarding requested freight volumes (FTK), IATA continues to forecast a rise of 3.5 per cent, despite persistently weak global trade and geopolitical developments. Current indicators, such as global purchasing managers' indices, point to an ongoing recovery of air freight in the near future.

Real Estate

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

Overall Forecast with Opportunities and Risks Report

Key planning assumptions

In line with NORD/LB's strategic focus, plans for 2017 were once again developed on the basis of the current diversified business model. This can be seen in the financing for various asset classes in the individual business segments in anticyclical patterns. Another basis for this year's planning are the goals set by the Managing Board for 2017 (earnings before loan loss provisioning, earnings before taxes, total regulatory risk exposure, cost trend and balance sheet total). These goals are backed by measures developed by the profit and service centres as part of the decentralised planning process.

The binding premise for all participants in the decentralised planning process is the main medium-term economic forecast provided by NORD/LB Research. The outlook contained in this forecast for the development of the economy, interest rates, inflation rates and financial markets are included in NORD/LB's planning. Interest rates are expected to be at about the same level in 2017 as the prior year. In addition, planning includes an average USD/EUR exchange rate of 1.12. For Germany, NORD/LB Research forecasts GDP growth of 1.0 per cent, an increase in consumer prices of +1.2 per cent and a slight rise for the iTraxx, which will continue to be driven by market sentiment. Details can be found in the information on general economic developments.

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

The planning for the total risk exposure and the regulatory equity of NORD/LB for 2017 takes into account the relevant requirements for the regulatory capital base as derived from EU Regulation No. 575/2013 on Regulatory Requirements for Banks and Securities Firms (CRR), including transitional provisions as well as other individual banking supervisory requirements related to regulatory equity. In NORD/LB's planning, these supervisory requirements regarding regulatory equity are met in full and at all times. At the start of 2017, however, the plan calls for a temporary reduction in the Common Equity Tier 1 capital. The main reasons for this are the fully effective negative earnings after taxes from 2016 and the effects of the full takeover of Bremer Landesbank.

NORD/LB Plan for 2017

For 2017, the reduction in the shipping portfolio and the complete integration of Bremer Landesbank represent major challenges for NORD/LB. In the 2017 plan, income is expected to be slightly above that of the previous year. Lower earnings are anticipated as a result of reduced positive effects from the prior year (such as earnings from prepayment penalties, interest and dividend income from securities from the trading portfolio and swap terminations, etc.), a significant decline in earnings from interest rate and liquidity management, and lower earnings as a result of interest rates, among other things, on the deposit business, lower income from the ship financing business as a result of a reduction in the existing fleet, and declining earnings from investments. In addition, net commission income will not reach the prior-year level as a result of special effects (sale of the custodian bank, high commission income in the customer business). By contrast, the 2017 projection of earnings from financial transactions are substantially higher as a result, among other things, of lower valuation losses from derivatives (FVA). The projected other operating profit/loss is considerably improved over the prior-year level because the plan does not include the negative one-off effects from the redemption of own issues and provisions formed for contingent losses from pending transactions that occurred in the prior year.

Risk provisioning will once again be primarily influenced by the ship portfolio and remains high in the 2017 plan, although it is expected to be well below that of the 2016 level. In the other segments, risk provisioning planned for 2017 is set at the amount of imputed covering required, which leads in part to significantly larger risk provisioning in specific segments. This is the main reason for the projected decline (which will be considerable in some cases) in the contribution to the operating profit/loss after risk provisioning and valuation and the RoRaC from the Private and Commercial, Corporate and Aircraft Customers segments. In contrast, the RoRaC for Ship customers improved substantially via the planned decrease in risk provisioning. The valuation result from securities and investments has been estimated at a considerably lower level for planning purposes, as the special effects from the prior year, such as the proceeds from the sale of securities no longer apply and costs from the integration of Bremer Landesbank.

Planned administrative expenses in 2017 are slightly higher than the prior year. Investments in selected business cases and planned internalisations of external resources have resulted in planned staff expenses for 2017 that are well above those for 2016, while other administrative expenses are noticeably lower than the prior-year level.

As a result of the expectation of lower risk provisioning, the operating result after risk provisioning and valuation is, on the whole, expected to be substantially better.

The CIR is around 1 percentage point higher in the 2017 plan versus the 2016 plan owing to almost constant earnings and a slight increase in administrative expenses; at about 3 per cent, RoE is decidedly better than expected.

Overall, NORD/LB will attempt to lower its overall risk exposure noticeably in 2017, mainly through the planned portfolio reduction in the ship financing business, with a corresponding positive impact on its equity ratios.

The key performance indicators for the following segments will deviate significantly from the projected development of the Bank as a whole:

The Markets segment is not projected to achieve the very good operating result after risk provisioning and valuation that it did in the prior year. This projection is based, among other things, on the positive special effect in 2016 from the sale of the custodian bank. As a result, net commission income is projected to be considerably lower in 2017. In addition, the assumption of the Markets segment is that the market will be difficult, which will lead to a substantially lower trading result, despite planned business initiatives to increase sales margins. Because interest rates remain low, the segment also expects interest income to be down slightly and administrative expenses to rise moderately, as a result of which the CIR will increase considerably and the RoRaC will decline sharply in 2017.

NORD/LB expects a substantially lower contribution to its operating result after risk provisioning and valuation from the Energy and Infrastructure Customers segment in 2017, mainly as a result of significantly lower net commission income. Net commission income in 2016 was extraordinarily high as a result of the realisation of business at the beginning of 2016 that was brokered in 2015 as well as a substantial amount of new business in 2016 that was unplanned. In addition, moderately higher administrative expenses and sharply higher risk provisioning is expected. These expected developments will lead to a considerably higher CIR and a sharp decline in the RoRaC.

In the Real Estate Banking Customers segment, NORD/LB expects a slightly positive operating profit after risk provisioning and valuation in 2017, which will thus be well below the figure for 2016. In addition to interest income that will remain down sharply as a result of the reduction in the portfolio, risk provisioning will be much higher than in the prior year. This is due to a conservative assessment of the development of the existing exposure. These developments will lead to a sharply higher CIR and a significant decline in the RoRaC.

Opportunities and Risks

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

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

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

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

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

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

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

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

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

Extended Risk Report

Risk Management – Development in 2016

The utilisation rate in the going concern deteriorated considerably compared to the reference date and is 39 per cent as of reporting date. The main reasons for this are the decline in risk capital as a result of taking account of the transitional provisions in accordance with Basel III and the loss processing that was carried out. As the main risk driver, counterparty risk is very important for the risk strategy. A counterparty risk model that takes a consolidated view of credit and investment risks was introduced on 31 December 2016. This does not change the modelling of credit risks. The integration approach is designed so that investment and credit risks are simulated together in order to allow for an integrated view. In addition, a potential deterioration in the quality of investments over the period from the reference date to the end of the risk horizon (one year) is presented.

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

Risk-bearing capacity (in € million)		31 Dec.2016		31 Dec.2015[1]
Risk capital	**2 857**	**100%**	**4 243**	**100%**
Credit risk[2]	772	27%	849	20%
Market-price risk	398	14%	408	10%
Liquidity risk	55	2%	121	3%
Operational risk	65	2%	71	2%
Other[3]	– 173	– 6%	– 130	– 3%
Total risk potential	**1 117**	**–**	**1 318**	**–**
Risk capital utilisation	**–**	**39%**	**–**	**31%**

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

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

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

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

Credit Risk – Development in 2016

In the context of credit risk management, total exposure plays a significant role. The calculation of total exposure is based on utilisation (in the case of guarantees the nominal value and in the case of securities the carrying amount) and the credit equivalents resulting from derivatives (including add-ons and taking account of netting). Irrevocable and revocable credit commitments are included proportionally in the total exposure, while collateral provided to NORD/LB is not taken into account. Investments are also included in the total exposure.

Analysis of total exposure

As at 31 December 2016, NORD/LB's total exposure is € 128 billion and is thus 1 per cent higher than at the end of the previous year. The predominat share of the total exposure continues to be in 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 Germany as a financial center – IFD). This rating scale is intended to make it easier to compare the rating classes of the individual credit institutions. The rating classes of the 18-level DSGV rating master scale used at NORD/LB can be transferred to the IFD classes.

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

Rating structure[1)2)] (in € million)	Loans 31 Dec.2016	Securities[3)] 31 Dec.2016	Derivates[4)] 31 Dec.2016	Other[5)] 31 Dec.2016	Total exposure 31 Dec.2016	Total exposure 31 Dec.2015
very good to good	64 518	20 839	6 044	9 053	100 454	99 281
good / satisfactory	7 815	143	287	767	9 013	7 050
reasonable / satisfactory	4 628	4	101	518	5 251	5 657
increased risk	2 922	33	83	335	3 373	5 183
high risk	1 044	–	8	70	1 122	1 934
very high risk	2 379	2	26	35	2 442	1 974
default (=NPL)	6 214	–	29	35	6 278	5 183
Total	**89 520**	**21 022**	**6 579**	**10 814**	**127 934**	**126 262**

4) The ratings are assigned on the basis of the IFD rating classes.
5) Differences in totals are rounding differences.
6) Includes the securities holdings of third-party issuers (only banking book).
7) Includes derivative financial instruments such as finance swaps, options, futures, forward rate agreements and currency transactions.
8) Includes other products such as pass-through and administered loans.

The continued very high share of the best rating classes as a proportion of total exposure of 79 per cent (79 per cent) can be explained by ongoing enormous significance of the business with public authorities and financing institutions with good credit ratings, and it is therefore also a reflection of NORD/LB's risk policy. The exposure in the rating classes with increased to high risk fell during the reporting year. The exposure of non-performing loans (NPL) increased during the reporting year.

The breakdown of total exposure by industry shows that business conducted with generally relatively low-risk financing institutions and with public authorities accounts for 56 per cent (55 per cent) and still constitutes a significant share of the total exposure.

Industries[1)2)] (in € million)	Loans 31 Dec.2016	Securities[3)] 31 Dec.2016	Derivates[4)] 31 Dec.2016	Other[5)] 31 Dec.2016	Total exposure 31 Dec.2016	Total exposure 31 Dec.2015
Financing institutes / insurance companies	28 384	12 181	2 554	6 550	49 670	46 194
Service industries / other	31 818	7 115	1 421	756	41 111	42 681
Of which: Land, housing	5 393	7	505	190	6 095	6 260
Of which: Public administration	14 348	6 960	364	22	21 694	23 221
Transport / communica-tions	15 294	431	617	123	16 467	18 169
Of which: Shipping	10 409	–	63	42	10 514	11 987
Of which: Aviation	2 973	–	12	–	2 985	3 416
Manufacturing industry	3 795	789	781	151	5 516	4 651
Energy, water and mining	7 093	363	827	2 006	10 290	9 506
Trade, maintenance and repairs	1 747	93	257	93	2 191	2 302
Agriculture, forestry and fishing	665	–	7	1 117	1 788	1 696
Construction	722	49	114	16	901	1 064
Total	**89 520**	**21 022**	**6 579**	**10 814**	**127 934**	**126 262**

1) The figures are reported, as in the internal reports, by economic criteria.
2) to 5) please see the preceding Rating Structure table.

The breakdown of the total exposure by region shows that the eurozone accounts for a high share of 78 per cent (80 per cent) of total exposure and remains by far the most important business region for NORD/LB. Germany's share is 62 per cent (65 per cent).

Regions[1)2)] (in € million)	Loans 31 Dec.2016	Securities[3)] 31 Dec.2016	Derivates[4)] 31 Dec.2016	Other[5)] 31 Dec.2016	Total exposure 31 Dec.2016	Total exposure 31 Dec.2015
Euro countries	66 909	18 593	3 676	10 654	99 831	101 068
Of which: Germany	53 594	12 781	2 419	9 959	78 753	81 685
Other Europe	8 001	1 298	2 058	109	11 465	9 746
North America	6 414	517	274	9	7 214	5 956
Middle and South America	2 721	335	30	–	3 085	3 454
Middle East / Africa	987	–	7	42	1 036	1 122
Asia / Australia	4 488	279	535	–	5 302	4 915
Total	**89 520**	**21 022**	**6 579**	**10 814**	**127 934**	**126 262**

1) The figures are reported, as in the internal reports, by economic criteria.
2) to 5) please see the preceding Rating Structure table.

The exposure in Greece, Ireland, Italy, Portugal and Spain is, on the whole, slightly higher and amounts to € 4.2 billion (€ 3.8 billion). Their share in the total exposure remains at 3 per cent. The receivables owed to the respective countries, regional governments and municipalities is € 266 million (€ 72 million).

Exposure in selected European countries[1)2)] (in € million)	Greece 31 Dec 2016	Ireland 31 Dec 2016	Italy 31 Dec 2016	Portugal 31 Dec 2016	Spain 31 Dec 2016	Total 31 Dec 2016
Sovereign Exposure	–	19	25	146	76	266
Financing institutes / insurance companies	–	355	82	–	62	499
Corporates / Other	6	2 800	432	54	150	3 443
Total	**6**	**3 174**	**539**	**200**	**289**	**4 208**

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

Exposure in selected European countries[1)2)] (in € million)	Greece 31 Dec. 2015	Ireland 31 Dec. 2015	Italy 31 Dec. 2015	Portugal 31 Dec. 2015	Spain 31 Dec. 2015	Total 31 Dec. 2015
Sovereign Exposure	–	19	–	46	7	72
Financing institutes / insurance companies	–	329	83	–	88	501
Corporates / Other	21	2 577	393	49	166	3 206
Total	**21**	**2 925**	**476**	**95**	**262**	**3 779**

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.

NORD/LB has an exposure of € 715 million in Cyprus in the Corporates and others category. This primarily concerns a ship exposure whose economic risk lies outside of Cyprus. NORD/LB does not have sovereign exposure and exposure to financing institutions and insurance companies in Cyprus.

In Hungary, NORD/LB has an exposure of € 21 million (€ 17 million corporates and others, € 4 million financing institutions and insurance companies), in Russia € 221 million (€ 90 million corporates and others, € 131 million financing institutions and insurance companies) and in Egypt € 62 million (corporates and others). The exposure in Argentina, Slovenia and Ukraine is of minor significance. NORD/LB is also closely monitoring and analysing developments in the countries mentioned. However, further valuation allowances are not required at this stage.

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

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

Non-performing loans

For acute counterparty risks related the on-balance-sheet lending business, NORD/LB forms individual valuation allowances (IVA) and flat-rate individual valuation allowances (FIVA) if there is objective evidence of long-term impairments. The valuation allowance requirement is based on the present value of the expected interest and principal payments as well as other proceeds, in particular from the realisation of collateral.

The latent counterparty risk of balance sheet business for which no specific valuation allowance is formed is taken into account at NORD/LB by forming flat-rate valuation allowances (FVA). Risk provisioning for off-balance-sheet business (guarantees, endorsement liabilities and loan commitments) is carried out by forming a provision for risks from the credit business.

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

NORD/LB has increased the impaired exposure as well as the portfolio of SVA, FIVA, provisions in the lending business, and country and flat-rate valuation allowances mainly as a result of the rise in the valuation allowances for the shipping portfolio. The ratio of this exposure to the total exposure rose during the reporting period from 1.6 per cent to 2.3 per cent.

Risk provisioning 1 Jan.–31 Dec. 2016 (in € million)	Specific valuation allowances (collective loan loss provisions, loan loss provisions)	National loan loss provisions	General loan loss provisions
Opening balance	1 891	–	134
+ New provision / increase	1 727	–	52
- Disposal	– 850	–	– 5
of which: debt losses (consumption)	– 504	–	–
of which: reductions	– 345	–	– 5
+/- Other addition or disposal	– 38	–	–
+/- Transfer	–	–	–
+/- Currency conversion	60	–	–
Closing balance	**2 790**	**–**	**181**

The non-performing loan exposure in the amount of € 6.3 billion is largely secured by customary bank collateral and other credit enhancements, the value of which is determined in accordance with lending principles. Before collateral is taken into account, the NPL exposure is 47 per cent (39 per cent) covered by risk provisioning. In addition to the aforementioned impaired receivables, the NPL exposure includes all other receivables with ratings of 16 to 18 (IFD default risk class (NPL)).

Total NPL exposure as a share of total exposure increased slightly during the reporting period and as at 31 December 2016 amounted to 4.9 per cent (4.1 per cent). The impaired exposure in the amount of € 5.8 billion (€ 3.7 billion) is 4.5 per cent (3 per cent) of the total exposure.

Industries[1)2)]	Total exposure of impaired receivables		Specific valuation allowances, collective valuation allowances, provisions for lending business	
(in € thousands)	31 Dec.2016	31 Dec.2015	31 Dec.2016	31 Dec.2015
Financing institutes / insurance companies	195 387	159 332	88 300	33 041
Service industries / other	274 108	362 130	127 039	175 354
Transport / communications	4 976 672	2 975 058	2 479 741	1 560 832
Manufacturing industry	144 153	45 229	28 895	31 819
Energy, water and mining	106 759	148 253	32 363	64 145
Trade, maintenance and repairs	13 075	9 743	5 995	4 188
Agriculture, forestry and fishing	40 981	33 455	16 028	8 444
Construction	10 011	12 013	11 824	13 036
Total	**5 761 145**	**3 745 212**	**2 790 185**	**1 890 858**

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

Regions[1)2)]	Total exposure of impaired receivables		Specific valuation allowances, collective valuation allowances, provisions for lending business	
(in € thousands)	31 Dec.2016	31 Dec.2015	31 Dec.2016	31 Dec.2015
Euro countries	4 694 659	3 112 175	2 372 156	1 523 227
Other Europe	133 693	96 130	56 062	56 059
North America	–	–	–	–
Middle and South America	11 250	24 538	7 980	11 537
Middle East / Africa	393 726	292 009	176 302	190 338
Asia / Australia	527 818	220 361	177 685	109 697
Total	**5 761 145**	**3 745 212**	**2 790 185**	**1 890 858**

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

As a result of collateral netting, NORD/LB's total risk exposure as at 31 December 2016 was reduced by € 10 billion (€ 11 billion), which corresponds to a share of 20 per cent (21 per cent) of the total risk exposure before risk reduction. This mainly involved financial collateral as well as sureties and guarantees from countries to be used for netting.

Credit risk – outlook

Against the background of the ongoing difficult market for ship financing, NORD/LB anticipates for a high level of risk provisioning in 2017. NORD/LB will continue to monitor developments closely and, if necessary, continue measures to strengthen its risk provisioning ratio.

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

Investment Risk – Development in 2016

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

The change in the risk provisioning and income situation at Bremer Landesbank gives rise to a depreciation in the carrying amount of the previous shareholding of 54.8 per cent from € 406 million to a pro memoria item. In addition, NORD/LB is forming a provision of € 190 million for imminent losses on pending transactions in connection with its acquisition of the remaining shares in BLB (45.2 per cent).

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

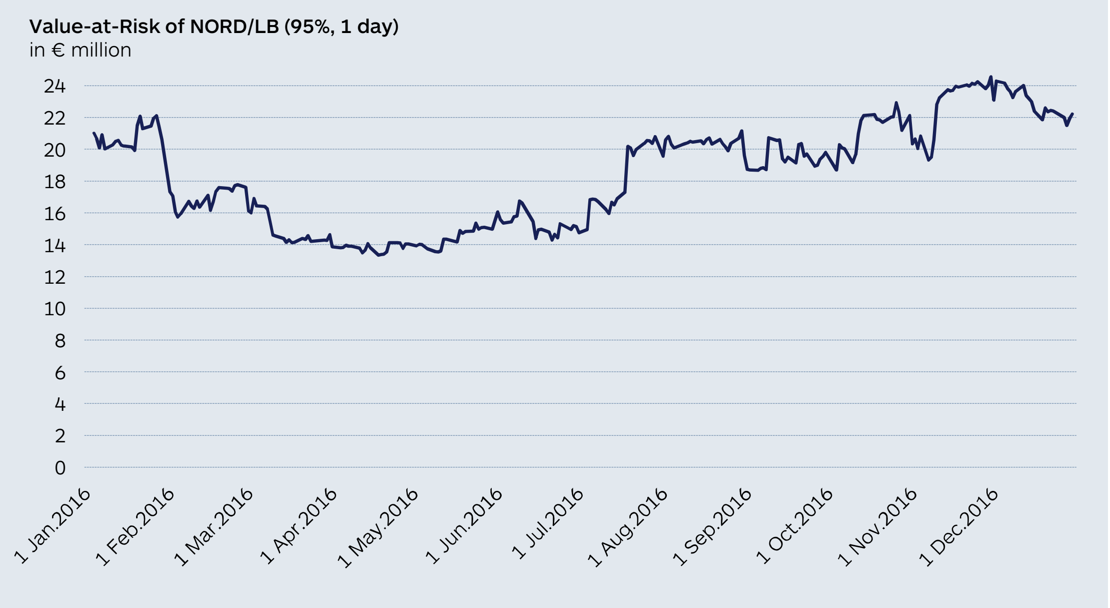
The risk calculated for the investment portfolio on the basis of the new model totalled € 309 million, with € 229 million for unexpected loss and € 80 million for expected loss, for the going concern in the year under review. Compared to the last reporting date, for which the previous model was used, this represents a decrease of € 29 million. Valued conservatively, the write-down, the provisions and the control agreement with loss compensation obligations in relation to Bremer Landesbank do not reduce the risk potential, as the pending capital increase will offset the effects of the investment risk.

Investment risk – outlook

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

Market-price Risk – Development in 2016

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



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

The daily calculated VaR (confidence level of 95 per cent and holding period of one day) in 2016 fluctuated between € 13 million and € 25 million, with an average value of € 18 million. Compared to 2015 NORD/LBs VaR had fallen to € 22 million as of 31 December 2016.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 81 million in the NORD/LB as at 31 December 2016 (€ 95 million). In deviation from the regulatory reporting, the figures also include the interest rate and equity risks from the banking book.

Market-price risks	Maximum		Average		Minimum		End-of year risk	
(in € thousands)	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015
Interest-rate risk (VaR 95 %, 1 day)	28 367	25 855	20 427	20 738	14 145	16 354	24 309	25 512
Currency risk (VaR 95 %, 1 day)	1 502	2 271	787	1 594	174	634	1 055	659
Share-price and fund-price risk (VaR 95 %, 1 day)	3 055	2 889	2 486	2 255	1 399	972	2 375	2 714
Volatility risk (VaR 95 %, 1 day)	4 225	2 234	2 398	1 443	1 615	328	4 210	2 124
Other add-ons	132	142	87	60	58	–	72	142
Total	24 546	24 058	18 443	19 849	13 349	15 834	22 223	23 475

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

The effects of a standardised interest rate shock on the interest rate risks in the investment book are analysed in accordance with the requirements set out in the Capital Requirements Regulation. At 11.05 per cent as at 31 December 2016, NORD/LB's results with subordinated institute Deutsche Hypo were well below the regulatory threshold, which has a maximum limit of 20 per cent of liable own funds. For reporting purposes, the interest shock is determined at the NORD/LB level in conjunction with the subordinated institute Deutsche Hypo.

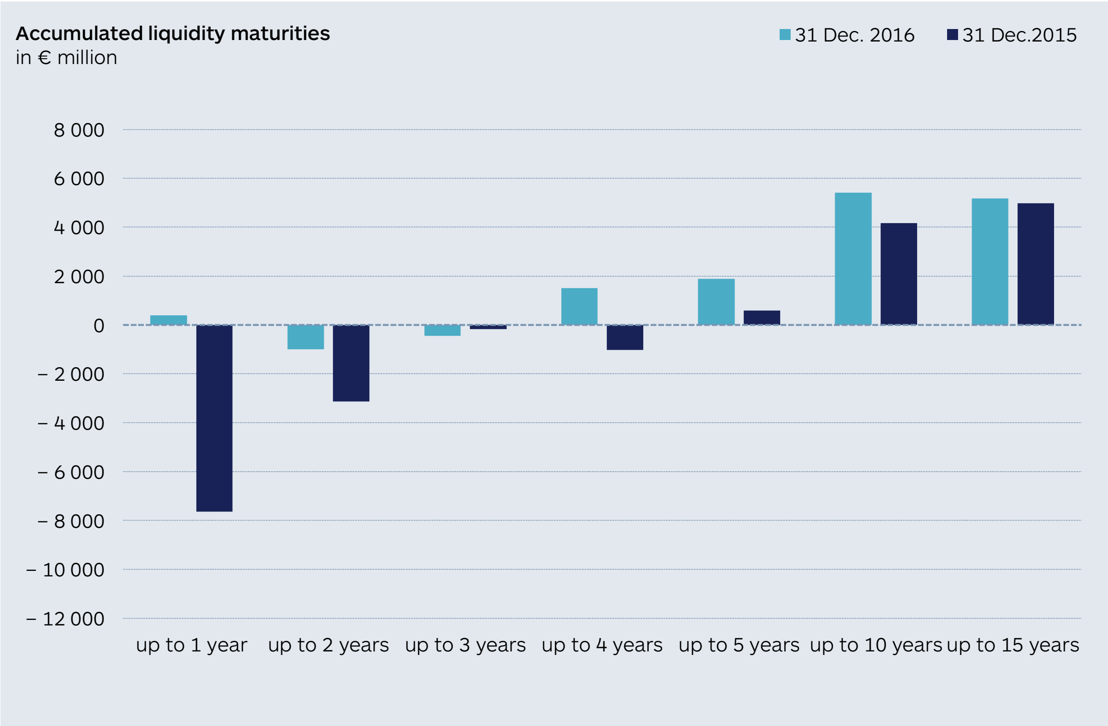
Market-price risk – outlook

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

Liquidity Risk – Development in 2016

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

NORD/LB had a continuous liquidity supply throughout the reporting year. As at 31 December 2016, the liquidity maturity balance sheet in the range of one year and up to four years now has a liquidity surplus rather than a liquidity gap; in the range of up to two years, there is a smaller liquidity gap; in the range of up to three years there is a slightly higher liquidity gap; and in the longer maturities, there is an improved liquidity surplus. Compared to the previous year-end, the liquidity maturity balance sheet is generally improved. The liquidity gaps are all within the liquidity risk limits derived from the risk-bearing capacity model. During the course of 2016, NORD/LB had sufficient liquidity at all times. At the NORD/LB level, the liquidity risk limits were met at all times during the reporting period, both when taking all currencies into account and when taking the significant individual currencies into account.



NORD/LB's funding is mainly comprised of liabilities to banks, at 28 per cent (27 per cent), to customers, at 33 per cent (35 per cent) and securitised liabilities, at 19 per cent (18 per cent). In addition to unsecured securities, NORD/LB also uses secured securities, including public-sector Pfandbriefe denominated in Euro and US dollar, real estate, and ship and aircraft mortgage bonds. There is a total of € 18 billion (€ 20 billion) in Pfandbriefe in circulation (including Pfandbriefe issued prior to entry into force of the Pfandbrief Act), of which public-sector Pfandbriefe make up the largest share.

NORD/LB is active in highly liquid markets and maintains a portfolio of high-quality securities. As at the reporting date, it has securities with a volume of € 23 billion (€ 23 billion), of which 89 per cent (89 per cent) were suitable for repo transactions with the European Central Bank and the US Federal Reserve.

Through close monitoring of the markets and active liquidity management, NORD/LB ensured that it had sufficient liquidity at all times during the year under review. Thus, the liquidity ratio pursuant to the Liquidity Ordinance remained well above the regulatory minimum of 1.00 at all times throughout the year. At year-end, the figure was 1.91 (1.77).

The liquidity stress tests used for internal management purposes indicate a very satisfactory liquidity situation for NORD/LB as at the reporting date. Likewise, the liquidity buffers pursuant to MaRisk were maintained for one week and one month. In 2016, the ongoing shipping crisis and, in particular, the impact of Bremer Landesbank were taken into account in the scenarios.

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

Liquidity risk – outlook

In 2017, liquidity management will face growing challenges, with an ongoing shipping crisis in a difficult environment for profitability (negative interest rates), of managing liquidity and using liquidity surpluses in a targeted manner.

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

Operational Risk – Development in 2016

NORD/LB uses the standard approach of CRD IV (Pillar I) to calculate the capital requirement. This requirement was € 241 million as at 31 December 2016.

NORD/LB's loss amount was € 8.9 million in 2016, which is lower than the prior year (€ 16.8 million). The main causes are "External influencing factors" and "Internal procedures".

A process for the comprehensive analysis and evaluation of projects was created in order to be able to disclose any future risk concentrations in the Governance, OpRisk and Compliance report.

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

Operational risk – outlook

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

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

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

Overall Assessment

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

The utilisation calculated in the risk-bearing capacity model shows that risks were covered at all times throughout the reporting period. In addition, NORD/LB was in compliance with the applicable regulatory requirements concerning equity and liquidity at all times in 2016. The total risk exposure amount for NORD/LB was € 41,004 million (capital requirements corresponding to € 3,280 million), with equity totalling € 8,292 million as at 31 December 2016.. Likewise, it took appropriate account of the requirements regarding large exposure limits in line with Art. 387 - 403 CRR and all of the risks known to it through preventive measures. Appropriate tools have been implemented for early detection of risks. NORD/LB believes there are currently no risks that jeopardise its status as a going concern. However, as a result of its considerable loss in financial year 2016, its failure to meet the legal minimum Tier 1 capital ratio and its lack of risk-bearing capacity, constitute's a risk to BLB's status as a going concern. BLB's continued existence as a going concern depends on the implementation of synthetic securitisation and regulatory approval of the waiver request it has submitted.

There are general opportunities and risks as a result of a deviation from planning assumptions, such as the USD/EUR exchange rate, yield curves and the costs of regulatory requirements.

There are potential risks for NORD/LB as a result of political or economic developments, the impact of Brexit, terrorist attacks and geopolitical tensions. In addition, the Bank's result may be affected by, among other things, developments on the shipping markets, a longer period of low interest rates and a downgrade of NORD/LB's rating. On the other hand, a stronger improvement of the economy and a sustained easing of the sovereign debt crisis would likely have a positive impact on the Bank's results as a result of increased revenue and lower risk provisioning.

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

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

Annual Financial Statements

Assets side **Norddeutsche Landesbank Girozentrale**

				€	€	€	2015 Tsd €
1.	**Cash reserve**						
	a)	Cash on hand			49 976 002,45		53 701
	b)	Balances with central banks			849 031 393,42		532 120
	of which:					**899 007 395,87**	585 821
	with the “Deutsche Bundesbank” ______€		133 025 976,91				(436 474)
2.	**Treasury bills and other bills eligible for refinancing with central banks**						
	a)	Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions			74 974 890,00		0
		of which: eligible for refinancing at the Deutsche Bundesbank ____ €	74 974 890,00				(0)
						74 974 890,00	0
3.	**Claims on banks**						
	a)	mortgage loans			37 458 691,17		39 141
	b)	municipal loans			10 889 497 808,04		10 217 534
	c)	Other claims			12 247 901 805,01		10 605 308
	of which:					**23 174 858 304,22**	20 861 983
	Due on demand ________________€		2 750 532 899,12				(3 119 568)
	against securities lending __________€		0,00				(0)
4.	**Claims on customers**						
	a)	mortgage loans			4 973 051 255,58		5 103 156
	b)	municipal loans			17 176 361 677,79		17 826 796
	c)	Other claims			33 828 093 482,58		36 024 809
	of which:					**55 977 506 415,95**	58 954 761
	against securities lending __________€		0,00				(0)
5.	**Debt securities and other fixed-interest securities**						0
	a)	Money-market instruments					
		aa) Issued by public sector borrowers		13 094 576,01			13 269
		of which: eligible as collateral for “Deutsche Bundesbank” advances __________________€	0,00				(0)
		ab) Issued by other borrowers		1 265 724 323,80			173 469
					1 278 818 899,81		186 738
		of which: eligible as collateral for “Deutsche Bundesbank” advances __________________€	0,00				(0)
	b)	Bonds and debt securities					
		ba) Issued by public sector borrowers		6 471 518 949,03			7 852 408
							0
		of which: eligible as collateral for “Deutsche Bundesbank” advances __________________€	6 138 725 545,61				(7 604 108)
		bb) Issued by other borrowers		13 202 269 933,53			13 084 654
					19 673 788 882,56		20 937 062
		of which: eligible as collateral for “Deutsche Bundesbank” advances __________________€	11 377 675 138,58				(10 954 461)
	c)	Debt securities, issued by the institution itself			75 441 106,24		179 020
	Nominal amount ________________€		74 530 079,12				(176 227)
						21 028 048 888,61	21 302 820
Amount carried forward						**101 154 395 894,65**	101 705 385

Balance sheet as at 31 December 2016

Assets side

						2015
			€	€	€	Tsd €
Amount carried forward					**101 154 395 894,65**	101 705 385
6.	**Shares and other non fixed-interest securities**				**1 250 088 574,20**	1 249 345
6a.	**Trading portfolio**				**12 258 549 364,93**	10 866 727
7.	**Participating interests**				**167 183 933,06**	103 631
	of which: in banks ________ €	61 023 137,60				(297)
	in financial institutions ________ €	218 430,00				(230)
8.	**Investments in affiliated companies**				**1 401 487 217,98**	2 085 088
	of which: in banks ________ €	1 086 900 618,49				(1 492 843)
	in financial institutions ________ €	0,00				(0)
9.	**Assets held in trust**				**3 882 078 477,19**	4 184 295
	of which: loans on a trust basis ________ €	3 876 629 548,55				(4 184 295)
11.	**Intangible assets**					0
	a) internally generated industrial property rights and similar rights and values			45 134 509,25		49 337
	b) Concessions, industrial property rights and similar rights and values including its licences against payment			59 402 499,48		54 837
	c) Advance payments made			0,00		0
	d) Finance lease			4 460 022,21		
	total sum				**108 997 030,94**	104 174
12.	**Tangible assets**				**192 864 796,03**	198 363
14.	**Other assets**				**1 441 379 028,78**	1 516 544
15.	**Prepaid expenses**					0
	a) from new issue and lending business			578 544 935,99		448 590
	b) other			562 538 305,22		498 292
	total sum				**1 141 083 241,21**	946 882
Total assets					**122 998 107 558,97**	122 960 433

Liabilities side

Norddeutsche Landesbank Girozentrale

		€	€	€	2015 Tsd €
1. Liabilities to banks					
a) issued registered mortgage Pfandbriefe			0,00		0
b) issued registered public sector Pfandbriefe			448 669 465,82		649 125
c) Other liabilities			34 365 950 777,54		32 465 186
total sum				**34 814 620 243,36**	33 114 311
of which: Due on demand ___ €	3 002 355 686,56				(4 638 351)
ensuring loans taken up registered mortgage Pfandbriefe transferred to lender ___ €	0,00				(0)
and registered public sector Pfandbriefe ___ €	61 164 985,78				(75 597)
2. Liabilities to customers					
a) issued registered mortgage Pfandbriefe			819 571 115,91		996 308
b) issued registered public sector Pfandbriefe			7 675 141 596,80		8 244 026
c) Savings deposits					
ca) with an agreed notice period more than three months		1 026 106 182,69			1 105 524
cb) with an agreed notice period more than three months		19 948 885,35			28 426
c) Savings deposits total sum			1 046 055 068,04		1 133 950
d) Other liabilities			31 513 321 265,56		32 642 477
total sum				**41 054 089 046,31**	43 016 761
of which: Due on demand ___ €	15 670 433 593,08				(16 050 054)
ensuring loans taken up					
registered mortgage Pfandbriefe transferred to lender ___ €	0,00				(0)
and registered public sector Pfandbriefe ___ €	0,00				(0)
3. Securitised liabilities					
a) Issued debt securities					
aa) mortgage Pfandbriefe		2 111 703 974,39			2 216 255
ab) public sector Pfandbriefe		7 156 575 588,23			8 129 189
ac) other debentures		13 803 524 459,27			11 585 966
a) Issued debt securities total sum			23 071 804 021,89		21 931 409
b) Other securitised liabilities			273 320 576,06		445 100
total sum				**23 345 124 597,95**	22 376 509
of which: money-market instruments ___ €	265 902 318,36				(362 206)
3a. Trading portfolio				**6 220 457 726,26**	4 864 814
4. Liabilities held in trust				**3 882 078 477,19**	4 184 295
of which: loans on a trust basis ___ €	3 876 629 548,55				(4 184 295)
5. Other liabilities				**3 118 213 516,50**	3 559 880
Amount carried forward				**112 434 583 607,57**	111 116 569

Balance sheet as at 31 December 2016

Liabilities side

			€	€	€	2015 Tsd €
Amount carried forward					**112 434 583 607,57**	111 116 569
6.	**Deferred income**					
	a) from new issue and lending business			522 026 741,22		459 418
	b) other			313 704 740,40		283 998
	total				**835 731 481,62**	743 416
7.	**Provisions**					
	a) Provisions for pensions and similar obligations			411 586 262,33		441 122
	b) Tax provisions			124 336 519,25		118 914
	c) Other provisions			606 008 966,03		443 474
	total sum				**1 141 931 747,61**	1 003 510
8.	**Subordinated liabilities**				**2 636 051 436,99**	2 435 489
9.	**Participatory capital**				**0,00**	60 000
	of which: there of falling due in less than two years €	0,00				(60 000)
10.	**Funds for general banking risks**				**60 000 000,00**	912 633
	of which: special item for general banking risks in accordance with § 340e, para. 4 of the German Commercial Code €	60 000 000,00				(60 000)
11.	**Equity**					
	a) Subscribed capital					
	aa) Share capital		1 607 257 810,00			1 607 258
	ab) Other Capital contributions		427 681 529,41			797 063
	a) Subscribed capital total sum			2 034 939 339,41		2 404 321
	b) Capital reserves					
	ba) Other reserves		3 324 313 451,76			3 324 313
	b) Capital reserves total sum			3 324 313 451,76		3 324 313
	c) Retained earnings			952 546 457,02		902 546
	d) Profit shown on the balance sheet after appropriation to or transfer from reserves			– 421 989 963,01		57 635
					5 889 809 285,18	6 688 815
Total liabilities					**122 998 107 558,97**	122 960 433
1.	**Contingent liabilities**					
	a) Contingent liabilities under rediscount-ed bills of exchange			0,00		0
	b) Liabilities from guarantees and other indemnity agreements			7 952 368 162,32		6 938 131
	c) Liabilities from assets pledged as collateral for third-party liabilities			0,00		0
					7 952 368 162,32	6 938 131
2.	**Other obligations**					
	a) Repurchase obligations from non-genuine partial repurchase agreements			0,00		0
	b) Placement and underwriting obligati-ons			0,00		0
	c) Irrevocable credit commitments			6 493 834 613,17		6 197 550
					6 493 834 613,17	6 197 550

Income statement for the period from 1 January to 31 December 2016 **Norddeutsche Landesbank Girozentrale**

	€	€	€	2015 Tsd €
1. Interest income from				
a) Lending and money market transactions	2 215 307 267,92			2 366 211
b) Fixed-income and book entry securities	339 974 799,94			392 600
c) Current income from trading portfolio	1 218 040 024,67			978 242
subtotal		3 773 322 092,53		3 737 053
2. Negative Interest income from lending and money market transactions		13 374 085,50		6 230
3. Interest expenses		2 563 918 471,59		2 366 325
4. Positive interest expenses from lending and money market transactions		28 716 170,76		17 631
			1 224 745 706,20	1 382 129
5. Current income from				
a) Shares and other non fixed-interest securities		10 077 552,33		22 895
b) Participating interests		3 549 553,02		13 665
c) Shares in affiliated companies		31 306 250,00		30 221
subtotal			**44 933 355,35**	66 781
6. Income from profit pooling, profit transfer and partial profit transfer agreements			**109 206 265,41**	71 172
7. Commission income		293 023 530,43		286 930
8. Commission expenses		103 891 392,18		102 385
			189 132 138,25	184 545
9. Net income deriving from trading business			**116 719 028,05**	66 307
10. Other operating income			**168 881 406,83**	106 660
11. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	273 442 564,11			308 106
ab) Social security contributions and expenses for pension provision and other employee benefits	65 183 424,15			56 297
		338 625 988,26		364 403
of which: for pensions ______________€ 4 272 271,67				(4 848)
b) Other administrative expenses		451 578 924,60		417 671
subtotal			**790 204 912,86**	782 074
12. Depreciation, amortisation and write-downs of intangible and tangible fixed assets			**35 081 997,72**	32 846
13. Other operating expenses			**457 207 466,31**	204 783
14. Write-downs of and valuation allowances on receivables and certain securities, and additions to loan loss provisions			**1 446 123 945,27**	681 545
Amount carried forward			**875 000 422,07**	176 346

Income statement for the period from 1 January to 31 December 2016

	€	€	€	2015 Tsd €
Amount carried forward			875 000 422,07	176 346
15. Write-downs of and valuation allowances on shares in affiliated companies, other long-term equity investments and securities classified as fixed assets			358 468 791,40	
16. Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions				112 030
17. Expenses on assumption of losses			5 044 173,37	46 290
18. Profit on ordinary activities			- 1 238 513 386,84	242 086
19. Extraordinary income		0,00		0
20. Extraordinary expenses		22 906 913,64		25 470
21. Extraordinary result			– 22 906 913,64	– 25 470
22. Refund from income taxes		35 198 110,80		103 060
23. Refund from other taxes not show under item 13		18 751 223,17		4 380
			53 949 333,97	107 440
24. Income from the dissolution of the fund for general banking risks			852 632 805,66	0
25. Income from assumption of losses			33 111 470,59	0
26. Income from profit pooling, profit transfer and partial profit transfer agreements			0,00	72 509
27. Annual loss / Annual profit			- 429 625 358,20	36 668
28. Earnings brought forward from the previous year			7 635 395,19	20 968
29. Lost / Profit			- 421 989 963,01	57 635

Appendix

I. Information on Accounting Policies and Principles of Currency Translation

(In the following text the previous year's figures for the reporting year 2016 are shown and those from 31 December 2015 are shown in brackets.)

Principles for the Preparationof the Annual 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 annual financial statements of NORD/LB as at 31 December 2016 have been prepared in accordance with the provisions of the German Commercial Code (deutsches Handelsgesetzbuch – HGB), the German Accounting Regulation for Credit and Financial Services (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV)) and the German Covered Bond Act (Pfandbriefgesetzes (PfandBG)).

The balance sheet and income statement are structured according to the RechKredV.

The balance sheet has been prepared in accordance with § 268 para. 1 of the German Commercial Code, taking into account the partial appropriation of the earnings for the year.

In 2012 NORD/LB, together with its owners, agreed on a capital-boosting programme against the backdrop of a stricter minimum core capital ratio which was then required of banks by the European Banking Authority (EBA) and in anticipation of the new Basel III rules that were to come. In order that the key measures of this capital-boosting programme could be implemented, NORD/LB submitted a restructuring plan in 2012 for a state aid assessment and authorisation by the European Commission.

Some of the commitments made by NORD/LB as a result of this restructuring plan continued to have an effect in 2016. These included in particular an efficiency improvement programme that incurred expenses in 2016 as well, which were recorded in Extraordinary expenses.

Launched in 2012, the capital-boosting programme has devolved into the continued active management of risk-weighted assets as well as targeted measures to optimise the capital structure. To this end, the Bank took on subordinated liabilities in 2016, and at the end of 2015 was able to repay its cancelled silent participations with a nominal amount of USD 500.0 million (translated: € 336.3 million) that had been hedged for foreign currency exposure.

More information about the capital measures taken in 2016 can be found in the Management Report.

Furthermore, negative earnings after taxes for 2016 in accordance with the German Commercial Code will impact the interest payments and the valuation of the silent participations recognised in Equity as per the German Commercial Code. On the one hand, contractually agreed interest on the silent participations will no longer apply due to the negative result for 2016. On the other hand, based on their contractual relative share in all liable equity available on the reporting date, the silent participations participate in the accumulated loss on the reporting date. For this reason, the balance sheet value of the individual silent participations on the reporting date have been reduced by the amount of the respective share of the loss (€ 33.1 million) The resulting impact on earnings arising from the elimination of the interest and the participation in the loss is recorded under Profit transfer due to existing partial profit transfer agreements.

Accounting Policies – Trading Portfolio

Financial instruments assigned to the trading portfolio are to be valued at fair value minus a risk haircut in accordance with § 340e para. 3 sentence 1 of the German Commercial Code. The change in fair value as compared to the previous balance sheet date or to the acquisition costs - the valuation gains/losses - is recorded under the items Net income or Net loss from the trading portfolio. More information on the calculation of fair values is presented in the section titled “Establishing fair values”.

Current interest income and expenses from the trading business are shown in Interest income. Dividend income from the trading business is recorded under the item “Current income from shares and other variable yield securities”.

As there is currently no difference in terms of holdings between the trading portfolio reported in the balance sheet and the regulatory trading book, NORD/LB has used the Value-at-Risk (VaR) calculated for regulatory purposes. For internal management purposes, the internal VaR is applied to trading portfolio positions and deducted from the non-trading book with the correlated foreign currency VaR pursuant to § 340e para. 3 sentence 1 of the German Commercial Code, i.e. it has deducted the VaR amount calculated for regulatory purposes from trading assets. The historical simulation method is used to calculate the VaR.

The VaR parameters used in accordance with banking supervisory regulations, and which are therefore also relevant for reporting in accordance with commercial law, are:

- Use of a correlated VaR for the following risk types:
  - General interest-rate risk,
  - Specific interest-rate risk (issuer-specific credit-spread risk, no risk of default),
  - Currency risk,
  - Share-price risk,
  - Option price risk.

The mid-market rate is used for the valuation of the trading portfolio. The effects of the inclusion of counterparty-specific default risks for OTC derivatives are recorded as a credit value adjustment (CVA) or debit value adjustment (DVA). In addition to the values from the add-on procedure, a valuation reserve was created for the CVA/DVA indicators in order to take account of the effects of the exposure simulation and market-implied credit data. The Bank also uses OIS discounting for the valuation of secured OTC derivatives where OIS discounting has developed at the current market standard.

Moreover, NORD/LB AöR applied a funding valuation adjustment (FVA) for the first time in 2016. This adjustment represents the market-implied refinancing costs for unsecured derivative positions. A discounted approach was used for the calculation. The area of application comprises material unsecured OTC interest rate derivatives.

From an accounting perspective, this is an “embedded derivative” (floor), which according to IDW RS HFA 22, subsection 16c) from the German Institute of Public Auditors, can only be recognised separately from its host contract (loan) if the interest rate cap agreements are leveraged in relation to the host contract or already have a positive value on the assets side upon recognition.

Accounting Policies – Non-Trading Portfolio (Banking Book)

The cash reserve is recognised at nominal value.

Loans and advances to customers and banks are recognised at nominal value or at acquisition cost. If there are differences between the nominal values and the amounts paid out for mortgage loans and other loans and advances - insofar as they incur interest - the items are recognised at nominal value in accordance with § 340e para. 2 of the German Commercial Code. The differences are reported under Deferred income and written back as scheduled.

In light of the low interest rate environment, NORD/LB has included interest rate cap agreements in loan contracts. In this case, the variable interest component (benchmark interest rate) is calculated with a minimum specific percentage rate per year (floor).

At NORD/LB Group, the basic principle for loans of this type is that the market interest rate must be higher on the initial drawdown than the agreed customer interest rate. At the time the contract is concluded, the interest rate cap agreement has no positive value on the assets side, so there is no obligation to separate the “embedded derivative” (floor) from the host contract (loan).

In accordance with IDW RS HFA 22, subsection 16c) from the Institute of Public Auditors, NORD/LB does not generally provide for a separation obligation for these transactions.

Recognisable risks in the lending business are adequately accounted for through the formation of specific valuation allowances and provisions as part of the periodic or ad-hoc loan monitoring. Significant loans (volume of receivables per individual borrower from EUR 1.5 million) for which objective indications of impairment have been identified are provisioned on an individual basis. The amount is quantified as the difference between the carrying amount of the receivable and the present value of the anticipated future cash inflows from interest, repayments and the proceeds of sale of securities. Non-significant loans are recognised using a collective valuation allowance per individual borrower, to which a statistically determined default amount is applied. Based on a credit rating classification system, country risks in the form of sovereign default risks and transfer risks are also taken into account in the evaluation of country-specific constraints and, where appropriate, provisions based on cautious standards are established for cross-border exposures to certain countries. Adequate general loan loss provisions are in place for other general credit risks. General loan loss provisions are still calculated according to statements from the BFA 1/1990 from the Banking Committee of the Institute of Public Auditors and the German Federal Ministry of Finance Circular of 10 January 1994.

Securities held in the liquidity reserve are valued at the strict lower-of-cost-or-market principle. Securities in the banking book are treated in accordance with the diluted lower-of-cost-or-market principle where no foreseeable permanent impairment exists.

Pursuant to IDW RS HFA 22 from the Institute of Public Auditors, structured products are broken down into their constituent parts (host instrument and embedded derivative) and recognised separately. The currently applicable accounting methods are applied to the constituent parts. The separated derivatives are considered in the loss-free valuation of the banking book or included in valuation units. Structured products which are measured at fair value or at the strict lower-of-cost-or-market principle are not recognised separately.

Option premiums and future margin payments for transactions that are not yet due as well as accrued interest income from interest rate swap transactions are recorded under Other assets or Other liabilities. Amounts not yet amortised from interest rate cap agreements and up-front payments from interest rate swaps not yet amortised are included in Deferred income.

Credit Default Swaps (CDS) for which the Bank serves as the collateral provider are treated in a similar manner as the procedure for contingent assets and contingent liabilities from guarantees and other indemnity agreements. If claims can be expected from the CDS, then provisions should be established. Income components from CDS in the collateral-provider position are stated in Commission income. If CDS have been taken out to hedge securities (with the Bank as collateral taker), the hedging effect of the CDS will be taken into account when the need for amortising the securities is assessed. If there is a risk that the creditworthiness of the collateral provider (counterparty to the CDS contract) is questionable, then this risk must be taken into consideration separately. The same procedure should be followed as for a guarantee. Income components from CDS in the collateral-taker position are stated in Interest income.

In those instances in which risks from the non-trading portfolio are transferred to the trading portfolio, internal transactions, just as external transactions, must be considered from a German commercial law perspective in line with the deputisation principle.

Participations and shares in affiliated companies are recorded at acquisition cost or at the lower fair value in the case of permanent impairment. If the reasons for the impairment loss no longer exist, then a write-up is made for no more than the acquisition cost.

Property and equipment are stated in the balance sheet at acquisition cost and those with finite useful lives are amortised as scheduled. In so doing, their useful lives are established based on their economic benefit. In the reporting year, impairment losses as per § 253 para. 3 sentence 3 of the German Commercial Code amounted to € 0. Assets whose acquisition cost is between € 150 and € 1,000 are capitalised as pooled assets and depreciated at a flat rate of 20 per cent per year over five years. Low-value assets whose acquisition cost does not exceed € 150 are fully depreciated according to tax law procedures in the year of their acquisition.

Pursuant to § 248 para. 2 of the German Commercial Code, NORD/LB exercised its option to capitalise internally generated intangible assets in the banking book. In this connection, the external costs incurred as a result of the development phase and internal development efforts are reported. The useful life of software developed internally is generally set at five years.

Purchased software is depreciated over three years according to schedule, unless otherwise specified in the contract.

Insofar as impairments are likely to be permanent, NORD/LB recognises an impairment loss If the reasons for the recognition of the impairment loss no longer exist, write-ups are made up to a maximum of the amortised costs or amortised production costs.

Liabilities to banks and customers are shown at their settlement values as liabilities. Interest-rate related differences between amounts borrowed and amounts repaid are reported under Deferred income and written back as scheduled.

Zero bonds are recognised at their purchase price plus accrued interest in accordance with the yield on purchase.

Provisions are valued at the settlement value based on sound business judgement. Provisions with a term of more than one year are discounted at the average market interest rate for their corresponding residual terms as published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). Interest and expenses from discounting provisions are recorded under Other operating income and expenses. The impact resulting from the change in the underlying discount rates is also shown in Other operating income and expenses.

The Bank exercised the netting option for income and expenses pursuant to §340 f para. 3 of the German Commercial Code.

Calculation of Fair Values

Fair values must be determined for accounting purposes (valuation of primary and derivative financial instruments held for trading at fair value) and for reporting purposes (designation of fair value for derivative financial instruments not held for trading). For both of these purposes, the fair values are determined in the same manner as described below.

If financial instruments are traded on an active market, the market / stock exchange price is used to determine the fair value, i.e. in this case no adjustments or present value calculations are made in order to determine the fair value. Publicly listed stock market prices are used if available. Otherwise other sources of prices are used (e.g. quotes from market makers). Examples of financial instruments held by NORD/LB that are traded on an active market are exchange-traded securities, exchange-traded options and futures.

In all other cases, the fair value is determined using generally recognised valuation methods. Some of the generally recognised valuation methods used by NORD/LB for primary and derivative trading operations include the following:

Valuation method	Application	Significant input parameters
Discounted Cashflow-Method	Illiquid interest-bearing Securities	Swap curves, Credit rating information
	Credit Default Swaps	Swap curves, credit-spreads and where applicable credit rating information
	Interest-rate swaps, FRAs	Swap curves
	Securities forward contracts	Contract data, specific -securities forward prices, swap curves
	Interest-rate currency swaps, Forward exchange contracts transactions	Swap curves in the currencies exchanged, basic swap spreads, exchange rate
Hull & White Model for Options	Bermudan swaptions	Volatility of the underlying market price, risk-free interest rate, swap rate, mean reversion
Black-Scholes Model	FX-options	Exchange rates, volatility of the underlying market price, risk-free interest rate for both currencies
	OTC share options (European))	Volatility of the underlying market price, risk-free interest rate, underlying (share), dividends
Barone-Adesi, Whaley-Model	OTC share FX-options (American)	FX-Rate, volatilities, riskfree interest rate
Normal Black Model	Caps and floors Swaptions	Exchange rates, volatility of the underlying market price, risk-free interest rate
CVA/DVA Add-On Method	All derivatives	Market value, internal ratings, propability of default, swap curves, netting and collateral information
FVA (with discount)	Unsecured Interest-rate swaps and -swaptions	Market value, Swap curves, CCY- basic spreads

The main factors were reliably determined for all trading operations valued by means of the above-mentioned valuation methods. Consequently, there were no instances in which NORD/LB was not able to determine the fair value.

Accounting of Securities Lending

In securities lending transactions, NORD/LB allocates the beneficial ownership to the lender. The result is that the lent securities remain on NORD/LB's balance sheet and are measured according to the valuation rules of the respective security category. If NORD/LB borrows securities, the securities are not recognised by NORD/LB as beneficial ownership was not transferred to NORD/LB.

Pension Obligations

In 2015, NORD/LB AöR transferred some of its existing pension obligations to the provident fund Norddeutsche Landesbank Girozentrale Hannover/Braunschweig e. V., Hanover. A further partial transfer was made during the year under review. These transfers have given rise to entitlements to pension benefits from direct commitments and indirect commitments. NORD/LB's direct and indirect pension provisions are measured using an accrued benefit calculation known as the Projected Unit Credit Method. This method measures the current pensions on the reporting date and the share of the pension entitlements earned through years of service. Future increases expected due to associated salary increases or pension adjustments are also taken into account. The actuarial present value of pension obligations is determined by discounting the expected future pension benefits (settlement value as per § 253 para. 1 sentence 2 of the German Commercial Code at the average market interest rate applicable on the balance sheet date as per § 253 para. 2 of the German Commercial Code. For the first time on 31 December 2016, the average market interest rate for the past ten financial years rather than the past seven financial years was applied on the basis of the law for implementing the residential property loan guidelines and the amendment to the commercial law provisions of 11 March 2016. In determining the actuarial present value of pension obligations, the simplification rule as per § 253 para. 2 sentence 2 of the German Commercial Code is used and the interest rate is generally discounted over a residual period of 15 years.

The new amount resulting from the change in the way pension obligations are measured under the Accounting Law Reform Act (BilMoG) of 1 January 2010 is € 301,921 thousand for the public-law institution. In application of the simplification rule pursuant to Art. 67 para. 1 sentence 1 of the Introductory Act on the German Commercial Code (EGHGB), the difference between the new amount and the previous amount will be distributed over 15 years. As a consequence of this change in procedure, the distribution of the difference in the amounts was limited to the direct pension obligations, reducing the remaining distribution time. Owing to the further partial transfer in the year under review, the remaining distribution period was reduced further and the revaluation of the difference in the amounts completed. The amount allocated to the provision was € 19,175 thousand in 2016, allowing for repayments, and was recorded in Extraordinary expenses. The impact from this initial application on the foreign branch in New York varied from this, but was already fully recognised through profit and loss in 2010.

The Bank's provisions in Germany amounted to € 411,178 thousand at 31 December 2016. € 226,794 thousand of the provisions are allocated to direct obligations. The difference in amounts is € 44,036 thousand for the Bank in Germany at a pension obligation rate in line with the average market interest rate from the past seven financial years. By allocating fresh funds to the provident fund, frozen indirect obligations rose to € 184,384 thousand. These arose from a negative balance (difference between the requisite settlement value for the pension obligations as per § 253 para. 1 sentence 2 of the German Commercial Code and the assets transferred to the provident fund) at the time the means of implementation was changed provided the reason for provisioning still existed as per § 249 para. 2 sentence 2 of the German Commercial Code. Accordingly, the changes to indirect pension provisions can no longer be accounted for through profit and loss; in particular, changes to the discount rate do not affect the balance sheet nor do they result in either profit or loss. The shortfall resulting from unrecognised pension obligations pursuant to Art. 28 para. 2 of the Introductory Act on the German Commercial Code (EGHGB) amounts to € 324,155 thousand.

The following assumptions for the German Bank were used to determine the direct and indirect pension obligations:

	31 December 2016	31 December 2015
Interest rate (10-years-average)	4,01 %	-
Interest rate (7-years-average) [1)]	3,23 %	3,89 %
Salary Increases	2,00 %	2,00 %
Pension Increases	2,75 % / 2,87 % / 1,00 %	2,75 % / 2,87 % / 1,00 %
Fluctuation	3,00 %	3,00 %

1) The average market interest rate from the past seven financial years was applied until 2015 for measuring NORD/LB's pension benefit obligations. Starting in 2016, this rate will be used to calculate the difference in amounts as per § 253 para. 6 of the German Commercial Code.

The measurement of NORD/LB's direct and indirect pension provisions is based on Dr Klaus Heubeck's 2005 G mortality tables.

The settlement value of the existing pension plans in New York is equivalent to € 408 thousand (€ 497 thousand).

As regards indirect pension obligations, the London branch has a negative balance of € 3,891 thousand at 31 December 2016.

Based on a service agreement, NORD/LB employees have the option of placing credit balances from time credits and deferred remuneration into long-term working time credit accounts which are invested in a special fund through a trustee.

This refers to a security-linked commitment, and consequently the relevant provisions are recognised at the fair value of the fund's assets and are net against the pension plan assets as per § 253 para. 1 of the German Commercial Code.

At 31 December 2016, the fair value of the special funds amounted to € 7.9 million, with acquisition costs of € 7.9 million.

Income and expenses from the pension plan assets and the corresponding provisions are offset in Other operating profit/loss.

Currency Translation
Currency translation is carried out in the non-trading portfolio in accordance with § 256a in conjunction with § 340h of the German Commercial Code ("special cover") and the statement made by the "Bankenfachausschuss" (Banking Committee) of the "Institut der Wirtschaftsprüfer" (Institute of Public Auditors in Germany) (IDW RS BFA 4), as the bank manages currency risk via separate currency positions and carries the individual currency items in the currency positions. The special cover comprises all assets, liabilities and pending transactions which are not allocated to the trading portfolio, are financial instruments and are in a foreign currency.

The assets and liabilities and the valuation of forward currency transactions and outstanding spot currency transactions are translated using the average spot exchange rate (ECB reference exchange rate) or rates from other reliable sources on the balance sheet date.

For futures transactions in the non-trading portfolio, the pro-rata, swap premiums/discounts which have not yet been amortised are valued at the current swap rates for the remaining term of the transactions.

The results from the valuation of the remaining positions are added for each currency; losses are deducted. Any remaining positive results, such as unrealised profits from open items, are not taken into account.

As regards financial instruments in the trading portfolio, currencies are translated in accordance with the corresponding valuation and accounting principles. The results of the currency translations are reported under the items Net income or Net expenses in the trading portfolio.

The results of these currency translations for financial instruments in the non-trading portfolio are netted out and recorded under Other operating income.

Overall, NORD/LB's assets and liabilities in foreign currencies total € 42,665.9 million (€ 44,932.6 million) and € 43,541.2 million (€ 44,821.2 million), respectively.

The base currency used for reporting at the foreign branches in London, Shanghai and Singapore is the euro, while the base currency for the New York branch is the US dollar. All transactions are posted in their original currency. Assets, liabilities and off-balance-sheet transactions are translated into the base currency using the respective ECB reference rate on the balance sheet date. Expenses and income in foreign currency are translated daily into the base currency using the ECB reference rate. The balance sheet and income statement of the New York branch are converted from the base currency of the US dollar into euros using the ECB reference rate on the balance sheet date.

Formation and Accounting of Valuation Units
In the following cases, NORD/LB's economic hedging transactions are also shown in the balance sheet by forming valuation units:

- Individual transaction-specific interest hedges of fixed-interest securities in the liquidity reserve with interest rate swaps (€ 1,416,004 thousand; prior year: € 894,946 thousand);

- Individual transaction-specific hedges of the underlying share price or exchange rate risks of certain structured issues with share-price or exchange-rate-specific derivatives (€ 202,860 thousand; prior year: € 218,777 thousand;

- Individual transaction-specific passing on of inflation risk hedged against customers to the market (€ 120,851 thousand; prior year: € 147,805 thousand).

- In addition to the above-mentioned hedging relationships shown as valuation units, there are the following economic hedging transactions which are not shown in the balance sheet by forming valuation units, but by the measures below:

- Currency hedges in the banking book. The economic hedging relationship is presented in the balance sheet by the translation of the foreign-currency assets, foreign-currency liabilities and pending currency transactions in accordance with § 256a in conjunction with § 340h of the German Commercial Code.

- Hedging of general interest rate risk in the banking book within the scope of asset/liability management (overall bank management). The economic control relationship is taken into account when assessing whether the requirements for loss-free valuation in the banking book have been complied with by considering all of the interest-bearing banking book assets and liabilities and all interest derivatives in the banking book.

- Hedging of the default risk relating to banking book assets with CDS contracts. The economic hedging relationship is presented in the balance sheet by considering as a loan security the hedge effect of the CDS contracts in the calculation of the valuation allowance required for the hedged assets.

NORD/LB uses the net hedge presentation method for any valuation units formed.

Loss-free Valuation of Interest-rate-based Transactions in the Banking Book (Interest Book)

Interest-rate-based financial instruments in the banking book (interest book) are subject to a loss-free valuation as stipulated by the Institute of Public Auditors in Germany (IDW RS BFA 3). If the value of the payment obligation from the interest-bearing transaction is greater than the value of the counterperformance, a provision for contingent losses in the amount of the excess liability is to be made.

In the present value approach, NORD/LB compares the cash flows, discounted as at the balance sheet date, of all on-balance-sheet and off-balance-sheet interest-rate-based financial instruments not in the trading portfolio with their carrying amounts taking into account the expected refinancing risk expenses, risk expenses and administrative expenses. As at the balance sheet date there is no excess liability.

II. Disclosures and Notes to the Balance Sheet and Income Statement

The notes below concerning the individual items of the balance sheet and income statement appear in the order that the items are reported:

Notes to the Balance Sheet

Assets

(in € 000)	31 Dec. 2016	31 Dec. 2015
2. Treasury bills and other bills eligible for refinancing with central banks		
a) Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions	0	0
Balance sheet value	74 975	–
3. Claims on banks		
with a residual term of	23 174 858	**20 861 983**
Due on demand	5 256 925	4 339 967
less than 3 months	7 537 873	5 242 321
more than 3 months but less than 1 year	2 690 680	1 665 541
more than 1 year less than 5 years	2 790 959	4 848 199
more than 5 years	4 898 421	4 765 954
of which		
Claims on affiliated companies	4 429 947	4 555 322
Claims on companies in which an equity investment exists	295 308	306 220
Subordinated receivables	644 321	697 544
Used to cover old stock	84 950	112 083
The full amount of receivables from banks includes:	–	–
Claims on affiliated savings banks	5 085 379	5 305 797
4. Claims on customers		
with a residual term of	**55 977 506**	**58 954 761**
less than 3 months	5 503 176	5 269 783
more than 3 months but less than 1 year	3 439 040	3 524 725
more than 1 year less than 5 years	14 562 218	15 858 285
more than 5 years	32 397 341	34 301 968
of which		
Claims on affiliated companies	386 951	555 377
Claims on companies in which an equity investment exists	336 863	338 744
Subordinated receivables	132 503	25 220
Used to cover old stock	1 468 148	1 657 062
With an indefinite term	1 542 703	1 479 087
5. Debt securities and other fixed-interest securities		
a) Money-market instruments		
aa) Issued by public sector issuers		
Balance sheet value	**13 095**	**13 269**
of which		
due in the following year	13 095	13 269
marketable and unlisted money-market instruments	13 095	13 269

Assets

(in € 000)			31 Dec. 2016	31 Dec. 2015
	ab)	**Issued by other issuers**		
		Balance sheet value	**1 265 724**	**173 469**
		of which		
		due in the following year	1 265 719	173 469
		marketable and listed money-market instruments	**936 817**	–
b)	**Bonds and debt securities**			
	ba)	**Issued by public sector issuers**		
		Balance sheet value	**6 471 519**	**7 852 408**
		of which		
		due in the following year	1 232 577	1 893 490
		marketable and listed money-market instruments	6 192 010	7 761 992
		marketable and unlisted money-market instruments	279 509	110 774
	bb)	**Issued by other issuers**		
		Balance sheet value	**13 202 270**	**13 084 654**
		of which		
		due in the following year	2 207 074	2 630 482
		marketable and listed money-market instruments	12 618 709	12 780 230
		marketable and unlisted money-market instruments	583 787	304 424
		Affiliated company securities	4 102 421	3 522 586
		Subordinated debt securities	697 595	881 009
c)	**Debt securities, issued by the institution itself**			
	Balance sheet value		**75 441**	**179 020**
	of which			
	due in the following year		11 460	158 963
	marketable and listed money-market instruments		75 441	179 020
6.	**Shares and other non fixed-interest securities**			
	Balance sheet value		**1 250 089**	**1 249 345**
	of which			
	marketable non listed shares and other non fixed-interest securities		116	337
6a.	**Trading portfolio**			
	Balance sheet value		**12 258 549**	**10 866 727**
	of which			
	Derivative financial instruments		6 869 003	5 979 093
	Claims		2 832 962	2 734 405
	Debt securities and other fixed-interest securities		2 572 197	1 998 379
	Shares and other non fixed-interest securities		827	167 071
	Risk discount		– 16 439	– 12 221

Assets

(in € 000)		31 Dec. 2016	31 Dec. 2015
7.	**Participations**		
	Balance sheet value	**167 184**	**103 631**
	of which		
	Marketable unlisted shares	4 814	4 769
	The equity holding is shown in III. Paragraph 11		
8.	**Investments in affiliated companies**		
	Balance sheet value	**1 401 487**	**2 085 088**
	of which		
	Marketable unlisted shares	1 087 026	1 087 023
	The equity holding is shown in III. Paragraph 11		
9.	**Assets held in trust**		
	Balance sheet value	**3 882 078**	**4 184 295**
	of which		
	Claims on banks	560 077	575 166
	Claims on customers	3 322 002	3 609 129
11.	**Intangible assets**		
	Balance sheet value	**108 997**	**104 174**
	of which		
	internally generated software [1)]	45 135	49 337
12.	**Tangible assets**		
	Balance sheet value	**192 865**	**198 363**
	of which		
	Own used land and buildings	159 541	164 045
	Operating and office equipment	33 324	34 317
14.	**Other assets**		
	Balance sheet value	**1 441 379**	**1 516 544**
	of which		
	The following are reported as significant items:		
	Option premiums and margins	778 486	648 560
	Interest and interest due from interest-rate swaps	468 670	513 480
	Balancing item from currency valuation	19 725	140 930
	Claims against fiscal authorities	108 758	133 142
	Reported assets on interim accounts	31 920	27 966
	Pro rata interest claims from flat-traded securities of the trading portfolio	10 274	17 523
	Due debentures	–	20 358
	irrevocable payment commitments	11 310	–
15.	**Deferred expenses and accrued income**		
	Balance sheet value	**1 141 083**	**946 882**
	of which		
	deferred premiums in accordance with § 340e Paragraph 2 HGB	492 617	363 429
	discounts and maturing premiums	86 959	85 222

1) In 2016, development costs in the amount of € 8.8 million (€ 11.4 million) were incurred for the development of software; there were no costs for research.

Assets

The table below shows the changes to fixed assets:

(in € 000)	Aquisition/ manufac- turing cost	Additions	Disposals	Reclassifications	Accu- mulative deprecia- tion	Balance sheet value 31 Dec. 2016	Balance sheet value 31 Dec. 2015	Depreciation for the accounting- period
Intangible assets	240 493	27 254	52	–	136 319	108 997	104 174	22 379
internally generated industrial property rights and similar rights and values	115 314	8 818	–	–	65 977	45 135	49 337	13 020
Conces- sions, industrial property rights and similar rights and values including its licences against payment	125 179	18 436	52	– 4 460	70 342	59 402	54 837	9 359
Advance payments made	–	–	–	–	–	–	–	–
Finance lease	–	–	–	4 460	–	4 460	–	–
Tangible assets	432 243	7 569	364	–	233 880	192 865	198 363	12 703
land and buildings	234 470	68	39	304	70 425	159 541	164 045	4 838
Operating and office equipment	197 773	7 501	325	– 304	163 456	33 324	34 317	7 865
		Change[1]						
Participating interests						167 184	103 631	
Investments in affiliated companies		–	– 683 600			1 401 487	2 085 088	
Securities in fixed assets			– 615 445			2 664 166	3 279 611 [2]	
of which:								
Bonds and debt securities			– 615 445			2 664 166	3 279 611	
Shares						–	–	

1) The summary provided for under § 34 para. 3 of the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV) was utilised.
2) The amount from the prior year does not include the € 1,005,065 thousand from the foreign branches.

Liabilities

(in € 000)				31 Dec. 2016	31 Dec. 2015
1.	**Liabilities to banks**				
	a)	**Due on demand**		**3 018 989**	**4 638 351**
		of which			
		Liabilities to affiliated companies		86 704	268 492
		Liabilities to companies in which an equity investment exists		2 032	–
	b)	**With an agreed term or notice period**		**31 795 631**	**28 475 959**
		of which with a residual term of			
		less than 3 months		16 040 515	12 595 188
		more than 3 months but less than 1 year		3 959 361	4 507 466
		more than 1 year but less than 5 years		5 069 393	4 342 526
		more than 5 years		6 726 362	7 030 779
		of which			
		Liabilities to affiliated companies		40 605	519 352
		Liabilities to companies in which an equity investment exists		247 154	255 188
		Assets pledged as collateral [1)]		12 008 566	9 072 173
	The full amount of bank loans and overdrafts includes:				
	Liabilities to affiliated savings banks			2 254 802	2 909 549
2.	**Liabilities to customers**				
	a)	**Savings deposits**			
		aa)	**with an agreed notice period of three months**	**1 026 106**	**1 105 524**
		ab)	**Savings deposits with an agreed notice period of more than three months**	**19 949**	**28 426**
			of which with a residual term of		
			less than 3 months	5 610	5 886
			more than 3 months but less than 1 year	3 355	6 524
			more than 1 year but less than 5 years	10 570	15 076
			more than 5 years	413	940
2.	**b)**	**Other liabilities**			
		ba)	**Due on demand**	**15 677 685**	**16 050 054**
			of which		
			Liabilities to affiliated companies	96 508	216 065
			Liabilities to companies in which an equity investment exists	94 537	108 325

1) Collateral has been provided for borrowing undertaken within the scope of genuine repos. Collateral has also been provided for refinancing funds for specific purposes and open market transactions to the German Bundesbank.

Liabilities

(in € 000)			31 Dec. 2016	31 Dec. 2015
	bb)	**With an agreed term or notice period**	**24 330 349**	**25 832 757**
		of which with a residual term of		
		less than 3 months	3 308 996	6 021 630
		more than 3 months but less than 1 year	4 744 565	4 483 267
		more than 1 year but less than 5 years	5 301 859	4 249 759
		more than 5 years	10 974 929	11 078 102
		of which		
		Liabilities to affiliated companies	664	1 194
		Liabilities to companies in which an equity investment exists	315 433	324 287
		Assets assigned as collateral	215 784	116 798
3.	**Securitised liabilities**			
	a)	**Issued debt securities**		
		Balance sheet value	**23 071 804**	**21 931 409**
		of which		
		Due in the following year	5 034 879	4 568 034
		Liabilities to affiliated companies	1 007 054	1 006 523
		Liabilities to companies in which an equity investment exists	25 808	36 128
	b)	**Other securitised liabilities**		
		of which with a residual term of		
		less than 3 months	84 895	177 876
		more than 3 months but less than 1 year	158 197	184 329
		more than 1 year but less than 5 years	29 435	10 453
		more than 5 years	794	72 441
		Balance sheet value	**273 321**	**445 100**
3a.	**Trading portfolio**			
	Balance sheet value		**6 220 458**	**4 864 814**
	of which			
	Derivative financial instruments		6 121 277	4 852 545
	Liabilities (for short-term securities)		99 181	12 269
4.	**Liabilities held in trust**			
	Balance sheet value		**3 882 078**	**4 184 295**
	of which			
	Liabilities to banks [1]		1 416 665	1 519 688
	Liabilities to customers		2 465 413	2 664 607

[1] Including Investitionsbank Sachsen-Anhalt's equity of € 163.9 million (€ 150.9 million).

Liabilities

(in € 000)		31 Dec. 2016	31 Dec. 2015
5.	**Other liabilities**		
	Balance sheet value	**3 118 214**	**3 559 880**
	of which		
	reported as significant items:		
	Balancing item from currency valuation	2 094 052	2 619 699
	Countervalues for outstanding securities purchases	517 088	417 332
	Interest payable and accrued interest from swaps	312 243	313 534
	Interest payable from profit participation rights, subordinated liabilities and capital contributions	39 309	111 293
	Outstanding items on interim accounts, not classified	118 656	52 857
	Verbindlichkeiten aus erhaltenen Lieferungen und Leistungen	26 532	25 701
	Liabilities to tax authorities	–	14 509
6.	**Deferred income**		
	Balance sheet value	**835 731**	**743 416**
	of which		
	Separation of premiums from issuing and loan business	505 373	427 669
	Deferred discounts in accordance with § 340e Paragraph 2 HGB	20 103	31 964
7.	**Provisions**		
	NORD/LB forms provisions for pensions and similar duties, tax provisions and other provisions for uncertain liabilities.		
	Basically the following items are shown under other provisions:		
	Provisions for uncertain liabilities		
	Staff expenses – other	204 789	205 336
	anticipated losses on pending transactions	191 575	1 221
	Risks from lending business	42 397	64 024
	Staff expenses – reorganisation provisions (efficiency improvement programme)	47 747	61 549
	Legal risks	39 727	40 288
8.	**Subordinated liabilities**		
	Balance sheet value	2 636 051	2 435 489
	of which		
	due within five years in accordance with the CRR	986 470	854 970

NORD/LB's expenses for subordinated liabilities were € 135,747 thousand (2015: € 149,781 thousand). The following subordinated liabilities exceed 10% of the total amount:

Currency amount	Interest rate	Due on
€ 350 million	6,00 % p.a.	29 Jun. 2020
USD 500 million	6,25 % p.a.	10 Apr. 2024

An early repayment obligation only exists if a change in taxation results in additional payments to the transferee.
The conditions for the subordination of these funds comply with applicable statutory provisions. The conversion of these funds into capital or any other form of debt has not been agreed and is not planned.

Liabilities

(in € 000)	31 Dec. 2016	31 Dec. 2015
10. Funds for general banking risks		
Balance sheet value	60 000	912 633

As a result of the steps taken to offset the net trading loss, the € 852.6 million in funds for banking risks were dissolved pursuant to § 340g of the German Commercial Code.

11. Equity

The accumulated loss includes the profit carried forward from the previous year in the amount of € 7,635,395.19
Of the previous year's balance sheet profit of € 57.6 million, € 50.0 million was allocated to retained earnings in accordance with the resolution of the Owners' Meeting.
Silent participations hedged via exchange rates which were cancelled as at 31 December 2015 were repaid with a nominal amount of USD 500.0 million (translated € 336.3 million) on 30 June 2016.

1. Contingent Liabilities

Under contingent liabilities there are as at 31 December 2016 nine material liabilities relating to sureties and guarantees from the lending business. The individual amounts range from € 71.4 million to € 143.5 million.
NORD/LB's maximum liability to customers from guarantees is € 6,051.3 million and € 113.9 million from letters of credit.
The risk of the contingent liabilities being utilised is considered to be low as the liabilities are ranked and monitored on a credit-related basis. Risk provisioning in the amount of € 33.2 million (€ 53.5 million) has been allocated.

2. Other Obligations

Irrevocable loan commitments in 2016 can be broken down as follows:

Commercial enterprises	5 920 154 368
Banks	486 839 405
Public authorities	14 359 788
Private persons	72 481 053

As at 31 December 2016, Other liabilities include material irrevocable loan commitments, the individual amounts of which range from € 57.7 million to € 255.0 million.
Based on the credit rating analyses, credit-related ranking and monitoring of other liabilities that have been conducted, it is generally assumed that the borrowers will meet their obligations. Risks may arise from a drop in the customers' credit ratings, for which an appropriate provision has been made. This provision amounts to € 7.3 million (€ 7.4 million).

3. Unrestricted Comfort Letters

NORD/LB ensures that the following companies are able to meet their obligations:

- Deutsche Hypothekenbank (Aktiengesellschaft), Hanover, Germany
- Nieba GmbH, Hanover, Germany
- Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg - Findel, Luxembourg,
- NORD/LB Asset Management Holding GmbH, Hanover, Germany
- Skandifinanz AG, Zurich, Switzerland.

Notes to the Income Statement

The total balance of the income statement items 1., 4., 5., 7., 9. and 10. is spread across the following regions:

(in € 000)		Federal Republic of Germany	Europe (excl. of Federal Republic of Germany)	North America	Asia	Total
1.	**Net interest** income	3 507 154 (3 440 806)	54 803 (90 473)	128 502 (113 623)	82 863 (92 152)	3 773 322 (3 737 054)
4.	**Positive Interest from Lending and money market transactions**	28 008 (17 631)	688 (–)	21 (–)	– (–)	28 716 (17 631)
5.	**Current income**	44 933 (66 781)	– (–)	– (–)	– (–)	44 933 (66 781)
7.	**Net commision** income	227 935 (230 008)	19 553 (13 689)	32 134 (29 008)	13 402 (14 224)	293 024 (286 930)
9.	**Net profit of trading portfolio**	117 195 (68 021)	– 256 (– 71)	– 674 (– 4 098)	454 (2 455)	116 719 (66 307)
10.	**Other operating income**	168 379 (106 282)	54 (53)	146 (197)	302 (129)	168 881 (106 660)
Income statement items		4093 605 (3 929 529)	74 841 (104 144)	160 129 (138 730)	97 021 (108 959)	4 425 596 (4 281 362)

(in € 000)		31 Dec. 2016	31 Dec. 2015
9.	**Net profit/loss of trading portfolio**		
	The following are reported as material items:		
	Net income from securities	54 869	–
	Net expediture from securities [1]	–	18 066
	Net income from loans	49 339	–
	Net expediture from loans [1]	–	68 348
	Net income from derivatives	–	156 235
	Net expediture from derivatives	4 597	–
	Income from the change in value at risk reduction	–	–
	Expense from the change in the Value at Risk deduction	4 218	4 862
	Foreign exchange gain [2]	21 894	152
10.	**Other operating income**		
	The following are reported as material items:		
	Reversal of provisions	42 059	27 461
	Income from the resale of hardware, software and services	13 047	13 602
	Icome from credit spread based discounts for loan purchases (HFT)	–	11 366
	Profit from hedge derivatives of own issues	67 796	7 814
	IT services for third parties	4 770	5 498
	Income from rents	4 892	4 813
	Foreign exchange of investment book	10 364	4 635
	Interest income from tax refunds	–	3 473
	Offsetting of services with promotion institutes	2 786	2 685
	Income from repayments	–	–
13.	**Other operating expenses**		
	The following are reported as material items:		
	Price losses from redemption of promissory notes and registered bonds	192 853	73 793
	anticipated losses on pending transactions	190 000	–
	Interest expenses from the valuation of provisions	41 201	69 699
	Expenses for the resale of hardware, software and services purchased	15 523	14 965
	Expenses for KSN services	11 200	12 272
	Allocation to provisions for recourse risks	419	5 760
	Book losses from disposal of property and equipment	137	1 329
	Expenses for losses resulting from operational risks	336	1 159
	Concession fee for BLSK	950	1 100
	Interest expenses for payments of tax arrears	1 646	1 041

20. Extraordinary expenses

Extraordinary expenses include the transition effects of the valuation of provisions in the amount of € 19.2 million (€ 19.1 million) as a result of the implementation of the German Accounting Law Modernisation Act (BilMoG) and reorganisation expenses in the amount of € 3.7 million (€ 6.4 million). These mainly concern employee-related expenses for measures to reduce staff expenses as part of the efficiency-improvement programme.

24.	**Income from the dissolution of the fund for general banking risks**		
	dissolution amount for loss compensation	852 633	–

[1] The previous year's figures for securities and receivables (registered shares) have been changed. The table now illustrates Net expenses rather than Net income. The values have not been adjusted.

[2] Since the reporting year, all earnings components from forward currency contracts have been recorded under the Foreign exchange result. In the previous year, net income from derivatives included € 15.0 million.

Other Financial Obligations
In accordance with the Restructuring Fund Regulation
(RstruktFV), NORD/LB 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 S-Finance Group security system and owing to the European bank levy, NORD/LB is obliged to pay annual contributions. The obligations to make contributions until 2024 and any obligations to make additional payments represent a risk to our financial position as defined under § 285 no. 3 of the German Commercial Code.

For the reporting year an annual contribution of € 13.2 million, which will be reported in Other administrative expenses, will be due to the deposit security reserve.

NORD/LB furthermore 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 is, alongside the state of Bremen, guarantor of Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen, and, together with Sparkassenverband Niedersachsen (SVN) and Landesbank Berlin Holding AG, also acts as guarantor for LBS Norddeutsche Landesbausparkasse Berlin-Hannover.

NORD/LB has a 100% holding in Deutsche Hypothekenbank
(Actien-Gesellschaft). As the guarantor of the deposit security reserve for Landesbanks and clearing centres, it 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.

NORD/LB had undertaken 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 paragraph 2 of the statute of the "Einlagensicherungsfond" (deposit protection fund) for Deutsche Hypothekenbank (Actien-Gesellschaft). The participation of Deutsche Hypothekenbank (ActienGesellschaft) in the German banks' deposit protection fund was terminated as at 31 December 2008. In accordance with § 6 no. 8 of the statute of the deposit protection fund, NORD/LB may still be liable for commitments previously entered into by Deutsche Hypothekenbank (Actien-Gesellschaft).

With regard to NORD KB Beteiligungsgesellschaft mbH and NORD KB Dachfonds II Beteiligungsgesellschaft mbH, NORD/LB has an obligation to grant partnership loans totalling approximately € 2.0 million (€ 2.5 million).

NORD/LB also holds an interest with other limited partners in Immobilien Development und Beteiligungsgesellschaft Niedersachsen mbH IDB & Co. Objekt Zietenterrassen KG. One limited partner has indemnified the general partner from liability. Within this relationship, NORD/LB assumes 50% of the possible obligations from this declaration of liability.

In accordance with its legal form, NORD/LB is liable without limitation to the creditors of GLB GmbH & Co. OHG. All of the shareholders are either legal entities under public law (Landesbanks) or companies under private law in which the majority of the shareholding is held directly or indirectly by entities under public law. Following the sale and transfer of the direct holding and atypical silent participation in DekaBank in 2011, the company no longer actively pursues any business activity. There are no significant material risks relating to the final accounting of accessible profit shares due from previous years following the final approval of DekaBank's tax assessments.

NORD/LB has, together with the other limited partner Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, indemnified the general partner from liability.

With regard to the inclusion of the shares in FinanzIT GmbH, 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.

Payment obligations for shares and other interests amounted to € 14.1 million (€ 22.6 million) at year end.

Over the normal course of business NORD/LB has furnished collateral in the nominal amount of € 308.8 million (€ 562.2 million) in the form of securities.

In order to ease the pressure on regulatory equity, NORD/LB has transferred part of the credit risk of a loan portfolio defined precisely in a financial guarantee ("Northvest") to an external third party. The financial guarantee will result in financial charges via incurred fees of € 46.1 million (€ 53.0 million) in 2017. In subsequent years the fees will fall steadily until the guarantee ends in 2024.

NORD/LB has concluded a framework contract with Wincor Nixdorf International GmbH, Paderborn, to regulate the 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 value of the contract over the entire term is approximately € 52.6 million (€ 77.8 million).

NORD/LB has obligations from long-term rental and lease agreements for land and buildings to 2044 in the nominal amount of € 354.5 million (€ 394.1 million), of which € 232.0 million (€ 268.1 million) is owed to affiliated companies.

Thus NORD/LB has recorded a total amount of € 732.0 million under Other financial obligations.

III. Other Disclosures

1. Members of the Managing Board

Dr Gunter Dunkel
(Chairman)
(until 31 December 2016)

Thomas Bürkle
(Deputy Chairman)
(until 31 December 2016)
(Chairman)
(from 1 January 2017)

Eckhard Forst
(until 31 October 2016)

Dr Hinrich Holm
(Deputy Chairman)
(from 1 January 2017)

Ulrike Brouzi

Christoph Dieng
(from 3 February 2017)

Christoph Schulz

Günter Tallner
(from 3 February 2017)

2. Members of the Supervisory Board

Peter-Jürgen Schneider (Chairman)
Finance Minister of Lower Saxony

Thomas Mang (First Deputy Chairman)
President of Sparkassenverband Niedersachsen

Jens Bullerjahn (Second Deputy Chairman)
Finance Minister of Saxony-Anhalt
(until 25 April 2016)

André Schröder (Second Deputy Chairman)
Finance Minister of Saxony-Anhalt
(since 25 April 2016)

Frank Berg
Chairman of the Managing Board
Ostsee Sparkasse Rostock

Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land

Edda Döpke
Bank employee
NORD/LB Hanover

Ralf Dörries
Bank department head
NORD/LB Hanover
(until 30 September 2016)

Dr Elke Eller
Head of HR and Director of Human Resources
TUI AG

Frank Hildebrandt
Bank employee
NORD/LB Braunschweig

Frank Klingebiel
Mayor of Salzgitter
(until 31 May 2016)

Prof Susanne Knorre
Management Consultant

Ulrich Mädge
Mayor of the Hanseatic City of Lüneburg

Ulrich Markurth
Mayor of Braunschweig
(since 1 June 2016)

Ludwig Momann
Chairman of the Managing Board
Sparkasse Emsland
(since 1 January 2016)

Felix von Nathusius
Chairman of the Managing Board
Entrepreneur

Antje Niewisch-Lennartz
Justice Minister of Lower Saxony

Frank Oppermann
Bank employee
NORD/LB Hanover
(since 1 October 2016)

Freddy Pedersen
Trade union secretary
ver.di Trade Union

Jörg Reinbrecht
Trade union secretary
ver.di Trade Union

Stefanie Rieke
Bank employee
NORD/LB Magdeburg
(since 1 June 2016)

Ilse Thonagel
Bank employee, Landesförderinstitut
Mecklenburg-Vorpommern
(until 31 May 2016)

3. Disclosures concerning Mandates

As at 31 December 2016 the following mandates were held in accordance with § 340a para. 4 no. 1 of the German Commercial Code by members of NORD/LB:

Name	Society [1)]
Dr. Gunter Dunkel	Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen (until 31 december 2016) Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (until 31 december 2016) Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg (until 31 december 2016) NORD/LB Vermögensmanagement S.A., Luxembourg-Findel (until 31 december 2016) Continental AG, Hanover
Thomas Bürkle	Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Norddeutsche Landesbank Luxembourg S.A.Covered Bond Bank, Luxembourg
Dr. Hinrich Holm	NORD/LB Asset Management, Hanover Investitionsbank Sachsen-Anhalt, Magdeburg LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Lotto-Toto GmbH Sachsen-Anhalt, Magdeburg BÖAG Börsen AG Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen (from 1 January 2017) SALEG Sachsen-Anhaltinische Landesentwicklungsgesellschaft GmbH Öffentliche Lebensversicherung Sachsen-Anhalt AöR Öffentliche Feuerversicherung Sachsen-Anhalt AöR
Ulrike Brouzi	Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg NORD/LB Asset Management AG, Hanover Salzgitter AG Stahl und Technologie, Salzgitter
Eckhard Forst	Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover (until 30 october 2016) DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co., Bremen (until 30 October 2016)
Christoph Dieng	Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen (from 1 January 2017) Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover (from 1 January 2017) Norddeutsche Landesbank Luxembourg S.A.Covered Bond Bank, Luxemburg-Findel (from 1 January 2017)
Christoph Schulz	Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg NORD/LB Vermögensmanagement Luxembourg S.A., Luxembourg-Findel LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Toto-Lotto Niedersachsen GmbH, Hanover Öffentliche Lebensversicherung Braunschweig AöR Öffentliche Sachversicherung Braunschweig AöR Öffentliche Lebensversicherung Sachsen-Anhalt AöR Öffentliche Feuerversicherung Sachsen-Anhalt AöR
Günter Tallner	Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen (from 1 January 2017) Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover (from 1 January 2017)

1) Banks are treated as large corporations.

Name	Society [1]
Uwe Didwischus	ConCardis GmbH, Eschborn
Dr. Rüdiger Fuhrmann	Niedersächsische Landgesellschaft mbH, Hanover
Oliver Faak	caplantic GmbH, Hanover
Martin Hartmann	NORD/LB Asset Management AG, Hanover
Dr. Ulf Meier	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover Toto-Lotto Niedersachsen GmbH, Hannover
Bernd Sablowsky	Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen (from 1 January 2017)
Werner Schilli	Öffentliche Sachversicherung Braunschweig, Braunschweig Öffentliche Lebensversicherung Braunschweig, Braunschweig
Ingo Wünsche	Niedersächsische Bürgschaftsbank (NBB) GmbH, Hanover
Berit Zimmermann	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg
Jörn Zimmermann	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin

1) Banks are treated as large corporations.

4. Remuneration of and Loans to Governing Bodies

(in € 000)	2016	2015
Total remuneration of current board members		
Managing Board	4 262	4 523
Supervisory Board	445	435
	4 707	**4 958**
Total remuneration of former board members and their surviving dependents		
Managing Board	4 191	4 108
Advances and loans granted		
Managing Board [1]	324	824
Supervisory Board	95	35
Advances and loans repaid in the reporting year		
Managing Board	12	–
Supervisory Board	13	–
Advances and loans laid down in the reporting year		
Managing Board	–	–
Supervisory Board	–	–

1) The previous year’s figures for advances and loans granted to members of the Managing Board have been corrected.

NORD/LB’s pension obligations for former members of executive bodies and their surviving dependants consist of direct pension commitments and indirect pension liabilities. Some € 13,526 thousand (€ 43,521 thousand) was put aside for indirect pension liabilities. The indirect pension liabilities to this group of persons in accordance with Article 28 para. 2 of the Introductory Act on the German Commercial Code (EGHGB) amount to € 37,098 thousand (€ 0.0 thousand).

5. Auditor’s fees

In accordance with § 285 no.17 of the German Commercial Code, NORD/LB has exercised the option of reporting the auditor’s fees in the consolidated financial statements.

6. Key events after the reporting date

In 2016 NORD/LB decided to sell a portfolio of non-performing loans in financial year 2017 in order to reduce its exposure to the Ships segment. One way to implement this option is to set up a portfolio transaction involving two institutional investors. During the negotiations, the focus most recently fell on designing the structural elements of the operation. Neither the contractual negotiations nor the selection of the portfolio have been concluded at this time.

The financial impact on NORD/LB cannot currently be determined with sufficient reliability.

Effective as of 1 January 2017, NORD/LB acquired the outstanding non-controlling interests (45.2 per cent) of Bremer Landesbank, and now owns 100 per cent (prior year: 54.8 per cent) of shares in Bremer Landesbank. Effective on the same date, a controlling agreement with a loss compensation obligation was concluded between NORD/LB and BLB, and a letter of comfort was issued in favour of the BLB.

Triggered by risk provisioning in the shipping segment adapted to changed income expectations resulting from a further deterioration of the market situation, Bremer Landesbank recorded a net loss of about € 1.4 billion before taxes in 2016. Subsequently, a capital increase of € 400.0 million became necessary, along with an advance resolution of an additional € 200.0 million. This strengthens Bremer Landesbank’s capital reserve and relieves the regulatory capital ratios with the goal of keeping the capital and the risk-bearing capacity of Bremer Landesbank intact to an appropriate extent.

As additional prospective relief measures in the context of capital requirements, an application was filed with the relevant regulatory authority in January 2017 for the recognition of a waiver as per § 2a (1) and (2) KWG in conjunction with Article 7 (1) CRR in favour of Bremer Landesbank.

7. Average number of employees

	Male 2016	Male 2015	Female 2016	Female 2015	Total 2016	Total 2015
Employees	1 992	2 005	1 999	2 065	3 991	4 070

Investitionsbank Sachsen-Anhalt and Landesförderinstitut Mecklenburg-Vorpommern account for an additional 617 employees (641 employees).

8. Further Disclosures

Services performed for third parties

Material services performed for third parties relate to:

- the management of trust assets
- the management of custodian accounts
- the brokering of building loan contracts, investment products, loans and insurance
- the brokering of foreign notes and coins and precious metals for associated savings banks
- asset management
- the brokering of loans and investment products

Omitted depreciationto lower fair value

The items “Debt securities and other fixed-interest securities” and “Shares and other non-fixed-interest securities” include securities valued like fixed assets which have not been written down to their lower fair value. These concern the following securities (disclosures on carrying values and fair values do not include accumulated interest):

(in € 000)	Book values 31 Dec. 2016	Fair values 31 Dec. 2016	omitted depriation 31 Dec. 2016	Book values 31 Dec. 2015	Fair values 31 Dec. 2015	omitted depriation 31 Dec. 2015
Bonds and debt securities	996 839	952 878	43 961	1 729 954	1 673 694	56 260
Shares	–	–	–	–	–	–

NORD/LB assumes with all bonds and debt securities that the loss of value is not permanent as the securities are held to final maturity and the issuers are all issuers with first-class credit ratings. If as at the balance sheet date there are valuation units consisting of interest-bearing securities and interest rate swaps, the net fair value of the security and interest rate swap are entered in the above table as the fair value of the security.
The shares are intended to be held long term. Write-downs are only made if the loss in value is likely to be permanent. There was no reason for a write-down to lower fair value as at the balance sheet date.

The following securities in fixed assets include hidden reserves, i.e. the fair value is higher than the carrying value (disclosures on carrying values and fair values do not include accumulated interest):

(in € 000)	Book values 31 Dec. 2016	Fair values 31 Dec. 2016	Book values 31 Dec. 2015	Fair values 31 Dec. 2015
Bonds and debt securities	1 627 842	1 774 196	2 423 745	2 620 249
Shares	–	–	–	–

Marketable securities not valued at lower of cost or market

The items “Debt securities and other fixed-interest securities” and “Shares and other non-fixed-interest securities” include marketable securities not valued at lower of cost or market, i.e. they are treated as fixed assets (carrying values do not include accumulated interest):

(in € 000)	31 Dec. 2016	31 Dec. 2015
Debt securities and other fixed-interest securities	2 634 168	4 153 699
Shares and other non fixed-interest securities	–	–

The marketable securities not valued at lower of cost or market were separated from the marketable securities valued at lower of cost or market on the basis of the asset category in the portfolio and the valuation method chosen. The tables below also include the disclosures in accordance with § 36 of the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV) concerning the foreign currency, interest-based and other futures transactions which have not yet been settled as at the balance sheet date.

Derivatives not measured at fair value in external relations (derivatives in the non-trading portfolio)

(in € million)	Nominal values 31 Dec. 2016	Positive fair values 31 Dec. 2016	Negative fair values 31 Dec. 2016	Book values 31 Dec. 2016	Recorded in balance sheet item 31 Dec. 2016
Interest-rate risks					
Interest-rate swaps	2 531	1 073	– 79	161	Assets 15. / Liabilities 6.
FRAs	–	–	–	–	–
Interest-rate options					
purchases	5 111	1 093	– 0	516	Assets 14.
sales	852	–	– 585	– 187	Liabilities 5.
Caps, Floors	3 194	33	– 71	– 21	Assets 15. / Liabilities 6.
Stock-exchange contracts	–	–	–	–	–
Other forward interest rate transactions	425	2	– 100	–	–
Interest-rate risks – total –	**12 112**	**2 201**	**– 834**	**470**	
Currency risks					
Forward foreign exchange transactions	638	6	– 2	12	Liabilities 5.
Currency swaps / interest-rate currency swaps	–	–	–	–	Assets 14. / Liabilities 5.
Currency options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Currency risks – total –	**638**	**6**	**– 2**	**12**	
Shares and other price risks					
Share futures contracts	–	–	–	–	–
Share swaps	–	–	–	–	–
Share options	–	–	–	–	
purchases	–	–	–	–	–
sales	–	–	–	–	–
Stock-exchange contracts	–	–	–	–	–
Shares and other price risks – total –	**–**	**–**	**–**	**–**	
Credit derivatives	**–**	**–**	**–**	**–**	
Assignor	13	0	– 0	– 0	Assets 15. / Liabilities 6.
Assignee	1 820	28	– 1	16	Assets 15. / Liabilities 6.
Credit derivatives – total –	**1 833**	**28**	**– 1**	**16**	
Derivatives not valued at fair value – total	**14 583**	**2 236**	**– 837**	**498**	

The derivatives primarily relate to transactions which were completed to cover interest rate, exchange rate and other market price risk positions in the non-trading portfolio.

The nominal values represent the gross volume of all purchases and sales and long and short positions. To calculate the nominal value of the share options, the closing rate of the underlying transaction is multiplied by the number of shares. Fair values and carrying values excluding accrued interest are shown for all contracts. Positive and negative fair values of contracts with the same counterparty were not offset against each other.

All of the fair values included in the above table were reliably calculated. With regard to the valuation methods used, reference is made to the section "Establishing fair values".

Derivatives measured at fair value in external relations (derivatives in the trading portfolio)

Derivatives measured at fair value – broken down by risk type and transaction type:

(in € million)	Nominal values 31 Dec. 2016
Interest-rate risks	
Interest-rate swaps	213 028
FRAs	5 100
Interest-rate options	
purchases	3 737
sales	7 228
Caps, Floors	6 570
Stock-exchange contracts	–
Other forward interest rate transactions	1 465
Interest-rate risks – total –	**237 128**
Currency risks	
Forward foreign exchange transactions	18 421
Currency swaps / interest-rate currency swaps	24 613
Currency options	
purchases	359
sales	389
Currency risks – total –	**43 783**
Shares and other price risks	
Share futures contracts	–
Share swaps	–
Share options	
purchases	47
sales	–
Stock-exchange contracts	86
Shares and other price risks – total –	**133**
Credit derivatives – total –	**–**
Assignor	–
Assignee	50
Credit derivatives – total –	**50**
Derivatives valued at fair value – total -	**281 094**

The nominal values represent the gross volume of all purchases and sales and long and short positions. To calculate the nominal value of the share options, the closing rate of the underlying transaction is multiplied by the number of shares.

The amount, dates and reliability of future cash flows relating to derivatives are uncertain. The main factors which affect this are the future of interest rates, exchange rates and share prices. Counterparty risk also exists. The tables below provide an overview of the volumes affected by these factors.

Derivatives measured at fair value – broken down by risk type and residual term to maturity:

(in € million)	Nominal values 31 Dec. 2016
Interest-rate risks	
Residual terms to maturity	
up to 3 months	12 772
up to 1 year	20 733
up to 5 years	78 931
more than 5 years	124 692
	237 128
Currency risks	
Residual terms to maturity	
up to 3 months	12 689
up to 1 year	9 412
up to 5 years	11 123
more than 5 years	10 559
	43 783
Shares and other price risks	
Residual terms to maturity	
up to 3 months	59
up to 1 year	67
up to 5 years	7
more than 5 years	–
	133
Credit derivatives	
Residual terms to maturity	
up to 3 months	–
up to 1 year	50
up to 5 years	–
more than 5 years	–
	50
Derivatives valued at fair value – total -	**281 094**

Derivatives measured at fair value – broken down by counterparty:

(in € million)	Nominal values 31 Dec. 2016
Banks in the OECD	80 286
Banks outside the OECD	44
Public institutions in the OECD	6 226
Other counterparties [1)]	194 538
Total	**281 094**

1) including stock exchange contracts

Disclosures concerning valuation units

NORD/LB has included the following assets, liabilities and pending transactions as underlying transactions in valuation units (assets and liabilities disclosed at the carrying value not including accumulated interest; pending transactions disclosed in nominal volume):

	31 Dec. 2016			
	Underlying transaction hedged against			
(in € 000)	Interest rate risk	Share price risk	Inflation risk	Currency risk
Assets				
Fixed-interest securities for the liquidity reserve	1 547 360	–	–	–
Assets – total	**1 547 360**	**–**	**–**	**–**
Pending transactions				
Derivatives separated from structured issues				
share-price-related derivatives	–	121 539	–	–
exchange-rate-related derivatives	–	–	–	81 321
Other	–	–	120 851	–
Pending transactions – total	**–**	**121 539**	**120 851**	**81 321**
Valuation units – total	**1 547 360**	**121 539**	**120 851**	**81 321**

The total of all underlying transactions included in valuation units is therefore € 1,871.1 million.

The prospective and retrospective effectiveness of all valuation units is measured using the Critical Terms Match method. The changes in value resulting from the hedged risk for the corresponding underlying and hedging investments balance due to identical business parameters. In general, the final maturity of the underlying transactions corresponds to the final maturity of the hedging instruments. The underlying transactions will mature between 2017 and 2044.

Deferred taxes

The deferred taxes of NORD/LB in Germany are measured using the tax rate of 32.0 per cent (32.0 per cent), which is applicable at the balance sheet date as well as in the future. This combined income tax rate comprises corporation tax, trade tax and the solidarity surcharge. Different tax rates apply to the foreign branches.

Deferred tax liabilities arising from the different tax approach used for Intangible assets, Property and equipment and the Trading portfolio were net against deferred tax assets on temporary differences in Loans and advances to customers, Pension provisions and Other provisions.

The recoverable deferred tax assets were offset against deferred tax liabilities. Deferred tax assets exceeding those offset are not capitalised in accordance with the option provided for in § 274 para. 1 sentence 2 of the German Commercial Code.

Profit distribution subject to restrictions

After the deduction of deferred tax liabilities, capitalised internally generated intangible assets in the amount of € 30.9 million remain. The difference between the recognition of the provisions in accordance with the average market interest rate from the past ten financial years and the recognition of the provisions in accordance with the average market interest rate from the past seven years for the provisions for pension obligations is € 44.0 million. The restriction on distributions for such amounts stipulated by § 268 para. 8 of the German Commercial Code does not affect the profit for the financial year 2016, because if a payout were to be made, the freely disposable reserves plus the profit carried forward that would remain are greater than the above amounts.

Repurchase transactions (Repos)

Repos are reported in accordance with § 340b of the German Commercial Code. Only genuine repos are executed.

Securities with a carrying value totalling € 7,032.8 million (€ 3,740.8 million) were committed by NORD/LB within the scope of genuine repos. The counterparty risk is manageable.

Special investment assets

Name of the special asset	NORD/LB AM ALCO	NORD/LB Horizont Fonds-TF B	Nordlux Pro-Aktiv-B
Former	–	–	–
Type of special asset	AIF[1]	AIF[1]	OGAW[2]
Investment objective	The fund is part of the ALCO-portfolio and thus part of the strategic investments.	The fund is for conservative investors sensitive to inflation. NORD/LB holds a strategic share in order to have a positive argument for customers in selling.	The fund follows the principle of asset management, is actively managed and invests in international capital market products or currencies. It was launched on 1 April 2014 and is currently in the start-up finance phase, which should last until mid-2016.
Reporting date	31 Dec.2016	31 Dec.2016	31.Dec.2016
Special assets (in € 000)	124 041	28 292	16 264
Shares – total	11 902 648	285 656	163 652
Currency of shares	EUR	EUR	EUR
Shares of NORD/LB as at the reporting date	11 902 648	101 720	151 256
Values of the shares according to §26 of the German Investment Act (InvG) as at reporting date	104,18	99,04	99,38
Carrying amount (in € 000)	1 224 536	9 944	14 926
Difference between fair value and carrying amount (in € 000)	15 506	130	106
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	7 900	127	168
Reporting year of NORD/LB	1 Jan. - 31 Dec.	1 Jan. - 31 Dec.	1 Jan. - 31 Dec.
Reporting year of the special asset	1 Jan. - 31 Dec.	1 Oct. - 30 Sep.	1 Oct. - 30 Sep.
Restrictions in the possibility of daily return	None	None	None
Reasons for no write-down § 253 para. 3 clause 4 of the German Commercial Code	-	-	-
Pointers for the loss of value not being permanent	-	-	-

1) Alternative investment/asset fund
2) Collective Investment Undertakings (CIU) in securities

9. Cover statement

(Old portfolio/ issues before 19 July 2005)

(in € 000)	31 Dec. 2016	31 Dec. 2015
Mortgage bond coverage		
Liabilities requiring cover		
Pfandbriefe	–	–
discharged and cancelled items	–	–
Registered Pfandbriefe (as security on loans taken up)	–	–
	–	–
Covering assets		
Loans to customers secured by mortgages	–	–
Public issuer securities	–	–
Substitute credit institution cover	–	–
	–	–
Surplus cover	**–**	–
Municipal cover		
Liabilities requiring cover		
Municipal debentures	931 108	1 046 792
discharged and cancelled items	–	–
Registered municipal debentures (to secure loans taken up)	–	–
	931 108	1 046 792
Covering assets		
Municipal loans		
to financial institutions	34 950	62 083
to customers	1 468 148	1 657 062
Public issuer securities	–	–
Fixed deposits from public-sector banks	–	–
Substitute credit institution cover	50 000	50 000
	1 553 098	1 769 145
Surplus cover	621 990	722 353

This previous portfolio (cover and in circulation) was maintained separately in accordance with § 51 of the Covered Bond Act (PfandBG) and are maintained separately from the new cover register in accordance with the regulations applicable until the Covered Bond Act came into effect.

10. Cover statement for NORD/LB in accordance with § 28 of the Covered Bond Act

The total value of **Hypothekenpfandbriefe** in circulation and the cover assets used for this are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values [1] + 250 bp	Risk-adjusted present values [1] - 250 bp	Risk-adjusted present values [1] Currency stress
Hypothekenpfandbriefe					
Total Hypothekenpfandbriefe	1 835,6	1 868,6	1 807,9	1 873,1	1 807,9
outstanding	(2 112,6)	(2 156,6)	(2 071,1)	(2 175,5)	(2 071,1)
Total cover pool	3 579,6	3 947,3	3 649,5	3 978,5	3 632,1
	(3 188,5)	(3 499,2)	(3 248,4)	(3 551,2)	(3 226,0)
Over-collateralisation	1 744,1	2 078,7	1 841,5	2 105,4	1 824,1
	(1 075,9)	(1 342,5)	(1 177,4)	(1 375,7)	(1 154,9)
Over-collateralisation in %	95,0	111,2	101,9	112,4	100,9
	(50,9)	(62,3)	(56,8)	(63,2)	(55,8)
Net present value per foreign currency item					
CHF	–	–	–	–	–
	(–)	(–)	(–)	(–)	(6,4)
USD	–	–	–	–	104,3
	(–)	(–)	(–)	(–)	(131,1)

1) Static approach in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for Hypothekenpfandbriefe in accordance with § 28 paras. 1 No 4, 5 and 6:

(in € million)	Balancing receivables in accordance with § 19 (1) no. 1 PfandBG	Loans and advances to banks in accordance with § 19 (1) no. 2 PfandBG	Loans and advances to banks in accordance with § 19 (1) no. 2 PfandBG of which: covered debt securities [1]	Loans and advances to the public sector in accordance with § 19 (1) no. 3 PfandBG	Total
Germany	–	–	–	115,0	115,0
	(–)	(10,0)	(–)	(65,0)	(75,0)

1) in accordance with Article 129 of Regulation (EU) no. 575/2013

Key figures for Hypothekenpfandbriefe and respective cover assets:

(in € million)	31 Dec. 2016	31 Dec. 2015
Mortgage backed bonds outstanding	**1 835,6**	**2 112,6**
Share of fixed-interest mortgage backed bonds in %	19,48	34,56
Share of derivates	–	–
Collateral pool	**3 579,6**	**3 188,5**
Share of fixed-interest cover assets in %	76,98	75,36
Share of derivates	–	–
Total value of receivables that exceed the limits of § 13 para. 1	–	–
Total value of receivables that exceed the limits of § 19 para. 1 no. 2	–	–
Total value of receivables that exceed the limits of § 19 para. 1 no. 3	–	–
Volume-weighted average of the time passed since loan issue in years	7,0	6,9
Average weighted loan-to-value ratio in %	max. 60,0	max. 60,0

Maturity structure of Hypothekenpfandbriefe and fixed-interest periods of cover assets:

(in € million)	Pfandbriefe outstanding 31 Dec. 2016	Cover pool 31 Dec. 2016	Pfandbriefe outstanding 31 Dec. 2015	Cover pool 31 Dec. 2015
Less than 6 months	–	521,1	107,5	434,0
More than 6 but less than 12 months	70,0	178,2	70,0	284,2
More than 12 but less than 18 months	–	297,1	–	247,6
More than 18 months but less than 2 years	70,0	129,2	70,0	99,6
More than 2 but less than 3 years	848,1	444,2	70,0	371,8
More than 3 but less than 4 years	575,0	291,3	947,6	371,2
More than 4 but less than 5 years	50,0	310,8	575,0	243,4
More than 5 but less than 10 years	222,5	1 250,3	272,5	1 026,8
More than 10 years	–	157,5	–	109,8
Key figures total	**1 835,6**	**3 579,6**	**2 112,6**	**3 188,5**

Breakdown of cover assets for Hypothekenpfandbriefe by size category:

(in € million)	31 Dec. 2016	31 Dec. 2015
Less than € 300 thousand	1 084,3	1 101,0
More than € 300 thousand but less than € 1 million	315,0	288,1
More than € 1 million but less than € 10 million	1 122,5	779,3
More than € 10 million	942,9	945,0
Size categories total	**3 464,6**	**3 113,5**

Breakdown of cover assets for Hypothekenpfandbriefe by country and type of use (residential):

	Property used for residential purposes					
(in € million)	Owner-occupied apartments	Single and twofamily houses	Apartment buildings	Unfinished new buildings not yet capable of yielding a return	Construction sites	Total
Germany	184,1	713,7	1 694,4	–	0,7	2 592,9
	(189,1)	(706,5)	(1213,7)	(–)	(0,1)	(2109,4)

Breakdown of cover assets for Hypothekenpfandbriefe by country and type of use (commercial):

(in € million)	Property used for commercial purposes Office Buildings	Retail buildings	Industrial building	Other buildings used for commercial purposes	Unfinished new buildings not yet capable of yielding a return	Construction sites	Total
Germany	256,5	161,1	5,9	200,4	–	–	624,0
	(305,8)	(193,1)	(7,6)	(219,7)	(–)	(0,0)	(726,3)
Luxemburg	137,5	–	–	–	–	–	137,5
	(142,6)	(–)	(–)	(–)	(–)	(–)	(142,6)
Austria	–	7,8	–	–	–	–	7,8
	(–)	(8,2)	(–)	(–)	(–)	(–)	(8,2)
USA	102,5	–	–	–	–	–	102,5
	(127,0)	(–)	(–)	(–)	(–)	(–)	(127,0)
Receivables by	**496,5**	**169,0**	**5,9**	**200,4**	**–**	**–**	**871,8**
country total	**(575,4)**	**(201,3)**	**(7,6)**	**(219,7)**	**(–)**	**(0,0)**	**(1 004,1)**

Breakdown by country of the total amount of Hypothekenpfandbriefe cover payments outstanding by at least 90 days:

(in € million)	Total value of payments outstanding by at least 90 days 31 Dec. 2016	Total value of covering receivables, where the amount outstanding is at least 5 % of the covering receivable 31 Dec. 2016	Total value of payments outstanding by at least 90 days 31 Dec. 2015	Total value of covering receivables, where the amount outstanding is at least 5 % of the covering receivable 31 Dec. 2015
Germany	0	0.1	–	–

There were no cases of forced sale, forced receivership or takeovers of land to prevent losses. The total arrears on interest to be paid by mortgage debtors is € 44,000 (€ 197,000) for commercial property and € 86,000 (€ 116,000) for residential property .

The total value of **Öffentliche Pfandbriefe** outstanding and respective cover assets are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values 1) + 250 bp	Risk-adjusted present values 1) - 250 bp	Risk-adjusted present values 1) Currency stress
Öffentliche Pfandbriefe					
Total Öffentliche Pfand-briefe outstanding	14 068,1	16 462,2	14 455,6	17 059,6	14 846,7
	(15 691,8)	(18 202,6)	(16 139,5)	(19 137,6)	(16 564,1)
Total collateral pool	18 060,5	20 825,9	18 480,5	21 552,0	18 599,8
	(18 910,9)	(21 613,2)	(19 213,9)	(22 709,4)	(19 322,7)
Over-collateralisation	**3 992,4**	**4 363,7**	**4 024,9**	**4 492,4**	**3 753,1**
	(3 219,1)	(3 410,6)	(3 074,3)	(3 571,8)	(2 758,6)
Over-collateralisation in %	28,4	26,5	27,8	26,3	25,3
	(20,5)	(18,7)	(19,0)	(18,7)	(16,7)
Net present value per foreign currency item					
CHF	–	–	–	–	2,9
	(–)	(–)	(–)	(–)	(1,9)
JPY	–	–	–	–	–
	(–)	(–)	(–)	(–)	(– 139,2)
USD	–	–	–	–	– 1 116,2
	(–)	(–)	(–)	(–)	(–1 216,6)

1) Static approach in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for Öffentliche Pfandbriefe in accordance with § 28 paras. 1 No 4, 5 and 6:

(in € million)	Balancing receivables in accordance with § 20 (2) no. 1 PfandBG	Loans and advances to banks in accordance with § 20 (2) no. 2 PfandBG	Loans and advances to banks in accordance with § 20 (2) no. 2 PfandBG of which: covered debt securities 1)	Total
Germany	–	513,0	95,0	513,0
	(–)	(496,4)	(70,0)	(496,4)

1) in accordance with Article 129 of Regulation (EU) no. 575/2013

Key figures for Öffentliche Pfandbriefe and their cover assets:

(in € million)	31 Dec. 2016	31 Dec. 2015
Öffentliche Pfandbriefe outstanding	**14 068,1**	**15 691,8**
Share of fixed-interest backed bonds in %	92,82	87,84
Share of derivatives	–	–
Cover pool	**18 060,5**	**18 910,9**
Share of fixed-interest cover assets in %	83,04	85,85
Share of derivatives	–	–
Total value of receivables that exceed the limits of § 20 para. 2 no. 2	–	–

Maturity structure of **Öffentliche Pfandbriefe** and fixed-interest periods of cover assets:

(in € million)	Öffentliche Pfandbriefe outstanding 31 Dec. 2016	Cover pool 31 Dec. 2016	Öffentlichge Pfandbriefe outstanding 31 Dec. 2015	Cover pool 31 Dec. 2015
Less than 6 months	698,1	1 786,2	1 164,6	1 367,0
More than 6 but less than 12 months	947,1	1 091,6	1 329,8	1 013,1
More than 12 but less than 18 months	296,1	850,7	663,1	1 400,4
More than 18 months but less than 2 years	1 019,7	889,9	925,4	1 081,1
More than 2 but less than 3 years	3 284,6	1 888,8	1 364,7	1 685,9
More than 3 but less than 4 years	499,2	1 402,7	3 263,1	1 815,3
More than 4 but less than 5 years	1 316,8	1 286,7	483,1	1 406,3
More than 5 but less than 10 years	2 688,2	4 979,4	2 941,8	5 011,9
More than 10 years	3 318,3	3 884,5	3 556,2	4 129,9
Key figures total	**14 068,1**	**18 060,5**	**15 691,8**	**18 910,9**

Breakdown of cover assets for Öffentliche Pfandbriefe by size category:

(in € million)	31 Dec. 2016	31 Dec. 2015
Less than € 10 million	1 833,8	1 884,0
More than € 10 million but less than € 100 million	4 843,2	4 732,8
More than € 100 million	10 870,5	11 797,8
Size categories total	**17 547,5**	**18 414,5**

Breakdown of cover assets for Öffentliche Pfandbriefe by country and type of debtor (including statutory over-collateralisation in accordance with § 4 (1) PfandBG):

(in € million)	Country	Regional authority	Local authority	Other debtors	Total
Germany	610,0	5 112,2	4 078,7	5 008,3	14 809,2
	(610,0)	(5451,3)	(4023,4)	(5529,3)	(15613,9)
Belgium	–	–	–	30,0	30,0
	(–)	(–)	(–)	(134,0)	(134,0)
Latvia	–	–	34,7	–	34,7
	(–)	(–)	(37,4)	(–)	(37,4)
Luxembourg	–	–	–	25,0	25,0
	(–)	(–)	(–)	(25,0)	(25,0)
Receivables without guarantee	**610,0**	**5 112,2**	**4 113,3**	**5 063,3**	**14 898,8**
by country total	**(610,0)**	**(5 451,3)**	**(4 060,8)**	**(5 688,3)**	**(15 810,4)**

(in € million)	Country	Regional authority	Local authority	Other debtors	Total	of which: by ECA guarantees
Germany	687,6	424,2	566,7	62,9	1 741,4	619,6
	(612,9)	(532,0)	(558,4)	(65,1)	(1 768,3)	(544,1)
Belgium	–	–	–	25,0	25,0	25,0
	(–)	(–)	(–)	(25,8)	(25,8)	(25,8)
Denmark	–	–	–	72,6	72,6	72,6
	(–)	(–)	(–)	(29,0)	(29,0)	(29,0)
Finland	–	–	–	53,5	53,5	53,5
	(–)	(–)	(–)	(66,0)	(66,0)	(66,0)
France	45,7	–	–	–	45,7	45,7
	(47,0)	(–)	(–)	(–)	(47,0)	(47,0)
UK	45,3	–	–	–	45,3	45,3
	(51,9)	(–)	(–)	(–)	(51,9)	(51,9)
Canada	32,3	–	–	–	32,3	–
	(72,2)	(–)	(–)	(–)	(72,2)	(–)
Netherland	41,6	–	–	–	41,6	41,6
	(30,4)	(–)	(–)	(–)	(30,4)	(30,4)
Switzerland	–	–	–	24,7	24,7	24,7
	(–)	(–)	(–)	(3,1)	(3,1)	(3,1)
USA	431,1	–	–	135,7	566,8	431,1
	(486,5)	(–)	(–)	(23,9)	(510,4)	(486,5)
Receivables with garantee	**1 283,5**	**424,2**	**566,7**	**374,3**	**2 648,7**	**1 358,9**
by country total	**(1 300,8)**	**(532,0)**	**(558,4)**	**(212,9)**	**(2 604,2)**	**(1 283,9)**

Breakdown by country of the total amount of Öffentliche Pfandbriefe cover payments outstanding by at least 90 days:

	Total value of payments outstanding by at least 90 days [1]				
(in € million)	Country	Regional authority	Local authority	Other debtors	of which: by ECA guarantees
Germany	50,8	–	–	–	50,8
	(31,7)	(–)	(–)	(–)	(31,7)
Switzerland	–	–	–	3,8	3,8
	(–)	(–)	(–)	(0,5)	(0,5)
Receivables by country	**50,8**	**–**	**–**	**3,8**	**54,6**
total	**(31,7)**	**(–)**	**(–)**	**(0,5)**	**(32,3)**

1) The above outstanding payments are not included in the reported cover pool.

	Total value of covering receivables, where the amount outstanding is at least 5 % of the covering receivable			
(in € million)	Country	Regional authority	Local authority	Other debtors
Germany	55,2	–	–	–
	(75,7)	(–)	(–)	(–)
Switzerland	–	–	–	2,6
	(–)	(–)	(–)	(3,1)
Receivables by country	**55,2**	**–**	**–**	**2,6**
total	**(75,7)**	**(–)**	**(–)**	**(3,1)**

The total value of **Schiffspfandbriefe** outstanding and the cover assets used for this are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values [1] + 250 bp	Risk-adjusted present values [1] - 250 bp	Risk-adjusted present values [1] Currency stress
Ship mortgage bonds					
Total ship mortgage bonds outstanding	80,0 (80,0)	80,8 (81,2)	78,7 (77,1)	80,6 (81,3)	78,7 (81,2)
Total collateral pool	297,8 (220,8)	330,8 (246,1)	327,3 (242,8)	332,8 (247,7)	274,5 (207,2)
Over-collateralisation	**217,8** (140,8)	**250,1** (164,9)	**248,6** (165,7)	**252,1** (166,4)	**195,9** (126,1)
Over-collateralisation in %	272,2 (176,0)	309,6 (203,2)	316,1 (214,8)	312,7 (204,8)	249,0 (155,3)
Net present value per foreign currency item					
USD	– (–)	– (–)	– (–)	– (–)	316,3 (231,2)

1) Static approach in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for Schiffspfandbriefe in accordance with § 28 paras. 1 No 4, 5 and 6:

(in € million)	Balancing receivables in accordance with § 26 (1) no. 2 PfandBG	Loans and advances to banks in accordance with § 26 (1) no. 3 PfandBG	Loans and advances to banks in accordance with § 26 (1) no. 3 PfandBG of which: covered debt securities [1]	Loans and advances to the public sector in accordance with § 26 (1) no. 4 PfandBG	Total
Germany	– (–)	– (–)	– (–)	6,0 (6,0)	6,0 (6,0)

1) in accordance with Article 129 of Regulation (EU) no. 575/2013

Key figures for Schiffspfandbriefe and respective cover assets:

(in € million)	31 Dec. 2016	31 Dec. 2015
Schiffspfandbriefe outstanding	**80,0**	**80,0**
Share of fixed-interest Schiffspfandbriefe in %	62,50	62,50
Share of derivatives	–	–
Cover pool	**297,8**	**220,8**
Share of fixed-interest cover assets in %	2,01	2,72
Share of derivatives	–	–
Total value of receivables that exceed the limits of § 26 para. 1 no. 3	–	–
Total value of receivables that exceed the limits of § 26 para. 1 no. 4	–	–

Maturity structure of Schiffspfandbriefe and fixed-interest periods of cover assets:

(in € million)	Schiffspfandbriefe outstanding 31 Dec. 2016	Cover pool 31 Dec. 2016	Schiffspfandbriefe outstanding 31 Dec. 2015	Cover pool 31 Dec. 2015
Less than 6 months	-	19,6	-	18,1
More than 6 but less than 12 months	50,0	19,0	-	17,7
More than 12 but less than 18 months	-	18,9	-	14,1
More than 18 months but less than 2 years	30,0	32,1	50,0	11,1
More than 2 but less than 3 years	-	45,9	30,0	36,7
More than 3 but less than 4 years	-	30,9	-	31,9
More than 4 but less than 5 years	-	56,1	-	16,9
More than 5 but less than 10 years	-	70,2	-	71,0
More than 10 years	-	5,1	-	3,3
Key figures total	**80,0**	**297,8**	**80,0**	**220,8**

Breakdown of cover assets for Schiffspfandbriefe by size category:

(in € million)	31 Dec. 2016	31 Dec. 2015
Less than € 500 thousand	0,4	0,4
More than € 500 thousand but less than € 5 million	47,1	27,1
More than € 5 million	244,3	187,2
Size categories total	**291,8**	**214,7**

Breakdown of cover assets for Schiffspfandbriefe by country as well as international maritime and domestic ships:

(in € million)	Maritime ships	Domestic ships	Total
Germany	152,1 (142,2)	– (–)	152,1 (142,2)
UK	34,6 (–)	– (–)	34,6 (–)
Croatia	27,4 (–)	– (–)	27,4 (–)
Liberia	9,0 (–)	– (–)	9,0 (–)
Malta	16,2 (30,0)	– (–)	16,2 (30,0)
Marshall Islands	33,2 (22,5)	– (–)	33,2 (22,5)
Cyprus	19,2 (20,0)	– (–)	19,2 (20,0)
Receivables by country total	**291,8** **(214,8)**	**–** **(–)**	**291,8** **(214,8)**

Total amount of payments for Schiffspfandbriefe outstanding by at least 90 days:

(in € million)	Total value of payments outstanding by at least 90 days [1]	Total value of covering receivables, where the amount outstanding is at least 5 % of the covering receivable
Receivables	0,0	–
	(0,2)	(–)

1) The above outstanding payments are not included in the reported cover pool.

There were no cases of forced sale, forced receivership or takeovers of ships or ships under construction to prevent losses. The total arrears on interest to be paid by loan debtors is € 75,000 (€ 0) for ocean-going ships and € 0 (€ 0) for inland ships.

The total value of **Flugzeugpfandbriefe** outstanding and respective cover assets are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values [1] + 250 bp	Risk-adjusted present values [1] - 250 bp	Risk-adjusted present values [1] Currency stress
Flugzeugpfandbriefe					
Total Flugzeugpfandbriefe	1 006,0	1 033,3	999,8	1 031,3	999,8
outstanding	(1 006,0)	(1 042,8)	(985,2)	(1 045,2)	(1 042,8)
Total cover pool	1 478,5	1 589,7	1 522,9	1 632,8	1 342,6
	(1 272,5)	(1 381,1)	(1 327,8)	(1 416,7)	(1 176,7)
Over-collateralisation	**472,5**	**556,4**	**523,1**	**601,5**	**342,8**
	(266,5)	(338,3)	(342,6)	(371,6)	(133,9)
Over-collateralisation in %	47,0	53,8	52,3	58,3	34,3
	(26,5)	(32,4)	(34,8)	(35,5)	(12,8)
Net present value per foreign currency item					
GBP	–	–	–	–	21,9
	(–)	(–)	(–)	(–)	(65,5)
USD	–	–	–	–	1 069,6
	(–)	(–)	(–)	(–)	(1 139,3)

1) Static approach in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for Flugzeugpfandbriefe in accordance with § 28 paras. 1 No 4, 5 and 6:

(in € million)	Balancing receivables in accordance with § 26f (1) no. 2 PfandBG	Loans and advances to banks in accordance with § 26f (1) no. 3 PfandBG	Loans and advances to banks in accordance with § 26f (1) no. 3 PfandBG of which: covered debt securities [1]	Loans and advances to the public sector in accordance with § 26f (1) no. 4 PfandBG	Total
Germany	–	–	–	235,6	235,6
	(–)	(–)	(–)	(35,0)	(35,0)

1) in accordance with Article 129 of Regulation (EU) no. 575/2013

Key figures for Flugzeugpfandbriefe and respective cover assets:

(in € million)	31 Dec. 2016	31 Dec. 2015
Flugzeugpfandbriefe outstanding	**1 006,0**	**1 006,0**
Share of fixed-interest Pfandbriefe in %	100,00	100,00
Share of derivatives	–	–
Cover pool	**1 478,5**	**1 272,5**
Share of fixed-interest cover assets in %	61,53	60,50
Share of derivatives	–	–
Total value of receivables that exceed the limits of § 26f para. 1 no. 3	–	–
Total value of receivables that exceed the limits of § 26f para. 1 no. 4	–	–

Maturity structure of Flugzeugpfandbriefe and fixed-interest periods of cover assets:

(in € million)	Flugzeug-pfandbriefe outstanding 31 Dec 2016	Cover pool 31 Dec 2016	Flugzeug-pfandbriefe outstanding 31 Dec 2015	Cover pool 31 Dec 2015
Less than 6 months	–	332,7	–	148,2
More than 6 but less than 12 months	501,0	102,4	–	96,2
More than 12 but less than 18 months	–	92,1	–	126,1
More than 18 months but less than 2 years	–	181,7	501,0	93,8
More than 2 but less than 3 years	505,0	136,3	–	299,5
More than 3 but less than 4 years	–	291,3	505,0	125,9
More than 4 but less than 5 years	–	65,4	–	188,8
More than 5 but less than 10 years	–	239,0	–	192,6
More than 10 years	–	37,6	–	1,3
Key figures total	**1 006,0**	**1 478,5**	**1 006,0**	**1 272,5**

Breakdown of cover assets for Flugzeugpfandbriefe by size category:

(in € million)	31 Dec. 2016	31 Dec. 2015
Less than € 500 thousand	0,9	1,6
More than € 500 thousand but less than € 5 million	72,1	75,6
More than € 5 million	1 169,9	1 160,3
Size categories total	**1 242,9**	**1 237,5**

Breakdown of cover assets for Flugzeugpfandbriefe by country and type of aircraft:

(in Mio €)	Business Jet	Freighter	Narrow body	Regional Jet	Turbo-prop	Ultra-large	Wide-body	Total
Germany	–	128,6	56,2	–	20,7	–	–	205,5
	(–)	(134,1)	(110,3)	(–)	(22,9)	(–)	(–)	(267,3)
Finland	–	–	–	–	–	–	42,0	42,0
	(–)	(–)	(–)	(–)	(–)	(–)	(44,9)	(44,9)
France	–	–	15,9	–	–	72,8	37,8	126,4
	(–)	(–)	(16,4)	(–)	(–)	(46,9)	(71,2)	(134,5)
UK	–	–	32,8	9,2	40,8	77,7	–	160,6
	(–)	(–)	(72,3)	(11,6)	(38,3)	(65,7)	(–)	(187,9)
Ireland	–	–	57,7	–	–	–	45,3	103,0
	(–)	(–)	(70,4)	(–)	(–)	(–)	(48,5)	(118,8)
Luxembourg	–	57,1	–	–	–	–	–	57,1
	(–)	(11,8)	(–)	(–)	(–)	(–)	(–)	(11,8)
Norway	–	–	6,4	–	–	–	–	6,4
	(–)	(–)	(6,9)	(–)	(–)	(–)	(–)	(6,9)
Switzerland	–	–	33,8	–	–	–	–	33,8
	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)
USA	–	111,3	366,6	30,3	–	–	–	508,3
	(–)	(–)	(357,9)	(87,2)	(–)	(–)	(20,3)	(465,5)
"Receivables	**–**	**297,0**	**569,3**	**39,6**	**61,5**	**150,4**	**125,0**	**1 242,9**
by country "	**(–)**	**(145,9)**	**(634,2)**	**(98,8)**	**(61,2)**	**(112,6)**	**(184,8)**	**(1 237,5)**

Total amount of payments for Flugzeugpfandbriefe outstanding by at least 90 days:

(in € million)	Total value of payments outstanding by at least 90 days	Total value of covering receiva-bles, where the amount outstanding is at least 5 % of the covering receivable
Receivables	–	–
	(–)	(–)

There were no cases of forced sale, forced receivership or takeovers of aircraft or aircraft under construction to prevent losses. The total arrears on interest to be paid by loan debtors is € 33,000 (€ 0 thousand).

11. List of equity holdings

The list below contains equity holdings in accordance with § 285 no. 11 and 11a of the German Commercial Code and investments pursuant to § 340a paras. 4 no. 2 of the German Commercial Code. Included are all companies in which there is an equity holding of 20 per cent or more, unless they are of minor significance for the presentation of the assets, financial and earnings position, and investments in large corporations which exceed five per cent of the voting rights.

No.	Name / registered office	Share of capital held (in %)	Equity (in € 000)	Profit /Loss (in € 000)
Affiliated Companies				
1	BGG Bremen GmbH & Co. KG, Bremen [1) 8)]	100,00	25 914	193
2	BGG Marktcarré GmbH & Co. KG, Bremen [1) 8) 10)]	100,00	10 484	54
3	BGG Oldenburg GmbH & Co. KG, Bremen [1) 8)]	100,00	9 750	687
4	BLB Immobilien GmbH, Bremen [1) 8)]	100,00	17 180	0
5	BLB Leasing GmbH, Oldenburg [1) 8) 11)]	100,00	511	0
6	BLBI Beteiligungs-GmbH, Bremen [1) 6)]	100,00	81	8
7	Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [3)]	100,00	9 061	0
8	Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig [2) 6)]	66,67	1 569	– 16
9	Bremer Landesbank Kreditanstalt Oldenburg -Girozentrale- , Bremen [8) 11)]	54,83	505 591	– 837 204
10	Bremische Grundstücks-GmbH, Bremen [1) 8)]	100,00	49 707	0
11	Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [1) 8)]	100,00	1 858	889
12	Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen [1) 8)]	100,00	803	65
13	City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover [6)]	100,00	481	8
14	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover [3) 8) 11)]	100,00	913 172	0
15	FL FINANZ-LEASING GmbH, Wiesbaden [2) 6) 9)]	58,00	– 272	– 140
16	Galimondo S.a.r.l., Luxemburg-Findel, Luxembourg [1) 6)]	100,00	56	25
17	GBH Beteiligungs-GmbH, Bremen [1) 10) 12)]	100,00	-	-
18	KreditServices Nord GmbH, Braunschweig [3)]	100,00	581	0
19	LBT Holding Corporation Inc., Wilmington, USA [6)]	100,00	7 577	– 1 846
20	MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach i.Isartal [6)]	77,81	179	41
21	NBN Grundstücks- und Verwaltungs-GmbH, Hanover [1) 6)]	100,00	1 717	1 048
22	NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [2) 6)]	90,00	2 566	– 14
23	Nieba GmbH, Hannover [3) 8)]	100,00	162 700	0
24	NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover [6)]	100,00	35	– 1
25	NORD/FM Norddeutsche Facility Management GmbH, Hanover [3)]	100,00	636	0
26	NORD/LB Asset Management AG, Hanover [1) 8) 11)]	100,00	8 218	1 904
27	NORD/LB Asset Management Holding GmbH, Hanover [8)]	100,00	13 516	130
28	NORD/LB G-MTN S.A., Luxemburg-Findel, Luxembourg [5)]	100,00	31	0
29	NORD/LB Informationstechnologie GmbH, Hanover [3)]	100,00	25	0
30	NORD/LB Luxembourg S.A. Covered Bond Bank, Luxemburg-Findel, Luxembourg [8) 11)]	100,00	673 172	31 224

No.	Name / registered office	Share of capital held (in %)	Equity (in € 000)	Profit /Loss (in € 000)
31	NORD/LB Project Holding Ltd., London, Großbritannien [6)]	100,00	709	296
32	NORD/LB RP Investments LLC, Wilmington, USA [6)]	100,00	8 730	196
33	NORD/LB Vermögensmanagement Luxembourg S.A., Luxemburg-Findel, Luxembourg [4) 6)]	100,00	4 124	1 124
34	Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [6)]	100,00	15 290	– 1
35	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen [1) 8)]	100,00	2 253	2 154
36	NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen [1) 8)]	100,00	1 117	467
37	PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover [6)]	100,00	41	1
38	Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [1) 3)]	98,00	3 088	0
39	Ricklinger Kreisel Beteiligungs GmbH, Hanover [1) 6)]	100,00	47	18
40	SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [6)]	100,00	951	86
41	Skandifinanz AG, Zürich, Schweiz	100,00	12 478	0
42	Themis 1 Inc., Wilmington, USA [6)]	100,00	627	– 30
43	TLN-Beteiligung Anstalt des öffentlichen Rechts & Co. KG, Hanover [6) 8)]	100,00	98 458	8 647
44	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [1) 6)]	100,00	171 127	147 872
45	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [6)]	72,70	26	742
46	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Tiefgarage Stade Vermietungs KG, Hanover [6)]	90,00	6	– 2
47	Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [1) 3) 6)]	100,00	1 278	0

No.	Name / registered office	Share of capital held (in %)	Equity (in € 000)	Profit /Loss (in € 000)
Other companies of min. 20 per cent share				
1	Adler Funding LLC, Dover, USA [1) 6)]	21,88	10 047	– 415
2	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede [1) 6)]	32,26	30 923	1 550
3	Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig [1) 6)]	50,00	38	2
4	BREBAU GmbH, Bremen [1) 6) 11)]	48,84	74 241	8 429
5	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [1) 6)]	49,00	1 145	1 142
6	Bremische Wohnungsbaubeteiligungsgesellschaft mbH, Bremen [1) 7)]	50,00	85 494	2 389
7	Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [6)]	50,00	3 500	433
8	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [6) 11)]	20,89	16 150	194
9	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [6) 11)]	20,44	14 949	93
10	caplantic GmbH, Hanover [6)]	45,00	2 067	991
11	FinTech Fonds GmbH & Co. KG, Köln [6) 9)]	40,00	– 115	– 116
12	Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [1) 6)]	20,46	12 011	571
13	GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg [1) 6)]	22,22	92 711	4 666
14	Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. - Objekt Zietenterrassen - KG, Göttingen [2) 6)]	52,56	6 927	232
15	INI International Neuroscience Institute Hannover GmbH, Hanover [1) 6) 9)]	22,70	– 8 641	4 870
16	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover [6) 11)]	44,00	297 458	0
17	LINOVO Productions GmbH & Co. KG, Pöcking [9)]	45,17	– 47 138	1 050
18	LUNI Productions GmbH & Co. KG, Pöcking [6) 9)]	24,29	– 115 829	– 110
19	Medicis Nexus GmbH & Co. KG, Icking [5)]	66,01	7 511	– 913
20	Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [6)]	26,00	13 485	880
21	Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [6)]	39,82	12 236	759
22	NBV Beteiligungs-GmbH, Hanover [2) 6)]	42,66	15 084	2 113
23	NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [6)]	28,66	1 135	814
24	Öffentliche Lebensversicherung Braunschweig, Braunschweig [6)]	75,00	40 327	1 328
25	Öffentliche Sachversicherung Braunschweig, Braunschweig [6)]	75,00	273 397	5 503
26	Öffentliche Versicherung Bremen, Bremen [1) 6)]	20,00	5 907	857
27	SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg [4) 6)]	56,61	13 960	492
28	Toto-Lotto Niedersachsen GmbH, Hanover [6) 8) 11)]	49,85	28 557	18 331
29	Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [1) 6)]	21,72	19 403	314

No.	Name / registered office			
NORD/LB is a partner with unlimited liability in the following company (§ 285 no. 11a HGB)				
	GLB GmbH & Co. OHG, Frankfurt am Main			
Investments in terms of § 340a para. 4 no. 2 of the German Commercial Code, unless reported as an affiliated company or other shareholding				
1	HCI Hammonia Shipping AG, Hamburg			
2	Niedersächsische Bürgschaftsbank (NBB) Gesellschaft mit beschränkter Haftung, Hanover			

1) Held indirectly.
2) Including shares held indirectly.
3) A profit/loss transfer agreement exists with company.
4) Intended for sale.
5) Only data as at 31 December 2014 is available.
6) Only data as at 31.12.15 is available.
7) Only data as at 31 December 2016 is available.
8) Provisional data is available as at 31 December 2016.
9) No overindebtedness.
10) Newly incorporated in 2016.
11) Figures also in accordance with § 340a para. 4 no. 2 of the German Commercial Code (banks are interpreted as large corporations).
12) Annual financial statements for the company are not available.

Hannover / Braunschweig / Magdeburg, 23 March 2017

Norddeutsche Landesbank Girozentrale

Managing Board

Bürkle	Brouzi	Dieng
Dr. Holm	Schulz	Tallner

Reports

Responsibility Statement

We declare that to the best of our knowledge and in accordance with applicable accounting principles, the annual consolidated financial statements provide a true and fair view of the Norddeutsche Landesbank Girozentrale's net assets, financial position and results of operations and that the Landesbank management report presents a true and fair view of the development of business, including the operating results and the position of the Landesbank, and also describes the significant opportunities and risks relating to the probable development of the Landesbank.

Hannover / Braunschweig / Magdeburg, 23 March 2017

Norddeutsche Landesbank Girozentrale

Managing Board

Bürkle	Brouzi	Dieng
Dr. Holm	Schulz	Tallner

Auditor's Opinion

We have audited the annual financial statements, consisting of the balance sheet, income statement and notes, taking into account the accounting and the management report of Norddeutsche Landesbank - Girozentrale -, Hanover, Braunschweig and Magdeburg (NORD/LB) for the reporting year from 1 January to 31 December 2016. Under German commercial law, NORD/LB's Managing Board is responsible for the accounting and preparing the annual financial statements and management report. Our responsibility is to express an opinion on the annual financial statements including the accounting and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). These standards require that we plan and conduct the audit such that misstatements materially affecting the presentation of the assets, financial position and profit or loss in the annual financial statements and in the management report, taking into account generally accepted accounting principles, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of NORD/LB and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, annual financial statements and management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal regulations and taking into account generally accepted accounting principles give a true and fair view of the assets, financial position and profit or loss of NORD/LB in accordance with these requirements. The management report is consistent with the annual financial statements and overall provides an accurate view of the position of NORD/LB and accurately presents the opportunities and risks concerning future development.

Hanover, 27 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer

Leitz
Wirtschaftsprüfer

Report of the Supervisory Board

The Managing Board of the Bank regularly informed the Supervisory Board and the committees set up by the Supervisory Board on business developments and on the position of NORD/LB AöR and the Group. The Supervisory Board and its committees adopted resolutions on business matters presented to them and on other issues requiring decisions by these executive bodies in accordance with the statutes and regulations relating to these articles.

The Supervisory Board also looked closely at NORD/LB AöR's business and risk policy. Fundamental issues concerning business policy and operational areas were discussed in detail at several meetings. The Supervisory Board also looked at the S-Finanzgruppe security system and resolved to acquire all shares of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale.

The annual financial statements and the consolidated financial statements of NORD/LB for the financial year 2016 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, which issued an unqualified audit opinion. The auditors also took part in the meeting of the Supervisory Board on 3 April 2017 to discuss the annual financial statements and reported on the findings of their audit. The Supervisory Board has approved the results of the audit carried out by the auditors; the results of a conclusive examination carried out by the Supervisory Board did not give any cause for objections. In its meeting on 3 April 2017, the Supervisory Board adopted NORD/LB AöR's annual financial statements for 2016 and approved the consolidated financial statements for 2016. The Supervisory Board also recommended to the Owners' Meeting the ratification of the actions of the Managing Board.

The following left the Supervisory Board:

on 25 April 2016	Jens Bullerjahn
on 31 May 2016	Ilse Thonagel
	Frank Klingebiel
on 30 September 2016	Ralf Dörries

The following were appointed to the Supervisory Board:

on 1 January 2016	Ludwig Momann
on 25 April 2016	André Schröder
on 1 June 2016	Stefanie Rieke
	Ulrich Markurth
on 1 October 2016	Frank Oppermann

The Supervisory Board would like to thank the Managing Board for its cooperation based on mutual trust, and the bank's employees for the work they carried out in 2016.

Hannover / Braunschweig / Magdeburg
April 2017

Peter-Jürgen Schneider
Minister of Finance
State of Lower Saxony

Report of the Owners' Meeting

In the year under review the Owners' Meeting performed the duties assigned to it by the state treaty and by the statutes. The Owners' Meeting ratified the actions of the Managing Board and the Supervisory Board.

Furthermore, the Owners' Meeting decided on capital measures in its meetings in 2016 and consulted on the acquisition of all shares of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale.

The following left the Owners' Meeting:

on 31 May 2016	Rolf Christiansen

The following were appointed to the Owners' Meeting:

on 1 January 2016	Silke Korthals
on 1 January 2017	Rolf Christiansen

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the Bank's employees for their work.

Hannover / Braunschweig / Magdeburg
April 2017

Thomas Mang
President
Sparkassenverband Niedersachsen

NORD/LB
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