Die norddeutsche Art.

# Navigating NORTH

Annual Report 2010

Finanzgruppe

# These are our figures

| | 1 Jan.–31 Dec. 2010 | 1 Jan.–31 Dec. 2009 | Change (in %) |
|---|---|---|---|
| **Figures in € million** | | | |
| Net interest income | 1 650 | 1 380 | 20 |
| Loan loss provisions | – 657 | – 1 045 | – 37 |
| Net commission income | 210 | 177 | 19 |
| Profit/loss from financial instruments at fair value through profit or loss including hedge accounting | 101 | 582 | – 83 |
| Other operating profit/loss | 48 | 144 | – 67 |
| Administrative expenses | 1 070 | 986 | 9 |
| Profit/loss from financial assets | 82 | – 140 | > 100 |
| Profit/loss from investments accounted for using the equity method | – 128 | – 200 | 36 |
| Earnings before taxes | 236 | – 88 | > 100 |
| Income taxes | – | 50 | – 100 |
| Consolidated profit | 236 | – 138 | > 100 |
| **Key figures in %** | | | |
| Cost-Income-Ratio (CIR) | 56.9 | 47.3 | |
| Return on Equity (RoE) | 3.8 | – 2.6 | |

| | 31 Dec. 2010 | 31 Dec. 2009 | Change (in %) |
|---|---|---|---|
| **Balance figures in € million** | | | |
| Total assets | 228 586 | 238 600 | – 4 |
| Customer deposits | 60 742 | 61 303 | – 1 |
| Customer loans | 113 605 | 112 083 | 1 |
| Equity | 5 890 | 5 798 | 2 |
| **Regulatory key figures (acc. to BIZ)** | | | |
| Core capital in € million | 7 945 | 8 051 | – 1 |
| Regulatory equity in € million | 9 605 | 8 976 | 7 |
| Risk-weighted assets in € million | 86 850 | 92 575 | – 6 |
| BIZ total capital ratio in % | 11.1 | 9.7 | 14 |
| BIZ core capital ratio in % | 9.1 | 8.7 | 5 |

NORD/LB ratings (long-term / short-term / individual)
Moody's Aa2/P-1/C– Fitch Ratings A/F1/C/D

NORD/LB
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# Our roles and responsibilities

**Commercial bank**

As a commercial bank with a clear focus on our core region of North Germany, we offer our private, corporate and institutional customers, as well as customers from the public sector, an extensive range of financial services.

In the area of special financing, we finance international projects in selected locations in the fields of energy, infrastructure, manufactoring industry and commercial real estates, whereas we are active on a global scale in ship and aircraft financing. We are represented worldwide by our branches and representative offices in all of the major trading centres, such as London, Moscow, Mumbai, New York, Beijing, Shanghai and Singapore.

**Landesbank**

As a Landesbank (federal state bank) we support the states of Lower Saxony and Saxony-Anhalt, which hold legal and economic responsibility for the bank, in their banking business and in their efforts to promote economic development in the region. Within the context of our holdings in the Landesförderinstitut (State Institute for the Advancement of the Economy) of Mecklenburg-Western Pomerania and in the investment bank of Saxony-Anhalt, we also provide financial advice to their respective federal state governments.

**Central savings bank**

As a central savings bank, we are partners with the savings banks in the federal states of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania. In addition, we also offer individual services to other savings banks, e.g. to savings banks in Schleswig-Holstein. In connection with the savings banks, we offer optimal solutions to the customers of the S-financial group (savings banks financial group) with the support of the national and international network of NORD/LB Group. Furthermore, as a giro centre we can provide all of the services that are important to the savings banks we look after.

**Parent company**

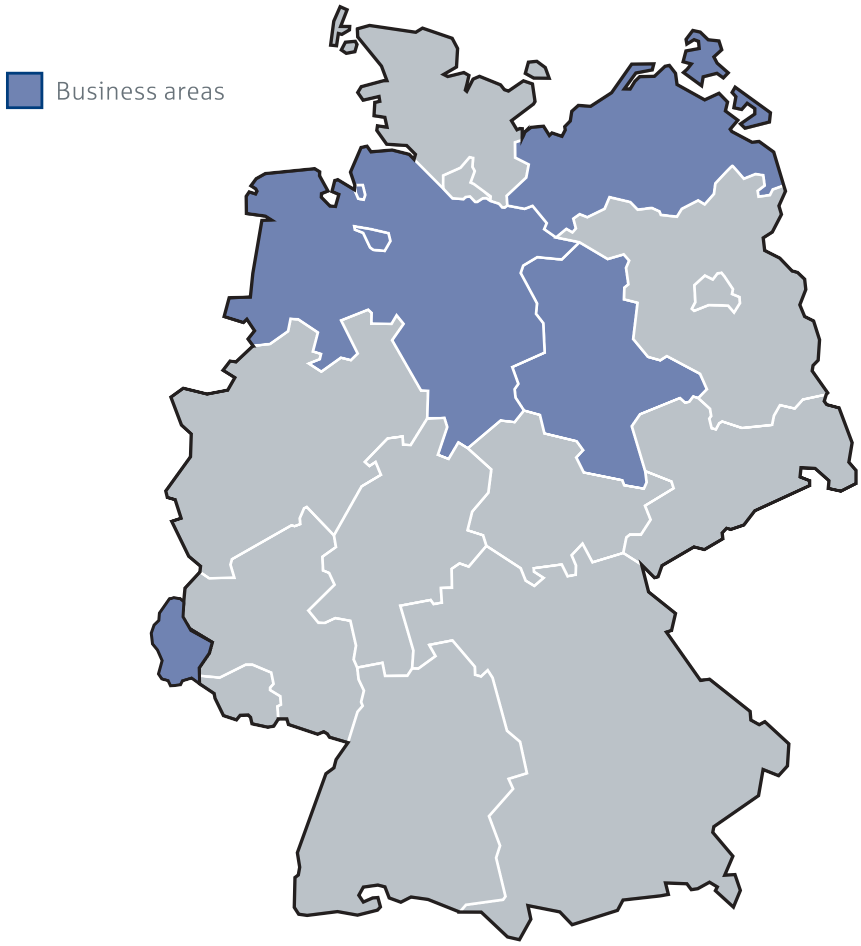
As the parent company of the NORD/LB Group, we steer the entire group in accordance with our common business strategies and consolidate service functions in the areas of financial markets, finances, risk management and organisation/IT. In so doing, we take care of reducing redundancies and strengthening our customer areas.

# Our subsidiaries and holdings

NORD/LB's strategic subsidiaries and holdings are a material part of our business model. All business segments are managed in close cooperation throughout the Group.

# Our business areas

We are an universal bank with a strong focus on our customers. Our business activities are focused on these regions where the headquarters of the bank and its subsidiaries are: in Northern Germany. Luxembourg has an outstanding role in the bank's funding strategy.



NORD/LB

Die norddeutsche Art.

# Navigating NORTH

Annual Report 2010

Finanzgruppe

# Contents


**page**

**3 Foreword**

**4 History 2010**

**6 The mainstays of NORD/LB**

**8 This is the NORD/LB Group**

10 Private and Commercial Customers

14 Savings Bank Network

18 Financial Markets / Institutional Customers

22 Corporate Customers

26 Energy and Infrastructure Customers

30 Ship and Aircraft Customers

34 Real Estate Customers

**38 Navigation ∞**
**Our 2010 Sustainability profile**

40 Sustainable Management

44 Living our values • Acting sustainably •
Shaping the future

**74 Explanation of the Corporate Governance Code**

**79 Group Management Report**

**167 Consolidated Financial Statements**

**285 Reports**

**289 Data / Glossary**

Erweiterter Konzernvorstand (extended Group Managing Board) left to right:
Dr. Johannes-Jörg Riegler, Harry Rosenbaum, Ulrike Brouzi (Chief representative for NORD/LB's capital market business), Christoph Schulz, Dr. Gunter Dunkel, Dr. Stephan-Andreas Kaulvers, Dr. Jürgen Allerkamp, Dr. Hinrich Holm, Eckhard Forst

Dear clients, partners and friends,

In this Annual Report, we will sum up what we have achieved during the 2010 financial year – a year in which the shockwaves of the global economic and financial crisis could still be felt, but which was also characterised by the first signs of recovery in a number of markets. For a bank such as NORD/LB, 2010 was a year that provided us with much greater scope for innovation, which in turn caused our profits to rise.

As a result of the combined commitment and professional skills of some 6 000 employees within the NORD/LB Group, our efforts to provide the very best service to our customers and our passion for our business, NORD/LB successfully remained on course throughout the entire duration of the economic crisis. We did not need to avail ourselves of any capital assistance and did not need to shelter ourselves from risk under the skirts of another organisation. Our customer-oriented business model and our conservative risk policy proved their worth, even in such exceptional circumstances. The fact that this is right is due in no small measure to the mainstay provided by our guarantors, our association with the savings banks and the fact that our feet are still firmly planted in the geographical area of Northern Germany.

2010 was a good year for the German economy. As a provider of finance and advice, we were only too pleased to share in the optimism of our customers. In terms of our business operations, we made good progress. Our interest and commission income increased by a considerable margin, whilst we were also able to achieve a significant reduction in our risk provisions.

It is not a case of sitting back and relaxing and that is not what we wish to do. In the aftermath of the financial crisis, the banking supervisory authorities and the capital markets are now imposing significantly more stringent requirements upon the banks, one example of this being Basel III, and it is in this area that we will encounter one of the challenges that we will need to face in the immediate term, as well as during the years to come. One of the key aspects in this regard will be to strengthen our "core capital". This will be achieved by means of capital conversion and profit retention, supported by responsible control of our risk assets, by limiting our expenditure and further developing our business model with the aim of further reinforcing our corporate profitability. Together with our guarantors, we will face up to these challenges, without in any way limiting the level of service we provide, or our ability to serve the needs of our customers.

Let us now roll up our sleeves and set our sails as we, our customers, owners and business partners steer towards a successful 2011!

Yours sincerely,
Dr. Gunter Dunkel

# Timeline 2010

January February March April May June

## 11 January 2010
**Dr. Hinrich Holm joins the Managing Board of NORD/LB**

Dr. Hinrich Holm joined the Management Board of NORD/LB Norddeutsche Landesbank on 1 February 2010. He assumed responsibility for a number of areas of NORD/LB, including Finance, Organisation / IT and Corporate Services and will also be responsible for our business territory of Saxony-Anhalt.

## 02 February 2010
**NORD/LB divests itself of shares in Berenberg Bank**

NORD/LB intends to divest itself of its 25-percent shareholding in Berenberg Bank. The shares will be taken over by the personally-liable shareholders behind the private bank, as well as by the Berenberg family itself. "NORD/LB and Berenberg have formed a partnership since 1973," explained Dr. Gunter Dunkel, the Chairman of the Management Board of NORD/LB. "For NORD/LB, Berenberg always formed a very worthwhile financial investment. Nevertheless, we were happy to agree to Berenberg's request to resume ownership of our shareholding. This transaction underlines NORD/LB's strategy to concentrate on its core business."

## 27 April 2010
**AIRCRAFT AWARD**

At the end of April, Airfinance Journal awarded the "Deal of the Year Award for the Middle East" to NORD/LB, due to the fact that it financed two Airbus A380s. The two jumbo jets involved have been leased by Emirates Airline.

## 12 May 2010
**Yet another award for its activities as an account manager for foundations – NORD/LB and Landessparkasse once again top the list – quality of the highest level**

In the "Fuchsbriefe" test looking into asset management for foundations, the Private Banking section of NORD/LB and the Braunschweigische Landessparkasse once again achieved excellent results, and their quality was recognised as being of the very highest level. The "Fuchsbriefe" are the leading benchmarking tool in the private banking domain. And they assessed the quality of the advice and performance offered by NORD/LB and the Braunschweigische Landessparkasse over the years at 90.6 out of a possible 100 points. This means that the two banks comfortably achieved second place in the best performing banks of all-time, with Sal. Oppenheim having taken first place.

## 18 May 2010
**NORD/LB finances a maritime trading estate in Rostock**

NORD/LB is providing financing to the tune of 50 million euros for the "Maritime Trading Estate 3" project in the port of Rostock. The relevant loan agreement with the port development company Hafen-Entwicklungsgesellschaft Rostock GmbH (HERO) was signed on 18 May 2010. As part of that project, a total of just under 70 million euros will be invested in the expansion of the infrastructure in the port of Rostock between now and 2012.

## 11 June 2010
**NORD/LB commended as a family-friendly employer**

The NORD/LB and the Braunschweigische Landessparkasse were received an award for being an employer with a family-conscious personnel policy. At a ceremony held in Berlin, the bank received a certificate from the "audit berufundfamilie", which is an initiative of the not-for-profit Hertie Foundation.

Family-friendly conditions of employment and a family-conscious corporate culture provide NORD/LB's employees with greater room to manoeuvre and the ability to reconcile work and family life. The facilities introduced by NORD/LB during the past few years include:

- Individually adjustable forms of part-time working
- The provision of home-working facilities
- Early-years childcare for employees' children
- Emergency childcare

## 23 June 2010
**NORD/LB issues subordinated bonds worth 400 million euros**

NORD/LB has issued a ten-year subordinated bond to the value of 400 million euros. Some of the purchasers of the issue are located in Germany, whilst a significant proportion of them are located in other European countries. This lower-tier 2-issue pays interest at the rate of 6.00 percent – 310 basis points above the 10-year benchmark rate for swaps. This security is listed on the Luxembourg stock exchange.

## 24 June 2010
**Ulrike Brouzi appointed chief representative of NORD/LB**

The Managing Board assigned responsibility for NORD/LB's capital market business to Ulrike Brouzi, formerly head of the bank's Risk Controlling division.

July August September October November December

## 29 June 2010

**Investment in education: School renovations in Magdeburg**

**NORD/LB and savings banks finance project to the tune of 21 million euros**

Approval for school package no. 4 has now been given. NORD/LB Landesbank for Saxony-Anhalt is providing financing for the renovation and operation of five schools in Magdeburg. The project, which takes the form of a public-private partnership (PPP), is worth a total of 21 million euros. Of that amount, the Stadtsparkasse Magdeburg and the Harzsparkasse will provide five million euros apiece.

## 21 July 2010

**NORD/LB successfully issues energy company bonds**

**Thüga and Stadtwerke Hannover generate funding totalling 400 million euros**

NORD/LB has issued a debenture loan for Thüga Holding GmbH & Co KGaA and Stadtwerke Hannover AG. Together, these two issues were worth a total volume of 420 million euros. Thüga, which forms the very heart of Germany's largest municipal network of local and regional energy suppliers, celebrated its successful debut on the capital markets with the issuing of this debenture loan: Ultimately, due to high demand amongst investors, the issue was oversubscribed by more than three times, such that the issue volume, originally set at 200 million euros, was increased to 300 million euros.

## 23 July 2010

**NORD/LB reports the outcome of the Europe-wide banking stress test**

NORD/LB has passed the EU-wide banking stress test. This showed that the capitalisation of the Group remained sufficient, even in the event of the market distortion scenarios envisaged. The stress-related hypothetical reduction in the core capital quota remained within manageable limits and was in line with the bank's expectations.

## 28 October 2010

**NORD/LB parted company from the joint venture with Bank DnB NORD A/S**

NORD/LB sold its shares in Bank DnB NORD A/S to the Norwegian majority shareholder DnB Nor at a price of 160 million euros. DnB Nor bought out all of NORD/LB's 49 percent shareholding in the joint venture. As a result of the sale of those shares, NORD/LB released equity capital amounting to approximately 350 million euros, which until then had been tied down within the joint venture. By selling these shares, NORD/LB continued its charted course to focus upon its core business areas and to divest itself of shareholdings as it recently did in the case of the Berenberg Bank or BerlinHyp.

## 04 November 2010

**NORD/LB launches portal to seek new applicants**

With the launch of its on-line portal known as NORDPOOL, NORD/LB is charting a new route when it comes to attracting applicants for trainee positions with the bank. Partly as a result of the double cohort of school-leavers obtaining their Abitur (Advanced Level) diploma in 2011, the bank has increased the number of training positions by one third from 90 to 120 per year over the next two years. The purpose behind NORDPOOL is to recruit school pupils from the federal states of Lower Saxony and Saxony-Anhalt as additional candidates for positions at NORD/LB.

## 11 November 2010

**Regional banks initiate the largest-ever credit-pooling transaction within the Sparkassen-Finanzgruppe**

With the launch of the "Sparkassen-Kreditbasket VII", the Sparkassen-Finanzgruppe launched its largest-ever credit-pooling transaction, which totalled a record amount of 272.2 million euros. A total of 44 savings banks from all parts of Germany took part in this transaction. This artificial construction that was set out over a term of five years provides the participating savings banks with an opportunity to use hedging in order to protect themselves against unexpectedly high rates of default. NORD/LB also took part in the transaction as an "arranger".

## 17 December 2010

**NORD/LB receives an award for exemplary health management**

NORD/LB achieved a Corporate Health Award in December 2010. This award recognises the bank's exemplary and above-average commitment to the health of its employees. The selection process for the award involves an intensive, one-day on-site audit and NORD/LB went on to pass this with flying colours.

# The mainstays of NORD/LB

Lower Saxony, Mecklenburg-Western Pomerania, Saxony-Anhalt and Bremen:
Northern and North-Eastern Germany form the core area in which NORD/LB does business. This is where our roots lie and where we see our future. It is also a strong region, culturally, as well as economically. The mobility industry, the maritime industry, the food industry and the energy industry form the mainstays upon which both the success and the future of Northern Germany are based. These also form the areas of economic activity that we have placed at the centre of our business activities.

The fact that the first signs of a recovery were already visible meant that 2010 was a good year for Northern Germany and therefore also for NORD/LB and the area in which it does business. In Lower Saxony, the majority of industrial sectors performed better than they did in 2009 and some even achieved growth rates in double figures. The same was also true in the case of Saxony-Anhalt, Mecklenburg-Western Pomerania and Bremen, as they too witnessed an improvement in their economic performance.

As a region, Northern Germany is one of Europe's leaders in the mobility industry, thanks to the strength of the car industry and other specialisms in the realm of aerospace construction and maritime trade. Together, these characterise the economic structure of the region, which is dominated by the Volkswagen Group. Overall, around 110 000 people are employed in the construction of motor vehicles and motor vehicle components in Lower Saxony. This means that the automotive industry, as the largest employer in the manufacturing sector, is one of the region's driving forces with regard to value creation and employment. At the same time, Northern Germany is the region in which the country's civil aviation industry is located. The area also plays a prominent and leading role in areas such as manned space travel, space transport and satellite technology, both in a national as well as an international context.

A further element that characterises the structure of the region's economy is the maritime sector, which is made up of a number of different areas, such as the maritime shipping and harbour industries, shipbuilding, maritime engineering, together with the sectors of industry that form part of their supply chain. They too provide a significant boost in terms of value creation and employment, especially when we consider the positive outlook that is heralded by the current upturn in the global economy.

Whilst these sectors underwent severe fluctuations during the past few years as a consequence of the turbulence in the global economy, the food industry showed itself to be comparatively immune to changes within the economy. This is demonstrated by the fact that in Lower Saxony, the food industry is now the most important branch of industry, after the automotive industry, whilst in Saxony-Anhalt, the

**Mobility industry**
- Car industry
- Aviation industry
- Aerospace industry

**Food industry**
- Food processing
- Renewable energies

**Maritime Sector**
- Maritime shipping
- Harbour industries
- Shipbuilding
- Maritime engineering

**Energy industry**
- Energy supply
- Renewable energy sources

food industry is the second-largest, and in Mecklenburg-Western Pomerania the largest sector of industry overall. What is more, a large number of companies that make use of waste products from the food industry and as a source of regenerative energy have set up business there.

This means that they form part of the fourth important focus within the operating area of NORD/LB, namely the energy sector. At the present time, 79 percent of Germany's energy supplies are derived from coal, natural gas, crude oil and mineral oil. The proportion of nuclear energy is currently 11 percent and the proportion of energy derived from renewable sources is approximately 10 percent The visible change within the energy sector and the resulting shift in energy production in the direction of renewable energy sources is giving an important boost in terms of employment and economic development, especially in Northern Germany. As far as this particular development is concerned, Lower Saxony has an extra special role to play. Due to its geographical location and geological suitability, Lower Saxony has the potential to become Germany's leading "energy state" in the future, as it possesses enormous growth potential in the field of renewable energies.

Overall, the future for Northern and North-Eastern Germany is looking bright and as a firm supporter of the business sector, we will continue to do everything within our power to promote this development in all of our business activities, especially those that relate to the four mainstays that form NORD/LB's primary focus: The mobility industry, the maritime economy, the food industry and the energy industry.

# »This is the NORD/LB Group«

NORD/LB is a universal bank with a business model that unequivocally focuses upon the needs of its customers. That is why our aim is to establish long-term customer relationships that will form part of our core business activities, will fulfil all of our customers' needs and will lead to a fruitful collaboration for our customers and ourselves. Our aim is to provide our customers with a full range of services in their local area and to ensure that the support we provide is fully tailored to their needs and also enables them to achieve success on the international markets. For us, at NORD/LB, this means in essence that: Our business area is always wherever our customers are.

The core geographical area served by NORD/LB remains Northern and North Eastern Germany. These regions provide huge financial potential, both for our customers and therefore also for us. Sectors such as the renewable energies sector, the agriculture and food sectors, the car industry, including its many suppliers, in addition to the traditional sectors of economic activity such as the shipping and shipbuilding sectors are the ones that constitute the strength of this part of Germany. As a business with its roots in this area, we have a very precise knowledge of our customers' needs and requirements and also possess a high degree of long-term expertise with regard to the sectors located in this region and a good market position.

NORD/LB is able to provide for its customers' needs in a total of seven strategic areas of business: As can also be seen on the opposite page, those individual areas of business are as follows:

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

Together, these form the columns upon which the returns generated by our business model are based. Leaving aside our institutional customers, these are also flanked by our Financial Markets business area, which thereby fulfils a second function. It forms a fundamental part of our business model and operates as a service provider both internally, as well as for our external customers. What is more, Financial Markets also controls the money and capital market transactions, as well as the liquidity of NORD/LB within the context of our overall banking strategy. Our promotional loan business and additional internal areas complete our overview of NORD/LB. Their role is to ensure that all business processes are carried out smoothly and in compliance with all internal and external regulations.

In order to provide a more in-depth insight into each of our areas of business, we have detailed the Highlights of 2010 on the following double-page spreads and have included additional information, explanations or interesting statements from the segments involved. We provide you with a detailed insight into the diverse facets of the activities we carry out on behalf of our customers.

## NORD/LB Konzern


10 **Private and Commercial Customers**
- Private customers
- Commercial customers
- Private banking
- Small and medium-sized enterprises
- Insurance products for private customers



14 **Savings Bank Network**
- Savings banks (associated and others)
- Municipal customers



18 **Financial Markets/Institutional Customers**
- Banks and non-associated savings banks
- Insurance companies
- Asset manager
- Pension funds
- Public sector customers



22 **Corporate Customers**
- Corporate customers
- Agriculture customers
- Housing industry
- Acquisition finance
- Forfaiting



26 **Energy and Infrastructure Customers**
- Energy/Infrastructure
- Leasing
- Renewable energy



30 **Ship and Aircraft Customers**
- Ship finance
- Aircraft finance



34 **Real Estate Banking Customers**
- Commercial real estate finance
- Social care property finance

Private and Commercial Customers

# Historians…

that's what we are – because you can only shape your future if you are aware of the past. That is why we are proud to support our customers for almost 250 years. It all started with the "Herzogliches Leyhaus" in Braunschweig and today, together with the Braunschweigische Landessparkasse (BLSK), the Bremer Landesbank and NORD/LB Luxembourg S.A., we are able to offer our private and business customers all the services of a savings bank and a regional bank, from a single source.

## € 30 million

was the sum raised by a debenture loan issued jointly by the town of Salzgitter and the BLSK in 2010 and put towards the municipality's funds.

## Braunschweigische Landessparkasse

During 2010 the Braunschweigische Landessparkasse also developed well as a part of NORD/LB. The service we provide to our customers, advising them with regard to the savings bank finance concept, is increasingly in demand. For us, this serves as a reliable indicator as we seek to move ahead to become a quality leader. During the course of 2010, the take-up of these financial health checks as part of our consultancy increased by around 30 percent and they now total 42 000. Despite the demographic shift, we managed to maintain the number of current accounts at a constant level. At the heart of our activities in 2010 was a project to resegment our customer base and our business development associations based on the implementation of this new form of marketing which got underway at the end of the year. Overall, the 2010 financial year was characterised by sustainable quality assurance, together with a number of projects that improved the interface between various divisions. We found it particularly pleasing that in customer satisfaction surveys, the Landessparkasse received mostly positive evaluations and the independent test carried out by FOCUS-Money awarded us top marks for our advisory services. This too provided more than ample evidence to confirm the excellent performance of our employees.

## Courage and innovation award for start-up businesses

Setting up your own business and making headway on the road to financing your own existence is no easy process. A great many hurdles must be overcome, especially during the set-up phase. In order to acknowledge those entrepreneurs who have dared to take this dramatic step, to encourage others to turn their ideas into reality and in so doing to enable them to serve as an example to others, Braunschweig Zukunft GmbH and the Braunschweigische Landessparkasse launched an award for start-up businesses in 2010. The award is given to outstanding initiatives and entrepreneurs, extraordinary performance, innovative ideas and to those who have encouraged others to launch a business of their own. Each participant receives qualified feedback on his/her concept and is invited to attend events held for business-owners. At the same time, the prize also serves to enhance Braunschweig's image as a location for start-up businesses and therefore forms an effective way of boosting the local economy.

## Further Award by the Elite Report

For the 7th time in a row Bremer Landesbank's Private Banking was awarded "summa cum laude" by the renowned Elite Report. Within 360 tested German Asset Management Companies an excellent 4th place was achieved. Quotation by Elite Report: "Don't worry – the analysis of needs stands in the first place, not the sale of products (…) You call that accuracy and duty of care. (…) It is the bank's honesty that ties between consultant and customer can be strengthened by a reliable partnership. (…) In Bremen, the Asset Management does not only show human traits but also has the heart in the right place. Thank you!" (Source: Elite Report 2011)

# 250th anniversary of the Herzogliches Leyhaus

Back in the 18th century, poverty was very definitely something that was life-threatening. At that time, most cities in Germany had no official bodies to which one could turn for support. The number of people living in poverty was huge and begging, though completely outlawed, was a matter of everyday reality. As the Enlightenment progressed, this was all the more reason for many princes and city fathers to put an end to this unfortunate situation.

This was certainly true in Braunschweig, where on 9 March 1765, Duke Carl I of Braunschweig-Lüneburg lent his signature to the foundation document, setting up the Herzogliches Leyhaus, which was the predecessor of NORD/LB and the Braunschweigische Landessparkasse. The main business of the organisation at that time was acting as a pawnbroker. This was not yet a savings bank in the sense that we know them today, but even at that time, it was obliged to accept deposits above a certain level. This therefore gave the "man in the street" a chance to secure his future in the face of poverty.

2015 will be the 250th anniversary of the establishment of the Herzogliches Leyhaus and ultimately, of NORD/LB and the Landessparkasse. This is surely a good reason for a celebration and, in view of the history of the Leyhaus, a reason to use the remaining time to get the people who live in the region involved in the anniversary. That is why in 2010, the Landessparkasse launched a savings product that, subject to a minimum investment of 1765 euros, will guarantee a substantial increase in value of 17.65 percent.

## 30 million for Salzgitter

Necessity is the mother of invention, as the proverb goes. And it was with this in mind that the town of Salzgitter in South-Eastern Lower Saxony was seeking a new way in dealing with its budget deficit of around 65 million euros – together with the additional 16 million euros of interest incurred. The challenge lay not in the amount of money involved, but in the reticence displayed by many banks in the aftermath of the financial crisis when it came to providing loans. The city therefore needed new partners and found them with the assistance of the Braunschweigische Landessparkasse (BLSK) – savings banks from all parts of Germany. Each of them subscribed to shares in a debenture loan totalling 30 million euros that the town of Salzgitter issued with the assistance of the BLSK. This was very much a first in the area covered by NORD/LB, as with the exception of Hannover, this type of financing is still a new concept as far as towns and cities are concerned. The success of the debenture loan issued by Salzgitter, which was oversubscribed for a time, means that the market for similar types of transaction is now beginning to emerge. And the town itself has still kept its options open, as it did not need to max out the credit available from its bankers.


FORUM
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**Savings Bank Network**

# Regional experts …

that's what we are for our savings banks, as they possess valuable knowledge and expertise regarding the local market requirements. We feel a particular obligation towards these savings banks and, in their capacity as our owners, our customers and our strategic partners, provide them with support through our network business.

**50 %**

of new applications were submitted in a reformed lending process that makes better use of the savings banks' local knowledge and expertise in 2010.

# Lending that utilises local expertise

When taking a decision whether or not to approve an application for a loan, the knowledge of local factors can be beneficial for all parties involved. Their comprehensive branch network, coupled with their position at the heart of the local community, means that the savings banks are the ideal organisations to take decisions of this type. That is why, as part of the syndicated business we engage in with associated savings banks, we have created a lending process that operates unilaterally. The decision whether or not to approve a loan application is taken by our market division, supported by the decision of the local savings bank and no longer by our back-office. The benefit of this new system lies in the fact that it enables us to make more effective use of the local knowledge and experience of the savings banks, in order to reach a faster lending decision. The feedback we have received is especially positive: Only three months following the introduction of this new system, the proportion of new applications put forward by our savings banks has already reached fifty percent and that figure is rising.

# Managing debts and interest charges sustainably

**Diagnosing the levels of municipal debt**

The financial burdens carried by the majority of cities, municipalities and district authorities in Germany are enormous and are continuing to increase and no fundamental shift in this situation is in sight. On the contrary: political discussions regarding further tax reductions will only serve to increase the pressure. In this situation, an increasing number of cities, municipalities and district authorities are relying on the active management of their debts and interest obligations and are seeking to free themselves of both, so that they can continue reducing the level of risk. And that is where the KVD (Municipal Debt Diagnosis) comes into play. This is an instrument that is offered by the Financing Group of the savings banks to municipal authorities who are looking for ways in which to structure their payment obligations more effectively.

One of the fundamental requirements in order to achieve sustainable management of debts and interest rate obligations is to be fully aware of the composition of one's own portfolio and to answer the question, whether a provision is in place to cope with rising or falling interest rates. It is also a matter of having precise and specialist knowledge as to how interest-rate hedges actually work. It is with regard to the last of those that a great deal of uncertainty still exists within many municipal authorities.

That is why the savings banks financing group has been providing practical seminars to public servants since 2007, in conjunction with the German Association of Cities and the German Association of District Authorities. The seminars are delivered by the German Savings Banks Academy and provide participants with detailed instruction about how local government authorities can manage their debts and interest payments.

At the start of 2010, the savings banks and NORD/LB launched an audit and advisory phase of the "Municipal Debt Diagnosis" project. Based upon capacity that is already in place, this has enabled us to put in place more regular contact and to undertake more regular transactions with the savings banks and their local authority customers and this has proved successful. During the course of the past year, we achieved our very first returns that were directly or indirectly related to KVDs we had carried out and this enabled us to establish our reputation as a reliable partner in the network regions of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania, as well as in Schleswig-Holstein. This was due in no small measure to our integrated advisory approach. In 2011, we intend to continue working with the savings banks in order to further expand this successful development and to continue our active involvement in the Municipal Debt Diagnosis project.

# Energy returns to the municipality

Since the electricity market in Germany was liberalised, it has been in a constant state of shift. Whereas during the first few years following liberalisation, concentration of market share in the hands of the major energy providers increased, to which many cities and municipal authorities surrendered the utility services they had previously provided, there has recently been an increasing trend backwards to municipalisation. Against this background, many cities and municipalities are now endeavouring to take the provision of electricity, natural gas and water supplies to their residents back into their own hands. In 2010, NORD/LB actively supported this trend for the first time in the municipality of Nordhorn, which is located near the border to the Netherlands, where the local energy supplier, which belongs to 13 cities and municipalities, was seeking to take over the electricity network of the joint municipalities of Emlichheim and Uelsen. Together with the Kreissparkasse Grafschaft Bentheim in Nordhorn, NORD/LB successfully took part in the tender to provide the financing for the project. After the tender was successful, a total of 29.5 million euros will be made available to the municipal undertaking in three tranches, in order to place the role of electricity supplier back into the hands of the municipality. The credit facility will run for a term of up to 20 years. We hope that other municipalities will follow this example and that we will be able to persuade other cities and municipalities to seek the financial backing of NORD/LB in order to finance the return of utility supplies to the municipality. And the likelihood is rather high – during the next few years, thousands of concessions to operate electricity networks are set to expire, which means that there is considerable potential for cities and municipalities, as well as for NORD/LB.

## A new partner to help us reduce lending risk

No matter how carefully constructed a system you put in place to prevent borrowers from defaulting upon loans, it is never possible to rule out the possibility that problem loans will arise. If action is not taken quickly enough and is not sufficiently streamlined, as the processes are too complex, the savings banks concerned will be the ones that lose out. Thanks to our expertise here, we have identified opportunities to streamline this process and to provide that service to other savings banks in Germany. That is why we have joined forces with our subsidiary, SGK Servicegesellschaft Kreditmanagement mbH to market this service. SGK works in partnership with the savings banks, providing them with flexible and entirely bespoke solutions enabling the collection of amounts outstanding as a result of terminated loans and the realisation of the proceeds from any securities. This forms an important step on the road towards minimising credit default, especially in view of the number of insolvencies, which has been increasing for years now.

**Financial Markets / Institutional Customers**

# Bespoke tailors…

that's what we are for our institutional customers such as banks, savings banks outside our network or insurance companies, by developing individual and successful concepts. After all, working to create value on the complex financial and capital markets requires us to have a precise feel for the specific needs of each individual customer that we support within this business sector.

## € 3 billion

of the new business from our institutional customers within the custodian bank sector was generated by us in 2010.

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# Trust, understanding, personality, competence – how we approach taking care of our institutional customers

Interview with Rainer Höfinghoff, Head of Sales Relationship Management (left-hand side) and Rüdiger Rock, Head of Institutional Sales (right-hand side)

**Mr Höfinghoff, what is particularly special about the way in which NORD/LB looks after the needs of its institutional customers?**
**R. Höfinghoff:** We believe that is highly important to maintain a close and regular dialogue, which then enables us to develop a highly individual feel as to our customer's needs. Ultimately, this means that we are able to work with our customer to develop the appropriate and success-driven concepts that reflect the customer's individual needs. If you like, this is the mainstay upon which the customer care we provide to our institutional customers is based.

**Which types of customer form part of this category?**
**R. Rock:** First and foremost, our "Institutional customers" division looks after the needs of institutions conducting activities on the capital markets, such as banks, savings banks that do not form part of our network, insurance companies, foundations, pension funds, asset managers, capital investment companies – but also public sector customers, the Federal Government and the Federal states.

**Quite a varied range of customers then.**
**R. Höfinghoff:** Yes, exactly. That is why we must provide a closely-knit combination of two things. On the one hand, we must maintain a high level of customer focus in all that we do, whilst on the other hand, we need to maintain a high level of skill in our dealings with the capital markets. We make sure that we are able to provide both of these things, by employing highly-qualified and experienced relationship managers, and specialists who possess comprehensive product know-how. They form the guarantee that we are able to provide holistic and individually-tailored customer support from within our own organisation.

**So does that mean that you adjust the services you provide to suit each individual customer?**
**R. Rock:** In my opinion, that is an absolute necessity. Our product specialists develop both conventional and innovative, tailor-made and competitive solutions that enables us to cover all aspects of financial management and our customers' business, precisely and efficiently.

**Are there any other additional factors that in your opinion form an important part of collaborations of this type?**
**R. Höfinghoff:** It is certainly the case that extensive know-how and individual solutions are not the whole story. The additional ingredients that form

the foundation of any profitable partnership are trust and reliability. The feedback that we receive from our customers demonstrates that our stable and sustainable business model at NORD/LB is proving a success. Our customers know that we are a reliable and dependable partner that will always be at their side to help them make the most of their opportunities and to realise their objectives.

**Following the financial crisis of 2009, how did the 2010 financial year turn out?**

**R. Rock:** Very well. Overall, we managed to increase our market share and our market penetration and this was especially true for our non-associated savings banks and in the case of our business as a custodian bank.

**And what can this be attributed to?**

**R. Rock:** There were quite a number of factors. First of all, we succeeded in enhancing the good reputation we gained during the financial crisis in bonds, registered securities, Pfandbriefe (covered bonds under German law) and covered bonds. Despite historically low interest rates for German government bonds and covered bonds and the fact that different interest rates continued to apply within the eurozone, we were still in a position to provide attractive products to our customers.

**And finally, one last question: Where does the bank go from here?**

**R. Rock:** Though this runs contrary to the market trend, we will continue to assist our business partners in obtaining refinancing and in raising equity capital, as we have done in the past. The fact that we offer our customers in the commercial sector with relevant accounts ledgers in both the primary and secondary markets will not change. We have always done that in the past and this customer-focused approach will continue to form the core of our business in 2011.

**The foundation on which NORD/LB stands?**

**R. Höfinghoff:** Yes. Trust, understanding and personality, combined with highly-developed product expertise form the foundation for a sustainable, long-lasting and successful business relationship and will facilitate our customers' success. We stood by our customers during the crisis and will continue to be there for them in the future!

Corporate Customers

# Entrepreneur of SME business…

As a modern bank for small and medium-sized enterprises, our range of services is focused on this business. Our corporate customers can count on the fact that, as a forward-looking partner, we will provide long-term and reliable support that will fulfil all their financial requirements. With our support, our customers are able to concentrate fully on their core business.

## 55.5 MW

is the output from the wind farms in Saxony-Anhalt. We created the perfect conditions for acquisition of these wind farms by Dortmund-based DEW 21.

# Investing in a clean future

The town of Emden is home to the energy source of the future - offshore-technology par excellence. In 2010, SIAG Schaaf Industrie AG took over the Nordseewerke Emden and converted the former shipyard into the largest production site for steel components for use in the offshore technology sector, thereby securing the future of the works and the jobs of the workers. In association with the state of Lower Saxony, which is acting as a guarantor, the bank, in its role as a regional bank and a leading provider of financing renewable energy, assisted with the takeover and the necessary investments.

Elsewhere, our agricultural banking division also provides financing in order to assist agricultural businesses to create regenerative energy. Up to now, we have financed 150 wind farms and around 230 biogas systems located in proximity to farms, generating a total power of 235 megawatts each year. The fact that our customer service staff include agricultural economists with a detailed knowledge of the structures, production processes and market parameters in the agricultural sector is convincing to our customers. And it has now enabled us to expand our agricultural banking activities far beyond the borders of Northern Germany. Additional amendments to the Energy Savings Act (Energie-Einsparungs-Gesetz) will continue to boost this trend.

# The sale of accounts receivable results in increased liquidity

In the aftermath of the economic crisis of the past few years, the more strongly the economic upturn becomes, the larger the amount of accounts receivable that start to accumulate on corporate balance sheets. This then gives rise to a situation in which many companies start thinking of making changes to their financing structure.

**Financing programmes from NORD/LB, utilising current assets**

The conventional form of corporate financing is a bank loan. During the past few years, however, this are only approved with hesitation and many company directors are therefore on the look-out for new ways in which to refinance their companies. Here we offer our customers modern financial products, such as borrowing base financing or the selling of accounts receivable against the bank's balance sheet.

All of these forms of financing are based upon the current assets of the company, as it is the current assets that frequently provide the means that enable liquid assets to be released, thereby streamlining financing structures. In the case of borrowing base, we mobilise not only raw materials or goods, but also the accounts receivable of our customers in order to provide the financing. We structure the purchasing of accounts receivable against our own balance sheet so that it is precisely in line with our customer's needs, implementing this solution rapidly with the minimum of documentation.

As far as our customers are concerned, these variants mean that depending upon bank-based lending will be reduced, their liquidity will be increased and their funding diversified, thereby enabling them to utilise their current assets more sensibly. For Continental AG and the Coutinho & Ferrostaal Gruppe, these benefits proved to be very attractive and so we devised and implemented a number of tailor-made programmes.

# Lending for Thüga reinforces an already convincing business model

The energy market is characterised by intense competition and pressure upon costs resulting from the increasing number of statutory measures in order to protect the earth's climate. This factor in particular means that local and regional energy suppliers are constantly being faced with new challenges.

**Looking after the needs of over 90 energy supply companies**

In order to take up and respond to these challenges, many municipal utility companies are seeking new forms of cooperation. One example of this is Thüga Holding GmbH & Co. KGaA, a holding company which in the form of the Thüga Aktiengesellschaft acts on behalf of more than 90 local and regional energy and water supply companies, helping them to develop their business and enhance their market position.

As an association, Thüga is the largest network of municipal energy supply companies in Germany. For the companies in which Thüga maintains a shareholding, it generates synergy effects in areas such as energy procurement, purchasing of materials, regulatory management and IT solutions and does this with considerable success. As a result of its involvements, Thüga has created a convincing business model that has proved its worth. In order to continue along this path, we assisted Thüga in 2010 with the implementation of a refinancing solution, involving the successful issuing on the financial markets of a debenture loan. This took the form of a long-term major loan of the type that banks or insurance companies issue to industrial companies. The transaction costs were low and this was a straightforward operation that provided Thüga with rapid access to the required liquidity in order to finance its successful business model.

**Protecting our climate**

## Additional wind energy from Saxony-Anhalt

Dortmund is investing in wind energy. In 2010, the energy and water supplier known as the Dortmunder Energie- und Wasserversorgung GmbH (DEW21) concluded an agreement with THEOLIA Naturenergien GmbH for the purchase of wind parks in the federal state of Saxony-Anhalt that are capable of generating a total output of 55.5 megawatts. In doing this, DEW21 was not only increasing its security of supply by diversifying the energy sources it uses, but also investing in a clean future by increasing the proportion of electricity derived from regenerative sources. For our part, we were able to support DEW21, as we provided the company with very favourable terms via our Luxembourg-based subsidiary NORD/LB Covered Finance Bank S.A. This is the only Luxembourg-based bank providing covered bonds (Pfandbriefe) that belongs to a German regional bank and benefits from the favourable legislation governing mortgage bonds in Luxembourg.

Energy and Infrastructure Customers

# Climate activists…

are important to us and constitute an important part of our customer base in the energy and infrastructure sector, as both sectors are increasingly focused on conserving resources. Our customers can rely on our years of expertise both within this country and abroad, something which enables us to create professional and flexible financial solutions that are precisely tailored to their requirements.

**25 %**

of the electricity generated from wind power and from biomass in Germany as a whole comes from Lower Saxony, the region where Nord/LB has its core business.

# Tailor-made solutions for cleaner energies

France – 2010: NORD/LB financed and structured an energy portfolio for an international customer, which encompasses six wind parks with a total output of 52 megawatts and is fitted with German turbine technology. Southern Italy – 2010: NORD/LB structures and finances a further energy portfolio, this time involving ten solar parks with a total output of 10 megawatts. As a result of this portfolio, Italy is making an important step towards achieving its own climate targets. Northern Ireland – 2010: The Irish energy supplier Viridian built a wind farm with a total power output of 51 megawatts, which was financed by NORD/LB.

Germany – 2010: NORD/LB structured and financed a 21MW solar park in Brandenburg in an area formerly used for the extraction of lignite, thereby making an active contribution towards the shift to cleaner forms of energy, this time in the bank's home market.

These are just four examples that bear witness to our commitment to the renewable energies market and to projects that we implemented in 2010 in continuation of our strategy. One of the areas in which we specialise is financing installations that enable energy to be created from regenerative sources, such as wind or solar radiation. It is in that area that we have identified significant opportunities for NORD/LB, as this market has been characterised by high growth rates on a global scale for a long time now and we are assuming that this is set to become a stable trend. We structure and finance larger projects in Germany and are also involved in major projects elsewhere, such as in other European countries, as well as in North America. By consistently developing the business we transact in this area, we have successfully developed extensive expertise, which enables us and our international team to provide the most suitable response to the demands and the specific nature of the various markets.

Alongside our core business in the areas of structuring and financing, we also have an established international reputation as advisers. Our aim is to provide targeted support for companies involved in the renewable energies market in their capacity as developers, suppliers and manufacturers of turbines. In our view, a market that is set to be particularly promising in the future is in the development of offshore-wind farms, which are expected to achieve their commercial breakthrough during the course of 2011. One location in which this is the case is in the German Bight area of the North Sea, where the financing of the first projects costing billions of euros will soon be completed. Once these projects have been completed, this will mark the beginning of the cost-effective utilisation of wind energy generated at sea.

# Saving energy on the open streets

Located 150 kilometres North of London is the city of Coventry, a typical English industrial city with around 300 000 residents, which is a prime example of how a major project designed to protect our climate can be financed and realised by means of a successful Public Private Partnership (PPP). During the next 25 years, the city will fit energy-saving lightbulbs to all 28 000 of its streetlights, which will be controlled centrally and can be dimmed to any level. This initiative will enable the light intensity of the lamps to be adjusted to the level of natural light, or enable them to be illuminated more brightly at accident blackspots or in the period immediately following a football match. In this way, Coventry will not only be able to use its street-lighting more efficiently, but will be able to save substantial amounts of money, energy and last but not least, $CO_2$.

Before the "Coventry Street Lighting PFI Project" could actually be implemented, it was not only a case of going through a long stage of consultation and design. It was also necessary to find a way of raising the 56 million pounds (around 65 million euros) that were needed in order to carry out the conversion. As the city of Coventry itself was unable to provide financial resources to the required level, a Public Private Partnership (a cooperation between the public sector and the business sector) was the ideal means of doing so. And even though NORD/LB already has a great deal of experience with these types of project, it was something of a first for us to arrange the financing that was needed in order to equip an entire city with energy-saving streetlamps, whilst making a substantial contribution to protecting our climate at the same time.

**Structured, financed and exported –**

## German hi-tech solutions for Canada

Protecting our climate is a global challenge and as a financial institution that is active the world over, we regard it as our task to contribute towards international efforts to protect the earth's atmosphere. In 2010, NORD/LB in New York succeeded in doing this by structuring four solar installations in the Canadian province of Ontario. In this way, we not only promoted the expansion of renewable energies in Canada, but also supported the expansion of German cutting-edge technology, such as solar cells from Q-cells or power inverters from SMA.

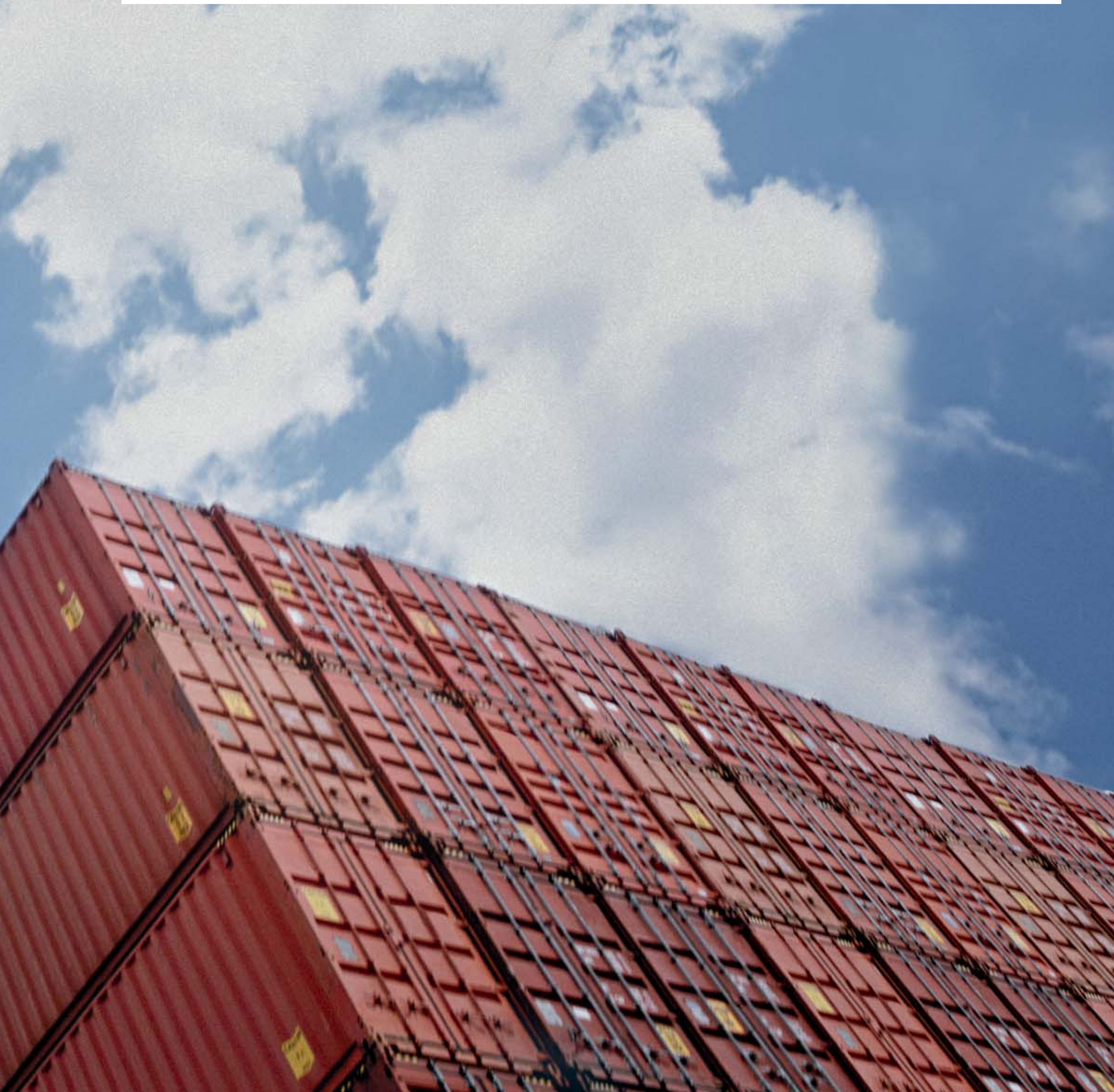
**Ship and Aircraft Customers**

# Pilots…

that's what we are for our ship and aircraft customers by providing them with financial support to proceed at full steam ahead. Both the aeronautical and maritime transport sectors have now recovered. In the future, we will continue to stand by your side as one of the world's leading players in these markets, thanks to our long-term commitment, knowledge and expertise in financing.

## 1.5 billion dollars

was the sum of the new business that we attracted in 2010, predominantly as an agent and underwriter through aircraft financing.



## Full steam ahead into calmer waters

The past year was not an easy one for the shipping industry. As a result of the global economic and financial crisis, the commercial shipping sector and the operators and builders of container vessels, tankers and bulk freighters still had to contend with a combination of rock-bottom ship valuations and charter rates and a slump in demand and revenue until early 2010.

It was however the case that the container shipping sector, which forms an especially important part of our portfolio, noticeably benefited from the upturn in the economy and in world trade, especially during the second and third quarters of 2010. Charter rates and ship valuations also underwent a noticeable rise. Other segments, especially the transportation of raw materials, such as coal or iron ore in bulk freighters, were still suffering the effects of overcapacity and low charter rates at the end of 2010.

As a financial partner to the shipping sector, NORD/LB also felt the effects of the situation at first hand. The first thing that our customers from the shipping sector needed to do was to realise the importance of adapting the number of seagoing vessels in order to reflect the decline in demand. Ways in which this could be achieved included altering routes so that capacities remained committed for longer, ordering vessels to sail more slowly (slow steaming, see below), drastically reducing their orders for new vessels or postponing the delivery of new vessels.

Given the situation, it was obvious that the potential for us to grant new loans was very severely limited. That is why we concentrated on our existing business in 2010 – for example, by assisting our customers during negotiations with shipyards, so as to arrive at a workable solution that was acceptable to all involved. Overall, 2010 taught us how valuable our endeavour to create long-term, durable relationships with our customers can be for all involved and this is a principle that has paid off in a business sense. Despite exercising the necessary degree of caution with regard to individual credit risks, our Ship Financing division successfully achieved very high profits in 2010. In view of the challenges posed by this particular market, this is a sign that continuing to play an active role in that market is now more valuable than ever.

## Low speed ahead to maximise profits: Slow Steaming

Any car driver will know that when you increase your speed, fuel consumption will go up, and especially once your speed tops 130 km/h. What applies to cars also applies to ships. That is why many shipping companies are using that fact for their own benefit and are ordering their larger container vessels to sail at reduced speed. Calculations carried out by the ship classification company Germanischer Lloyd (GL) have shown that what is known as “slow steaming” can generate considerable cost savings on a route such as Hamburg to Shanghai. If a vessel of the appropriate size for the journey travels at 18 knots instead of 26 knots, its fuel consumption on that particular route, which would normally be around 6 000 tonnes, will drop to only 3 700 tonnes, generating a saving of over 40 percent. In view of the fact that bunkering charges have been rising for years, such savings would immediately boost a shipping company’s profits. And if you reduce your vessel’s speed to between 12 and 15 knots (ultra slow steaming), it is even possible to achieve cost savings of up to 50 percent. Emissions of $CO_2$, sulphur and nitrogen oxides are also reduced at the same rate as a vessel’s fuel consumption. That is why slow steaming also makes an active contribution towards protecting our climate.

Another positive effect as far as the shipping companies are concerned has only become apparent during the past two years. The turbulence within the global economy had already created large holes in the order books of countless shipping companies. For many freight vessels, this meant staying longer in port and having no work. The solution came in the form of slow steaming. As vessels were therefore taking longer to complete their voyages, demand for additional tonnage then increased – by over 20 percent when speeds were reduced from 22 knots to 15 knots.

Overall, the study carried out by Germanischer Lloyd shows that it can make good economic sense for shipping companies to use more vessels and have them travel more slowly, rather than to run fewer vessels and have them sail more quickly, especially in view of the fact that contrary to initial fears, the majority of the engines on board cargo vessels are technically suited to running at slower speeds.

## No more turbulence means the sky is the limit

For airline companies around the world, 2010 was a year of turnarounds. Whereas 2009 was the year in which a crisis in passenger and freight business that had lasted almost ten years finally bottomed out and was dubbed by the International Air Transport Association (IATA) as an "annus horribilis", air traffic in 2010 exceeded the levels achieved before the crisis by as much as five percent. The upturn was underway, which meant that the markets in Southern and Central America, the Middle East and Asia experienced above-average growth and the predictions continue to be good. IATA is predicting that the sector is set to achieve profits of approx. US dollars 8.6 billion in 2011.

All the more reason for NORD/LB to expand its aircraft financing business, which it has been nurturing now for over 20 years and to establish a position for itself as the world's leading provider within this particular market. From our location in Hannover, we serve the needs of a regular cohort of national and international customers by providing a broad range of commercial and covered loans for aircraft and engines, whether these take the form of building loans, derivatives or permanent financing. This meant that we were able provide Air Berlin, which was already one of our customers, with a financing scheme to enable it to acquire a whole series of aircraft and we were able to put in place complex financing packages on behalf of affiliated initiators and issuing houses in order to purchase four Airbus A380s.

## Real Estate Banking Customers

# Master builder…

When it comes to commercial construction projects, you can call us a master builder. Within the NORD/LB Group, Deutsche Hypo is our competence centre when it comes to the financing of real estate property. It is also our platform for growth that we will use to further increase our market presence, as well as to strengthen the purchasing power of the NORD/LB Group.

## 21 billion euros

In 2010, our total portfolio in our core business area, commercial real estate financing, amounted to this sum.

## Deutsche Hypo – 2010 was a good year for business

If we take a look to see how the commercial real estate market developed in Germany and in other countries in 2010, we will notice that the scene was set for a successful year at our subsidiary, Deutsche Hypo. The global economy had undergone an upturn, which led to a noticeable increase in the number of national and international transactions being made. Against this background, our association with the Deutsche Hypo not only enabled us to remain a stable and reliable partner for our customers, but we were also able to assist them by providing financing for a series of interesting projects, whilst successfully continuing our selective new business, in keeping with our principle that quality is more important than quantity. A total of 2.1 billion euros was achieved in this core business area in 2010, as a result of new business that was initiated. The total volume of business in this area currently lies at 21 billion euros.

A significant factor underlying our business in this area during the past year has been the success of our asset transfer. This involves pooling the existing loans we have issued for the purchase of commercial real estate and transferring them to our centre of competence – Deutsche Hypo.

If the amount of business transacted by Deutsche Hypo in 2010 is anything to go by, 2011 is certainly set to be a good year. Our assumption is that the volume of transactions in our target markets will continue to increase and that Deutsche Hypo will successfully consolidate its strong market position. There are a number of things that we intend to do to make sure that happens. One of those is to utilise the fact that Deutsche Hypo now forms part of the NORD/LB Group, together with its wide range of attractive products, in order to expand Deutsche Hypo's product portfolio and to bring it completely into line with the needs that exist within the market.

## 73 million for Hamburg Blankenese

Blankenese, a district in the city of Hamburg, and located to the west of the city directly fronting onto the river Elbe, is already one of the jewels in the city's crown. It is also one of the most prosperous districts in the metropolis and is therefore highly sought-after as a location for retail business and medium-sized enterprises. In 2010, the area acquired another true gem in the form of the Stadtquartier Bahnhofsplatz, which covers an area of 22 300 square metres and incorporates apartments, offices, professional practices and shops.

By working with Deutsche Hypo, we were able to finance a total of 73 million euros to cover the cost of project development work carried out by Prelios Deutschland and ING Real Estate Germany, together with the acquisition by the Hamburg issuing house Hesse Newman. This proved to be a successful investment. In 2010, this series of buildings, which consists of six newly-built premises, a new pavilion, two underground car-parks with 370 spaces and the station building, which is a listed building, was finally completed.

## Green Building in Dusseldorf – high in value and good for our climate

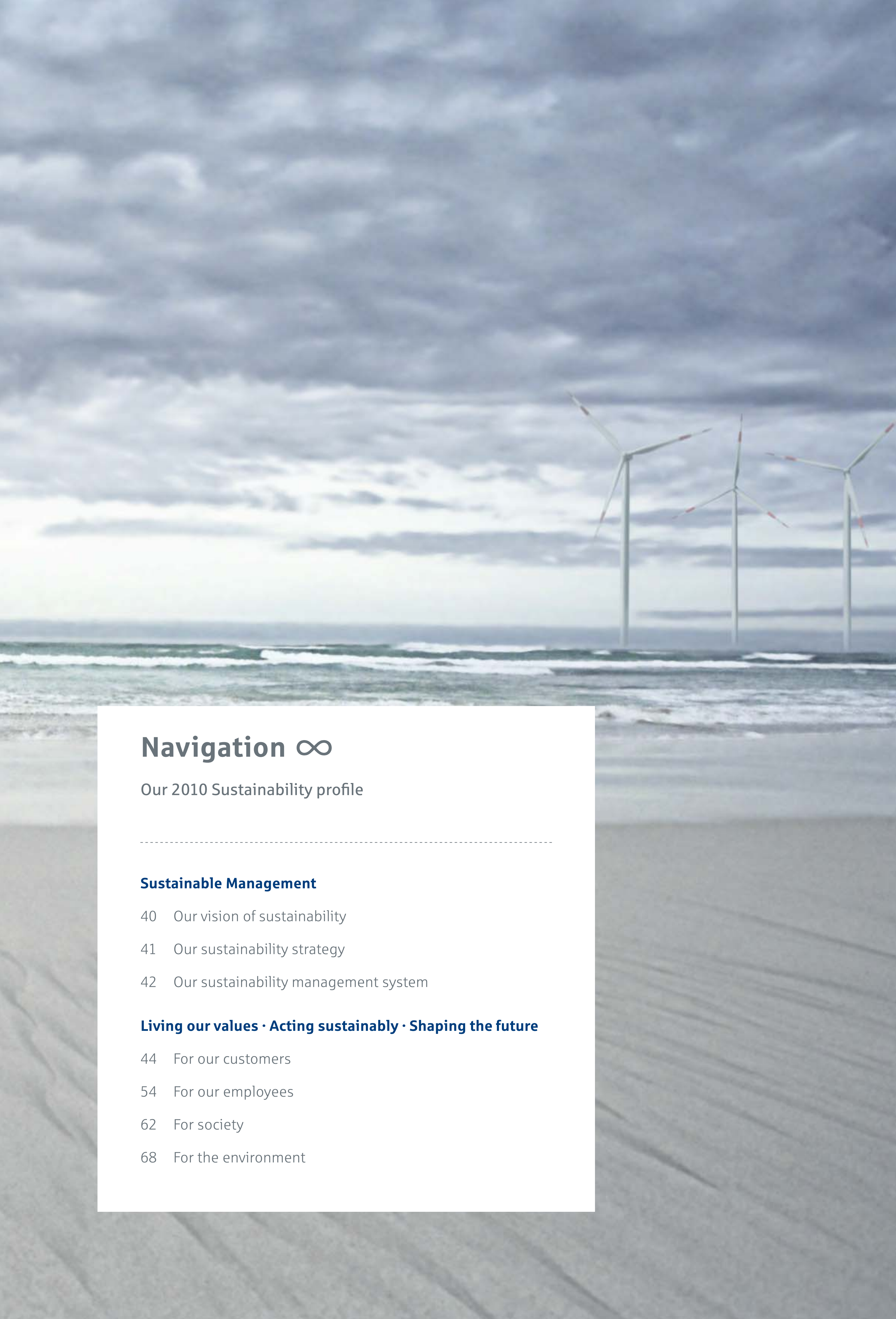
A building that consumes 40 percent less energy than a standard building and around 25 percent less than EU regulations require offers a number of advantages that cause it to be highly sought-after: Low running costs for the tenant, a high level of value retention, potential to charge high rents, excellent resale opportunities and prestigious, as it is making an active contribution towards protecting our climate. If this building were also within walking distance from the nearest airport terminal, with excellent access to motorways, the rail system and public transport and part of an extremely active office location, it could only be described as a top location.

© GREENBUILDING/HESSE NEWMAN CAPITAL AG

The Green Building in Dusseldorf is one such premises. Deutsche Hypo provided 23 million euros to finance this new-build project, which was already fully let and is located in Dusseldorf's development area known as Airport City. The purchaser was the Hamburg-based issuing house Hesse Newman and the tenant for the next ten years will be Siemens AG. This modern, prestigious building offers over 10 000 m² of office space and is characterised by the exceptional quality of its heat insulation, the high-quality building materials from which it has been constructed and an intelligent heating, lighting and ventilation system, which is good for the owner, good for the tenant and good for the earth's climate.

## Condor comes into land at its new headquarters in Frankfurt am Main

On 13 December 2010, the foundation stone of the new Campus for Condor Flugdienst GmbH was laid in Gateway Gardens, a new district in the city of Frankfurt am Main, immediately adjacent to the airport. In addition to 10 400 m² of lettable floor area spread over seven storeys, this new corporate headquarters also incorporates a flight operation centre and a training centre with an aircraft simulator. The building, which will be completed in the spring of 2012, will cost 45 million euros and will be financed by Deutsche Hypo. The factors that led us to approve the loan not only included its unique location as the headquarters of an airline located immediately adjacent to one of the most important airports in the world, but also the fact that it aims to secure certification to the international Leadership in Energy and Environmental Design Standard (LEED). This means that the building, with its outstanding ecological and sustainable credentials, will help to protect both our climate and the earth's natural resources.



# Navigation ∞

Our 2010 Sustainability profile

## Sustainable Management


40 Our vision of sustainability

41 Our sustainability strategy

42 Our sustainability management system


## Living our values · Acting sustainably · Shaping the future


44 For our customers

54 For our employees

62 For society

68 For the environment

# Sustainable Management

NORD/LB's development as a company has always been a long-term process, characterised by the fact that it does not have a natural end-point. As that is the case, sustainability in management and in how we conduct our business is therefore indispensable. For us, these two types of sustainability together form the pre-requisites that enable our strategic direction at NORD/LB to unite business success with the good of humanity, so that we are able to serve the needs of subsequent generations. These form the fundamental principles of our corporate philosophy.

## Our vision of sustainability

We are convinced that the ongoing business success of our company can only be achieved in a world in which the natural environment remains intact and in a society that is characterised by social and economic stability. The global community now faces global challenges that will increasingly affect all facets of our lives. Developments such as the economic and financial crisis, climate change, the increasing scarcity of resources and demographic shifts mean that sustainability must be regarded as something that will need to be planned for on a long-term basis. This especially applies in the case of banks, which as part of their roles as financial intermediaries fulfil a pivotal function in terms of the way in which business activities affect those developments.

For us, sustainability therefore means doing business responsibly, in order to make sure that we leave an ecologically intact and financially and socially stable world behind for future generations. That is our undertaking, whether as a user of resources and energy, as a provider of products and services, as an employer or as a corporate citizen within society. That is why responsibility and sustainability form two of the key values within our corporate mission and why they have been expressly substantiated in our sustainability strategy.

# Our sustainability strategy

In line with our company philosophy, our sustainability strategy seeks to uphold two overarching aims:

- To ensure that we remain competitive and to secure the long-term success of our company

- To contribute towards development that takes account of the needs of subsequent generations

In our sustainability strategy, we have set out to explain how we are working towards achieving these aims and how this is enabling us to unite business success and the good of humanity:

- In our core business, we take account of ecological and social aspects right from an early stage in our risk management and when designing our products. This enables us to benefit from new opportunities within our core business, to reduce risks to our business or reputation, whilst supporting our customers in determining a strategy that is fit for the future.

- As a user of resources and energy, we are continually increasing our ecological efficiency by saving resources and energy and reducing emissions. This enables us to minimise our environmental impact, thereby having a positive effect upon our corporate balance sheet.

- As an employer, we are getting ready in good time to face the consequences that NORD/LB will experience as a result of the demographic shift. In order to do this, we are putting the systems in place that will enable us to continue securing employees with talent and potential in the future, whilst also offering them an attractive working environment.

- We play an active role in the furtherance of social objectives. By doing so, we are making a contribution to the long-term sustainable development of our social environment and therefore also to the feasibility of NORD/LB in the future.

This concept forms an important foundation upon which we can shape the commercial success of our company in a way that respects nature and culture. At the same time, it helps us to align our activities with the requirements of our stakeholders, which is one of the factors on which our business success and sustainable development depend.

From that perspective, we regard sustainability as being something of a journey of discovery that requires us to develop timely solutions to the challenges we are facing today, as well as to the challenges we will face in the future.

# Our sustainability management system

In order to ensure that sustainability continues to be something that is adhered to in all areas of our company and at all levels of management and that we are effectively able to aspire to the objectives defined within our strategy, we have developed a sustainability management system that applies within all areas of the Bank and defines the individual organisational structures, functions and responsibilities we require in order to implement our objectives.

### The tasks and responsibilities that form part of our sustainability management system

The **Managing Board** defines the vision and the guiding principles that underlie our activities with regard to sustainability. It also agrees the management system, the sustainability objectives and the programme of measures that are needed in order to achieve these objectives. At the same time, the Managing Board is the highest level that fulfils a responsibility with regard to the sustainability strategy. The Chairman of the Board bears primary responsibility for sustainable development within NORD/LB and reports to our owners with regard to the outcomes that are achieved.

The Managing Board is supported in this by the **Sustainability Steering Committee**, which is composed of the managers with responsibility for areas of particular relevance to the sustainable development of NORD/LB. The steering committee works with the Sustainability Management unit to analyse sustainable development at NORD/LB and the corresponding requirements that need to be met by each individual area of the business and to develop objectives and measures that it then proposes to the Managing Board for implementation. At the same time, the members of the steering committee take responsibility for implementing the measures within their own spheres of responsibility. Creating the steering committee has enabled us to embed our core value of sustainability right at the most senior management level within the company.

Our **Sustainability Management** unit coordinates and controls the entire sustainability process within NORD/LB and within the Group, in close collaboration with the Sustainability Steering Committee. It acts as an in-house think-tank and as a proponent of sus-

**Frank Siemers**

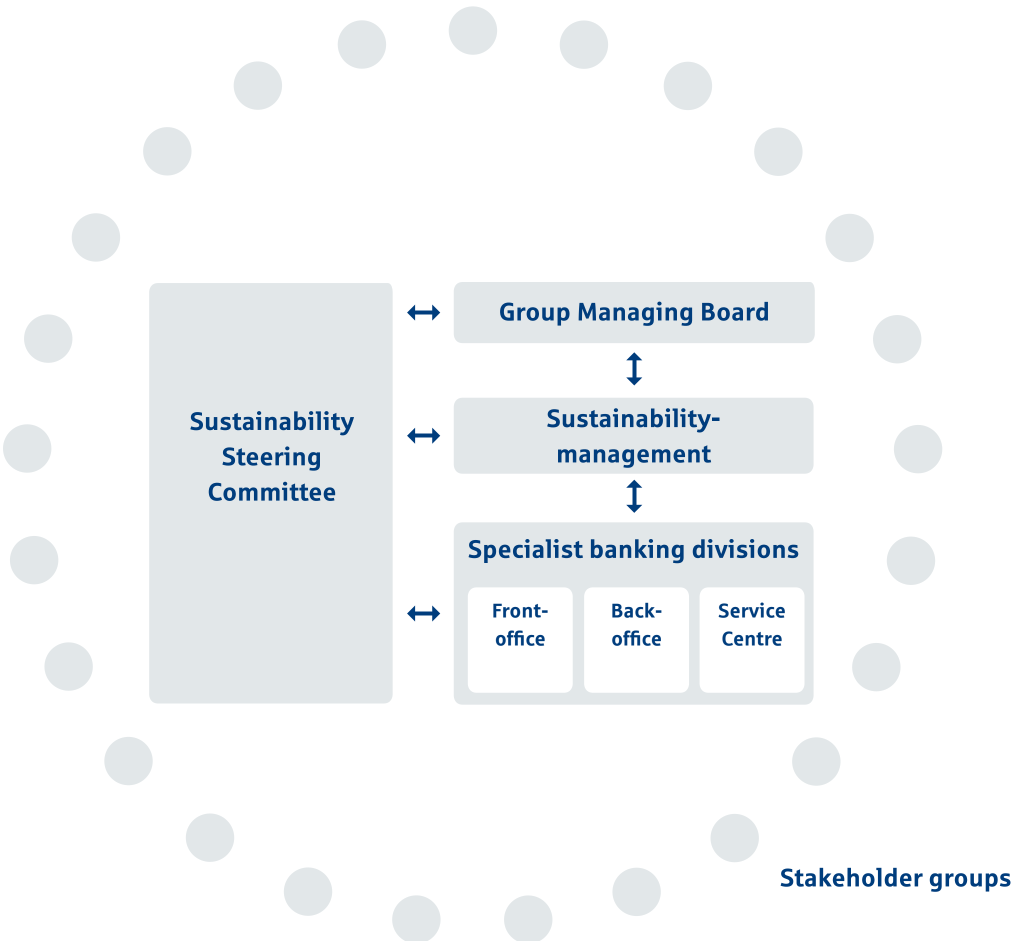
**Sustainability representative**

"The precise details of the banking sector are only of concern to the banks, but its effects are of concern to us all.
That is why for us, acting responsibly also means ensuring that our activities both traceable and transparent for all of our stakeholders. This regular report on sustainability within NORD/LB is also in line with that objective."

tainability within the bank and the Group. Together with the Sustainability Steering Committee and the specialist bank divisions, it continually develops and refines the bank's sustainability strategy and assists all divisions in their efforts to integrate aspects of sustainability into their everyday activities. It also controls and coordinates dialogue on all sustainability topics amongst the bank's stakeholder groups, including with regard to the bank's sustainability rating and acts as a central point of contact for all of the bank's divisions.

The **specialist banking** divisions implement the respective measures and projects within their Group divisions and work with the Sustainability Management unit to document each of the steps taken and the outcomes achieved. They also initiate new programmes of measures and projects within their own divisions, as well as continuing to refine existing programmes and projects. Tasks that affect more than one institution or that transcend more than one individual area within the bank, such as measures relating to the management of ESG risks or to the improvement of work-life balance, are handled by working groups and project groups.

### The structure and function of the Sustainability Management System



## Living our values • Acting sustainably • Shaping the future …

The meaning for companies is that they should assess future developments and demands in good time and take account of them when determining their own strategic direction. This ensures that opportunities are exploited, risks are reduced and enables the company to make a contribution towards a sustainable and dynamic future.

# For our customers

Our customers are at the heart of all that we do. Their needs and expectations form the parameters for the commercial requirements that apply to sustainable corporate governance and commercial practices. Ensuring that we fulfil those expectations in all that we do is therefore our primary objective. As a philosophy, this has been in keeping with our corporate strategy for over 245 years and therefore forms the foundation upon which the sustainability of the bank's corporate strategy is based.

## Acting responsibly

We fulfil our values by developing services that provide an optimum combination of benefits for the customer and for the bank and are therefore able to form a basis on which successful, long-term relationships can be built. The trust that our customers place in us forms the measure that we use as a guide everyday.

### As a user of confidential information

The principle of "know your customer" not only enables us to fulfil our statutory obligations, but also provides us with an opportunity to tailor our services to reflect the individual customer needs. To achieve this, our customers entrust their personal information to us and handling it in a responsible manner will help preserve our customers' privacy. Acting responsibly therefore forms a fundamental principle that underlies everything we do. We fulfil our obligations by complying with highly stringent security standards and by continually improving our internal standards within our Group Security division. Optimizing our organisational and technical systems also helps us to achieve this, as does providing regular information and training events for all employees. At the same time, we always give our customers the possibility to view the details we hold about them at any time.

### As a risk manager

Responsible risk management not only serves to ensure the commercial success of the customer and the bank. We actually believe that it forms a key opportunity that enables us to contribute towards a sustainable development. In order to achieve this, our risk management process is increasingly assessing our involvements in accordance with ecological, social and ethical aspects. By adopting this integrated approach, we aim to identify risks

**Christoph Dieng**
**Head of Credit Risk Management**
**Member of the Sustainability Steering Committee**

"In my view, living up to our social responsibilities also means controlling our banking transactions, together with the associated risks, in such a way that in changed or difficult market conditions, they can be borne by the bank itself and do not form a liability for society. This approach helps secure the prospects and opportunities in the future for subsequent generations."

to our business or reputation in good time and to manage them responsibly. This also provides us with an opportunity to align our portfolio management in order to reflect future needs. In accordance with this principle, we are developing financing guidelines for business activities that are subject to a higher degree of risk. Further information in this regard can be found in "Beacons 2010", page 49.

In order to ensure that these and other guidelines and principles are consistently and seamlessly translated into responsible actions and to enable us to detect and manage any future risks arising from vulnerable areas of business more rapidly, we optimised our risk systems once again: by providing training sessions, we prospectively intend to make all of our employees aware of the issues that exist in this regard, as well as of the associated risks. Specialist handbooks will also be available to increase their knowledge of individual areas and to learn how to recognise the issues and the vulnerable sectors and businesses and identify the associated risks. Employees will be able to contact a member of the bank's Compliance division, who will act as a central point of contact for matters involving certain types of risk. In addition, we will also put in place a RepRisk committee, composed of representatives of central areas of responsibility within the bank. As soon as the bank identifies any risks arising from questionable areas of activity or types of business that may affect its business or reputation, the committee develops specific tools and processes in order to minimise those risks.

By taking these steps, we fulfil one of the fundamental requirements to supplement the financing principles we use in order to define the profile that is required when entering into new business within each of the business areas within the bank and the Group by the addition of sustainability factors. This will enable us to tailor our management of ESG (Environmental Social Governance) aspects more precisely to the requirements in individual areas of business. At the same time, we are increasing awareness amongst our customers of sustainability requirements, are helping them to improve their rating and creditworthiness and therefore to secure their future.

**As the partner of a number of customer groups**

We are only able to fulfil our business model if we do business with commercially "sound" and strong customers. This means that by consistently orienting our actions to the needs of each of our customer groups, we will also be acting in our own interest.

As a leading bank for small and medium-sized enterprises in Northern Germany, we believe that the corporate strategy of our customers plays a crucial role. Our aim is to enable our customers to be as competitive as possible. Here our approach is to help companies to identify the possibilities and limits of their balance sheet and capital structure, to create liquidity, whilst protecting the company from risk as far as possible. The financial solutions we provide reflect the customer's individual liquidity requirements and take into account the company's borrowing capacity, the effects upon capital costs, key performance indicators and rating, whilst ensuring that individual financial products work effectively together. Providing holistic advice is not simply a matter of providing an individual product. Our approach is to help our customers optimise their financial status, so as to reinforce their position, even in turbulent times.

We set out to expand our customers' financial scope, based upon their own individual needs. For our customers, it is a matter of being in a position to finance future growth. With this in mind, NORD/LB issued a highly successful and diverse range of revolving credit products on the financial markets. An additional source of finance not only widens the financial scope of municipalities and companies, but it also increases their entrepreneurial flexibility and is characterised by its market oriented terms and conditions and the clear and transparent way in which its agreements are formulated. These form a distinct advantage when operating in a demanding market environment.

Alongside financial security in its purest form, we also help our customers respond to challenges, such as a lack of specialist workers, capacity limits, short-time working during crisis periods and the introduction of retirement at the age of 67, or other changes to the general regulations that govern everyday business activities.

Thanks to its holistic approach towards advising customers, the Braunschweigische Landessparkasse, which, focuses upon servicing the needs of private and commercial customers, successfully expanded its position as a leading provider of quality within its own area of business. This was confirmed by independent banking assessments in 2010. Those assessments also give us the chance to demonstrate that transparency in all banking discussions is one of our fundamental principles. We take account of our private customers' essential consumer protection interests in our everyday business. Further information in this regard can be found in "Beacons 2010", page 49.

**Jürgen Machalett**

**Head of Corporate Customer Business**
**Member of Sustainability Steering Committee**

"We can only be a long-term partner to our customers if we not only act as financial advisers, but as business partners. Providing far-sighted solutions for our customers requires a holistic approach, which also takes account of ecological and social aspects, alongside commercial ones."

In order to assist our customers in securing their future viability, we aim to make them more aware of the economic, ecological and social challenges and point out possibilities that will enable these challenges to be transformed into opportunities. In 2010, we took advantage of the upturn in the economy to work with our customers to seek answers to the economic issues of the day. We also held a series of events entitled NORDimpuls, in which we sought to address issues such as "The euro adventure – how much volatility on the financial markets can SMEs survive?" A network consisting of companies, expert economists and representatives from the academic sector and the financial sector made use of this forum as a means of exchanging opinions and collecting valuable ideas.

In order to prepare itself to meet future challenges and to turn the requirements into opportunities, NORD/LB regularly examines the composition of the economic areas, based upon local government boundaries, identifying the strengths and weaknesses of specific locations within the bank's operating areas. It then sets out to develop action plans and possible solutions. One focus here was to examine demographic change in 2010. The Regional Economy unit at NORD/LB analyses the effects of demographic shift upon each of the individual regions and sectors and works closely together with other regional organisations in order to develop proposals and strategies. By doing this, the bank is simultaneously enabling the local government authorities, organisations and sectors to work with the bank's experts to implement the future strategy that is securing their ongoing development.

## Products to protect our climate

We believe that our core business forms an important catalyst that contributes towards the achievement of sustainable development. That is why we were one of the first companies to bring our core business into line with ecological and social requirements and to assist our customers as they gain access to the leading markets of the future.

One of the areas to which we attach considerable importance is the financing of renewable forms of energy. Since the early 1990s, the NORD/LB Group has been financing business initiatives in that sector and has not only established a reputation as one of the pioneers in that area, but, by virtue of its expertise, is known as the partner of choice when it comes to financing projects of all sizes and in many areas of the world. This has enabled us to become one of the leading providers of finance for renewable energy projects in Germany, Europe and the USA. The total volume of financing we provide in this area is as high as 4.1 billion euros.

**Heiko Ludwig**

**Head of Structured Finance Origination Energy Europe**

"By arranging, structuring and providing financial advice relating to renewable energy projects, we are not only supporting our customers by enabling them to fulfil their investment objectives, but are also making an important, cross-border contribution towards the development of $CO_2$-free energy generation. This is an area of business that benefits the bank, our customers and the environment as well."

**Financing renewable energy projects**

The focus of our involvement in renewable energies lies in the financing of projects that concentrate upon wind and solar energy. Our involvement in ongoing project financing currently totals 3.95 billion euros. Over 50 percent of our project-based financing relates to renewables as a whole. Renewable energy projects are the only projects for which we provide finance. In 2010 alone, we concluded new financing agreements totalling 1.4 billion euros in that sector.

Due to our expertise, our teams at NORD/LB and the Bremer Landesbank now assist projects across the entire spectrum – from small, regionally-based initiatives to major projects on an international and intercontinental scale in Europe and North America. As one of the top arrangers and alongside our existing activities in project structuring and financing, we have successfully established a reputation as an adviser and provide support to companies such as project developers, suppliers and turbine manufacturers with regard to a variety of project initiatives. For further information, please see "Beacons 2010", on the right side.

For us at NORD/LB, taking account of ecological and social aspects forms one of the fundamental principles of financing and is a fixed component in all project agreements. The acceptability of a project to the local population is one of the factors we take into account when deciding whether or not to approve a request for financing.

In our view, the renewable energies sector is a long-term growth sector. The main drivers behind it are the increasingly negative environmental effects traditionally associated with conventional forms of energy, coupled with the increasing cost of energy. Both of these factors enable renewable energies to form a key factor in the development of the leading markets of today, as well as of the future. This helps us by confirming that our strategic direction is the correct one and justifies our objective to establish a

## Beacons 2010

**In order to manage ESG (Environmental, Social, Governance) risks more effectively, we are developing guidelines relating to our handling of areas of business that are associated with an increased level of risk. Amongst others, these also include the "GUIDELINES FOR WEAPONS AND ARMAMENTS TRANSACTIONS", which only permit such transactions in limited circumstances and completely rule out any transactions relating to the financing of controversial weaponry.**

**A BANK TEST by FOCUS MONEY magazine, which was carried out in around 250 towns and cities throughout Germany and made use of a set of 125 criteria, also included an assessment of the BRAUNSCHWEIGISCHE LANDESSPARKASSE. In the sections of the test relating to initial and follow-up contact, customer care and the atmosphere during customer discussions, range of products and terms and conditions, the branches assessed once again achieved first place and were awarded the hallmark "BEST BANK IN BRAUNSCHWEIG" and "BEST BANK IN WOLFENBÜTTEL".**

**As far as PROJECT FINANCING IN RENEWABLE ENERGIES is concerned, we have successfully entered additional markets in Europe, having included Italy and Poland. In this regard, we are also helping those countries to achieve their climate objectives, whilst also securing employment amongst suppliers in our core regions. Amongst the projects in other countries were 10 solar energy facilities in Southern Italy, producing an output of 10 MW, 6 wind parks in France (52MW) and a wind farm in Northern Ireland (51 MW), each of which make use of turbine technology from Germany. In addition, we advised several companies and providers as part of the planning and realisation of OFFSHORE WIND ENERGY PROJECTS.**

**As a leading bank in the realm of renewable energies, NORD/LB is supervising the sale of the former Emden North Sea Works, in which COMPONENTS FOR OFFSHORE WIND ENERGY PROJECTS are now being produced. By doing this, the bank is contributing towards the development of the NECESSARY INFRASTRUCTURE that will help create a significant start-up sector and will SECURE JUST UNDER 700 JOBS in the North Western part of Lower Saxony.**

## Challenges

**The latest requirements in terms of equity capital that have been introduced by the Bank for International Settlements (BIS) form a challenge for the banking sector as whole. By working together with our sponsoring organisations, we are discussing a number of medium-term measures that will enable us to increase the bank's equity capital base in the medium term.**

reputation as one of the leading banks for renewable energies in Europe, across the entire value-creation chain. Concerning project financing, we have already achieved that objective.

### Renewable energies for corporate and private customers

Our wish is to help corporate and private customers to utilise regenerative forms of energy. As one of Germany's leading providers of agricultural finance, we are setting a trend by providing finance for wind energy and biogas plants. Up to now, we have financed the construction of 150 wind farms. On average, those wind farms that are already in operation produce a total annual power output of 185 megawatts. What is more, we also financed a total of 100 new biogas installations located in the vicinity of farms that are capable of producing an output of 50 megawatts and involving a lending volume of 150 million euros. This increased the number of biogas installations to around 230, which enable agricultural businesses to create natural substance cycles and to generate energy at a favourable cost. To make more businesses aware of these sustainable forms of energy, we included an item in our magazine "LandWirtschaft", outlining the opportunities, advantages and disadvantages associated with using biogas.

In the case of individual home-owners, we focus upon providing advisory services and financing, so as to enable them to implement energy-saving new-build projects and to modernise and update the energy systems in their homes. We believe that this is one way in which to support the realisation of sustainable homes that retain their value, both when used by owner-occupiers, as well as in the event of their sale or use as rental properties. In order to bring about a conversion in the most cost-effective manner, we help to arrange suitable funding on behalf of the customer. Amongst other schemes, NORD/LB and the Braunschweigische Landessparkasse also act as an intermediary for the incentive schemes provided by the Kreditanstalt für Wiederaufbau (KfW). This service also encompasses all of the environmental programmes, as well as the residential and industrial incentive schemes.

### Linking up the value-creation chain

We are one of the leading banks that are active in the renewable energies sector, as we do not confine our activities to the provision of finance, but have successively incorporated the entire value-creation chain into the range of services we provide. To this end, we also support the growth strategies of small and medium-sized enterprises with registered offices located within our core regions by providing mergers and acquisitions services in order to facilitate joint ventures and mergers. Using our research into selected companies, we also successfully enable an increasing number of investors to utilise these investments. What is more and as a result of our involvement, we are contributing towards the achievement of a future-proof economic structure in our core regions, as well as helping to secure employment and create job opportunities in the coastal region of Northern Germany. For further information, please see “Beacons 2010”, page 49.

## Shaping demographic change

For us, acting sustainably also means seeking opportunities for us to use our expertise in order to bring together business success and a community focus in a lasting way. As far as this is concerned, we regard involvements that help municipalities manage the housing sector and that support the construction of social-housing as especially beneficial to society.

### Our contribution – Housing

As a long-term partner of our customers, NORD/LB’s housing sector division is working with its customers in order to develop economically efficient solutions to create future-proof forms of residential accommodation that take account of demographic shifts and the ecological demands being placed upon a liveable city. In the city of Magdeburg, for example, we provided financing for the revitalisation of an historical city district. An additional focus lies upon multi-generational dwellings that make increasing use of renewable energies. The utilisation of geothermal energy forms a reliable and affordable energy supply with a reduced environmental impact, as it saves resources whilst also reducing $CO_2$ emissions. The installation of state-of-the-art energy systems in existing buildings or the construction of new, energy-efficient houses serve to improve the energy balance, whilst also reducing operating costs. The energy supply therefore forms an essential driving force in the construction of future-proof buildings. In the pursuit of this objective, we are supporting the financing of the construction of a passive house in Berlin, as well as the installation of new energy systems in inner-city buildings in Halberstadt and Halle.

**Our contribution: Social housing**

Having actively provided finance for social housing and building projects since the 1980s, the Bremer Landesbank was one of the first organisations to incorporate socially-relevant aspects into its core business. The primary consideration underlying its involvement in the social housing segment is to reconcile the social and regulatory requirements with the economic demands. This area of activity especially focuses on old-people's homes and care homes, forms of sheltered housing, hospitals and rehabilitation facilities. The bank's financing portfolio encompasses some 300 facilities and currently accounts for a total financing volume of ca. one billion euros. As a centre of competence within the NORD/LB Group, the Bremer Landesbank is nowadays one of Germany's leading providers of financing to the social housing sector. Thanks to its core business in that area, it is fulfilling an important role in addressing the demographic shift that is underway in Germany.

From 2008 onwards, the bank has been expanding its involvement in this area as a result of its partnership in the second (2008–2009) and the third research phases (up to the end of 2010) of a joint research project being conducted by the Fraunhofer Institute. The project is entitled "Trendstudie Pflege 2020" (A study of trends in the care sector 2020). This joint research project focuses on issues relating to current and future developments in the care sector in Germany. By working together with service-providers, manufacturers and responsible organisations from the health and care sectors, the project sets out develop trend-setting strategies and concepts for the care sector of the future.

# Facilitating sustainable investments

We believe that sustainable investments make an important contribution towards supporting companies that have committed themselves to achieving their success in a responsible way.

**Market structures and investment products**

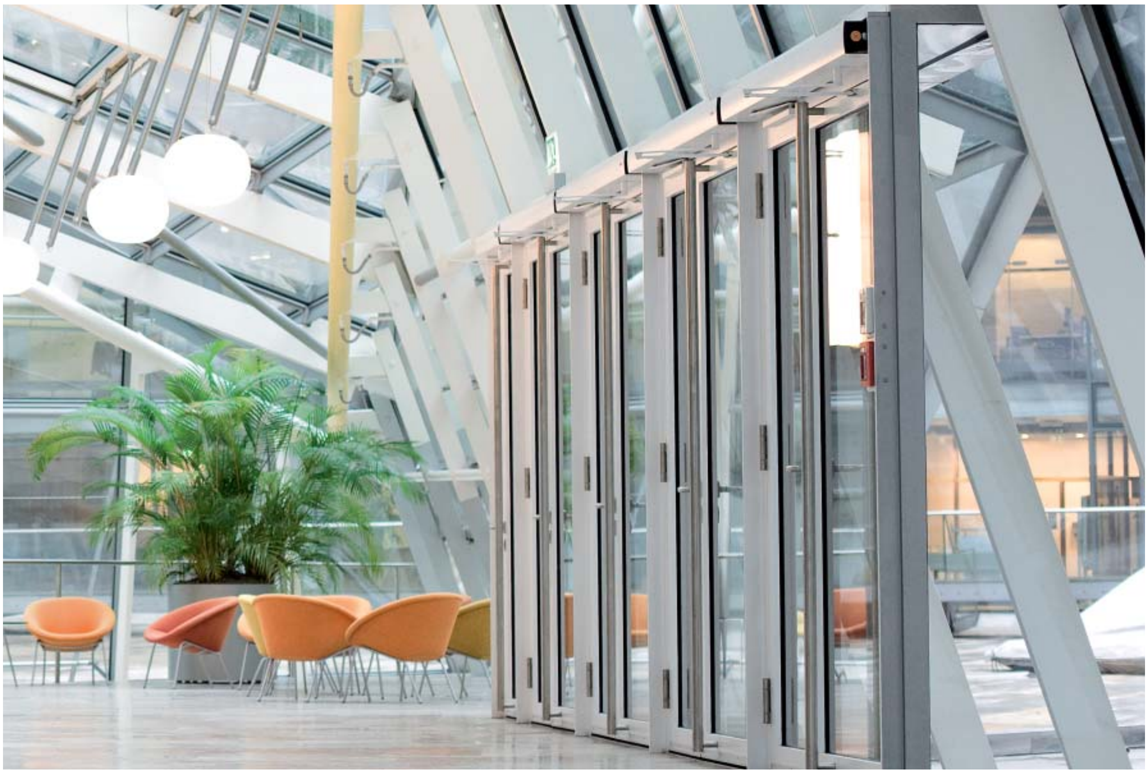
In order to promote the development of the relevant market structures, we helped the Hannover Stock Exchange to establish the Global Challenges Index (GCX). By creating the GCX, Hannover stock exchange was one of the first stock exchanges in Germany to compile a sustainability index that focuses on addressing the ecological and social challenges (protecting our climate, supplying drinking water, protecting our forests, preservation of biodiversity, responding to demographic trends, combating poverty and implementing sustainable governance structures) that apply the world over.

By including a range of sustainable investment products in our portfolio, we are seeking to provide investors, whose investment decisions are made on the basis of sustainability criteria, with an opportunity to make a contribution towards sustainable development whilst also holding a stake in accrual of value of companies that are fit for the future. To meet the needs of institutional investors that we developed our Global Challenges Index fund, which sets out to achieve the objectives referred to above. For private investors, we provide access to two sustainable funds from Swisscanto AG – the Green Invest Equity and the Green Invest Balanced funds – which combine sustainability with favourable returns. For private investors who are primarily interested in climate protection, we provide access to a Climate fund from Swisscanto AG, which is known as the Equity Fund Climate.

## NORD/LB as a sustainable investment

The services we provide with regard to sustainable investments and the extent to which we fulfil our corporate responsibility are assessed on a regular basis by independent sustainability rating agencies. Those agencies help us to establish our company's position as a sustainable investment, in the eyes of interested investors. According to the assessments that form a measure of our performance in our capacity as a German regional bank and are carried out by the reference rating agencies Oekom AG of Munich, Sustainalytics GmbH of Frankfurt and imug of Hannover, due to our above-average involvements in areas such as the environment and social care, we are one of the best providers in this sector.

Our performance with regard to sustainability means that institutional investors with an interest in sustainable investment are increasingly including our products in their portfolio of sustainable investments. This, in itself, confirms that we are doing the right thing with regard to our sustainability endeavours. That is why our aim is to ensure that we consistently continue the course we have taken, both in the interest of our corporate success, but also in order to fulfil our responsibility to our customers, our employees, to society and to the environment.



## Living our values · Acting sustainably · Shaping the future …

For corporate organisations, this also means making a commitment to the individual and specific development needs and the health of one's employees. This forms the basis that will enable them to develop to their full potential, thereby securing your company's business competitiveness and success in the long term.

# For our employees

As an employer, we are responsible for ensuring that the people we employ are able to adapt rapidly and adjust their activities in order to face the challenges posed by society and the global market. Recognising our employees' potential, encouraging and developing it in a targeted way and preserving it therefore forms the principle that underlies our personnel policy as a core component of running a successful business.

## Gaining talent

Generating enthusiasm amongst young people and encouraging them to train as bankers, to take a Bachelor of Arts or to become a commercial IT expert forms a central part of our initiatives in order to bring on the next generation of staff. In 2010, we made available a total of 80 new trainee positions. In 2011 and 2012, we will be offering 120 places each year. In total and across the bank as a whole, we provide training in seven different professions. By providing professional information days in schools and application training courses in-house, we provide school pupils with an opportunity to prepare themselves for their latest challenge – seeking a training position – and provide them with an initial insight into the training opportunities on offer at NORD/LB. Recently, we also branched out in a new direction with the creation of "NORDPOOL", an on-line platform that provides yet another tool that enables those involved in mentoring young people, such as youth and community tutors, trainers, teachers and youth group leaders to increase the awareness amongst young people of the training professions available at NORD/LB in a targeted way. The platform also enables them to recommend young people for training positions at NORD/LB by submitting a detailed personal reference (http://nordpool.younect.de). We also make use of up-to-date blogs and other social media channels.

In recruiting talented young people, we also place considerable emphasis upon the next generation of university graduates. In 2010, over 30 trainees launched their careers at NORD/LB. In 2011, we intend to recruit up to 50 trainees. The fact that we offer a total of twelve different trainee programmes means that working for NORD/LB is very much the

**Uwe Loof**

**Head of Personnel**
**Member of the Sustainability Steering Committee**

"Future-oriented and sustainable personnel management requires anticipative thinking, in order to ensure that we have the right workforce that will enable us to provide the banking services of tomorrow. In addition to selecting excellent employees, we also feel obliged to take more overarching criteria into account. The values of an individual employee are therefore one of our specific concerns and our success in the market place only confirms this concept!"

ideal first step in their careers. As part of our graduate recruitment programme too, our aim is to make contact with potential new recruits in good time and in a targeted manner. As part of our collaboration programmes with universities, we conduct workshops and seminars for students that provide essential input regarding the practical ramifications of their course of study. One such initiative is our collaboration with the Leuphana University Lüneburg, which created the NORD/LB-Leuphana Grant in 2010, which will enable six selected students in their first semester to combine their academic education with a period of practical training at NORD/LB. As a premium member of the Hannover Center of Finance e.V., we are able to utilise the skills of the Leibniz Universität Hannover with regard to research issues relating to finance and banking. Offering a joint company prize each year enables us to recognise graduates whose work specifically relates to banking and who have achieved excellent results during their studies, thereby generating interest in the city of Hannover as a location in which to study. NORD/LB also funds a professorship at the Leuphana University Lüneburg, the focus of which is Sustainable Risk Management and this completes the company's initiatives in order to encourage academic research.

In addition, we have also enabled some 100 students from various subject disciplines to gain an intensive insight into the bank's operations by completing a period of practical training with us. In our capacity as participants in the "Fair Company" initiative, we commit ourselves to providing appropriate remuneration and place considerable emphasis on the training value that each placement provides. What is more, we also provide our excellent placement students with ongoing support within NORD/LB's alumni group and keep in touch with them for the rest of their course, even once their period of practical training has come to an end. The NORD/LB alumni group also includes our former employees, who have decided to take a full-time course of study, as well as those holding one of our scholarships. We also provide support in order to ensure that diploma, bachelor's and master's degree assignments and even PhD theses are of practical relevance and encourage regular interaction between academic research and everyday banking practice.

The final aspect of NORD/LB's efforts to recruit the next generation of employees takes the form of its participation in regional and multi-regional trade fairs. In addition to our presence at the business liaison fairs conducted by our partner universities, nine managers and specialists from NORD/LB took part in a speed-dating event in November 2010 at the Graduate Fair in Cologne and set out to answer individual questions posed by graduates interested in the employment opportunities on offer at NORD/LB. They were also able to provide those attending with an insight into what is like to work for NORD/LB.

# Developing and retaining potential

We set out to support our employees' personal, specialist and social development by applying a Personnel Development Programme that is aligned to our corporate strategy. In 2010, a total of 9 779 participants took part in a total of 13 556 days of training as part of the range of courses and sessions on offer within the company. The aim of the programme is to build a workforce consisting of qualified staff, as well as to provide structured programmes to facilitate the development and engender the loyalty of employees with potential. Such programmes include development programmes for young bank staff who achieved excellent results during their training, trainees, employees with high potential, managers and specialist experts and mentoring programmes for women in management. In 2010, we expanded these programmes with the addition of a career path for project and programme managers, which opened up additional career opportunities for employees without management responsibility.

Demographic changes, in addition to new processes and changes to the sector in which we work, continue to pose new challenges to companies and employees alike. That is why we have committed ourselves to align our staff development programmes more specifically than before with the various life-stages of our employees. Two examples serve to illustrate how the first measures of this initiative have already been implemented in practice:

We have put in place mentoring programmes in order to utilise the experience of our long-serving employees for the purpose of transferring knowledge to the next generation of managers and specialist employees. At the same time, we are in the process of making changes to our measures in the area of health protection. One of the things we would like

## Beacons 2010

**In order to ensure the SUSTAINABILITY of our REMUNERATION STRUCTURE, we have incorporated the concept of SUSTAINABILITY into our PERFORMANCE MANAGEMENT SYSTEM. In order to achieve this, we now include commitment to the sustainable development of NORD/LB as a fixed component of the system we use to reward performance and emphasise the importance of sustainability as a task of management.**

**We have been successful in supporting our employees to reconcile WORK AND FAMILY LIFE more effectively. As a result of a number of measures, we now provide ALL eligible EMPLOYEES with the RIGHT TYPE OF SUPPORT that reflects their own individual needs and life situation. In order to continue to develop this process, we underwent the "berufundfamilie" (Job and Family) audit, provided by the not-for-profit Hertie foundation, in 2010.**

## Challenges

**As a result of the CONSTANT INCREASE IN WORKLOADS – including those relating to the supervisory requirements arising from the economic crisis – we have witnessed a RISE in the number of cases of SICKNESS caused by stress and workload. In order to solve the conflict of objectives that exists between the requirement for increased efficiency and our responsibility for our employees' health, we have directed our Company Health Management activities more firmly in this direction and have supplemented these by the addition of a number of additional measures.**

to do is to roll out the "Best Ager" seminar, which is directed at those in the age-group of 49+ and aims to prepare employees in a targeted way for the challenges they will face in their everyday work in the future and provides them with prospects for their own professional development, more widely. To this end, we will include a workshop about developing personal health strategies for older employees.

Equality and diversity of opportunity already form a firm part of our corporate culture. By implementing the "Women in Management" initiative, which encompasses a mentoring programme for women in management positions and enables management positions to be undertaken on a part-time basis, we are setting a precedent that will ensure that these principles can be applied in all areas of the company. At the same time, this initiative will help to ensure that the proportion of female mangers in the bank, which currently lies at around 19.8 percent, continues to increase. The management workshop, a monitoring programme for young managers, also supports the professional development of both men and women and provides them with an opportunity to reflect upon their own professional practice.

## Performance and responsibility as basic principles

The concept of performance and proactively seeking responsibility form an integral part of everything we do and pave the way for the success of each individual and therefore for the bank as a whole. Managers themselves have an important role to play when it comes to implementing these principles on a daily basis. Our management principles, which are intended to lead our employees to achieve success in a way that takes account of each one as an individual by giving them the self-confidence they need, provide a framework in this regard. In order to ensure that they are able to continue doing this, we have updated our management principles so that they more accurately reflect the requirements of today. As part of the implementation process, which got underway in September 2010 with the Managing Board and managerial staff, we held workshops in each area of the bank, in order to explain how the management principles will work in practice. This enabled us to create a foundation that will ensure that as we progress into the future, management will continue to be based upon values and will still be oriented towards success, will be undertaken by qualified staff and will value the contribution that each employee has to make. Performance should not only be encouraged, but should also be remunerated. A cornerstone of our personnel policy is the performance management system, which forms the basis upon which the performance bonus is calculated. A key part of that process is a target-setting meeting (which is aligned to our corporate strategy), in conjunction with an appraisal meeting in which the employee assesses his/her own strengths and the development of his/her individual profile.

# Protecting health

Providing an active, preventative programme to protect our employees' health forms an essential component of our corporate social responsibility. With this in mind, we are in the process of ensuring that the various measures that are coordinated centrally by our occupational health and safety managers are continually developed. Protecting employees from factors that may make them ill, along with measures that will help them to maintain and enhance their health, play a central role in this regard.

Our external company doctors and social advisers also play an essential role when it comes to implementing measures to protect our employees' health. In addition to providing advice relating to occupational health (such as in relation to the ergonomic design of our workplaces), our company doctors also administer influenza vaccinations and carry out eye examinations. Our qualified social workers support employees who are going through difficult periods at work or at home. One of the principal occasions on which advice of this type plays an important role is at times when individual workloads are at their greatest (see "Challenges", page 57).

We also provide additional help to our employees in the form of our health seminars, such as "Fitness and Health", "Handling your energy effectively" or "Managing at times of high workload," etc.

In November 2010, NORD/LB successfully underwent an audit in order to achieve the status of "Corporate Health Company". The audit, which is an initiative of the Handelsblatt, TÜV SÜD Life Service and EuPD Research that is offered under the patronage of the German Federal Ministry for Labour and Social Affairs and of the Initiative Neue Qualität der Arbeit (INQA) – is a quality hallmark for companies whose efforts to promote the health of their own employees has been demonstrated to be above-average and that pursue a personnel strategy that is forward-looking and sustainable.

Over 35 company sports groups provide our employees with an opportunity to take part in sport, which forms a healthy counterbalance to their work commitments. In 2010, we expanded the range of company sports groups on offer with the addition of business yoga courses as a means of managing physical and mental stress. In addition to our "Cycle to Work" campaign, the annual NORD/LB Football Tournament, in which over 300 people take part, has become a fixed item on our company calendar. In 2010, over 200 employees also ran various distances in the TUIfly Marathon Hannover.

Our subsidiary, Deutsche Hypothekenbank AG, carries out a medical check-up and offers health coaching for employees over 50 years of age and provides a financial incentive to those employees who successfully obtain the German Sports Badge each year.
Our company restaurants also provide a varied menu incorporating regional and seasonal foods and regularly conduct campaign weeks, which provide employees with ideas about healthy eating.

# Supporting work-life-balance

Any company will require its employees to be loyal to the company and to be supportive of it and the same is also true of families. That is why all employees must be able to reconcile their family's needs with the requirements and challenges they are faced with at work and we have committed ourselves to helping them to achieve this.

**Tina Schönfelder**

**Segment Manager for Bad Gandersheim-Kreiensen-Greene at the Braunschweigische Landessparkasse**

"For me, working part-time means being able to combine my role as a mother with that of a manager, and being there whenever my family or my staff need me. Combining work and family in this way is possible, as NORD/LB provides many different modes of working that enable its employees to maintain their own work-life balance."

One of the factors that make a substantial contribution in this regard are our flexible working hours and the opportunities we provide for home-based working, together with a range of tried-and-tested modes of part-time working that enable us to combine the needs of the bank with those of the individual employee. The Bremer Landesbank, twenty-five percent of whose employees work part-time, is even featured in the database of best practice on the website www.erfolgsfaktor-familie.de, which is operated by the German Federal Ministry for Families.

We also take steps to facilitate our employees' ability to combine home and work obligations by providing access to childcare. In addition to offering places for children up to the age of three in childcare facilities, we also help our employees find childminders, childcare places in nurseries, kindergartens or playgroups operated by third-party providers. We also offer an emergency back-up facility, provided by third-party suppliers, and children's holiday programmes (for further information, please see "Beacons 2010", page 57).

Our aim is to help our employees reconcile their professional and family commitments by providing advice and referrals to providers of childcare facilities.

In June 2010, we were awarded certification by the berufundfamilie (Job and Family) audit that is operated by the Hertie foundation. As part of the re-certification process, it is our intention to implement additional, pre-defined measures relating to family friendliness over the next three years. These will include adjustments to our rules governing working hours.

# Key employee figures for NORD/LB Bank in Germany [1)]

| | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2008 | Unit |
|---|---|---|---|---|
| **Employees** | | | | |
| Number | 4 211 | 3 864 | 3 654 | |
| **Employee structure** | | | | |
| Proportion of female employees: | | | | |
| Total | 51.2 | 51.5 [2)] | 53.3 | % |
| In management positions | 19.8 | 19.1 | 20.5 | % |
| Part-time rate | 18.6 [3)] | 19.1 | 19.6 | % |
| **Working standards** | | | | |
| Number of employees with full freedom of association | 100 | 100 | 100 | % |
| **Staff development** | | | | |
| Number of employees with the opportunity for professional development | 100 | 100 | 100 | % |
| Training hours per employee | 25.1 | 19.8 | 17.9 | Hours per employee |
| Proportion of trainees | 4.4 | 4.3 | 4.3 | % |
| Expenditure for staff development activities | 7.1 | 6.8 | 4.9 | € millions |
| **Illness and fluctuation** | | | | |
| Illness rate | 4.4 | 4.1 | 4.2 | % |
| Fluctuation rate | 2.1 | 3.9 | 4.3 | % |

1) These figures account for 60.5 percent of the total number of employees of the NORD/LB Group.
2) The lower values are especially the result of the integration of NORD/LB Informationstechnologie GmbH into NORD/LB AöR and the resulting transfer of 181 employees, the majority of whom are male.
3) The lower value is the result of new appointments during the 2010 calendar year, most of which took the form of full-time employment contracts.

## Living our values · Acting sustainably · Shaping the future …

For corporate organisations, this means taking action to ensure the future viability of society. In addition to making active contributions to developments within society, it is also incumbent upon organisations to ensure that any undertaken business activities do not have a negative effect upon society itself.

# For society

Our intention is to avoid leaving the development of the society in which we live to chance. The fact that we are both a regional bank and an organisation under public law means that we form a more integral part of society than other corporate organisations. Playing an active part in society is our way of investing in shaping the future for one and all.

## Living integrity

The trust that our customers and other stakeholder groups place in us forms the core of the "licence to operate". Maintaining integrity and acting fairly in all of our dealings with customers and other market players therefore form the foundation of our responsibility as a company and of the corporate culture we seek to uphold. They also enable us to secure that trust in NORD/LB on a long-term basis. That is the reason why we encourage all of our employees to act with responsibility and integrity by holding regular training sessions and why we are constantly updating our systems of control and sanctions in response to the changing conditions.

### Increasing awareness of compliance across the Group

Effective compliance procedures enable the bank to ensure that all of the standards and regulations that apply at our various locations are implemented in an appropriate way. To this end, Compliance monitors the suitability and effectiveness of a multitude of processes and controls capital-market transactions carried out by the bank and its employees. The aim of this is to identify any potential risks or conflicts of interest at any early stage and to avoid them by taking preventative action. In order to ensure that Compliance is also in a position to uphold the interests of our customers at all times, it has been organised in a manner that is both neutral and independent. By monitoring the bank's ethical principles, by managing information that may affect the prices of shares and by controlling capital market activities and transactions that are susceptible to money laundering or fraudulent acts, Compliance itself forms the evidence that we are upholding our the requirement to act in accordance with the given rules and in an ethically correct manner. In 2010, Compliance started to develop a central body of

## Stefan Vinson

**Head of Compliance**
**Member of the Sustainability Steering Committee**

"Our partners and stakeholders place their trust in us, as we act with integrity and live up to our responsibilities on a daily basis. Our aim is to embed those values as the key components of our corporate culture, increasing the value of our company in a sustainable way."

evidence in relation to all regulatory requirements and to roll out a uniform definition of compliance throughout the group.

### NORD/LB's ethical principles

The bank's Ethical Principles take the form of a binding standard that sets out the bank's expectations with regard to its values and the fair conduct that it requires of all employees. They include clear and specific rules governing conflicts of interest, the combating of money laundering, the handing of confidential information, data protection, protection against discrimination and the acceptance and granting of benefits, gifts or invitations. The bank has also put into place a whistleblower system that enables all employees to report any fraudulent activities to an external ombudsman. This system also provides all employees with a guarantee that they can take action in order to uphold the integrity of NORD/LB, without any risk of discrimination. The system can also be used by our customers (for further information, please see "Beacons 2010", page 65).

### Focus on capital market compliance

Our shareholders expect that when carrying out capital market transactions, we will act in their sole interests. That is why Compliance imposes and monitors the requirements that enable the bank to avoid conflicts of interest, to provide our customers with the best possible advice and to carry out their wishes to the best of its ability. In the event that the investor's interests are not being satisfactorily represented, any complaints will be investigated, without taking the interests of the bank into account. In 2010, we took steps to increase the transparency of advisory discussions through a more comprehensive documentation and to increase the level of customer protection. What is more, we also streamlined the processes we use to detect actions that may be used to manipulate the market or to detect short-selling that may have a detrimental market effect. As far as these types of actions are concerned, compliance also imposed stringent and binding rules governing the handling of insider information and is monitoring the implementation of these.

### Preventing money laundering and fraud

In 2010, we continued our proactive stance towards combating money laundering within the Group by introducing a Group Money Laundering Policy. By carrying out an analysis of the threat and by updating that analysis yearly, we are able to put in place effective checks and countermeasures in response to identified risks. These checks and countermeasures also prevent NORD/LB from entering into or continuing any illegal or punishable business relationships. If ever we are informed of any suspicious transactions or business relationships, we will consistently report them. The principles that applied up until now with regard to the avoidance of fraudulent acts have now been brought together in the form of a Group Fraud

Prevention Policy and have been amended in the light of the current situation (see “Beacons 2010”, page 65). As an additional preventative measure, awareness amongst the bank’s employees was increased, by means of an web-based learning programme, face-to-face instruction and a newsletter containing the very latest warnings.

### Regulatory compliance

As a result of the increasing complexity of the regulatory background, a considerable amount of effort is required in order to ensure that the bank’s actions are in compliance with the law. The bank recently created a Regulatory Compliance unit, in order to identify and bring together all of the regulations that apply in relation to the supervision of the banking sector both at home and abroad. This unit also monitors the introduction of appropriate processes that will ensure compliance with those regulations. This will enable NORD/LB to conduct its business activities in a responsible manner at all of its locations.

## Beacons 2010

**In order to ensure ethical behaviour effectively, we rolled out our WHISTLEBLOWER system across the Group. This system enables us to comply with OUR ETHICAL PRINCIPLES by providing an opportunity to report cases that are suspected to be unethical. We have now extended the system SO THAT OUR CUSTOMERS MAY USE IT TOO.**

**With our GROUP-WIDE MONEY-LAUNDERING POLICY and our FRAUD PREVENTION POLICY, we have brought together the principal elements that enable us to prevent money laundering or fraudulent acts and have modified them in line with the changing situation. These will provide all employees with clear rules and will form a foundation that will put in place UNIFORM WORKING PROCEDURES WITHIN THE NORD/LB GROUP.**

**Through our initiative known as “SIE ENGAGIEREN SICH – WIR UNTERSTÜTZEN SIE” (You give your time ... we will support you), the MANAGING BOARD has decided to increase the support it provides to enable its employees to commit themselves to voluntary activities. As part of this, all FUNDS raised by the bank’s employees on behalf of their charitable causes will be TOPPED UP from the bank’s budget for charitable donations.**

**The Braunschweigische Landesparkasse used the supraregional project known as “BE YOUR OWN HERO” as a means of encouraging young people to become involved in community projects. In all of the bank’s business regions, it CALLED UPON 3100 SCHOOL PUPILS TO TAKE ON A VOLUNTARY ROLE. The “be your own here” award, linked to the project, takes the form of a competition that collects, awards prizes to and helps to implement ideas relating to commitments to society. As a result this initiative, the Braunschweigische Landessparkasse is sending a message that emphasises how important it is that future generations take responsibility within society.**

# Our commitment to the future

Strong companies need a future-proof society in which to operate. We have committed ourselves to achieving this. As a major bank in our core regions, we have been taking direct responsibility for society, thereby contributing to its viability in the future, whether in our capacity as a provider of financing or of subsidies for the arts, culture or science, by supporting social projects, acting as a donor, sponsor or benefactor or in the form of voluntary activities carried out by our employees. In addition, we take account of the challenges that will face society in the future so that we can set out a long-term strategy and can identify individual areas of focus.

### A focus upon social projects

Demographic change means that society is now facing new demands and the effects of these mean that new solutions are now required. That is why, when determining our social involvements for 2010, we placed an even greater emphasis upon encouraging social projects. Our funding principles formed the basis for this.

The purpose of our involvement is to help others to help themselves, with a special emphasis upon enabling young people get off to a good start on the road. Therefore, we support institutions and organisations that aim to offer everyone the same chances of receiving a good education. These include children's day nurseries and schools in urban districts that contain social flashpoints, as well as a variety of community projects, such as the Workers' Welfare Association, church-based welfare and social work and other initiatives, such as lunches for socially-underprivileged children, young people and the homeless. In addition, we continued to support the work of the diagnostics and treatment centre for abused children (KiD) in Hannover, having provided the set-up capital for that organisation back in 2008. We were also involved in the Children of Chernobyl foundation and the AWO Kinderfonds. We also decided not to send Christmas presents to our customers and business contacts, but to provide donations in support of community-based organisations in the areas in which we do business.

In order to ensure equality of access to education for all, NORD/LB supported the "n-21 online" project for the eighth time in 2010 by providing a five-figure donation. The project sets out to develop the IT skills of school pupils in Lower Saxony and is intended to bring all schools into the internet-age. Other contributions made by the bank included its involvement as the regional sponsor of "Jugend forscht", a competition for young scientists that took place in Braunschweig, the realisation of Europe's largest stock trading boardgame, the "The Economy comes to school" initiative, the "Jump" training for job applicants in Holzminden and the "University for Children" (Kinder-Universität) in Braunschweig. What is more, the Braunschweigische Landessparkasse has acted as the primary patron of the "KnowledgeResearcher" (WissensForscher) project , which is supported by the Education Ministry in the federal state of Lower Saxony. The purpose of the project is to teach primary schoolchildren the basic laws of physics by carrying out experiments that the children can also carry out in the kitchen at home and by capturing those experiments in audio-visual form so that they can be followed up later in the form of an educational DVD. By supporting this project, the Braunschweigische Landessparkasse made an additional contribution towards promoting innovative ideas for early-years education.

Through its involvement in the NordWest Award since 2005, the Bremer Landesbank, (subsidiary of NORD/LB), has been playing a pioneering role when it comes to shaping the future of its home market. The NordWest Award is a public advancement award that was opened to entrants for the fifth time in 2010. The organisers of the Award were on the look-out for strong, creative initiatives that provide an impetus to processes within the community, the economy or the region, which serve to strengthen the spirit of cooperation and sense of identity associated with the metropolitan area of North-Western Germany.

The investments we make in the future capabilities of our local communities are all in a worthy cause and also provide us with very special return. That is why we commit significant financial resources to such initiatives. The support we provide via the Lower Saxony Sparkasse "Save and Win" (Sparen und Gewinnen) lottery plays an important role in the area in which the Braunschweigische Landessparkasse operates. In 2010, the funds generated by the lottery once again provided over 240 000 euros in funding for projects involving children and young people, sport, the arts and culture and social causes.

**For further information on these and other topics, please visit**
www.nordlb.de/foerderung
www.gut-bs-land.de
www.bremerlandesbank.de/foerderung

**Strengthening our employees' contribution**

Many of our employees make an additional contribution towards the future of society by undertaking voluntary work in associations, not-for-profit organisations, foundations and in educational establishments. We are convinced that without personal involvements, a great many things within our society would simply be impossible. That is why we not only support our employees' involvement in this role, but we also proactively invite our employees to sign up. Through our initiative known as "Sie engagieren sich … wir unterstützen Sie" (You give your time… we will support you), the bank provides top-up funding in order to bring the money collected by its employees for an eligible organisation up to a certain amount. In view of the critical financial situation in a number of social domains, the Managing Board has decided to increase the support even further. To this end, it has launched a funding initiative for the employees and their organisations, by means of which the employee involved acts as an intermediary of the not-for-profit organisation he/she represents and is able to request funding from the bank. (see "Beacons 2010", page 65).

**For further information, please visit**
www.nordlb.de/exchange

In 2010, the Braunschweigische Landesparkasse used the supraregional project known as "be your own hero" as a means of encouraging young people to become involved in community projects and take on roles of responsibility within society (see "Beacons 2010", page 65).

Under the motto "S läuft für einen guten Zweck" (S is running for a good cause), the Braunschweigische Landessparkasse launched a project that combined sport with an element of social service. The project, which took the form of a number of runs, provided both men and women with an opportunity to take action to improve their health and fitness, whilst also clocking up an increasing number of kilometres. The Sparkasse then converted those kilometres into donations for community-based institutions. In 2010, some 430 participants took part in 22 runs in the region around Braunschweig and covered a total of 10 000 kilometres. The Landessparkasse then topped up the total amount of the donations raised, which were used to fund three selected projects in Bad Gandersheim, Braunschweig and Salzgitter.

**Providing social benefit**

The STIFTUNG NORD/LB · ÖFFENTLICHE is a foundation launched jointly by NORD/LB and the Öffentliche Versicherung Braunschweig in 1994 and is one of the largest regional foundations in Lower Saxony. Its work is concentrated within the area around Braunschweig, the region in which the Braunschweigische Landessparkasse and the Öffentliche Versicherung operate. In 2010, it paid out more than € 850 000 in support of 50 individual projects in areas such as art and culture, science, research and transfer and sport.

In parallel with its activities as a funding provider and the associated advisory services, the foundation also developed additional competence in 2010: administering third-party not-for-profit foundations. The foundation is putting the experience and knowledge it has gained during the 16 years to ensure that ideas put forward by individual citizens that could lead to the setting up of additional foundations are actually realised. At the present time, the STIFTUNG NORD/LB · ÖFFENTLICHE foundation is involved in administering two independent foundations and two foundations of trustees.

**For further information, please visit**
www.stiftung-nordlb-oeffentliche.de

# Living our values • Acting sustainably • Shaping the future …

This also means for companies conducting their activities in a manner that is in harmony with the natural environment, so that integrating environmental protection into our ordinary operational activities becomes a long-term planning task. An effective climate protection programme now plays an increasingly important role.

# For the environment

It goes without saying that our aim is to achieve business success in the most environmentally-friendly way that we can. For us, that means continually reducing the effects that our activities have upon the environment. A company programme of environmental protection measures is therefore indispensable and represents an important opportunity to ensure the sustainability of our operational activities and processes. Since the early 1990s, protecting the environment has therefore formed an integral part of our activities to promote sustainability.

## Managing environmental protection

When it comes to enhancing the eco-efficiency of our company, we set ourselves ambitious targets and carry out environmental audits to check its efficiency. Right from the start, the activities we undertake have formed an integral part of the bank's procedures and processes. Our environmental protection measures therefore take the form of a network structure. Based upon environmental audits, our environmental team directs the substance and energy flows within NORD/LB, defines specific environmental protection targets each year and coordinates measures that will enable them to be achieved. The team itself is supported by the overarching network of environmental partners, which also provides training courses on the subject of corporate environmental management and answers all of the questions about environmental protection that may arise within NORD/LB.

Our environmental guidelines ensure that our efforts towards protecting the environment are both consistent and binding. Those guidelines then form the basis for more detailed guidelines that apply in relation to individual functional areas, as appropriate. In order to ensure that the future viability of our efforts to protect the environment is maintained, we updated our overarching environmental guidelines in 2009, bringing them into line with current requirements. On that basis, we went on to update the guidelines for individual functional areas in 2010.

# Saving resources

As part of our resource management process, our primary focus is to reduce our consumption of paper, water and energy and to avoid or recycle our waste.

We understand sustainability and protecting the environment as a process of continual improvement. In line with this, we successfully improved our environmental performance in 2010, despite a rise in the number of employees due to the creation of additional posts and despite the increase in our commercial activities and the changes in weather conditions. The improvement that was achieved in terms of our environmental balance sheet is especially borne out by the figures per employee.

Despite an increase in the number of employees, we actually reduced our overall consumption of printing and copier paper and company stationery by 9.6 percent to 263 581 kg, of which 217 038 kg was attributable to printing and copier paper, which was 5.2 percent lower than in the previous year. Our paper consumption per employee was also down by 12.9 percent, at 10 308 sheets per employee. At just under 31 percent, the proportion of recycled paper bearing the “Blue Angel” logo that was consumed during the period under review was once again lower than we wanted it to be and we intend to change this in the future. As far as the fresh-fibre papers that were used for printing, copying and publications are concerned, we only use paper produced from sustainable forests that bears the hallmark of the Forest Stewardship Council (FSC).

The additional leasehold premises that were required in order to accommodate the increased number of employees gave rise to a 9.1 percent rise in water consumption, taking the company’s total water consumption to 52 220 $m^3$. By implementing changes to our waste concept, we achieved a significant reduction in the quantity of waste generated, which, at 741 339 kg, was down by 11.7 percent when compared to the previous year. For further information please see “Beacons 2010”, page 71.

# Responsible procurement

In order to ensure that environmental protection is effectively integrated within our company’s operations, we also involve our suppliers and service-providers in our environmental protection measures. To this end, we now include social and ecological aspects as an integral part of our procurement guidelines, as well as in all supplier and service provision contracts. In this way, we also impose a requirement that our chain of suppliers also complies with the standards that apply and are in use within NORD/LB. In 2010, we took steps in order to increase the proportion of consumables that are derived from recycled sources. This in turn enables us to play our part in completing material cycles in a more efficient way.

# Improving our energy efficiency

The best choice to reach this aim is in controlling our energy use in heating and electricity of our buildings as well as in travelling in a climate-friendly way. That's what we have committed ourselves to do.

### Our contribution – Buildings management

One of the most important ways to that our banking operations are as sustainable as possible is by ensuring that our buildings are constructed and operated in an environmentally-friendly manner. Here we are able to achieve the greatest impact, in terms of the environment and health, as well as by generating cost savings. The modernisation of our branch in Salzgitter-Lebenstedt in October 2010 was our first major modernisation project in line with the Energy Savings Ordinance (EnEV). This was based upon our guidelines for the environmentally-friendly construction of new buildings, which were revised in 2008. The modernisation enabled us to implement a fully-developed energy plan, with its emphasis upon the practical implementation of state-of-the-art ecological standards and the realisation of buildings whose energy requirements are sustainable. For further information, please see "Beacons 2010", page 71. In the case of existing buildings, our primary focus will be to continue analysing their energy weaknesses. Our buildings management department will then be able to determine any necessary measures. At the same time, we are continually adapting the use to reflect the actual needs. Nevertheless, the consumption for heating increased to 19 366 867 kwh (+ 27 per cent) in 2010. In addition to the cold winter, the fact that the company needed to lease additional premises for new employees formed one of the primary reasons for this. For further details, please see the section entitled "Challenges" on page 71.

## Beacons 2010

**In order to utilise the measures we take to improve our energy efficiency in reducing our $CO_2$ balance, we started to obtain 10 percent of our ELECTRICITY NEEDS from RENEWABLE ENERGIES in early 2010. Taking this step enabled us to combine economic and ecological benefits, whilst also sourcing our electricity supply in a more climate-friendly way.**

**The construction of our BRANCH in SALZGITTER-LEBENSTEDT in 2010 was our first new-build project for a number of years and provided us with an opportunity to implement the very latest environmental standards. In keeping with our efficiency targets, this new building will enable us to make savings in the amount of ENERGY CONSUMED FOR HEATING PURPOSES, and for ELECTRICITY consumption.**

**We also improved our WASTE MANAGEMENT system with the addition of SUCCESSIVE MEASURES, which enabled us to significantly reduce the total AMOUNT OF WASTE generated in 2010. The total quantity of waste produced was down by nearly 12 percent, whilst paper waste was 24 percent less and special waste was 15 percent less.**

## Challenges

**In 2010, we actually witnessed a RISE in some of the figures of our Ecological Balance Sheet. An increase in opportunities in our core business areas, coupled with the appointment of additional employees actually had a negative effect upon our environmental performance, especially with regard to our ENERGY CONSUMPTION and BUSINESS TRAVEL. During the coming years, we intend to resolve this CONFLICT OF OBJECTIVES by implementing appropriate measures enabling us to be successful in achieving our ambitious energy-efficiency targets.**

### Our contribution – Electricity

As a provider of financial services, our use of information and communication technology forms one of the key factors that affects our electricity consumption and the resulting financial costs and environmental effects and therefore also impinges upon our ability to ensure that our banking operations are conducted as sustainably as possible. As far as our IT activities are concerned, we are therefore focusing upon increasing our energy efficiency and minimising the effects our products have upon our climate. In

**Jörg Abramowsky**

**Environmental Protection Coordinator**

"The increasing ecological requirements mean that our environmental performance forms an integral part of our company performance. We are committed to achieving continuous reductions in our environmental footprint."

addition to using multi-functional devices that are capable of being used as printers, copiers and fax machines all in one, thereby helping to save energy and raw materials, we are also realising our energy efficiency targets by virtualising our server systems, so as to increase their utilisation rate, thereby reducing the amount of energy required to operate the servers and to cool down our server rooms.

In 2010, the increase in electricity consumption of just under 20 856 423 KWh (up by 5.1 percent), caused by the increase in the size of the bank's premises, overcompensated for our ability to generate savings. By obtaining our electricity from regenerative sources, however, we managed to reduce the quantity of $CO_2$ emissions by 9.5 percent, taking it to 10 095 tonnes. For further information, please see " Beacons 2010", page 71.

### Our contribution – Mobility

For journeys within Germany, we prioritise the railways and will substitute travel by air or car with rail travel, wherever possible. Due to the wide geographical spread of our activities, travel by car will stay the form of transport that is most frequently used within NORD/LB. New business prospects and increasing business opportunities meant that the distance travelled by car increased by 18.5 percent in 2010, reaching a total of 6 780 537 km. In order to increase the mobility of our customer account managers, ensuring to provide the same degree of customer support, we found it necessary to increase our fleet of vehicles in 2010. There was also a slight increase in the amount of air travel. By increasing awareness amongst our employees, however, we successfully achieved a slight increase in the proportion of business rail travel. Additional relief was also provided as a result of amendments to our travel costs guidelines, together with an increase in the use of video-conferencing and teleconferencing facilities. Nevertheless, these were not sufficient to fully compensate for the increase in the proportion of business car travel. The number of kilometres travelled in 2010 therefore totalled 15 316 537 km, which was up by 8.2 percent. The quantity of $CO_2$ emissions resulting from business travel increased by 13.6 percent, to 2 239 tonnes. For further information, please see "Challenges", page 71.

## Making people aware

We believe that protecting the environment is the task of managers and setting ambitious targets and implementing ambitious measures are equally as important as ensuring that those targets and measures are effectively implemented. At NORD/LB, our success in achieving our targets can be attributed to the fact that protecting the environment forms a firm part of our company culture and constitutes an integral part of the work undertaken by all employees on a daily basis, at all levels within the organisation.

One of the things that have enabled this to happen is our system of in-house dialogue, the purpose of which is raise awareness amongst our employees of the key requirements and environmental issues, to provide specific examples of best practice and to point out, the potential benefits for our employees, the bank and the environment. Making minor changes to our work processes and optimising our use of materials and resources will enable our staff to help us to achieve our ecological efficiency targets and to improve both our ecological and our corporate balance sheet.

## Environmental balance sheet data for NORD/LB Bank in Germany[1] at a glance

| | Absolute 31 Dec. 2010 | Absolute 31 Dec. 2009 | Absolute 31 Dec. 2008 | Unit | Per employee 31 Dec. 2010 | Per employee 31 Dec. 2009 | Per employee 31 Dec. 2008 | Unit |
|---|---|---|---|---|---|---|---|---|
| Total waste | 741 339 | 839 135 | 759 983 | kg | 176.04 | 217.17 | 207.99 | kg/MA |
| Paper | 369 652 | 489 009 | 440 981 | kg | 87.78 | 126.56 | 120.68 | kg/MA |
| Remaining waste | 290 899 | 242 646 | 223 390 | kg | 69.08 | 62.80 | 61.14 | kg/MA |
| Hazardous waste | 8 845 | 10 442 | 10 921 | kg | 2.10 | 2.70 | 2.99 | kg/MA |
| Recycled materials excluding paper | 71 943 | 97 038 | 84 691 | kg | 17.08 | 25.11 | 23.18 | kg/MA |
| Consumption | | | | | | | | |
| Water consumption | 55 220 | 50 636 | 50 057 | $m^3$ | 13.11 | 13.10 | 13.70 | $m^3$/MA |
| Paper consumption[2] | 217 038 | 228 850 | 190 138 | kg | 51.54 | 59.23 | 52.04 | kg/MA |
| Paper consumption[3] | 263 581 | 291 587 | 254 120 | kg | 62.59 | 75.46 | 69.55 | kg/MA |
| Energy consumption | 40 223 290 | 34 082 774 | 36 612 323 | kWh | 9 551.96 | 8 820.59 | 10 019.79 | kWh/MA |
| Heating | 19 366 867 | 13 931 234 | 16 108 813 | kWh | 4 599.11 | 3 605.39 | 4 408.54 | kWh/MA |
| Electricity | 20 856 423 | 20 151 540 | 20 503 510 | kWh | 4 952.84 | 5 215.20 | 5 611.25 | kWh/MA |
| Business travel | 15 316 537 | 14 158 362 | 12 714 878 | km | 3 637.27 | 3 595.32 | 3 413.80 | km/MA |
| Air | 4 970 801 | 4 954 990 | 3 775 177 | km | 1 180.43 | 1 258.25 | 967.25 | km/MA |
| Rail | 3 565 199 | 3 481 430 | 3 183 301 | km | 846.64 | 884.06 | 871.18 | km/MA |
| Car | 6 780 537 | 5 721 942 | 5 756 400 | km | 1 610.20 | 1 453.01 | 1 575.37 | km/MA |
| $CO_2$ emissions | 15 629 | 15 612 | 15 844 | t $CO_2$ | 3.71 | 4.04 | 4.34 | t $CO_2$/MA |
| From energy consumption | 13 390[4] | 13 641 | 13 967 | t $CO_2$ | | | | |
| From business travel | 2 239 | 1 971 | 1 877 | t $CO_2$ | | | | |

1) Comprises 60.5 percent of the employees of the NORD/LB Group.
2) Printer and copier paper.
3) Including letterheaded stationery.
4) Also influenced by the use of renewable energies to supply electricity to our business premises.

# Declaration of Norddeutsche Landesbank Girozentrale on the German Corporate Governance Code

The German Corporate Governance Code contains important rules on the conduct and monitoring of German listed companies. It contains nationally and internationally recognised standards for good and trustworthy company management, in particular in respect of the conduct of leadership and organisation of a company, as well as control mechanisms and cooperation between the Managing Board and the Supervisory Board. The objective of the Code is to strengthen the trust of investors, customers, employees and the general public in the leadership and monitoring of a company.

Due to the Code's legal provision towards listed joint-stock corporations, compliance with it is not a statutory requirement for NORD/LB, given the bank's position as a credit institution taking the legal form of a public-law institution (Anstalt öffentlichen Rechts). Nevertheless, NORD/LB considers it an important matter that it positions itself in the market as a reliable and trustworthy partner. We believe transparent company management to be a significant aspect of this requirement. For this reason, the bank has resolved to comply with the Code's suggestions and recommendations developing in-house principles that follow the code's rules, to the extent that this is possible and appropriate within the context of the specific legal form and ownership structure.

NORD/LB pays particular heed to those rules that are concerned with the structure of the corporate bodies, their responsibilities, their collaboration and with the transparency of the company. In these areas, NORD/LB largely complies with the recommendations and suggestions of the Code. In respect of transparency, all information published by the bank, including the Group's Annual Financial Statements, Semi-Annual and Quarterly Financial Reports, is also available from its website.

### Managing Board

The Managing Board manages the bank on its own account in pursuit of the objective of sustainable value creation in the interests of the bank, and with particular respect to the needs of its owners, employees and its public responsibilities as a state bank (Landesbank) and clearing bank (Girozentrale). The Managing Board conducts business in consideration of the statutory requirements, the constitution of the bank and the general and specific guidelines adopted by the Owners' Meeting or the Supervisory Board, and ensures that all subsidiaries of the Group also comply therewith. In particular, the Managing Board ensures that appropriate risk management and risk controlling systems are in place according to the structure of the bank's business.

The Managing Board comprises the Chairman, the Vice Chairman and other ordinary members. In deciding the composition of the Board, attention is also paid to ensuring the diversity of its make-up. The Chairman of the Managing Board decides how its business is subdivided, with the agreement of the other Board members. Each Board member is assigned at least one specific business division. The Managing Board is represented by at least one member at each registered office of the bank.

The Managing Board agrees the strategic direction of the bank with the Supervisory Board, with which it discusses at regular intervals the progress made in implementing the strategy. It provides regular reports to the Supervisory Board, on the basis of individually established information and reporting requirements, on significant bank matters, in particular those relating to intended business policy and other elementary questions of company planning, the profitability of the bank and in particular its equity capital, its business operations, its situation, transactions that may be of considerable importance for the profitability and liquidity of the bank and for the situation of its assets, finances and revenue, and on the risk situation of the bank and its systems of remuneration.

Furthermore, in the case of important events that are of particular relevance to the situation of the bank, the Managing Board reports to the Supervisory Board, in particular on the risk situation, and involves the Supervisory Board in any fundamental decisions that must be made.

The remuneration of the members of the Managing Board, which comprises both fixed and variable (performance-related) elements, is agreed and regularly verified by the Presidial Committee of the Supervisory Board. Provision is made for this to take account of both positive and negative business performance.

**Supervisory Board**

The task of the Supervisory Board is to provide the Managing Board with regular advice and to monitor the Managing Board's management of the company. It decides on the appointment and dismissal of members of the Managing Board, the general guidelines governing the business of the bank, the annual schedule as presented by the Managing Board, the rules of procedure for the Managing Board, the appointment and commissioning of the auditors, the adoption of the financial statements and on the entering into of shareholdings. The Supervisory

Board may also decide that other transactions and measures that are of particular importance for the bank also require its agreement. It prepares rules of procedure for itself and its committees.

The Supervisory Board comprises 18 members, of whom 12 are representatives of the owners. The remaining six are elected by the employees of the bank in accordance with the rules of the Lower Saxony Staff Representation Act. The term of office is four years. The Chairman of the Supervisory Board is the Finance Minister of the State of Lower Saxony. The First Deputy Chairman is the Chairman of the Lower Saxony Savings Banks and Giro Association (Niedersächsische Sparkassen- und Giroverband – NSGV), while the Second Deputy Chairman is the Finance Minister of the State of Saxony-Anhalt. If the Chairman of the Supervisory Board is unable to attend, he is represented by one of his two deputies. There are no former members of the Managing Board of the bank on the Supervisory Board. The constitution of the bank does not permit former members of the Managing Board to become the Chairman of the Supervisory Board.

In order to support its work in respect of the business structure of the bank, the Supervisory Board has established a Presidial Committee, an Audit Committee and a General Working and Credit Committee. Additional committees may be formed as required. The members of the committees should be members of the Supervisory Board. When a Supervisory Board member's term of office comes to an end, any membership of committees also ceases. The Presidial Committee is responsible for preparing meetings and resolutions of the Supervisory Board, and for dealing with urgent business and personnel-related matters.

The Audit Committee monitors the audits of the bank's individual and consolidated financial statements, and reports to the Supervisory Board – on the basis of the auditor's report – on the results of the audit of the financial statements. It is also responsible for monitoring the accounting process and the effectiveness of the internal control and audit system, and of the risk management system. The Audit Committee also verifies and monitors the independence of the auditor, in particular in reference to the additional services the auditor provides to the bank. At least one member of the Audit Committee must be independent and must have expert understanding in the fields of accounting or auditing. The Chairman of the Supervisory Board does not also chair the Audit Committee at the same time.

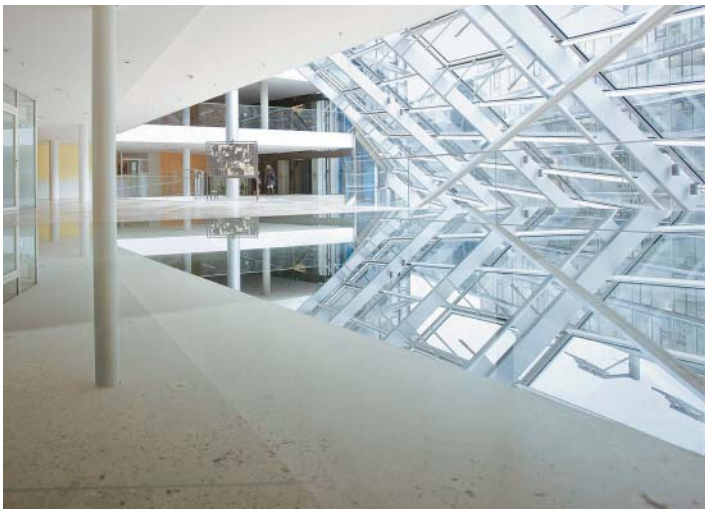
The task of the General Working and Credit Committee is to fulfil the rights and duties of the Supervisory Board in the provision of advice and monitoring of the company management of the bank at regularly scheduled meetings.

**Owners' Meeting**

The bank's guarantors, and therefore its owners, are the State of Lower Saxony, the State of Saxony-Anhalt, the Lower Saxony Savings Banks and Giro Association (Niedersächsische Sparkassen- und Giroverband – NSGV), the Saxony-Anhalt Savings Banks Holding Association (Sparkassenbeteiligungsverband Sachsen-Anhalt – SBV) and the Special Purpose Holding Association of the Mecklenburg-Western Pomerania Savings Banks (Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern – SZV). Each owner may appoint up to two representatives to attend the Owners' Meeting. Voting rights are exercised according to the share held in the capital of the bank. The representatives of each individual owner must cast their votes in the same way. Members of the Managing Board of the bank participate in the meetings in an advisory capacity at the invitation of the Chairman of the Owners' Meeting. The Owners' Meeting adopts resolutions concerning matters of fundamental importance, in particular those referring to a change to the statutes, any matters pertaining to the capital and other equity, the general principles of the business policy, the entry of other legal persons under public law into the bank, the entering of shareholdings in such institutions or the merger of the bank with other public-law credit institutions, the conversion of the bank into a joint-stock company or another legal form. Moreover, the Owners' Meeting adopts resolutions relating to the appropriation of profit, discharge of the Managing Board and the Supervisory Board, remuneration of the members of the Supervisory Board, the committees and advisory boards and on all other matters for which it is allocated responsibility in the statutes.

**Rights and duties of the members of the bodies of the bank, cooperation between the bodies.**

The members of the bodies of the bank work closely to the bank's benefit, and must support the bank to the best of their abilities by their conduct in office. They are sworn to secrecy. In the conduct of their business, the members of the Managing Board must exercise the care of a proper and conscientious business manager. In the event that the members of the Managing Board are in breach of their duties, they are obliged to repay the bank the resulting loss in the context of the principles of the "business judgement rule". This also applies accordingly to the duty of care obligation and responsibility of the members of the Supervisory Board. The members of the Supervisory Board are not bound by orders and instructions. They are obliged to disclose any conflict of interest to the Supervisory Board.



52° 22' N, 9° 44' O
Hanover

# Group Management Report

pages 79 – 165

## Content


80 Business Activities and the General Environment
86 NORD/LB Norddeutsche Landesbank Girozentrale
88 Personnel Report
89 Earnings Position
93 Net Assets and Financial Position
95 Supplementary Report
96 Development of the Business Segments
113 Risk Report
156 Forecast Report
165 Statements relating to the future


# Business Activities and the General Environment

(Previous year figures for the 2009 accounting period or as at 31 December 2009 are shown in brackets.)

## Economic Development

### Germany

According to initial estimates by the Federal Statistical Office, in the past year the German economy recovered from the recession of 2009. Real gross domestic product (GDP) increased by 3.6 per cent compared to the previous year and by twice as much as in the eurozone as a whole (1.7 per cent). This scale of the recovery could hardly be expected last year. A large part of the preceding 4.7 fall in GDP percent was recovered. The German economy started 2010 with a statistical surplus of only 0.7 percentage points, which again underlines the high rate of growth for 2010 as a whole. The growth recorded was slightly above the record GDP growth for Germany as a whole of 2006. The recovery process following the most severe recession since the war therefore resulted in the highest growth in GDP since reunification. The deficit ratio increased in the same period to 3.5 per cent of nominal GDP; however, the increase was much less than had been feared one year ago due to the rate of economic development.

Germany benefited particularly from the dynamic global economy due to its traditionally strong exports. Other important industrial nations such as the USA and Japan, as well as in particular numerous emerging economies, also recorded high economic growth in 2010. Driven by this development, global trade grew by a double-figure rate in the past year compared to the previous year and therefore reached the level seen before the crisis. This provided significant impetus for Germany's manufacturing sector, which was reflected among other things by a significant rise in orders from abroad for German companies and in industrial production. Global stabilisation, economic stimulus programmes and very expansive monetary policy played their part in the global economic recovery. During the course of the year the indications of a largely self-supporting recovery grew ever stronger. Against this background it is hardly surprising that the Ifo Business Climate Index recovered strongly and in December a new record was set.

German exports grew in real terms by 14.1 per cent in 2010, while imports grew by 13 per cent. Net exports contributed 1.1 percentage points to real GDP; the remaining 2.5 percentage points were attributable though to domestic expenditure. In particular investment in plant and equipment increased strongly in 2010 by 10.9 per cent (adjusted for prices), although this only partly compensated for the fall in 2009. This development, which was very dynamic in the final quarter as well, is also attributable to the phasing out of the option of degressive depreciation. However, historically low long-term real interest rates and the sharp rise in capacity utilisation also made a contribution to this. Construction investment grew by 2.8 per cent due to among other things the measures take within the scope of economic stimulus programmes and the historically low mortgage interest rates. Public consumption rose by 2.3 per cent, while private consumption rose by 0.4 per cent compared to 2009.

This is not least attributable to the good development in the job market. While unemployment rose in most western industrial nations due to the financial crisis, in some cases drastically, underemployment rose slightly in Germany for only a short period; it has been falling steadily since mid-2009. The instrument of short-time work, which involved 1.5 million people during the peak period, as well as the flexible reaction of unions and employers, made a significant contribution to this. This figure has fallen significantly since the start of 2010 in parallel to the fall in unemployment and during the course of the economic recovery. The average unemployment rate for the year also fell to 7.7 per cent; the absolute figure of statistically recorded persons without a job reached its lowest level for around 18 years in November with 2.93 million people.

In addition to the very pleasing development in the job market, in the past year relatively low inflation also had a positive effect on real purchasing power and private consumption. After prices had remained virtually constant in 2009, the national Index of Consumer Prices rose only by a moderate 1.1 per cent in 2010. This resulted in a rise in real standard salaries and wages in the past year of 0.7 per cent. Effective gross income per employee rose in real terms by 1.1 per cent; this was attributable in particular to the reduction in short-time work and the significant rise in the number of actual hours worked.

### Lower Saxony

In Lower Saxony economic development recovered significantly in 2010. In the first half of the year gross domestic product (adjusted for prices) rose by 2.7 per cent compared to the same period for the previous year. Between the first half of 2008 and the first half of 2009 a fall of 6.3 per cent had been seen. The development in 2010 was supported by growth in the manufacturing sector and in construction. Among the strongest industries, the metal, chemical, automotive and rubber industries recorded the strongest growth in sales.

While the economic recovery progressed rapidly, the job market grew more slowly. Due to the massive use of short-time work during the crisis, which allowed jobs to be saved, there was no urgent catch-up requirement. The number of persons in gainful employment in Lower Saxony rose by 0.8 per cent in 2010; this rise was above the average for all German states as well as the average for all Western German states (in each case 0.5 per cent). There were more jobs in particular in the services sectors and in construction. The manufacturing sector in Lower Saxony on the other hand employed 1.5 per cent fewer people in 2010 than in the previous year. This fall was seen particularly in the first two quarters; these figures suggest that consolidation was taking place towards the end of the year. The average unemployment rate for 2010 was 7.5 per cent compared to 7.8 per cent in the previous year and therefore 0.9 percentage points above the average for Western Germany as a whole.

### Bremen

In the state of Bremen the economy has recovered. The rate of stabilisation and recovery were much more dynamic than expected. Gross domestic product grew in Bremen in the first half of 2010 in real terms by 2.6 per cent compared to the same period for the previous year. Growth at national level was 3.6 per cent. States with a high share of industry have benefited more from the noticeable revival in demand in the global economy. Industrial turnover in Bremen rose much stronger though in the first half of the year than the national average. In the second half of the year the rate of growth slowed down somewhat.

In 2010 the number of persons in gainful employment fell slightly in the state of Bremen in spite of the clear improvement in the overall economy. The main factor for this overall stagnant development was the fall in employment in the manufacturing sector which was not compensated by the rise in employment in the services sector. The unemployment rate even rose slightly in 2010 in Bremen compared to the previous year from 11.8 to 12 per cent.

### Saxony-Anhalt

Saxony-Anhalt also participated in the recovery in 2010. However, it did not achieve the high level of growth for Germany as a whole. In the first half of the year gross domestic product in Saxony-Anhalt grew in real terms by 1.3 percent. The reason for the state's restrained development was among other things the decline in construction and in commerce. These economic sectors have a higher share of the overall economy's gross value added in Saxony-Anhalt than in Germany as a whole. However, even economic sectors which experienced a positive development such as the manufacturing sector and energy and water supply were below the average for Germany in the first half of the year. Industry in Saxony-Anhalt is much less export-oriented and therefore only benefited slightly from the rise in exports. In the second half of the year, however, industrial turnover increased sharply in Saxony-Anhalt, so that over the year as a whole industrial turnover growth in Saxony-Anhalt was higher than in Germany as a whole compared to the previous year.

The favourable economic development has resulted in the number of people in gainful employment rising by 0.5 per cent in Saxony-Anhalt. The finance, letting and corporate service providers sector and construction experienced the strongest growth. Agriculture, forestry and fishing and the manufacturing sector recorded the heaviest falls. The average unemployment rate for 2010 was 12.5 per cent compared to 13.6 per cent in the previous year. The rate for Eastern Germany was again lower at 12 per cent than in Saxony-Anhalt in 2010.

### Mecklenburg-Western Pomerania

Economic development was positive, but below average in 2010 in Mecklenburg-Western Pomerania. Gross domestic product (adjusted for prices) rose in the first half of the year by 0.6 per cent compared to the same period for the previous year. Average growth in the former East German states (not including Berlin) was much higher (2.2 per cent). Economic output in Mecklenburg-Western Pomerania developed less strongly in all major economic sectors than the average for Germany as a whole. In both the manufacturing sector and in construction, economic output (adjusted for price) was even negative in the first half of the year compared to the same period for the previous year due to the after-effects of the global financial and economic crisis.

In Mecklenburg-Western Pomerania the number of people in gainful employment fell by 0.3 per cent in 2010, while the average for the former East German states rose by 0.6 per cent. All three of the main economic sectors in Mecklenburg-Western Pomerania were affected by job losses. The sharp fall in marginal employment in 2010 played an important role here. However, the number of employed people making social security contributions and self-employed increased. Unemployment fell in Mecklenburg-Western Pomerania as well in 2010. The average unemployment rate was 12.7 per cent compared to 13.5 per cent in the previous year.

## General Economic Development in Foreign Markets

### USA

In recent weeks there have been growing signs that the temporary slow-down in the summer of 2010 following the recovery between the autumn of 2009 and the spring of 2010 is now over. Sentiment indicators for the manufacturing sector rose significantly. Incoming orders and industrial production are also showing high growth rates. The double-dip recession feared by many did not occur. Instead it appears that there has been a healthy return to normal growth rates and that economic development has stabilised. On the one hand steady consumption and on the other sustained high global rates of growth have contributed to this.

Although the crisis in the real estate market and the situation in the job market had a negative impact in 2010, consumption still made a high contribution to the growth in GDP. In particular the continued high rise in income levels was responsible for this; the consumption level of those still in gainful employment hardly changed. Richer households, which traditionally make a disproportionately high contribution to consumption, may also have benefited from a wealth effect in securities markets.

In the real estate market, which has a significant impact on the economic crisis, a countermovement is not expected in view of the out-and-out buyers' market. All the same, there are signs though that the market is stabilising at a very low level. At least a stop has been put to the decline in the start of construction works, planning consent and the sale of new homes. It is expected, though, that there will be a surplus of real estate on the market in the next few years.

The Federal Reserve stuck to its zero interest rate policy in 2010 and also decided to purchase further government bonds in the amount of USD 600 billion (Quantitative Easing 2, QE2). Capital market yields at the long end of the yield curve fell significantly in anticipation of this policy, but have since moved well away from their lows. Ten-year US treasuries for instance were listed just below 3.5 per cent at the end of 2010.

## North East Europe and Scandinavia

The 2009 economic storm in the Baltics calmed down during the past year. After Latvian gross domestic product (GDP) fell (adjusted for prices) by 18 per cent, according to initial estimates by the EU's statistics authority, Eurostat, a fall of 0.4 per cent was recorded in 2010. Against the background of the Latvian government's massive cost-cutting efforts, this is a very moderate fall. Lithuania was, according to the EU's calculations, even able to show slight growth of 0.4 per cent in 2010 after the fall of 14.7 per cent in 2009. Estonia, since 1 January 2011 a new and therefore the 17th member of the eurozone, recovered the strongest in 2010. GDP grew by 2.4 per cent after 2009 had seen a fall of 13.9 per cent. The overall positive aspects are detracted though by the fact that the GDP level seen before the crisis in all three national economies is unlikely to be reached in the next three years. Latvia, Lithuania and Estonia have overcapacity in production, which is expressed by among other things unemployment rates of more than 15 per cent. Latvia also remains reliant on aid money from the International Monetary Fund (IMF). The current Stand-By Programme runs to December 2011.

Poland has also benefited from the global economic recovery. Here gross domestic product grew according to Eurostat's calculations by 3.5 per cent.

The Scandinavian countries have recovered from the sharp decline of 2009. Sweden's national economy grew by a respectable 4.8 per cent, and Denmark's grew by 2.3 per cent. The only northern eurozone country, Finland, grew by 2.9 per cent. However, gross domestic product has not yet reached the level seen before the crisis in these three countries either.

## Asia

2010 was a year of recovery for the region of Asia. After the significant slowdown in 2009, most countries recorded above-average growth rates in 2010. The rate and drivers of development varied though by country. In particular China, Singapore and Taiwan experienced high growth rates due to exports and investment. Japan, which suffered the sharpest decline in growth in Asia in the economic crisis, also recorded significant growth again. The picture is tarnished though by Japan's high and growing national debt.

Although demand in the region continues to come mainly from the USA, China's importance as the region's driving economic force is growing. For countries such as South Korea and Taiwan, China is already their largest source of demand.

The flipside of the recovery is the increased inflationary pressure in the Asian economies. Reasons for this are, in addition to country-specific reasons, stimulating economic policies, rising energy and food prices and increasing inflows of capital from abroad. Despite the increased pricing pressure, monetary policy is only being tightened gradually in order not to threaten a sustainable recovery of growth.

## Financial Markets

The extensive fiscal policy measures taken in answer to the recession, as well as the typical lost revenues and additional costs for public finances have resulted in almost all of the eurozone's member states having to accept new debt in 2009 and 2010 above the 3 per cent mark allowed according to Stability and Growth Pact. The average deficit ratio in the eurozone in 2009, measured by nominal gross domestic product, was 6.3 per cent, and the deficit ratio for the past year is likely to have been at a similar level. The debt ratio has meanwhile risen to over 80 per cent of GDP.

In particular Greece's deficit ratio, which according to the review by the EU Commission was much higher at 15.4 per cent of GDP than the 13.6 per cent reported in April 2010, was assessed very critically in the financial markets. Growing concerns about Greece's solvency caused severe market turbulence in the spring of 2010. Greek government bonds came under considerable pressure and Greece's yield curve inverted. The spread of Greek government bonds with a ten-year residual term to German government bonds climbed to almost 10 percentage points. Some other states in the eurozone, which also have to contend with a high level of debt and a difficult budget situation, were also infected by this.

At the height of the distortions at the start of May, the euro states agreed a joint rescue mechanism for ailing member states with the IMF and the EU Commission. The centrepiece is the European Financial Stability Facility (EFSF) with € 440 billion; on top of this there are € 60 billion from the EU Commission (European Stability Mechanism, ESM) and € 250 billion in support lines from the IMF. The first country which had to make use of the rescue package was Ireland. The rescue of the Anglo Irish Bank put such a strain on Ireland's national finances that the Irish government had to request aid in the amount of € 85 billion from the joint rescue package.

The recent distortions as a result of the crisis concerning Ireland's national finances have once again shown that the debt crisis will remain the decisive issue for the European Union for the time being. Alongside the path back towards sustainable growth, budget consolidation represents one of the major challenges for many countries in the next few years. Politicians are continuing to look for ways to permanently contain the crisis in the markets for government bonds. At the two-day summit in mid-December 2010 the heads of state and government created the legal basis for a permanent crisis mechanism with an agreement to amend the EU Treaty.

The European Central Bank (ECB) reacted to the national debt crisis with the Securities Markets Programme (SMP) and by the end of the year bought government bonds, presumably first and foremost from euro-periphery states, in the amount of almost € 74 billion. The ECB has, however, made it clear to governments with its capital increase of € 5 billion by the end of the year that any possible costs incurred by the Eurosystem in any further purchase of government bonds will be passed at least indirectly on to the member states. This should be understood first and foremost as a political message to heads of state and government that the confidence-and-debt crisis has to be solved politically and that they should not secretly hope for a (partial) monetarisation of national debts.

The debt crisis has of late been the most important issue in the capital markets. Although German federal securities continue to be seen as a safe haven, the yield from ten-year German government bonds rose sharply by the end of 2010. From the low of just 2.1 per cent at the end of August, the yield climbed by almost 100 basis points to over 3 per cent. In our opinion, though, this represents the unnaturally low yields in the summer months of 2010 returning to normal. Against the background of the positive economic outlook for 2011, higher-risk assets have also become more attractive.

In the interbank market, money market rates have normalised after interbank rates had for a long time been well below the base rate due to the markets being flooded with liquidity. The 3-month EURIBOR is currently listed above 1 per cent. The relatively quiet reduction in the Eurosystem's net loans and advances to banks due to the expiry of several longer-term refinancing transactions and the largely successful stress test in July indicate that the finance system is more stable again. The banking system is now no longer so heavily dependent on liquidity injections from the central bank. However, some individual banks, in particular banks from states particularly affected by the debt crisis, still have considerable problems in obtaining finance via the markets and from sources other than the ECB. The process of cleaning up the balance sheet has still not been completed by many banks. Banks also face considerable challenges after the expected transposition into national law of the proposal made by the Basel Bank Supervisory Committee to the Bank for International Settlements for tougher minimum equity regulations for banks. In particular the much higher qualitative and quantitative requirements in future for liable equity will require considerable changes.

The fluctuation margin of yields in the USA was once again greater than for German government bonds. The yields of ten-year treasuries plummeted from a high of 4 per cent at the start of April before the announcement of the new programme to purchase government bonds by the Federal Reserve (Quantitative Easing 2, QE2) to below 2.4 per cent in October. The yield spread between ten-year US treasuries and German government bonds fluctuated accordingly between 90 and five basis points and rose again slightly to 30 basis points by the end of the year.

At the height of the euro debt crisis, the US dollar rose in value against the euro for a short period to 1.19 USD/EUR, before the US dollar came under pressure again and by November fell for a short period to 1.45 USD/EUR. In particular positive economic news from Germany and the effects of QE2 propped up the euro in the second half of the year. Market participants had previously focused more on the budget situation in several European states and concerns over the stability of the eurozone. Compared to the pound sterling, the euro moved within a band of 0.92 to 0.80 GBP/EUR and was quoted at the end of the year at 0.86 GBP/EUR. The Japanese yen rose strongly against the euro, as did the Swiss franc, which recorded a temporary high of 1.24 CHF/EUR at the end of 2010.

The most important international share markets were able to make up lost ground in the past year and achieve an overall positive performance for the year. After a brief fall to a low of 5 433 points in February, the German leading share index DAX rose steadily in the past year and the top of the DAX listed above 7000 points in mid-December. The share markets were supported significantly by the persistently low yield level and high liquidity in the markets. Higher-risk assets such as shares also become more attractive again due to the positive performance of and outlook for the economy; the previously high risk aversion reduced accordingly.

# NORD/LB Norddeutsche Landesbank Girozentrale

NORD/LB Norddeutsche Landesbank Girozentrale (hereafter NORD/LB or the bank) is a registered public institution (AöR) in Germany, with registered offices in Hanover, Braunschweig and Magdeburg. Its head office is in Hanover. Under the name of Braunschweigische Landessparkasse, Braunschweig (hereafter BLSK), NORD/LB performs the function of a savings bank in the Braunschweig region and maintains a close network of branches in this region. NORD/LB also operates branches in Hamburg, Düsseldorf and Schwerin as well as in London, New York, Shanghai and Singapore. The bank also has representative offices in Moscow, Beijing and Mumbai.

The guarantors of the bank are the federal states of Lower Saxony and Saxony-Anhalt, the Association of the Savings Banks of Lower Saxony (Sparkassenverband) in Hanover (hereafter SVN), the Holding Association of the Savings Banks of Saxony-Anhalt and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania.

The share capital amounts to € 1 085 483 130, with the federal state of Lower Saxony holding 41.75 per cent (of which 32.79 per cent is held in trust for the state-owned Hannoversche Beteiligungsgesellschaft mbH), the federal state of Saxony-Anhalt 8.25 per cent, the Lower Saxony Association of Savings Banks and Girobanks 37.25 per cent, the Holding Association of the Savings Banks of Saxony-Anhalt 7.53 per cent and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania 5.22 per cent.

The executive bodies of the bank are the Guarantors' Meeting, the Supervisory Board and the Managing Board.

NORD/LB is the state bank for the federal states of Lower Saxony and Saxony-Anhalt. In these two federal states and in Mecklenburg-Western Pomerania the bank performs the functions of a central and clearing bank for the savings banks (Girozentrale). NORD/LB focuses its business strategy on north-east Germany and also serves customers from all the areas of banking business.

NORD/LB operates in the following segments:
- Private and Commercial Customers
- Savings Bank Network
- Financial Markets/Institutional Customers
  (comprising the divisions of Markets, Corporate Sales, Portfolio Investments and Treasury)
- Corporate Customers
- Energy and Infrastructure Customers
- Ship and Aircraft Customers
- Real Estate Banking Customers

The bank also handles promotional loans on behalf of the federal states through Investitionsbank Sachsen-Anhalt, an institute of Norddeutsche Landesbank Girozentrale, and through Landesförderinstitut Mecklenburg-Vorpommern (LFI), a division of Norddeutsche Landesbank Girozentrale.

NORD/LB is the parent company of a group which also includes Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen (hereafter Bremer Landesbank), Norddeutsche Landesbank Luxembourg S.A., Luxembourg/Luxembourg (hereafter NORD/LB Luxembourg), Deutsche Hypothekenbank (Actien-Gesellschaft) (hereafter Deutsche Hypo), LBS Norddeutsche Landesbausparkasse, Berlin, Hanover (hereafter LBS), Öffentliche Lebensversicherung Braunschweig, Braunschweig and Öffentliche Sachversicherung Braunschweig, Braunschweig, (hereafter ÖVBS). The bank also holds other investments as shown in the disclosures of the notes.

## Control Systems

The control of profitability, productivity and the risk profile in the Group is the responsibility of the Managing Board. The aim of this system of control is to optimise short and medium-term profitability and efficiency while at the same time maintaining the best possible degree of transparency in terms of earnings and cost. Regulating earnings and productivity at NORD/LB is primarily focussed on the key figures of return on equity (ROE), cost-income ratio (CIR) and the rate of risk, on operating profit (contribution margin V) and on commercial profit/loss. The significance of key indicators is aligned towards the targets, depending on the respective banking division or the type of product. The cost-income ratio is defined as the ratio between administrative expenses and the sum total of the following income items: net interest income, net commission income, profit/loss from financial instruments at fair value, profit / loss from hedge accounting, profit/loss from investments accounted for using the equity method and other operating profit/loss. The calculation of the return-on-equity in the Group complies with the standard international definitions of key indicators and refers to earnings before taxes (less interest expenses for silent participations in reported equity) on long-term equity under commercial law (share capital and capital reserves and retained earnings and minority interests less silent participations in reported equity.

Based on a central, medium-term forecast of the operating result, the bank prepares in the third and fourth quarters the target operating result for the coming reporting period in a decentralised planning process. The aim of medium-term planning within the planning process is for the respective profit centres to obtain estimates concerning the medium-term development of customer potential, the market situation, products, risks, resources and measures.

# Personnel Report

As at 31 December 2010 a total of 6 956 people were employed by the NORD/LB Group. The number of employees therefore rose by 493 (206) compared to the previous year. The greatest rise within the NORD/LB Group was recorded by NORD/LB AöR with 366 (198) new employees, ahead of NORD/LB Luxemburg with 51 (11) new employees and Deutsche Hypo with 26 (111) new employees.

| Reporting date | 31 Dec. 2010 | 31 Dec. 2009 | Change – absolute terms | Change – percentage |
|---|---|---|---|---|
| NORD/LB | 4 463 | 4 097 | 366 | 9 |
| Bremer Landesbank sub-group | 1 119 | 1 093 | 26 | 2 |
| NORD/LB Luxembourg sub-group | 202 | 151 | 51 | 34 |
| ÖVB | 672 | 656 | 16 | 2 |
| NORD/LB Asset Management | 63 | 55 | 8 | 15 |
| Deutsche Hypo | 363 | 337 | 26 | 8 |
| Other | 74 | 74 | – | – |
| **Total employees** | **6 956** | **6 463** | **493** | **8** |

# Earnings Position

NORD/LB's earnings position reflects three major effects in 2010, with interest income increasing significantly as a result of the positive development in margins and the improved earnings from transformations. Loan loss provisions are also below the previous year's level as a result of the more favourable general economic environment and the resulting lower net allocations. The opposite was the case for the profit/loss from financial instruments at fair value including hedge accounting due to the continued difficult market environment.

The financial year 2010 closed with satisfactory earnings before taxes of € 236 million.

The following is a summary of the income statement for the year under review and for the previous year:

| (in € million) | 1 Jan.– 31 Dec. 2010 | 1 Jan.– 31 Dec. 2009 | Change*) |
|---|---|---|---|
| Net interest income | 1 650 | 1 380 | 270 |
| Loan loss provisions | – 657 | – 1 045 | 388 |
| Net commission income | 210 | 177 | 33 |
| Profit/loss from financial instruments at fair value through profit or loss including hedge accounting | 101 | 582 | – 481 |
| Profit/loss from financial assets | 82 | – 140 | 222 |
| Profit/loss from investments accounted for using the equity method | – 128 | – 200 | 72 |
| Administrative expenses | 1 070 | 986 | – 84 |
| Other operating profit/loss | 48 | 144 | – 96 |
| **Earnings before income taxes** | **236** | **– 88** | **324** |
| Income taxes | – | 50 | 50 |
| **Consolidated profit** | **236** | **– 138** | **374** |

*) The preceding sign in the change column indicates the effect on profits or losses

The individual income items are shown as follows:

## Net interest income

| (in € million) | 1 Jan.– 31 Dec. 2010 | 1 Jan.– 31 Dec. 2009 | Change*) |
|---|---|---|---|
| Interest income | 12 508 | 16 027 | – 3 519 |
| Interest expense | 10 858 | 14 647 | 3 789 |
| **Net interest income** | **1 650** | **1 380** | **270** |

*) The preceding sign in the change column indicates the effect on profits or losses

Net interest income rose compared to the previous year by 20 per cent to € 1 650 million. This is attributable to the positive development in margins in the period under review and the improved results of interest rate control.

### Loan loss provisions

Loan loss provisions were reduced compared to the previous year by € 388 million to € 657 million. This is primarily due to lower allocations to specific valuation allowances as a result of the improved general economic environment in the period under review. Net specific valuation allowances and lumpsum specific loan loss provisions of € 404 million (€ 674 million) and net general loan loss provisions of € 215 million (€ 257 million) were formed; on top of this a net provision of € 33 million (€ 57 million) was formed for credit risks. € 16 million (€ 28 million) of the net provision for credit risks was for general loan loss provisions. The previous year's provision was impacted in the amount of € 134 million by the fraud case at Skandifinanz Bank AG.

### Net commission income

| (in € million) | 2010 | 2009 | Change[*)] |
|---|---|---|---|
| Commission income | 351 | 277 | 74 |
| Commission expense | 141 | 100 | – 41 |
| **Net Commission income** | **210** | **177** | **33** |

[*)] The preceding sign in the change column indicates the effect on profits or losses

Net commission income mainly includes income and expenses resulting from banking transactions and, to a lesser extent, from insurance contracts and real estate business and increased compared to the previous year by € 33 million to € 210 million. This development is primarily the result of the increase in commission income from Ship and Aircraft customers.

### Profit/loss from financial instruments at fair value through profit or loss including hedge accounting

| (in € million) | 2010 | 2009 | Change[*)] |
|---|---|---|---|
| Profit/loss from debt securities and other fixed-interest securities | 30 | 40 | – 10 |
| Profit/loss from shares and other variable-yield securities | 10 | 23 | – 13 |
| Profit/loss from derivatives | | | |
| – Interest rate risks | 249 | 516 | – 267 |
| – Currency risks | 26 | 20 | 6 |
| – Share price and other price risks | 63 | – 2 | 65 |
| – Credit derivatives | – 329 | 10 | – 339 |
| Profit/loss from receivables held for trading | 15 | 12 | 3 |
| Profit/loss from foreign exchange and other results | 55 | 8 | 47 |
| Profit/loss from fair value option | – 171 | – 206 | 35 |
| Profit/loss from hedge accounting | 153 | 161 | – 8 |
| **Profit/loss from financial instruments at fair value through profit or loss including hedge accounting** | **101** | **582** | **– 481** |

[*)] The preceding sign in the change column indicates the effect on profits or losses

The development is primarily affected by the performance in the Group's credit derivatives. Due to the continued difficult market environment, the contribution of credit default swaps to earnings fell in the financial year 2010. The change in the fair value of total return swaps also had a negative impact on earnings, while falling interest rates in the eurozone had a positive impact on earnings. However, as the fall in interest rates was less than in the previous year, interest derivatives' contribution to earnings fell accordingly.

### Profit/loss from financial assets

The profit/loss from financial assets rose by € 222 million to € 82 million. In the same period of the previous year the profit/loss was negatively impacted by write-offs of Iceland exposures, whereas positive effects were achieved in the period under review due to income from disposals. Profit/loss from financial assets continues to be positively affected by the profit from the sale of investments.

### Profit/loss from investments accounted for using the equity method

Profit/loss from investments accounted for using the equity method amounted to € – 128 million, an improvement of € 72 million. In the year under review this figure was essentially negatively impacted by deconsolidation and the proportionate profit/loss of Bank DnB NORD in the amount of € 152 million. The positive proportionate profit/loss from investments accounted for using the equity method had the opposite effect.

## Administrative expenses

| (in € million) | 2010 | 2009 | Change*) |
|---|---|---|---|
| Wages and salaries | 440 | 393 | – 47 |
| Social contributions and expenditure on pension schemes | 100 | 87 | – 13 |
| **Staff expenses** | **540** | **480** | **– 60** |
| Other administrative expenses | 468 | 436 | – 32 |
| Depreciation and impairments | 62 | 70 | 8 |
| **Administrative expenses** | **1 070** | **986** | **– 84** |

*) The preceding sign in the change column indicates the effect on profits or losses

The increase in administrative expenses by € 84 million to € 1 070 million is primarily attributable to the increase in staff expenses due to the increase in the number of employees in the Group.

### Other operating profit/loss

The other operating profit/loss of € 48 million comprises earnings in the amount of € 883 million (€ 936 million) offset against expenses in the amount of € 835 million (€ 792 million). The heavy fall in other operating profit/loss compared to the previous year is attributable in particular to the redemption of debt securities and registered securities.

### Income taxes

Income taxes are, despite the positive earnings before taxes of € 0.1 million, around € 50 million less than in the previous year. The low income taxes in relation to earnings before taxes are primarily the result of the capitalisation of tax losses carried forward and tax rebates. The loss from the disposal of the investment in DNB NORD, which was not considered for tax purposes, had an opposite effect.

# Net Assets and Financial Position

| (in € million) | 2010 | 2009 | Change |
|---|---|---|---|
| Loans and advances to banks | 36 734 | 42 356 | – 5 622 |
| Loans and advances to customers | 113 605 | 112 083 | 1 522 |
| Loan loss provisions | – 2 018 | – 1 792 | – 226 |
| Financial assets at fair value through profit or loss | 15 103 | 14 514 | 589 |
| Financial assets | 58 666 | 63 076 | – 4 410 |
| Investments accounted for using the equity method | 402 | 723 | – 321 |
| Other assets | 6 094 | 7 640 | – 1 546 |
| **Total assets** | **228 586** | **238 600** | **– 10 014** |
| Liabilities to banks | 60 962 | 62 152 | – 1 190 |
| Liabilities to customers | 60 742 | 61 303 | – 561 |
| Securitised liabilities | 71 061 | 79 151 | – 8 090 |
| Financial liabilities at fair value through profit or loss | 16 587 | 16 136 | 451 |
| Provisions | 3 357 | 3 238 | 119 |
| Other liabilities | 9 987 | 10 822 | – 835 |
| Reported equity including minority interests | 5 890 | 5 798 | 92 |
| **Total liabilities and equity** | **228 586** | **238 600** | **– 10 014** |

Total assets fell by € 10 billion compared to the previous year to € 228.6 billion.

On the assets side the fall can be seen in particular in loans and advances to banks and financial assets. On the liabilities side in particular securitised liabilities fell. Equity rose due to the positive total income by € 129 million to € 5.9 billion. In particular dividend payments and changes in non-contolling interests had an opposite effect for the financial year 2009.

Loans and advances to customers are still the largest balance sheet item at 50 per cent (47 per cent), followed by financial assets at 26 per cent (26 per cent).

Financial assets at fair value through profit or loss comprise trading assets and financial instruments designated at fair value. While the latter decreased by € 329 million compared to the previous year, derivatives in trading assets increased significantly by € 513 million.

Bonds and debt securities remain the largest asset class in financial assets. The balance was reduced significantly by maturities in the period under review and the decline in new business.

In securitised liabilities, issued debt securities fell significantly to € 8.9 billion, while money market instruments fell by € 1.2 billion. The fall is primarily the result of the disposal of municipal debentures at final maturity and the absence of new issues due to a more relaxed liquidity position compared to the previous year.

In financial liabilities at fair value through profit or loss, trading liabilities and financial liabilities designated at fair value are shown.

Provisions in the amount of € 1 681 million (€ 1 633 million) relate to insurance contracts.

As at 31 December 2009, the Group's regulatory capital amounted to € 9.6 billion (€ 9.0 billion), of which € 7.9 billion related to core capital (previous year € 8.1 billion). The own funds ratio (= total ratio) makes up 11.06 per cent of risk-weighted assets against 9.70 per cent in the previous year.

Please refer to the information on liquidity risks in the risk report for a detailed presentation of the bank's financial position.

# Supplementary Report

NORD/LB and the remaining shareholders are currently in promising negotiations concerning the sale of the shares it holds directly in DekaBank Deutsche Girozentrale. It is envisaged that contracts will be signed in April 2011. The completion of the transaction will depend on the occurrence of conditions precedent, and will only be able to take place later on in the year. The shares will be accounted for as held for sale in 2011 in accordance with IFRS 5 and reported at fair value less the anticipated costs of the sale. This is not expected to have a significant impact on the earnings and net assets position of the NORD/LB Group.

The general meeting of Skandifinanz Bank AG approved the new statutes and therefore a change in the company's business orientation as at 1 January 2011. This envisages the significant redimensioning and lower-risk orientation of business activities. In this connection, it is anticipated that the banking licence will be returned by the middle of 2011. This is not expected to have a significant impact on the earnings and net assets position of the NORD/LB Group.

# Summary

The performance of the business is viewed as satisfactory.

# Development of the Business Segments

## Private and Commercial Customers

As well as business with private, individual, commercial and small-business customers, the private and commercial customers segment also includes middle-market corporate customer business in the Braunschweig region. In this business segment NORD/LB assumes the role of a savings bank in the form of Braunschweigische Landessparkasse, founded on 1 January 2008 as an institute with partial legal capacities, a so-called “Anstalt in der Anstalt”, or “AidA” for short, translated as an institute within an institute.

Braunschweigische Landessparkasse is a sales savings bank with approximately 400 000 customers and an extensive presence. As an integral part of NORD/LB it also has direct access to the full range of a major international bank. As a member of the savings bank financial group it also has access to its range of services.

In 2010 the goal of quality leadership in advice and service was again pursued rigorously.

The systematic application of an integrated advisory approach based on the S finance concept received several accolades in the private customer business. In a demanding bank test by the Focus Money magazine, the Braunschweigische Landessparkasse emerged as the “best bank in Braunschweig and Wolfenbüttel”.

A further strategic focus was to extend the bank’s market leadership. For this purpose stronger cooperation between Braunschweigische Landessparkasse and Öffentliche Versicherung Braunschweig was initiated in the area of sales in 2010. Both companies operate in the same business region and are now working together to increase market potential.

In the private customer business the main emphasis of sales was on gaining deposits. For this purpose various savings products were offered during the course of the year.

Further emphasis was placed in this business segment on selling composite business (several lines of insurance offered from one source) in the Braunschweigische Landessparkasse. The range of personal liability, household contents and buildings insurance completes the product range in the context of an integrated advisory approach.

Transparency and comprehensibility for the customer have also been further improved. This included the implementation of various legal regulations, e.g. the introduction of minutes of consultations in securities business, the implementation of the Consumer Credit Directive and the introduction of a reference interest rate in short-term lending business.

Particular attention was also paid in the past financial year on the customer group of new generation customers, which was targeted with outstanding events. Dr. Joachim Gauck gave a lecture to 6 000 pupils on the reunification of Germany and his personal experiences with this event. Braunschweigische Landessparkasse also presented the “Be your own hero” school event for the first time across the bank’s entire business region. Together with the adventurer and motivation coach Joachim Franz, Braunschweigische Landessparkasse called on young people to develop project ideas in the area of “social commitment”. Braunschweigische Landessparkasse will support the implementation of the best project ideas.

In Private Banking, Braunschweigische Landessparkasse focused on expanding inheritance and foundation management. These efforts were rewarded with several accolades. The bank's foundation managers came second in the nationwide test of foundation assets managers by the "Fuchsbriefe". This was the third time in a row that they were among the best in this category. Customer satisfaction and customer loyalty were improved. In a fresh survey of customers, they rated Braunschweigische Landessparkasse's Private Banking overall higher than in 2009.

In the corporate and small business customer segment Braunschweigische Landessparkasse is focusing on regional presence and proximity to companies and public institutes. This commitment has resulted in many satisfied customers being prepared to take part in a new kind of image campaign. Under the motto of "Gut für das Braunschweiger Land" (Good for the Braunschweig region), high-profile customers from the region recounted their positive experiences with Braunschweigische Landessparkasse as part of a marketing campaign.

The corporate and small business customer segment focused in 2010 on further improving the quality of its advice based on the finance concept family. For this purpose the corporate customer division was restructured in order to give full consideration to the professional and private world of entrepreneurs depending on their needs. In addition to the well-known corporate customer advisor, corporate customers now also have a specialist for private financial transactions at their disposal.

As a partner of the business start-up network "Gründungsnetzwerk Braunschweig", Braunschweigische Landessparkasse helps people setting up their own businesses to put their ideas into practice. In this context the Braunschweigische Landessparkasse offered a business start-up prize. Excellent projects or entrepreneurs and the development of innovative ideas were awarded this prize in the past financial year.

In order to support municipalities in meeting their public duties, Braunschweigische Landessparkasse has together with NORD/LB for the first time issued a bonded loan for a municipality.

In 2010 numerous awards for the quality of advisory services again underlined Bremer Landesbank's positioning as a premium provider of Private Banking. Bremer Landesbank was once again singled out as one of the best asset managers the German-speaking world with the distinction "summa cum laude" in the Elite Report from Munich, therefore maintaining its leading position in the third year of the financial market crisis. Bremer Landesbank moved up to 8th place in the Fuchsbrief's perpetual best list. The systematic implementation of an integrated advisory approach is a key element for these positive results. In Private Banking this is supported by asset concepts prepared giving consideration to financial planning aspects.

A further key element for the positive results is the bank's own independent portfolio management. The results of the SIP® investment process designed here are having an impact in particular on asset management, the SIP® fund family and on the general advisory process. Overall the deposit strategies were acknowledged by the Institut für Vermögensaufbau (Institute for Asset Accumulation) in Munich as having an "excellent risk-return ratio".

Business banking started with great success. Here there is close collaboration between special financing and corporate customer divisions. The expertise of Private Banking was well received by these customers.

However, the financial market crisis is still having an impact on the investment business of Bremer Landesbank. This was reflected by increased expenditure on consultancy and documentation due to the general feeling of uncertainty among customers. Customer interest in securities products was still restrained and restricted primarily to so-called secure investments.

Extensive new legal requirements to protect consumers such as minutes for consultations and the Consumer Credit Directive were implemented and communicated to customers. As a result there were significant increased requirements for advice and communication with customers.

The Private Banking division of NORD/LB Luxembourg stands for high quality and continuity in advice and offers customers interested in international investments a comprehensive service. In addition to its investment advice which is geared traditionally to the needs of customers in respect of investment style, risk preference and time frame, various asset management concepts can also be used. In this connection Private Banking significantly expanded the assets under management in the past financial year.

The product range was added to by the brokering of insurance and the financing of investment property in Germany and Luxembourg in 2010. The very positive reception among customers of the public fund developed by the NORD/LB Group (NORD/LB Horizon Fund) and issued at the end of 2009 is also highlighted.

Öffentliche Versicherung Braunschweig achieved one of the best results in its history with above average sales in 2010. The high profit from capital investments in both companies contributed to the increase in earnings. The negative impact of the German Accounting Law Modernisation Act (BilMoG) (mainly an increase in pension provisions) was absorbed completely in 2010 due to the good result. In particular life insurance contributed to the above average increase in sales.

With a net return of over 7 per cent for Öffentliche Sachversicherung Braunschweig and 5.6 per cent for Öffentliche Lebensversicherung Braunschweig and an even higher overall return (including increases in reserves), the profit from capital investments is excellent. In particular the restricted funds of both companies benefited with increases in value of over 10 per cent from the recovery of global capital markets and were supported by the strong performance of shares.

Öffentliche Sachversicherung's premiums were in line with expectations at € 205 million; this was around two per cent below the previous year's level in line with developments in the sector. The reason for this is continued strong competition in the area of vehicle insurance. The development of new business in the areas of accident insurance (+6 per cent) and insurance for legal protection (+16 per cent) was pleasing.

Öffentliche Lebensversicherung achieved growth of 23 per cent with premiums of around €150 million. One factor for this well-above-average performance (the sector as a whole recorded growth of around 7 per cent) was the large one-time business of over € 60 million in the area of retirement pensions and the 16 per cent growth in new business.

The overall result of the Private and Commercial Customers segment was dominated in 2010 for the last time by the negative result of DnB NORD accounted for using the equity method. Due to the carry-over effect of this investment, a total loss of € – 71 million is reported in this segment. Net interest income was maintained at the previous year's level with a slight fall in lending due to the positive margins-related development in borrowing. Due to the implementation of legal requirements in sales and the associated reduced time spent on sales activities and due to the increased commission payments for insurance sales, net commission income fell compared to the previous year by € 10 million. Together with a reduction in loan loss provisions of € 23 million and a moderate increase in administration expenses, this resulted in the profit/loss reported for this segment. Other operating profit/loss is primarily attributable to the insurance business of Öffentliche Versicherung Braunschweig. With less equity employed compared to the previous year due to the sale of the shares in DnB NORD, the RoRaC improved; CIR is 123.5 per cent due to the negative at equity result of DnB NORD.

## Savings Bank Network

The savings bank network consolidates primarily institutional business with savings banks, syndicated business transacted with corporate customers and business with the public sector in the states of Lower Saxony, Saxony-Anhalt, Mecklenburg-Western Pomerania and Bremen.

As part of the savings bank finance group NORD/LB is available as a partner wherever it can generate added value. Accordingly it also offers its products and services to among others the savings banks in Schleswig-Holstein. In 2010 NORD/LB was able to expand its support activities considerably in this extended network in all business segments, strengthen contacts and expand the volume of business and the network's share. However, it was the savings banks in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania which laid the foundation for success in 2010 with their sales strength.

### Syndicate Business

The savings bank syndicate business again performed steadily in 2010. New business in the network region was again increased (by ca. 10 per cent compared to the previous year). On top of this, the first successful acquisitions were made in Schleswig-Holstein. NORD/LB is expecting further growth here in future. Market activities resulted in 2010 a pleasing portfolio increase of more than 6 per cent, which is slightly above the figure for the previous year.

The introduction of the unilateral loan process, in which NORD/LB considers the loan decision made by the savings bank like a verdict in its own loan decision-making process, has been very popular with the savings banks. As a result loan decisions are made much more quickly and the procedure is less complicated. NORD/LB is currently recording more requests for loans per month in the unilateral process than in the bilateral process.

### Municipal Business

At the start of 2010 the consultation phase for the "Municipal Debt Diagnosis" project of the German Association of Savings Banks and Girobanks (DSGV) commenced. This provided NORD/LB with the opportunity to intensify its contact and business with savings banks and their municipal customers. Initial earnings relating to the "Municipal Debt Diagnosis" project have already been achieved. Overall NORD/LB is considered to be a reliable partner for municipal business in the network regions due among other things to its structured advisory approach. It is planned that the DSGV's "Municipal Debt Diagnosis" project will continue in 2011.

Due to the funds allocated by individual federal states via economic stimulus programmes, the refusal of approval for new loans by supervisory authorities and due to the high level of debt and associated austerity measures of municipalities, there has been a fall in the cash lending and municipal lending business.

In recent months an increase in enquiries concerning derivatives by municipalities has been noticed. NORD/LB has also recorded transactions in this segment and will continue to expand this business.

## Promotional Business

The promotional business is essentially dependent on the promotional policy of the respective federal government, interest rates and the business policies of the savings banks. NORD/LB follows developments in lending business by communicating closely with the development institutes, in particular the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation, KfW), the DSGV and the state associations. In addition to this, the savings banks are given comprehensive support, for example with seminars, up–to-date training on promotion and joint customer visits.

In 2010 the brighter outlook for the economy resulted in a significant rise of 70 per cent in new business. As a result of this NORD/LB has recorded, in spite of high scheduled and unscheduled repayments, a slight increase in the portfolio of business passed on. The increase in the portfolio is mainly the result of financing in Lower Saxony. In Saxony-Anhalt and Mecklenburg-Western Pomerania the portfolio has reduced as here loans are issued to a greater degree from NORD/LB's own funds.

## Institutional Savings Bank Business

The dominant capital market issue as at the end of 2010 is the national debt crisis in the eurozone. The reassessment of the national budget situation in the eurozone resulted in a widening of market prices.

The previous year's issues such as private investors' need for security or ad-hoc reports from financial institutes retreated into the background. Market participants focused on the German share market, European corporate bonds and European covered bonds. Activities outside of the eurozone were rather less common.

NORD/LB continued to use its excellent reputation in the market in the institutional savings bank business and benefited from shifts in competition in the Landesbank sector.

## Association Business of Bremer Landesbank

The association business of Bremer Landesbank saw a successful continuation of all-round services for associated savings banks. Earnings have been stabilised in an economic environment with distinctly competitive structures.

In the syndicated business with corporate customers conducted by associated savings banks, the focus of sales was again on interest rate and currency management as well as documentary foreign business, in addition to traditional financing business.

In municipal customer business, core sales activities at Bremer Landesbank focused on supporting associated savings banks in implementing the DSGV's "Municipal Debt Diagnosis" initiative.

In addition to its core business, in the association business of NORD/LB Luxembourg self-induced foreign currency loans are issued primarily to associated savings banks (customer loans guaranteed by the respective brokering savings bank). It creates added value here by promoting the concept of the association and by contributing its strengths in the area of foreign currency refinancing.

In the NORD/LB Group's association business the contribution to net interest income, which is mostly generated by lending business, amounts to € 63 million (€ 62 million) in 2010. As in the previous year the largest contribution to the overall result came from NORD/LB AöR in the amount of € 45 million. While net commission income is at the previous year's level of € 16 million, the profit/loss from financial Instruments at fair value through profit or loss fell significantly to € 7 million (€ 13 million). This development is attributable in particular to more difficult general conditions (increased legal documentation regulations) in the institutional savings bank business.

Compared to the previous year administrative expenses were reduced by around € 1 million to € 52 million due to a fall in cost of materials. The CIR is 60 per cent.

Loan loss provisions rose compared to the previous year to € 16 million (€ 9 million). In spite of the steady developments in this segment, it was necessary to increase loan loss provisions in savings bank syndicate business in particular in NORD/LB AöR. As a result earnings before taxes fell to € 19 million (€ 30 million) and the RoRaC fell to an adequate 19.8 per cent.

## Financial Markets/Institutional Customers

In a year characterised by historically low interest rates and the EU debt crisis, NORD/LB managed to exceed its own expectations in interest and commission business. However, 2010 was affected significantly by the negative effects of the valuation of existing items at fair value. This is why the previous year's very good result was not repeated.

### Markets

The reputation gained in recent years among institutional customers again had a positive effect on earnings in 2010. In particular in the area of interest products the previous year's very good result was virtually reaffirmed. Dealings in structured products have increased significantly due to low interest rates. Reduced interest rates in money markets caused price sensitivity among customers and as a result a fall in margin contributions, which was offset by a significant increase in sales volumes.

The limited willingness of customers to take risks resulted in a slight fall in demand for share products in the first half of the year. Within the scope of a marketing strategy which concentrated on generating income from dividends, a significant increase in sales was recorded in the last quarter.

NORD/LB held its own in the highly competitive segment of custodian bank business with institutional customers. In particular the addition of two master custodian banks with a volume of ca. € 3 billion should be highlighted.

Due to the continued development of our relationship management for institutional customers and the systematic implementation of the customer-focused approach towards support, NORD/LB was again able to strengthen its business relations with strategic target groups both qualitatively and quantitatively. This included among other things the selective expansion of lending business with target customers, an increase in payment transaction business and support with mergers. On top of this, the first customer mandates for the structuring of complex capital market products were obtained.

NORD/LB extended its strong position in the lead management of covered bond issues and the issuing of public bonds in Germany to covered bond issues in neighbouring Northern and Western European countries. In doing so the bank focused on among others Scandinavia, where it for example participated in a leading role in debut issues from Norway and Finland. In particular NORD/LB's first leading syndicate role in a French covered bond for the Credit Agricole Group should be highlighted.

Investor demand for these asset classes rose steadily in 2010. Income from issues therefore developed very positively, with in particular the bank's trading and sales activities also benefiting from this.

NORD/LB was the only Landesbank to strengthen its equity base with a subordinated bond (Lower Tier II) in the amount of USD 500 million in June.

The activities aimed at developing balance sheet turnover were integrated into the Markets segment. Preparations were made for the focus on the continuous transfer of credit risks to institutional investors planned for upcoming periods. The initial transactions to transfer risk are in the structuring phase and should be concluded next year.

### Corporate Sales

The difficult market environment in the past financial year required the professional management of interest and exchange rate risks. The historically low interest rates were also used by many customers as an opportunity for measures to hedge and optimise interest rates. Hedge transactions were made in particular by exporters and importers in the volatile currency markets. Here the Financial Markets specialists follow the approach of developing customised, customer-oriented solutions and providing Corporate Sales customers with the best possible support with high-quality advice. As a result the contribution to earnings from customer business rose compared to the previous year in spite of the difficult environment.

### Portfolio Investments

Portfolio Investments benefited significantly in the past year from the recovery in international capital markets. Both Single Name Credit and Equity & Fund Investments contributed significantly to the positive result with write-ups. There were no losses. This segment was only marginally affected by the distortions in the capital markets caused by the PIIGS countries (Portugal, Italy, Ireland, Greece and Spain). Due to the ongoing critical market situation for Asset Backed Securities (ABS) Investments and continued rating migrations, further impairments were made during the course of the year.

### Treasury

As the key division for controlling interest and liquidity risks, Treasury was again affected by the impact of the financial market crisis in 2010. Securing the liquidity of NORD/LB AöR and the NORD/LB Group was again one of the main tasks for this division. Treasury performed very successfully in this difficult environment in 2010. The costs of liquidity building in 2009 were more than compensated for by the end of 2010 thanks to the measures and control activities implemented by the results of interest rate risk control. The focus was again on diversifying the sources of funding and adjusting the product range to changes in market requirements and current and future changes in general regulatory conditions (MaRisk, Basel III, etc.).

The Financial Markets division of Bremer Landesbank provides access to national and international financial markets for private and institutional customers and for the bank's own business. The long and short-term refinancing measures of Bremer Landesbank are also performed by the Financial Markets division.

The control and sales activities of the trading and sales units were positive, whereby activities focused on management, the control of liquidity and interest rate risks, securing the continuous liquidity of the bank and looking after the customer groups.

For the short-term refinancing and liquidity control, Bremer Landesbank continually used the various instruments of the European Central Bank in addition to the interbank market and the repo market. The division's sales units again recorded high sales and continuous demand for advice and support in all money, currency and derivative products in 2010.

The capital market business was conducted in a market environment which was characterised by tension in the financial markets throughout 2010. Overall the operational activities of Bremer Landesbank's Financial Markets division performed positively. This is countered by the negative impact on the portfolio of the valuation of the financial assets at fair value. In particular credit spreads, which again came under pressure in 2010, had an impact here.

In Deutsche Hypo the activities of the state financing and refinancing business are shown in the Financial Markets segment. The impact of contributions from transformations and Overall Bank Management are also considered here.

Starting with the drastic upward revision of Greece's national debt, outstanding loans in the eurozone were massively revalued. Besides Greece, in particular Ireland, Portugal, Spain and Italy (the "PIIGS" countries) were affected. Portugal, Greece and Ireland have long been barred from new business with Deutsche Hypo. The bank's traditionally conservative risk policy has also resulted in no new business being conducted in Italy and other countries currently considered to be critical. The share of international new business was 46 per cent, with France, Austria and the Benelux countries accounting for 71 per cent of Deutsche Hypo's total international capital market business. Finnish municipalities and supranational issues accounted for the remaining 29 per cent. The German part of new business was primarily spread, as in previous years, across German states and municipalities.

There was good demand for Deutsche Hypo's public sector covered bonds in the market. On this basis the bank was able to conduct its new business selectively and stably. The fact that an increasing number of competitors are withdrawing from this market segment creates interesting opportunities for new business. It was therefore possible to focus almost exclusively on less vulnerable business with German and European municipalities, German and French regional authorities and supranational issuers.

2010 was characterised primarily by demand from domestic investors; international investors largely stayed away from covered bonds. However, Deutsche Hypo was on the other hand still able to successfully pursue its proven strategy of demand-oriented new issue business.

The portfolio business of Deutsche Hypo recorded a significant negative impact on earnings compared to the previous year due to the development in the credit spread primarily with credit default swaps.

The Treasury division of NORD/LB Luxembourg is responsible for liquidity risk and interest risk management. It focuses on providing the bank with liquidity to refinance its balance sheet business and interest rate risk control. The lending business is refinanced by deposits from banks and institutional investors, commercial papers issued (ECP and USCP) and money market/open market operations with the European Central Bank and the Swiss National Bank. The bank's Treasury division is an integral part of the NORD/LB Group's funding. The bank uses its Euro Medium Term Note programme, under which benchmark bonds and private placements had been issued as at the balance sheet date, for long-term refinancing.

In its on-balance-sheet business NORD/LB Luxembourg invests mainly in commercial papers, call money and time money transactions, securities and promissory notes from prime issuers. In addition to this repo business is actively conducted in order to increase its share in secured lending business. In its business with derivatives, NORD/LB Luxembourg's Treasury division concentrates on interest rate swaps, forward foreign exchange transactions including foreign exchange swaps and futures. With interest rates advantageous, the active management of interest rates resulted in very high earnings from transformations this year.

NORD/LB Luxembourg pursues in its Credit Investments & Solutions business segment a conservative stable-value investment strategy. The bank does not take any significant risks in relation to complex derivative products and only allows the purchase of securities from OECD countries which have an investment grade rating, with the regional focus being on Europe. Due to the turbulence in the capital market, the investment strategy has been passive in the last two years. The focus was on reducing the volume, which was achieved by targeted sales from the portfolios and by not reinvesting maturing securities. The quality of the portfolio remains high and there was no need for write-downs in 2010. The investment business is supplemented by the "Solutions" segment. Here the aim is to actively exploit Luxembourg's specific locational advantages in the interests of the Group.

The NORD/LB Group possesses a unique selling proposition in NORD/LB COVERED FINANCE BANK S.A. (NORD/LB CFB). NORD/LB is the first and only landesbank which is able to issue lettres de gage publiques in different maturity bands and currencies for its long-term refinancing. Luxembourg's covered bond law, which allows loans and advances to municipal companies (public utilities, water utilities, airports and seaports, etc.) to be covered, together with the special expertise of a group at home in the public sector, provides municipal companies with optimal financing conditions.

In 2010 demand for NORD/LB CFB's lettres de gage publiques was primarily for medium and long-term maturities. Due to the ECB's programme of buying covered bonds and a rapid increase in the number of new covered bond issuers, competition in the new issue segment of the covered bond market was tough. In this phase NORD/LB CFB decided to sharpen its profile by being rated by a second rating agency in addition to Standard & Poor's. After completing the rating process, Fitch Ratings issued the highest rating of AAA for NORD/LB CFB's lettres de gage publiques.

With the goal of risk optimisation and risk diversification, in addition to its direct business with customers the bank also acquires international municipal lending business and other assets suitable for its cover fund via international banks and investment houses. As in the two previous years, in 2010 there was great focus on European borrowers, who now account for more than half of the cover fund. As at 31 December 2010 German assets, in particular municipal companies and public banks such as savings banks and development banks, make up the highest share in the cover fund.

Compared to the previous year, overall the Financial Markets division has seen a significant fall in earnings. The contribution to earnings before taxes fell significantly due to a negative fair value result by € 305 million to € 93 million.

Against the background of high credit spread volatility in the capital markets, there were valuation losses in existing items (in particular credit derivates). Significant Group divisions were affected by this development. This resulted in the financial year 2010 in negative fair value results in particular in Bremer Landesbank, Deutsche Hypo and NORD/LB AöR.

The valuation losses were partly compensated by an increase in net interest income, an improved profit/loss from financial assets and lower loan loss provisions.

In net interest income among other things a very positive interest and liquidity control contributed to very high earnings from transformations. This more than compensated for the previous year's costs relating to liquidity reserves.

Due to the previous year's precautionary write-downs in the area of ABS Investments, only a few additional impairments were necessary in 2010. In Bremer Landesbank and Deutsche Hypo, however, positive results were achieved from the liquidation of financial assets. As a result a compared to the previous year much improved, though still slightly negative profit/loss from financial assets was achieved.

As a result of the loan loss provisions made in the credit investment portfolio in 2009, there was only a small requirement for additional provisions in 2010. Loan loss provisions therefore fell significantly from € 95 million to € 10 million.

The above-mentioned fall in earnings resulted with an increase in administrative expenses in a rise in the CIR. Overall the development in earnings resulted in a RoRaC of 6.8 per cent, which despite the reduced equity commitment is below the previous year's level; the previous year was positively affected though by write-ups as a result of the improved situation in the financial markets.

## Corporate Customers

The business segment of corporate customers mainly comprises the divisions of agricultural banking and housing in addition to business transacted with middle-market corporate customers (excluding the business of Braunschweigische Landessparkasse). The economic recovery was felt throughout the corporate customer business, although finance for investments was still comparatively restrained. Overall the bank's corporate customer business expanded in 2010. Around 130 companies were acquired as new customers. In addition to classic credit products and credit prolongations, NORD/LB offered its customers a wide portfolio of top-quality products. Corporate customer business focused on individual, innovative solutions in close cooperation with the Corporate Finance product division to ensure long-term benefits for customers.

The economic recovery resulted in a rise in receivables in the balance sheets of NORD/LB's customers and the companies therefore reconsidering their financial structure. Management started to focus more on alternative forms of capital procurement. Finance solutions such as factoring, reverse factoring and borrowing base financing (special forms of working capital credit) provided NORD/LB's customers not only with the required liquidity, but at the same time optimised the structure of their balance sheets.

In a bond offensive, NORD/LB very successfully placed various bonded loans on the capital market for its customers in 2010. This additional source of finance broadens the financing base of our customers on the one hand while increasing entrepreneurial flexibility on the other, and is characterised by terms which are market-oriented, clear and transparent.

NORD/LB further strengthened its position among municipal companies such as municipal energy suppliers. NORD/LB provided financial support in particular for structural development in the energy market and sustainably strengthened the competitiveness of municipal energy suppliers. The development of additional sources of energy and as a result the share of renewable energies is playing an increasingly important role for these companies.

The special competence of NORD/LB in the area of residential housing is making an impact nationwide. NORD/LB is one of the Top 10 financers in residential housing in Germany. Municipalities and other parties engaged in the area of residential housing increasingly have to face the strategic issues concerning the adjustment of housing stocks to urban and demographic changes. NORD/LB offers intelligent solutions here. For example, in Magdeburg NORD/LB provided financial support for the revitalisation of a historic district.

NORD/LB also reinforced its market position as the most significant special financer in the agricultural segment in 2010. In the year under review one area focused on was the financing of biogas plants near to farms, with business in this category again improving significantly. The favourable conditions of the latest amendment to the Renewable Energy Sources Act (EEG) and the further amendment announced for 1 January 2012 provided a big boost to investment in the industry. In 2010 NORD/LB financed 100 new biogas plants with a total output of 50 megawatts and a total credit volume of € 150 million. The exclusive use of agricultural economists in customer support with specific knowledge on the structures, production processes and market parameters in the agricultural sector has been well-received. The business segment of agricultural banking now stretches far beyond the borders of northern Germany.

Bremer Landesbank's Corporate Customers division focuses on business with middle-market corporate customers and small business customers in the Nord West region. In 2010 sales activities were expanded and earnings were well above expectations.

While the first quarter was notably affected by the economic crisis, the economic recovery gathered momentum during the course of the year. Due to the increasing business activities of our customers, a pleasing increase in the use of working capital credit was recorded in the second half of the year. Investment activity in the region was restrained for long periods of the year; the reinforcement of sales in the area of "public funding" resulted despite these conditions in increased volumes for long-term financing. Despite the increase in credit volume, risk costs were well below the anticipated values.

At the same time the increase in the cross-border movement of goods resulted in improved earnings from foreign business. Commodity forward trading with agricultural raw materials showed itself be a promising niche product.

The Managing Board of Skandifinanz Bank AG decided in its meeting of 30 June 2010 not to take on any more new business. All business should be terminated in a quick but customer-friendly manner.

The general meeting of Skandifinanz Bank AG approved the new statutes and therefore a change in the company's business orientation as at 1 January 2011. This envisages a significant redimensioning and lower-risk orientation of business activities. In this connection, it is anticipated that the banking licence will be returned by the middle of 2011. By this time all lending transactions should be paid back, transferred within the Group or sold. All customer relations with private customers should be terminated by mid-2011.

The contribution to consolidated earnings of € 122 million achieved in 2010 confirms the success of the corporate customer business. Net interest income continued to develop positively and improved compared to the previous year by 7 per cent to € 223 million. The above-mentioned measures took effect particularly in lending business and were accompanied by pleasing improvements in margins. At the same time borrowing benefited from an increase in volume.

Commission income achieved the previous year's good figure. An additional increase was not achieved due among other things to the compared to the previous year lower earnings from the Mergers & Acquisitions business. The corporate customer business participated in the positive developments in financial markets with an improved profit from trading.

While it was necessary to make high loan loss provisions in 2009 due to the state of the economy and a case of fraud at Skandifinanz Bank AG, the risk situation eased in 2010 and was also below the expected level. Compared to the previous year this resulted in a positive effect of € 187 million on the contribution to the operating result.

The stronger income situation and constant administrative expenses resulted in an improved cost-income ratio. The RoRaC reached a pleasing 18.6 per cent in 2010 after the crisis year of 2009.

## Energy and Infrastructure Customers

In the Renewable Energies segment the strategic focus is on financing energy production from wind and solar energy/photovoltaics. Driven by the Kyoto Protocol and national development systems, renewable energies have in recent years become an industrial sector in its own right with high growth rates. This trend provides considerable opportunities for NORD/LB.

By combining activities in the wind energy market with Bremer Landesbank, NORD/LB is able to serve a wide range of different financing projects, from small North German projects to global projects in Europe or North America.

In 2010 the bank continued to expand its leading market position for financing wind park projects in Europe, and in particular in Germany, Great Britain, Ireland and the USA. This was underlined by among others the financing of a major wind energy project in Northern Ireland and the structuring and financing of a portfolio consisting of six wind parks with German turbine technology in France.

NORD/LB is currently in the market-entry phase in the promising offshore wind market. The bank is expecting to achieve its commercial breakthrough by financing its first projects in the German Bight in 2011.

Commitment in the area of solar energy was extended with numerous projects all over the world. In so doing NORD/LB at the same time supported the expansion of German solar technology manufacturers with the structuring and financing of several solar plants in Canada. NORD/LB also gained entry into the markets in Poland and Italy. For example, in Southern Italy a portfolio of ten solar parks was structured and financed. As a result the expansion of renewable energies was also supported in these countries and jobs at numerous German suppliers were secured.

In addition to structuring and finance, the Renewable Energies segment has also successfully established itself in recent years as an advisor to companies in the market. This primarily comprises creating and securing the financial viability of projects, the development and improvement of individual product solutions and advice for entry into new markets.

In the infrastructure industry, NORD/LB is financing projects in the areas of public-sector building construction and social infrastructure. NORD/LB supports its customers from the start of the invitation-to-tender process to the conclusion of contracts. The bank's status as a public bank, its proximity to the public sector and its high expertise represent significant added value for customers in the structuring and negotiation of flexible and attractive financing structures.

In the case of public private partnership financing, NORD/LB was one of the first German institutes to successfully launch this financing model in the British and German markets when it financed schools and prisons. Its market position was extended again in 2010 with the structuring and financing of further projects particularly in Germany and Great Britain. For example the initial financing of a "city lighting project" was successfully concluded. In addition a further project for the financing of school locations in the regional home market of Saxony-Anhalt was structured and financed.

Bremer Landesbank recorded significant growth in the renewable energies segment in the past financial year. New business development reflects the increased structuring and financing requirement of customers after the amendment to the German Renewable Energy Sources Act (EEG) in 2008. Wind power, biogas and photovoltaics may continue to benefit as core segments from the positive conditions. Bremer Landesbank acts as the NORD/LB Group's competence centre for biogas and photovoltaics in Germany. Experienced customers are also supported selectively in the expansion into Europe.

With the refinancing of companies leasing movable assets by Bremer Landesbank, increases in market share were achieved despite the depressing economic development; it therefore strengthened its position as a leading financer of middle-market leasing companies in 2010 and increased its earnings. Bremer Landesbank has acted the NORD/LB Group's competence centre in this sub-segment since 2008 and remains with a wide customer base a reliable partner for bank-related leasing companies.

Overall the segment increased its contribution to the operating result by € 15 million to € 119 million. In addition to the increase in net interest income of € 21 million due to rising margins and an increase in the volume of loans, the pleasing development in this area is also reflected in the income from services. This was increased primarily due to the increased advisory service to € 55 million.

Investment in this business segment resulted in an increase in operating costs of € 7 million. Loan loss provisions increased by € 12 million.

The overall development of the income items resulted in the RoRac improving once again on the previous year's high level to 24.2 per cent. The CIR was virtually unchanged.

## Ship and Aircraft Customers

### Ship Financing

In the area of ship financing the crisis initially continued in 2010 accompanied by lows for ship values and charter rates. The major merchant shipping segments, in particular container ships, tankers and bulk carriers, experienced significant falls in transport demand and earnings due to the financial and economic crisis and the decline in global trade. New business with closed ship funds had already largely come to a standstill in 2009 and is currently of almost no significance for NORD/LB.

2010 saw, along with the recovery in the economy and global trade, a recovery in shipping markets. Charter rates rose noticeably in the second and third quarters initially in bulk shipping, which is driven by primary products such as coal and iron ore, then in container shipping, which is more geared towards consumer goods. The latter was sustained in particular by rising volumes of trade to and from Asia, with the shipping lines active or located here initially benefiting.

Consequently our activities focused on supporting our existing customer base and securing existing financing. Risk control was the dominant issue, both externally in contact with our customers (for example within the scope of renegotiations with shipyards) and internally with more intensive portfolio monitoring and control.

In numerous cases of financing, credit margins and fees were renegotiated to take adequate account of risk, and this was reflected in combination with the development of the US dollar exchange rate in an increase in both interest income and commission income. Despite the market recovery taking root, the risk situation remains tense.

Since the crisis in the shipping sector worsened Bremer Landesbank has only selectively transacted new business to a limited degree. The growth in volume is attributable in particular to deliveries from business contracted in previous years. The crisis management practised by Bremer Landesbank has proven to be prudent and sustainable. Bremer Landesbank remains prepared for possible defaults due to the crisis in the shipping industry and will, if required, adjust the loan loss provisions accordingly. Bremer Landesbank remains similarly well positioned with long-term loan structures with long-standing direct customers and is expecting that there will be a moderate but noticeable market recovery. In the long term the bank is expecting that there will be steady rise in the volume of world trade and a rise in demand for modern shipping tonnage.

**Aircraft Financing**

After a difficult decade for the airline industry which saw its negative peak in 2009, air transport also benefited significantly from the economic recovery in 2010. High delivery volumes of passenger and freight aircraft resulted in intensive demand for financing, which NORD/LB was able to turn into an increase in new business of over € 1.5 billion. These loans were and are used for the financing of ca. 90 aircraft and engines.

The diversification of the portfolio was continued by expanding business with freight aircraft and aircraft engines. Among others a Boeing 777F was financed which will be stationed at Leipzig Airport. NORD/LB obtained further financing mandates for the new Boeing jumbo freighter, which is likely to start being delivered in mid-2011.

The focus is on aircraft belonging to the generation with state-of-the-art technology. The financing of a further four Airbus A 380 aircraft for the benefit of Air France and Emirates also contributes towards the share of modern and marketable models remaining high in the financing portfolio of NORD/LB, with almost two thirds of aircraft financed being younger than five years old.

The success of aircraft financing can be deduced by both the credit volume and the margins achieved having increased. Thanks to the balanced structure of the portfolio there was again no need to make loan loss provisions.

As a result shipping and aircraft financing was able to increase its contribution to the operating result to € 230 million (€ 129 million). A significant driver of this result was a € 92 million increase in interest income. Here a significant role was played by the favourable development of the US dollar exchange rate on the one hand and the rise in margins on the other.

The impact of the increased number of restructuring cases is reflected in the increase in income from services of € 34 million; loan loss provisions rose again by € 23 million. The RoRac was improved compared to the previous year from 9.9 per cent to 13.2 per cent. Due to this segment’s moderate rise in costs, the CIR was improved once again from 12.2 per cent to 9.9 per cent.

## Real Estate Banking Customers

NORD/LB has decided to concentrate real estate banking in the wholly owned subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft) in order to realise opportunities for growth across the Group. For this purpose the portfolio business of NORD/LB will be gradually transferred by means of prolongations and asset transfers to Deutsche Hypothekenbank; this process started in 2009. Credit commitments which have not yet been transferred, i.e. those for which NORD/LB is still liable, will be processed by Deutsche Hypothekenbank within the scope of a mandate.

The current real estate portfolio still with NORD/LB at the end of 2010 primarily concerns financing projects in the target markets of Germany, Western Europe and the USA. They are short-term interim loans for new construction projects and long-term loans for existing properties. In particular office and commercial buildings, shopping centres and housing construction measures in preferred conurbations with a correspondingly good tenant structure and good cash flow are financed.

Deutsche Hypo acts as an independent competence centre for Commercial Real Estate Finance. The NORD/LB Group possesses here a flexible unit which enjoys an excellent reputation in the market.

In the financial year 2010 Deutsche Hypo achieved new business of almost € 1.8 billion during the course of the slow recovery in real estate markets. Deutsche Hypo's financing remains focused on office and commercial buildings and retail properties. Key regions are in particular Germany as the core market and important foreign markets such as Great Britain, France, the Benelux countries, Spain and the USA.

Bremer Landesbank's clear focus in the financing of community interest properties, for which it now acts as a competence centre in the NORD/LB Group, lies in the financing of nursing homes. Demographic trends and the growing need for in-patient nursing highlight the strategic importance of this area.

In summary the Real Estate Customers segment's earnings before taxes were almost double the figure for the previous year at € 95 million. This development is attributable to an improved earnings position and lower loan loss provisions. Due to the asset transfer, a shift in earnings in this segment has been recorded from NORD/LB to Deutsche Hypo.

Net interest income developed positively compared to the previous year due to increased margins and totalled € 248 million (€ 219 million). Net commission income rose due to increased income from fees relating to restructuring measures to € 27 million (€ 21 million). The profit/loss from financial Instruments at fair value through profit or loss of € 1 million only plays a minor role in this segment.

Compared to the previous year administration expenses rose to € 67 million (€ 56 million). The reasons for the increase are in particular the implementation of supervisory requirements and consultancy and legal costs for non-performing US exposures. The loan loss provisions made in the amount of € 114 million were less than in 2009 (€ 134 million). In Deutsche Hypothekenbank the allocations to loan loss provisions are largely attributable to the Great Britain and USA portfolio, and in NORD/LB they are attributable in particular to domestic real estate banking.

The CIR is a low 24.3 per cent. The RoRac developed positively compared to the previous year due to the improved earnings position and lower loan loss provisions and is 8.9 per cent.

## Group Controlling/Others

Staff divisions, Group divisions not included in the above-mentioned segmentation and consolidations are pooled in "Group controlling/others". All of the components subsumed here are directly related to the operational business.

This item mainly shows sources of revenue for the entire bank which are not allocated to the profit centres, such as investment/financing revenue (among others, revenue from investments and from investments of capital), non-allocated service centre items (overhead costs), projects covering the entire bank, the profit/loss from other financial instruments, from financial assets, hedge accounting, other investments and consolidation items.

The loan loss provisions of the Group controlling/others segment includes in particular the general loan loss provisions not allocated to the operational units. The general loan loss provisions required in the past financial year were much lower than in the previous year. Ineffective hedge relationships resulted in a very positive profit/loss from hedge accounting in 2010. As a result of disposals from the investment portfolio, the profit/loss from financial assets in this segment was € 87 million. The increase in administrative expenses was driven primarily by IT projects covering the entire bank. The fall in other operating profit/loss is attributable to a one-time effect in 2009.

## Reconciliations

Components of comprehensive income presented differently in internal accounting and in the external income statement are separated in the reconciliation statement. The reasons for this reconciliation item are among others the reporting in different profit and loss items in internal and external accounting and the allocation of revenues and expenses to different accounting periods. Also included here are residual values which cannot or only with unreasonable cost and effort be differentiated and allocated to the operational units.

# Risk Report

The risk report of the NORD/LB Group as at 31 December 2010 was prepared on the basis of IFRS 7. Furthermore, the provisions of the German Commercial Code (HGB) and the more specific German Accounting Standards DRS 5 and DRS 5-10 are taken into consideration.

The Group risk report contains parts of the qualitative risk reports of the NORD/LB Group according to § 26 of the German Banking Act insofar as they supplement requirements under commercial law. More detailed regulatory reporting is in a separate disclosure report which is published on the NORD/LB website (under Investor Relations/Reports).

## Scope

The risk report covers all the companies included in the basis of consolidation under commercial law in accordance with IFRSs and also includes special purpose entities (SPEs) in accordance with SIC-12.

Compliance with the principle of materiality results in a deviating scope of application. In the NORD/LB Group, quantitative risk reporting on the basis of individual risks is based on the Group companies significant for risk reporting. As it was the case as at 31 December 2009, these include

- the parent company NORD/LB

and the subsidiaries

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – (Bremer Landesbank),
- Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg),
- Deutsche Hypothekenbank (Actien-Gesellschaft) (Deutsche Hypo) and
- NORD/LB COVERED FINANCE BANK S.A. (NORD/LB CFB).

Based on the total of the financial instruments in the Group, these five companies (“significant Group companies”) account at the time of the audit for a share of more than 95 per cent. From the point of view of the entire Group, the contribution of the other companies to specific risks is insignificant. Risks concerning these companies are treated as investment risk and explained by a qualitative report on investment risk.

The audit of the Group companies significant for risk reporting considers both the consolidated companies in accordance with IFRS and the companies included in the regulatory basis of consolidation. “Group” is the term used below to describe both the group in accordance with IFRSs and the regulatory group.

In general the management approach is applied for risk reporting: internal and external risk reports are always based on the same terms, methods and data.

# Risk Management

## Risk Management – Fundamentals

The business activities of a bank inevitably involve the conscious undertaking of risks. From a business point of view, the NORD/LB Group defines risk as being potential direct or indirect financial losses due to unexpected negative differences between the actual results and projected results of business activity. Identifying, assessing, reporting, controlling and monitoring these risks are basic requirements for the sustained success of an enterprise.

The Framework for structuring this risk management process is specified for banks and groups of banks in the minimum requirements for risk management (MaRisk) on the basis of § 25a of the German Banking Act (KWG). In accordance with these requirements, proper business organisation includes the specification of strategies on the basis of procedures for ascertaining and securing risk-bearing capacity, which comprises both risks and the capital available for covering these risks.

The revised version of MaRisk published on 2009 August has resulted in various amendments and extensions, e.g. in relation to the consideration of concentrations of risk and risk management at Group level. NORD/LB and the subsidiaries significant for risk reporting had already carried out a preliminary study before the final version was published to identify any need for action and initiated a project for implementation. In the year under review the majority of the remaining measures were implemented; the implementation schedule only extends beyond 2010 in two areas due to existing dependencies on other projects.

The NORD/LB Group has among other things set up a multi-stage process to develop an overall risk profile which shows the risk types relevant for the NORD/LB Group and differentiates between material and non-material risks. Material in this context are all relevant risks which could have a material impact on NORD/LB's capital resources, earnings, the liquidity position or the achievement of the NORD/LB Group's strategic goals.

Credit risks, investment risks, market price risks, liquidity risks and operational risks continue to be considered as material risks. The following additional risks are also considered to be relevant: business and strategic risk, reputation risk, syndication risk and model risk. Appropriate precautions have been taken for all risks that have been identified. The overall risk profile is reviewed at least annually and when required (risk inventory) and if necessary adjusted.

A further change will be required as a result of the third MaRisk amendment published on 15 December 2010. NORD/LB has already analysed the measures required and started to implement these. The necessary measures were also taken in Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB to implement the MaRisk amendment.

## Risk Management – Strategies

The NORD/LB Group's business policy is deliberately conservative. Accordingly the responsible handling of risks is the uppermost priority. The Group risk strategy, drafted with this in mind, overrides the risks strategies of the significant companies in the NORD/LB Group and is, taking into account the respective business models, substantiated by their risk strategies.

The risk strategies of the significant Group companies are in each case defined in accordance with the business model, the business strategy and the determination of the Group risk strategy and are reviewed at least once a year. They contain information on the principles of risk policy, the organisation of the risk management and on sub-strategies for the material risk types.

The core element of the risk strategy is the risk-bearing capacity model (RBC model), on the basis of which risk appetite is specified and the allocation of risk capital to the material risk types is undertaken.

For the NORD/LB Group it was conservatively determined that normally at most 80 per cent of the economic risk coverage potential may be covered with risk potential. The relevant perspective of the RBC model (status quo of economic capital adequacy) should therefore provide a minimum coverage of 125 per cent. At the level of the significant companies, this specification applies for each individual institute.

The maximum risk capital is also allocated to the material risk types in the risk strategies. Most of the coverage is associated with credit risk, reflecting the NORD/LB Group's focus on customer-oriented lending business. The individual institutes are responsible for determining the allocation relevant for them.

The Group risk strategy and the risk strategies of the significant companies were reviewed and adjusted in 2010 and discussed with the Supervisory Board after being passed by the Managing Board. The revision focused on the integration of the overall risk profile and the further-developed RBC model into the risk strategies.

The risk strategies aim to achieve an optimal management of all material risk types and to achieve the transparent presentation of these risks to the management, the supervisory bodies and other third parties with a justified interest. Based on this, the significant companies of the NORD/LB Group have a range of further instruments at operational level which ensure that there is sufficient transparency of the risk situation and structure the required limitation and portfolio diversification in a way which can be controlled and monitored. These instruments are described in detail in the NORD/LB Group's risk manual and in the risk manuals and relevant documents of the individual institutes.

## Risk Management – Structure and Organisation

Responsibility for the NORD/LB Group's risk management lies with the Managing Board of NORD/LB. The Managing Board coordinates the Group risk strategy and its amendments in the Erweiterter Konzernvorstand (Extended Group Managing Board); the Erweiterter Konzernvorstand also includes the Chairmen of the Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo and its resolutions are referred to the responsible bodies in the Group institutes concerned for formal decision. NORD/LB CFB, as a subsidiary of NORD/LB Luxembourg, is represented by NORD/LB Luxembourg in the Erweiterter Konzernvorstand. After the Group risk strategy has been passed by the Managing Board of NORD/LB, it is submitted to the Supervisory Board of NORD/LB for its information and discussion.

The responsible Chief Risk Officer (CRO) in the Managing Board of NORD/LB bears, in concert with the heads of the market departments, responsibility for drawing up and monitoring the Group risk strategy. This includes the monitoring of material risks including the risk reporting at Group level. At individual institute level responsibility lies with the respective Managing Board member or the Risk Officer.

Functional risk management is performed decentrally in the significant Group companies. In order to ensure the greatest possible comparability with regard to the assessment, monitoring, controlling and reporting of all material risks, the instruments used for this purpose are agreed with the institutes.

In addition to the Erweiterter Konzernvorstand, the control of the NORD/LB Group is supported by a system of Konzernsteuerungskreise (Group Control Committees), whose members are, depending on the Konzernsteuerungskreis, various members of the Managing Board and divisional heads of the companies significant for risk reporting. From a risk point of view in particular the Risk/Finance Konzernsteuerungskreis is relevant.

With regard to the holistic consideration of risks in the NORD/LB Group, the respective Managing Board is supported by the Group Risk Committee (GRC). The GRC is a committee which is part of the Risk/Finance Konzernsteuerungskreis (Group Control Committee) and comprises the Chief Risk Officer, the heads of the market divisions and the heads of the divisions Central Management Risk, Risk Control, Research/Economy and the credit administrative divisions of NORD/LB and the risk officers at Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. Further participants are invited when required. The focus of the GRC lies in considering the overall portfolio of the NORD/LB Group taking into account all material risk types and strengthening Group integration.

The structure and organisation of risk management at the NORD/LB Group complies with the requirements of MaRisk. The process of risk management is subject to constant review and improvement. Adjustments which may be made cover organisational measures, adjustments to procedures for quantifying risk and the continuous updating of relevant parameters.

NORD/LB's Risk Control Division is responsible for updating and developing the RBC model and regularly reviewing the risk strategies.

A risk-related examination of the effectiveness and adequacy of risk management is carried out independently of the processes by Internal Audit. As an instrument of the Managing Board it is part of the internal monitoring process. The aims of Internal Audit also include the monitoring of the effectiveness, the efficiency and correctness of business activities. It also facilitates the optimisation of business processes and of controlling and monitoring procedures.

Within the framework of the Group-wide monitoring instruments, the internal audit departments of NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB work together closely using fundamentally uniform instruments (audit policy and assessment matrix for audit findings).

Due to the changes in regulatory requirements placed on the management of risk across the Group, the goals, tasks, function and instruments for Group audit have been revised and a new Group audit policy has been drawn up. The concept agreed in the Erweiterter Konzernvorstand was passed by the Managing Board of the NORD/LB in December 2009 came into effect on 1 January 2010.

The Group audit is carried out in addition to the internal audits in the subsidiaries. The focus is on NORD/LB Group's risk strategy, Group-wide risk-bearing capacity, Group accounting and Group reporting, reporting on Group control and the reliability of the internal audits of the subsidiaries. In addition to the audits of Group audit, joint audits of the Group audit with the internal audits (cooperative Group audits) also take place.

The treatment of new products, new markets, new sales channels, new services and their variations is regulated decentrally in the new product process (NPP) in the significant institutes of the NORD/LB Group taking into account the respective conditions; however there is also close coordination between the institutes in this respect.

The essential aim of the NPP is to identify, analyse and assess all potential risks for the NORD/LB Group prior to starting the new business. This includes all of the essential audit areas, documentation of the new business activities, their treatment in the overall operational process, the decisions to start the business and where applicable the associated restrictions.

More detailed information on the structure and organisation of risk management is provided in the sections below on structure and organisation by risk type. These sections describe the structures and processes of NORD/LB's risk control in detail. Significant deviations in the subsidiaries are then described separately.

### Risk Management – Risk-Bearing Capacity Model

The risk-bearing capacity model constitutes the methodical basis for monitoring the risk strategies in the NORD/LB Group. This monitoring is carried out at group level by NORD/LB's Risk Control Division and by the respective risk control divisions at individual institute level. The NORD/LB's Risk Control Division is responsible for the overall control and development of the model.

The aim of the model is to aggregate and duly present the bank's risk-bearing capacity at both individual institute and Group level by comparing risk potential resulting from the material risks and risk capital. The monitoring and reporting process is conducted regularly and guarantees that the responsible bodies are promptly informed about risk-bearing capacity situation of the significant companies of the NORD/LB Group and the NORD/LB Group as a whole.

The NORD/LB Group revised and extended its existing RBC model in the year under review. The revision focused on the further optimisation of the Group-wide bank control system and in particular on the implementation of the requirements of the second MaRisk amendment with regard to extended consideration of stress scenarios covering different types of risk.

The NORD/LB Group's extended RBC model consists of the three perspectives of going concern, economic capital adequacy and regulatory capital adequacy, in which the respective material risks (risk potential) are compared with the defined risk capital of the individual institutes and the Group. The economic and regulatory capital adequacy are both broken down further into the perspectives of status quo and under stress.

The first perspective presents the going-concern case, which assumes the continuation of the NORD/LB Group's current business model. It acts as an early-warning stage and compares, using a lower confidence level than the other two perspectives, the economically calculated risk potential with risk capital in the form of free regulatory capital based on a defined overall ratio. In addition to this, risk capital effects during the year are considered in an indexation process.

The second and third perspectives are based in terms of risk potential on a higher confidence level of 99.9 per cent. Economically-calculated risk potentials are used for the economic capital adequacy, while risk potentials calculated based on regulatory specifications are used for the regulatory capital adequacy. On the capital side both the economic and the regulatory capital adequacy tests are based on equity and equity-like components which according to banking regulations are to be classified as equity. In the economic consideration, as in the going-concern case, an indexation process takes into account risk capital effects during the year.

For the Internal Capital Adequacy Assessment Process (ICAAP) required in accordance with MaRisk, primarily the pillar of economic capital adequacy (status quo) is considered. The regulatory capital adequacy in the status quo is to be complied with as a strict supplementary condition. Strategic limits are derived from the consideration of risk-bearing capacity based on the going-concern case, taking into account the allocations of risk capital in the Group risk strategy.

When calculating risk-bearing capacity, risk concentrations are also considered, both within a risk type as well as across risk types. Concentrations within a risk type essentially concern credit risks as the most significant risk type for the NORD/LB Group. These are integrated via the internal credit risk model into the RBC model.

Concentrations across different risk types are considered by stress tests. When selecting the stress scenarios the NORD/LB Group's key business areas and risks are consciously used as guidelines for selection. In the process among other things industries, segments and regions are selected which have a significant impact on the Group's risk situation. These risk concentrations are reported and monitored on a regular basis in the context of risk-bearing capacity with targeted stress tests.

The relevant scenarios are ascertained at the level of the NORD/LB Group and are to be applied consistently in all of the individual companies in order to ensure comparability between the institutes and to ensure that the group values can be aggregated. At individual institute level further stress tests can be determined which take account of the key business areas.

The reports drawn up by the Risk Control Division on risk-bearing capacity (RBC reports) constitute the main instrument for risk reporting at Group and individual institute level to the respective 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 the material risk types is therefore reviewed regularly.

In addition to receiving the report on risk-bearing capacity, the Managing Boards of the institutes subject to the German Covered Bond Act (Pfandbriefgesetz) are also informed about risks relating to covered bond business on at least a quarterly basis. The reports prepared at individual institute level meet the requirements of § 27 of the Covered Bond Act.

### Risk Management – Development in 2010

The risk coverage ratio in the economic capital adequacy (status quo) improved significantly in the year under review and is 217 per cent as at the reporting date. The rise is attributable both to a fall in risk potential and an increase in risk capital.

In particular a reduction in the exposures of the greatest drivers of credit risk in NORD/LB contributed towards the reduced risk potential. The increase in risk capital was the result of various measures undertaken in the year under review to strengthen the NORD/LB Group's capital base.

| (in € million)[1] | Risk-bearing capacity 31 Dec. 2010 | | Risk-bearing capacity 31 Dec. 2009 | |
|---|---|---|---|---|
| **Risk capital** | **9 561** | **100 %** | **8 976** | **100 %** |
| Credit risk | 3 509 | 37 % | 5 402 | 60 % |
| Investment risk | 118 | 1 % | 109 | 1 % |
| Market price risk | 382 | 4 % | 217 | 2 % |
| Liquidity risk | 150 | 2 % | 34 | 0 % |
| Operational risk | 240 | 3 % | 245 | 3 % |
| **Total risk potential** | **4 398** | **46 %** | **6 006** | **67 %** |
| **Excess coverage** | **5 163** | **54 %** | **2 970** | **33 %** |
| **Risk coverage ratio** | | **217 %** | | **149 %** |

[1] Total differences are rounding differences

In order to improve the RBC model, various methodological adjustments were made in the year under review which resulted in a change in economic risk potential: In market price risk the integration of credit spread risks for the liquidity reserve resulted in an increase in risk potential, in credit risk and liquidity risk the risk potential fell due to the resetting of parameters in the credit risk model and due to a change of assumptions for products without fixed liquidity flows.

In order to actively counter the effects of the financial and economic crisis, the NORD/LB Group has implemented various measures to strengthen the risk quotas. In addition to risk reduction measures, this also comprises the raising of subordinated capital by NORD/LB. The effects having a negative impact on capital, in particular the increase in expected losses and write-downs.

In the period under review the NORD/LB Group participated in the EU-wide bank stress test 2010, which was coordinated by the Committee of European Banking Supervisors (CEBS). This showed that the stress-related hypothetical fall in the core capital ratio remained at a controllable level. The core capital ratio also remained stable above 6 per cent under the specified stress scenario and therefore at an acceptable level.

Overall the risk coverage ratio is still well above the internally specified target of 125 per cent and the risk strategy's specifications concerning risk capital allocated to the risk types are being complied with. The risk-bearing capacity is also given taking into account the internally-defined stress scenarios covering all material risk types.

## Credit Risk

Credit risk is a component of counterparty risk and is broken down into traditional credit risk and counterparty risk in trading. Credit risk defines the risk of loss involved when a credit borrower defaults or when the credit rating of such a credit borrower deteriorates. Counterparty risk in trading defines the risk of loss involved when a borrower or contract partner in trading transactions defaults or when the credit rating of such a borrower or contract partner deteriorates. It is broken down into default risk in trading, replacement risk, settlement risk and issuer risk:

- Default risk in trading defines the risk of loss involved when a borrower defaults or when the credit rating of such a borrower deteriorates. It equates to traditional credit risk and relates to money market transactions in the Money Market and Treasury divisions.

- Replacement risk defines the risk of the contract partner in a pending transaction with a positive present value defaulting and this transaction having to be replaced with a loss.

- Settlement risk is broken down into advance payment risk and clearing risk. Advance payment risk defines the risk when the bank has completed a payment whereas the counter-payment has not been made by the contract partner or, if payments are offset, the balance not being paid. 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 loss involved when an issuer or reference entity defaults or when the credit rating of such an issuer or reference entity deteriorates.

In addition to the original credit risk, cross-border capital transfer services involve country risk (transfer risk). This is the risk that, despite the ability and willingness of the individual counterparty to meet payment claims, a loss will occur as a result of overriding government hindrances.

### Credit Risk – Management

#### Strategy

Credit business and the management of credit risks is a core competence for the NORD/LB Group that is to be permanently developed and extended. The NORD/LB Group sees itself as a reliable universal bank focusing on credit business and it positions itself with its customers accordingly.

In order to meet the specific requirements of each business segment, NORD/LB has established financing principles for the individual market segments. These represent binding guidelines for new business for the respective market divisions and take into account the conservative orientation of the NORD/LB Group.

New lending business clearly focuses on concluding agreements with customers with a good to very good credit rating. The NORD/LB Group also concentrates on business with borrowers of good standing in the capital market business. The aim is to produce competitive profitability and ensure efficiency and flexibility in terms of the active management of credit risk positions in order to minimise unexpected losses.

The controlling of the NORD/LB Group's credit portfolio takes into account opportunities and risks. This includes the early identification of crisis situations. For this reason a number of processes, systems and instructions are in place, for portfolios and for individual borrowers, which combined form a system for the early recognition and effective management of risks and the initiation of measures to limit these risks.

## Structure and Organisation

A risk-related organisational structure and the functions, responsibilities and authorisation of divisions involved in risk processes are clearly defined at employee level. In accordance with MaRisk, processes in credit business are characterised by a clear organisational separation of the market and risk management divisions, right through to management level.

NORD/LB market divisions conduct the operational financing business relating to customers, properties and projects on a national and international level within a framework of specified limits. They are primarily responsible for the core tasks of acquisition and sales and are relieved of administrative tasks. The market divisions are responsible for the initial vote, for structuring conditions and for earnings. In the case of minor-volume, low-risk exposures, the market divisions will in some cases also bear sole responsibility for the risk (unilateral authorisation) as well as responsibility for analysing and observing these risks.

Tasks relating to analysis and risk observation as well as the specification of collateral values are combined in the Credit Risk Management (CRM) back office division. Real estate and special appraisals are exceptions here; these are carried out in a separate department. The Credit Risk Management Division is also responsible for the second vote taken for decisions on individual loans. For exposures with risk concentrations, a credit rate assessment takes place with regard to Large Exposure Management. In a multi-stage reporting system, the division also prepares segment portfolio reports on selected sub-segments at regular intervals.

The Credit and Collateral Management division in the CRM is responsible for implementing the credit decisions including the contract documentation and for managing portfolios. With special finance the respective market division is responsible for these tasks.

In 2010 Credit Portfolio Management unit was also integrated into the CRM division. The main task of Credit Portfolio Management is to manage the concentration risks in the credit portfolio of the NORD/LB Group. Concentrations in terms of the magnitude of an extended borrower entity as well as country and industry concentrations are examined.

The processing of non-performing loans or loans requiring debt readjustment is the responsibility of the Special Credit Management (SCM) Division at NORD/LB. Credits with a rating of 11 on the rating master scale of the German Association of Savings Banks and Girobanks (DSGV) (i.e. allocation to the "high risk" category in accordance with the "Initiative Finanzstandort Deutschland" (IFD, initiative for Germany as a financial location) and exposures which deteriorate by three ratings and therefore fall to a rating of 7 (allocation to the "good/satisfactory" category in accordance with IFD) or lower must all be reported to the SCM division. Other defined risk indicators may also prompt a presentation requirement. The SCM decides whether the processing of a loan is to be taken over or whether the loan is to remain with the CRM. From a rating of 16 (allocation to the IFD Default risk category (non-performing loans)), the SCM division is obliged to take over responsibility for an exposure. For Financial Institutions, Asset Backed Securities and Corporate Bonds processing remains in the Credit Risk Management division.

Credit decision authorisation is classified in accordance with the total loan eligible and the rating of a borrower. Credit decisions are always taken by a person in authority in the market division and a person in authority in the risk-management division (bilateral authorisation). The second vote is prepared in units independent of the market divisions in accordance with specified criteria. In addition to fulfilling the regulatory requirement of functional separation for credit assessments, this ensures that first-class credit decisions are taken on the basis of unified standards.

The Managing Board is responsible for controlling NORD/LB's credit portfolio. In performing its tasks, the Board consults among other things the Group Risk Committee (GRC), which ensures that a link between individual credit decisions and portfolio management as well as an approach covering all the types of risk is given. The GRC recommends to the Managing Board various instruments for this purpose such as the ordering of an acquisition stop, the limiting of country, industry or borrower-related concentrations or making recommendations relating to the placement of exposures and sub-portfolios.

As at a certain volume, decisions are taken by the Managing Board or by the General Working and Credit Committee (AAKA), a sub-committee of the Supervisory Board of NORD/LB. The AAKA participates in the process of granting loans in accordance with an authorisation regulation passed by the Supervisory Board. The acquiring of investments is also subject to a Supervisory Board resolution as is approval for loans to executives.

The Credit Risk Controlling department is responsible for the methods for measuring credit risks and for credit risk control instruments. The independent division which was previously called Credit Risk Control was merged with the Risk Control Division on 1 August 2010.

The Credit Risk Controlling department is responsible for the independent monitoring of credit and investment risk at portfolio level and for the corresponding report system as well as the regulatory reporting system. This is also where method-related responsibility for procedures relating to the economic quantification of counterparty risk lies.

At Bremer Landesbank independent back office tasks are carried out by the back office department Financing Risk Management. In addition to casting a second vote, it verifies and stipulates rating levels, verifies collateral values, processes and supervises of debt restructuring and workout exposures and loan loss provisions, and shapes the policies and procedures for the lending business. Exposures beyond the scope of rating categories 1 to 8 are supervised more intensively or are handed over for restructuring to the resp. department. This department is principally responsible for deciding on how an exposure is to be monitored in future or whether it is to be cancelled and coercive measures are to be implemented. The tasks relating to independently monitoring risks at portfolio level and to independent reporting are the responsibility of the Risk Control Division in Overall Bank Management.

Risk management at NORD/LB Luxembourg and NORD/LB CFB is based on the concepts of NORD/LB and is regularly improved in accordance with commercial and regulatory criteria. Credit decisions are made in accordance with the back office vote of the authorised persons in the Credit Risk Management (CRM) division of NORD/LB Luxembourg. The independent monitoring of the portfolio is carried out by the Risk Control Division at NORD/LB Luxembourg. NORD/LB's SCM division and the CRM division of NORD/LB Luxembourg are responsible for monitoring loans requiring comment or debt restructuring.

Risk management at Deutsche Hypo is also based on the concepts of NORD/LB and regularly improved. The second vote for credit transactions is performed by the back office division Credit Risk Management. The exposures requiring debt restructuring are looked after by the SCM division of Deutsche Hypo, either intensively with the goal of out-of-court restructuring or with defaulting counterparties with the goal of realising collateral. The local risk control division monitors the risks of Deutsche Hypo at portfolio level.

## Credit Risk – Collaterals

For the assessment of credit risks, in addition to the credit-worthiness of borrowers or counterparties reflected in the rating, the common bank collaterals available and other risk reduction methods are of importance. The NORD/LB Group therefore accepts domestic and foreign collaterals in the form of property and rights (lending object) to reduce credit risk. When accepting collaterals the cost-benefit relationship of the collateralisation is considered.

The collaterals are assessed both at the time the loan is granted and during the subsequent ongoing (normally at least yearly) monitoring as to whether they appear to be disposable at the assumed value based on foreseeable economic developments during the (remaining) term of the loan. They are therefore reviewed on a case-to-case basis as to whether the valuation appears to be justified based on the respective type of security and based on its legal and economic applicability in respect of the person of the borrower and the type of loan. If factors relevant to the assessment have changed, the assessment is adjusted accordingly.

The credit guidelines and lending principles of the NORD/LB Group specify which fundamental types of collaterals and the maximum loan (lending limit) which may be lent against the collateral. Guarantees, credit securities similar to guarantees, assignments of receivables and other rights, chattle mortgages, property, receivables and other rights and collateral assignment of chattel are accepted as collaterals. Other collaterals can be contracted with the borrower, but these do not reduce the unsecured portion of the exposure.

## Credit Risk – Control

In order to assess credit risks in the NORD/LB Group, each borrower is rated within the framework of an initial or annual credit rating process and a cause-related rating or credit rating category is also determined for each borrower. The rating modules employed were either developed in various cooperation projects conducted by the savings bank financial group or the Landesbanks or they were developed internally by NORD/LB.

A specific limit is stipulated for each borrower at individual transaction level within the scope of operational limiting in order to manage risks; this has the character of an upper limit. The significant parameters applied for deriving this limit are a borrower’s creditworthiness, expressed as a rating, and the funds that are available at the borrower’s free disposal for making principal payments when servicing a loan.

Risk concentrations and correlations at portfolio level are shown by quantifying the credit risk potential in the credit risk model. Risk concentrations are also limited by country and industry limits at portfolio level as well as by the Large Exposure Management model for extended borrower entities. The latter defines a loss-at-default limit for every rating on the basis of which a Group exposure for the categories corporates, financial institutes, special finance and foreign regional authorities is classified as being normal, as having risk concentration or having strong risk concentration.

The exposure limits are based on the risk-bearing capacity of the NORD/LB Group.

Group Management Report
Consolidated Financial Statements
Reports
Data/Glossary

**Credit Risk – Securitisation**

Securitisation is a further instrument used to control credit risks in the NORD/LB Group. The aim of these securitisation activities is to optimise the yield/risk profile of the loan portfolio and to ease regulatory equity requirements.

In order to diversify the loan portfolio, credit risks in the bank's own books can be transferred to other market participants (NORD/LB as an originator) or additional credit risks are taken (NORD/LB as an investor or sponsor). NORD/LB also conducts securitisation activities as an arranger of structured transactions in the interest of customers.

Both synthetic securitisations using various hedging instruments and true sale transactions are available for risk control. As a sponsor, NORD/LB makes liquidity facilities available in order to improve the credit quality of the institute's own asset-backed commercial paper (ABCP) conduit programme.

Securitisation transactions are all subject to a strict process of approval and monitoring, so that potential risks before and after the conclusion of a contract can be identified and regulated. NORD/LB uses, among other approaches, a rating system in accordance with the SolvV Internal Assessment Approach for its securitisation transactions.

In the period under review no institute receivables were securitised by the NORD/LB Group. The NORD/LB Group pursues a conservative exposure strategy in its role as investor and sponsor. Securitisation positions held by the NORD/LB Group mainly comprise tranches with a low risk weighting and generally declined in the period under review.

Bremer Landesbank last appeared as an investor within the scope of securitisation transactions in 2004 and no longer has a portfolio as at 31 December 2010 due to early repayment. Deutsche Hypo has only appeared as an investor in securitisation transactions on a small scale, most recently in 2007. There is a strategy to reduce the remaining portfolio. Deutsche Hypo's securitisation portfolios are measured using the ratings-based approach for securitisations, while Bremer Landesbank's are also measured using the supervisory formula approach. Securitisation business has so far not been relevant for NORD/LB Luxembourg and NORD/LB CFB.

**Credit Risk – Measurement**

The key risk indicators of expected loss and unexpected loss are applied in order to quantify counterparty risk (credit risk and investment risk). Expected loss is determined on the basis of probability of default taking into account recovery rates. The risk premium, which must be collected in order to cover expected loss, is calculated with Group-wide standard methods.

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

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

The model is supported by the use of limit models to limit concentrations of risk (large exposure management, country exposure management and industry exposure management) in order to adequately manage concentrations of risk in the portfolio.

The methods and procedures for risk quantification are agreed on between the risk controlling units in the significant Group companies in order to ensure standardisation throughout the Group. Risk management is performed constantly and decentrally in the Group companies.

In order to calculate equity capital required for credit risks, NORD/LB uses the Internal Ratings Based Approach (IRBA). NORD/LB has authorisation for its rating systems, for its Internal Assessment Approach (IAA) for securitisation and to use methods to reduce credit risk. Other portfolios are to be gradually transferred from the credit risk standard approach (CSA) to IRBA. In 2010 NORD/LB successfully passed the IRBA acceptance test for the new rating method for aircraft financing.

Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB have also received authorisation for the relevant rating systems and approval to use credit risk mitigation techniques.

### Credit Risk – Reporting

The NORD/LB's Credit Risk Control department draws up among other things a Credit Portfolio Report which shows and analyses all the significant structural features and parameters required for controlling the credit portfolio of the NORD/LB Group. The Credit Portfolio Report complements the Risk-Bearing Capacity Report and includes in-depth analyses and stress scenarios relating to the credit portfolio. It is submitted to the Managing Board on a quarterly basis and is further specified by the Credit Portfolio Report of NORD/LB and Industry Portfolio Reports for individual sub-segments.

The Managing Board of NORD/LB also receives further regular reports and reports as and when required on the credit portfolio of the NORD/LB Group and NORD/LB, e.g. on risk concentrations with borrower entities and country and industry concentrations.

At Bremer Landesbank the Managing Board is informed of credit risks within the scope of monthly RBC reporting. The Managing Board also receives on a monthly basis a report on an individual borrower basis on intensive and problem exposures and a report to identify and monitor risk concentrations at the level of borrower entities (large exposure management).

For NORD/LB Luxembourg and NORD/LB CFB the Controlling division prepares together with the Credit Risk Management division a credit risk report on a quarterly basis as part of the management information system for the Managing Board and the Credit Risk Committee in order to make existing risks and risk concentrations transparent and to initiate measures where necessary.

Deutsche Hypo prepares a risk report on a quarterly basis in accordance with the requirements of MaRisk. This report informs the Managing Board and the Supervisory Board in detail about the bank's risk situation.

## Credit Risk – Development in 2010

The maximum default risk for on-balance-sheet and off-balance-sheet financial instruments as at the reporting date is € 247 billion and has fallen in 2010 by 4 per cent. In particular a fall in loans and advances to banks, financial assets and irrevocable credit commitments contributed to this.

| **Risk-bearing financial instruments** (in € million) | Maximum default risk 31 Dec. 2010 | Maximum default risk 31 Dec. 2009 |
|---|---|---|
| Loans and advances to banks | 36 734 | 42 356 |
| Loans and advances to customers | 113 605 | 112 083 |
| Financial assets at fair value through profit or loss | 15 103 | 14 514 |
| Positive fair values from hedge accounting derivatives | 2 938 | 2 874 |
| Financial assets | 58 666 | 63 076 |
| **Sub-total** | **227 046** | **234 903** |
| Liabilities from guarantees and other indemnity agreements | 7 026 | 7 349 |
| Irrevocable credit commitments | 12 978 | 16 332 |
| **Total** | **247 050** | **258 584** |

Compared to the tables below concerning total exposure which are based on internal data presented to management, the maximum default risk in the above table is reported at book value. The maximum default risk based on utilisation of irrevocable credit commitments and other off-balance-sheet items is the amount of total credit lines committed.

The differences between the total exposure according to the internal reporting and the maximum default risk are due to the different scope of application, the definition of total exposure for internal purposes and different accounting policies.

Calculation of the 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 in consideration of netting). Irrevocable and revocable credit commitments are included in the total exposure, while securities against the NORD/LB Group are ignored.

The total exposure also includes investments as these are treated similar to lending transactions in terms of measurement (cf. the section on investment risk measurement).

## Analysis of the total exposure

The NORD/LB Group's total exposure as at 31 December 2010 amounts to € 245 billion and has therefore fallen compared to the previous year's value by 4 per cent. The reduction in volume is primarily due to the fall in the total exposure of NORD/LB, in particular due to the fall in exposure in the Financials customer segment. In accordance with the conservative risk policy of the NORD/LB Group, the total exposure continues to focus on the very good to good rating classes.

The classification is based on the standard IFD rating scale which the banks, savings banks and associations in the "Initiative Finanzstandort Deutschland" (IFD, initiative for Germany as a financial location) have agreed on in order to improve comparability between the rating levels of the individual credit institutes. The rating classes of the 18-step DSGV rating master scale used in NORD/LB can be transferred directly into the IFD classes.

The Rating Structure table shows the breakdown of the total exposure in the NORD/LB Group (existing and new business in line with the IFD rating categories), broken down by product type and compared to the previous year's structure.

| Rating structure [1) 2)] (in € million) | Loans [3)] 31 Dec. 2010 | Securities [4)] 31 Dec. 2010 | Derivatives [5)] 31 Dec. 2010 | Other [6)] 31 Dec. 2010 | Total exposure 31 Dec. 2010 | Total exposure 31 Dec. 2009 |
|---|---|---|---|---|---|---|
| very good to good | 105 597 | 56 801 | 11 101 | 12 105 | 185 605 | 196 516 |
| good/satisfactory | 16 624 | 1 886 | 529 | 1 475 | 20 513 | 21 617 |
| reasonable/satisfactory | 11 181 | 347 | 234 | 784 | 12 546 | 14 268 |
| increased risk | 8 685 | 357 | 263 | 319 | 9 624 | 8 952 |
| high risk | 4 201 | 89 | 63 | 103 | 4 456 | 3 869 |
| very high risk | 5 420 | 207 | 147 | 53 | 5 826 | 6 413 |
| default (=NPL) | 6 122 | 116 | 75 | 152 | 6 465 | 3 795 |
| **Total** | **157 831** | **59 802** | **12 413** | **14 990** | **245 036** | **255 431** |

1) Allocated in accordance with IFD rating categories
2) Total differences are rounding differences
3) Includes loans taken up or loan commitments, guarantees and other non-derivative, off-balance sheet assets. As in the risk-bearing capacity report, irrevocable loan commitments are generally included at 61 per cent (72 per cent) and revocable loan commitments at five per cent
4) Includes the own stocks of securities issued by third parties (banking book only)
5) Includes derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions
6) Includes other products such as transmitted loans and loans administered for third-party account

The fall in total exposure was accompanied by a 6 per cent fall in items in the rating class very good to good in the year under review. The very high share of these best rating categories in the total exposure of 76 per cent (77 per cent) is explained by the great importance of business with public authorities and with financing institutes with a good credit rating and therefore at the same time reflects the conservative risk policy of the NORD/LB Group.

Overall though the NORD/LB Group felt the effects of the financial and economic crisis in its credit portfolio. The share of non-performing loans (NPL) rose from 1.5 to 2.6 per cent. The main reason for this is a rise in NORD/LB's portfolio caused by ship financing.

| Industries [1] [2] (in € million) | Loans [3] 31 Dec. 2010 | Securities [4] 31 Dec. 2010 | Derivatives [5] 31 Dec. 2010 | Other [6] 31 Dec. 2010 | Total exposure 31 Dec. 2010 | Total exposure 31 Dec. 2009 |
|---|---|---|---|---|---|---|
| Financing institutes/ insurance companies | 49 052 | 37 058 | 9 425 | 8 179 | 103 714 | 114 107 |
| Service industries/other | 59 804 | 20 061 | 850 | 2 870 | 83 585 | 83 937 |
| – Of which: Land, housing | 18 895 | 73 | 298 | 475 | 19 741 | 19 629 |
| – Of which: Public administration | 28 170 | 19 530 | 341 | 169 | 48 210 | 47 636 |
| Transport/ communications | 29 821 | 637 | 737 | 200 | 31 395 | 30 334 |
| – Of which: Shipping | 19 410 | – | 474 | 77 | 19 961 | 19 633 |
| – Of which: Aviation | 7 233 | 22 | 80 | – | 7 334 | 6 953 |
| Manufacturing industry | 5 846 | 804 | 655 | 340 | 7 645 | 8 384 |
| Energy, water and mining | 5 851 | 1 092 | 425 | 2 321 | 9 689 | 8 916 |
| Trade, maintenance and repairs | 3 237 | 57 | 234 | 228 | 3 757 | 3 706 |
| Agriculture, forestry and fishing | 847 | 27 | 4 | 671 | 1 549 | 1 544 |
| Construction | 2 533 | 30 | 82 | 116 | 2 761 | 3 028 |
| Other | 839 | 36 | – | 64 | 940 | 1 474 |
| **Total** | **157 831** | **59 802** | **12 413** | **14 990** | **245 036** | **255 431** |

[1] Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria
[2] to [6] See the previous chart on the rating structure

The breakdown of total exposure by industry group shows that business conducted with financing institutes and with public administrations, which basically remains low risk, accounts for 62 per cent (63 per cent) and still constitutes a considerable share of the total exposure. The credit risk primarily relates to commercial lending business, comprising special finance and business with other corporate customers.

| Regions [1) 2)] (in € million) | Loans [3)] 31 Dec. 2010 | Securities [4)] 31 Dec. 2010 | Derivatives [5)] 31 Dec. 2010 | Other [6)] 31 Dec. 2010 | Total exposure 31 Dec. 2010 | Total exposure 31 Dec. 2009 |
|---|---|---|---|---|---|---|
| Euro countries | 126 013 | 47 416 | 8 336 | 14 784 | 196 549 | 204 881 |
| – Of which: Germany | 109 872 | 29 000 | 4 460 | 14 415 | 157 747 | 165 809 |
| Other Western Europe | 10 284 | 3 027 | 2 491 | 68 | 15 870 | 15 969 |
| Eastern Europe | 1 792 | 868 | 18 | 4 | 2 683 | 4 252 |
| North America | 10 946 | 4 460 | 1 166 | 55 | 16 627 | 18 324 |
| Latin America | 1 760 | 462 | 8 | – | 2 229 | 2 325 |
| Middle East/Africa | 882 | 195 | – | 1 | 1 078 | 1 232 |
| Asia | 4 389 | 2 037 | 367 | 14 | 6 807 | 6 110 |
| Other countries | 1 764 | 1 338 | 26 | 64 | 3 192 | 2 338 |
| **Total** | **157 831** | **59 802** | **12 413** | **14 990** | **245 036** | **255 431** |

1) Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria
2) to 6) See the previous chart on the rating structure

According to the breakdown of total exposure by region, the country risk tends to be of minor significance for the NORD/LB Group. The eurozone accounts for a high share of 80 per cent (80 per cent) of loans and remains by far the most important business area of the NORD/LB Group. With a share of 64 per cent (65 per cent), Germany is particularly important.

Overall the share of the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) is only 7 per cent of the total exposure. The share of receivables owed by the respective countries, regional governments and municipalities is 2 per cent of the total exposure.

| Exposure in selected countries [1] [2] (in € million) | Total exposure 31 Dec. 2010 | Total exposure 31 Dec. 2009 |
|---|---|---|
| Portugal | 1 442 | 1 411 |
| – Of which: Sovereign Exposure [3] | 435 | 381 |
| – Of which: Financing institutions/insurance companies | 871 | 886 |
| Ireland | 3 543 | 3 866 |
| – Of which: Sovereign Exposure [3] | 285 | 276 |
| – Of which: Financing institutions/insurance companies | 1 843 | 2 280 |
| Italy | 4 992 | 5 580 |
| – Of which: Sovereign Exposure [3] | 2 018 | 2 036 |
| – Of which: Financing institutions/insurance companies | 2 796 | 3 295 |
| Greece | 612 | 639 |
| – Of which: Sovereign Exposure [3] | 275 | 281 |
| – Of which: Financing institutions/insurance companies | 101 | 145 |
| Spain | 5 654 | 6 196 |
| – Of which: Sovereign Exposure [3] | 666 | 696 |
| – Of which: Financing institutions/insurance companies | 4 102 | 4 518 |
| **Total** | **16 243** | **17 693** |
| **– Of which: Sovereign Exposure [3]** | **3 679** | **3 670** |
| **– Of which: Financing institutions/insurance companies** | **9 713** | **11 124** |

[1] Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria
[2] Total differences are rounding differences
[3] Includes exposures to countries, regional governments and municipalities

To date there have been no credit loss events (interest/repayment defaults or restructuring) involving eurozone countries affected by the national debt crisis. Due to the willingness of the International Monetary Fund, the European and Monetary Union (EMU) states and the EU Commission to provide support, the NORD/LB Group is not currently expecting any defaults. Developments will though continue to be monitored and analysed closely.

## Non-Performing Loans

For acute default risks relating to lending business reported in the balance sheet, the NORD/LB Group makes specific valuation allowances and lumpsum specific loan loss provisions. A need for loan loss provisions is based on a present value consideration of anticipated interest and redemption payments which are still expected as well as on earnings from the realisation of collateral. Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision.

The NORD/LB Group accounts for the latent counterparty risk in all unprovisioned transactions and off-balance sheet transactions by making general loan loss provisions for impairments which have already occurred but were not known on the balance sheet reporting date.

Irrecoverable debts for which there is no specific valuation allowance are written off immediately. Payments received for written-off loans and advances are recognised in profit or loss.

The balance of specific valuation allowances and loan loss provisions increased in the NORD/LB Group in 2010 due to new provisions being made in all Group institutes (cf. Note 34 in the notes to the consolidated financial statements and the report on the earnings position). The ratio of specific valuation allowances, lumpsum specific loan loss provisions and provisions to total on-balance-sheet and off-balance-sheet financial instruments rose in the period under review from 0.52 per cent to 0.60 per cent. In the year under review the NORD/LB Group also strengthened loan loss provisions with allocations to general loan loss provisions.

The overdue or impaired financial assets in the NORD/LB Group are primarily secured by standard bank collateral and other loan enhancements valued on the basis of lending principles. The gross book value of NPLs requiring a write-down is covered 38 per cent (46 per cent) by loan loss provisions before the inclusion of collateral.

The share of total NPLs in the total exposure rose in the period under review and is as at 31 December 2010 2.6 per cent (1.5 per cent). In addition to the impaired receivables, these NPLs also include all of the receivables of rating notes 16 to 18 (IFD risk class default (NPL)).

| Industries [1] (in € 000) | Total exposure of impaired receivables [2] 31 Dec. 2010 | Total exposure of impaired receivables [2] 31 Dec. 2009 | Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2010 | Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2009 |
|---|---|---|---|---|
| Financial institutions/insurance companies | 481 648 | 217 570 | 216 688 | 145 028 |
| Service industries/other | 1 694 374 | 1 435 534 | 546 303 | 562 854 |
| Transport/communications | 1 344 675 | 627 908 | 316 174 | 197 927 |
| Manufacturing industry | 300 601 | 223 876 | 231 366 | 258 523 |
| Energy, water and mining | 91 554 | 99 861 | 31 339 | 18 702 |
| Trade, maintenance and repairs | 78 575 | 104 581 | 41 242 | 58 723 |
| Agriculture, forestry and fishing | 27 635 | 28 729 | 20 289 | 22 622 |
| Construction | 105 107 | 147 271 | 88 752 | 88 924 |
| Other | 7 134 | 10 641 | 1 039 | 3 047 |
| **Total** | **4 131 303** | **2 895 971** | **1 493 192** | **1 356 351** |

[1] Total differences are rounding differences
[2] For information purposes: the gross book value of NPLs requiring allowances is € 3 887 million (€ 2 920 million).

| Industries[1] (in € 000) | Total exposure of overdue, unimpaired receivables up to 1 month 31 Dec. 2010 | 1 up to 3 months 31 Dec. 2010 | 3 up to 6 months 31 Dec. 2010 | More than 6 months 31 Dec. 2010 | Total 31 Dec. 2010 | Total 31 Dec. 2009 | General loan loss provisions 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|---|---|---|---|---|---|
| Financial institutions/ insurance companies | 539 102 | 350 | 1 801 | 242 | 541 495 | 20 788 | 32 827 | 36 558 |
| Service industries/other | 589 475 | 189 784 | 24 115 | 154 367 | 957 741 | 322 752 | 204 317 | 194 191 |
| Transport/communications | 468 771 | 123 574 | 123 961 | 256 079 | 972 385 | 301 984 | 419 608 | 200 813 |
| Manufacturing industry | 93 637 | 24 | 1 001 | 2 814 | 97 476 | 138 017 | 39 076 | 53 757 |
| Energy, water and mining | 131 395 | – | – | 12 415 | 143 810 | 14 005 | 7 298 | 6 965 |
| Trade, maintenance and repairs | 56 449 | 2 775 | 1 278 | 4 571 | 65 073 | 45 181 | 10 737 | 21 350 |
| Agriculture, forestry and fishing | 14 686 | 1 | 230 | 3 793 | 18 710 | 19 819 | 4 057 | 6 141 |
| Construction | 18 512 | 1 | 1 458 | 3 660 | 23 631 | 28 950 | 28 812 | 18 396 |
| Other | 48 221 | – | – | 22 | 48 243 | 7 394 | 434 | 860 |
| **Total** | **1 960 248** | **316 510** | **153 844** | **437 962** | **2 868 565** | **898 890** | **747 167** | **539 032** |

[1] Total differences are rounding differences

| Regions[1] (in € 000) | Total exposure of impaired receivables 31 Dec. 2010 | Total exposure of impaired receivables 31 Dec. 2009 | Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2010 | Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2009 |
|---|---|---|---|---|
| Euro countries | 3 007 298 | 1 997 568 | 1 191 654 | 966 402 |
| Other Western Europe | 693 108 | 382 347 | 157 027 | 212 603 |
| Eastern Europe | 579 | 3 710 | 1 089 | 2 731 |
| North America | 412 017 | 498 072 | 84 228 | 131 127 |
| Latin America | 1 382 | 1 288 | 49 653 | 40 849 |
| Middle East/Africa | – | – | – | – |
| Asia | 16 918 | 12 986 | 9 541 | 2 639 |
| Other countries | – | – | – | – |
| **Total** | **4 131 303** | **2 895 971** | **1 493 192** | **1 356 351** |

[1] Total differences are rounding differences

| Regions[1] (in € 000) | Total exposure of overdue, unimpaired receivables | | | | | | General loan loss provisions | |
|---|---|---|---|---|---|---|---|---|
| | up to 1 month 31 Dec. 2010 | 1 up to 3 months 31 Dec. 2010 | 3 up to 6 months 31 Dec. 2010 | More than 6 months 31 Dec. 2010 | Total 31 Dec. 2010 | Total 31 Dec. 2010 | 31 Dec. 2010 | 31 Dec. 2009 |
| Euro countries | 1 854 456 | 197 423 | 148 826 | 334 722 | 2 535 427 | 599 375 | 589 670 | 389 068 |
| Other Western Europe | 92 448 | – | 4 621 | 22 097 | 119 166 | 101 310 | 29 633 | 49 942 |
| Eastern Europe | 12 986 | – | – | 1 526 | 14 512 | 25 040 | 3 635 | 7 320 |
| North America | 1 | 119 039 | – | 76 273 | 195 313 | 154 259 | 100 789 | 58 794 |
| Latin America | – | – | – | 1 066 | 1 066 | 1 726 | 5 144 | 9 892 |
| Middle East/Africa | 345 | – | – | – | 345 | – | 4 417 | 7 728 |
| Asia | 12 | – | – | – | 12 | 17 180 | 6 176 | 7 972 |
| Other countries | – | 48 | 397 | 2 279 | 2 724 | – | 7 702 | 8 315 |
| **Total** | **1 960 248** | **316 510** | **153 844** | **437 962** | **2 868 565** | **898 890** | **747 167** | **539 032** |

[1] Total differences are rounding differences

In the period under review the method for calculating overdue unimpaired receivables was revised. The values reported as at the reporting date include all overdue receivables from the first day they become overdue, irrespective of whether they belong to rating classes 16 to 18. The values as at the reference date (€ 680 million up to 90 days, € 218 million more than 90 days overdue) were not able to be adjusted and are therefore only comparable up to three months.

Of the unimpaired receivables in the default class, only 21 per cent (24 per cent) are receivables where the agreed interest or redemption payments are overdue by more than 90 days. In the NORD/LB Group these receivables are considered to be defaults. 68 per cent of receivables are overdue by up to one month; as a general rule the NORD/LB Group expects these receivables to be paid.

The provisions figures presented deviate due to differences in the basis of consolidation and the treatment of general loan loss provisions for off-balance-sheet liabilities from the values presented in Note 34. The values can be reconciled as follows:

| Reconciliations (in € million) | Portfolio SLPs/general loan loss provisions 31 Dec. 2010 | General loan loss provisions 31 Dec. 2009 |
|---|---|---|
| Risk report | 1 493 | 747 |
| Differing basis of consolidation | – 52 | 2 |
| General loan loss provisions on off-balance sheet obligations | 78 | – 78 |
| **Consolidated financial statements** | **1 519** | **671** |

Group Management Report
Consolidated Financial Statements
Reports
Data/Glossary

The NORD/LB Group has in the year under review renegotiated contract conditions for financial assets with a total book value of € 1379 million (€ 199 million) which would otherwise have become overdue or impaired. These primarily concern ship financing where changes in the repayment structure were agreed.

Direct write-offs of loans by the significant Group companies in the year under review totalled € 24 million (€ 66 million). Additions to receivables written off amounted to € 13 million (€ 11 million). Direct write-offs of securities in the category loans and receivables (LaR) in the NORD/LB Group totalled € 23 million (€ 53 million).

The NORD/LB Group has not obtained any assets in the period under review by taking possession of securities obtained in the form collateral or by claiming other collateral for loans.

### Credit Risk – Outlook

As the global economy recovers, the NORD/LB Group is not expecting a further rise in non-performing loans and that loan loss provisions will level off in 2011. The NORD/LB Group is expecting a slight improvement in particular for ship financing. The NORD/LB Group will continue to monitor developments closely and where necessary proceed with the measures to strengthen the risk quotas.

In 2011 measures to further optimise the model for quantifying and controlling credit and investment risk are planned. In addition to developing the economic credit risk model, the collection of loss data to validate the LGD components and Credit Conversion Factor (CCF) will be expanded.

## Investment Risk

Investment risk is another component 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 a component of investment risk, unless it was considered in the other risks.

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

### Investment Risk – Management

#### Strategy

Securing and improving the bank's own market position is the primary motive behind the investment strategy of the NORD/LB Group. Generally the acquiring of investments serves to effectively consolidate the universal activities of the bank and to fulfil joint responsibilities resulting from the function as a state bank and a central bank for the savings banks. In order to support the NORD/LB Group's business model there is a deliberate focus on credit institutes and financial companies.

Group interests are maintained in relation to investments primarily by centrally specifying key business ratios or specific tasks. The aim is to ensure that the Group is effectively managed and that transparency is guaranteed for third parties.

## Structure and Organisation

Risks resulting from investments at various levels in the Group are managed by the Investment Management unit of NORD/LB in close cooperation with other divisions, in particular the Finance Division. Domestic and foreign investments are all supervised centrally by the Investment Management unit or by the corresponding units in the subsidiaries. Minor exposures are controlled and supervised by the divisions initiating the exposure in each case due to the close factual connection. This is done in close cooperation with Investment Management.

The Erweiterte Konzernvorstand and the Konzernsteuerungskreise control all significant strategic and strategy-supporting investments. All minor investments will also in future be concentrated centrally in Investment Management.

## Investment Risk – Control, Monitoring and Reporting

Investments are regularly monitored by analysing reports drawn up during the year, interim and annual reports and audit reports drawn up by the auditors. Control is carried out by NORD/LB representatives or the supervising subsidiaries in the supervisory boards, advisory boards, shareholders' meetings, annual general meetings and guarantors' meetings as well as by means of holding operative mandates in the companies.

Current income (earnings and depreciation) and the risks of all investments are regularly evaluated and reported to the NORD/LB Managing Board together with other significant key data within the scope of modified reporting.

## Investment risk – Measurement

A distinction is made between two categories for measuring investment risk at the level of the NORD/LB Group:

- Significant investments, which make a significant contribution to general risk at Group level and
- Investments which are not significant for risk reporting.

The allocation to these categories is regularly reviewed by NORD/LB's Risk Control Division using quantitative criteria. In the period under review, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB were identified as significant investments from a risk point of view.

Risks resulting from these investments are integrated into the risk management system of the Group on the basis of quantified risk potential in accordance with the type of risk. Risks resulting from other investments on the other hand are included by reporting risk potential within the investment risk subcategory or by directly reducing risk capital.

The risk potential is quantified based on the respective carrying amounts of the investments and the probability of default assigned to them with the help of a credit risk model for different confidence levels and a time frame of one year. The calculation is based on the Gordy model, which is used by the Basel Bank Supervisory Committee for aligning equity requirements within the framework of Basel II.

The model used calculates contributions made by individual investments towards unexpected loss at portfolio level, which together add up to an unexpected loss for the full portfolio. The parameters for the model are set in accordance with the standard parameters of Basel II.

Investments dealt with in the capital deduction directly reduce the risk capital available in the amount of its carrying amounts.

## Investment Risk – Development in 2010

In order to enhance earnings potential and reduce capital tied and potential risk relating to investments the NORD/LB Group has, on the basis of a critical review of the investment portfolio, disposed of a range of investments since 2005. This strategy was continued in 2010 with among other things the sale of shares in Berenberg Bank (Joh. Berenberg, Gossler & Co. KG, Hamburg), Berlin-Hannoversche Hypothekenbank AG, Berlin/Hanover, and the sale of the share in DnB NORD A/S, Copenhagen, to the Norwegian majority shareholder DnB NOR ASA, Oslo.

The NORD/LB Group also carried out a comprehensive evaluation of Skandifinanz Bank AG, Zurich in the year under review after the emergence of the fraud case at the Swiss subsidiary of NORD/LB Luxembourg. The investigation resulted in completely new processes with the strong involvement of NORD/LB Luxembourg. The business model of Skandifinanz Bank AG was realigned and significantly redimensioned taking into account risk aspects.

In addition to optimising the investment portfolio, the continued development of investment risk management was a priority in the past year. The bank has started to modify its materiality concept for investment management and to subject existing risk factors to different considerations.

In addition to this, processes were reviewed on a cross-divisional basis, a new reporting system was developed, the working instruction for investments completely revised and a central investment application was implemented which includes information for the control and monitoring of Group-wide investments. At the time of the implementation of the application in the spring of the year under review, structural and procedural adjustments resulted in the centralisation of data management.

Under the new materiality concept investments are assigned to different categories, with strategic, financial and risk-oriented aspects being considered. The different categories entail the differentiated control and monitoring of the respective investments.

Investments receiving particular consideration in the Group include the Öffentliche Versicherungen Braunschweig Group and the NORD/LB Asset Management Group, and their risk situations are briefly outlined below.

### Öffentliche Versicherungen Braunschweig

Risks in the Öffentliche Versicherungen Braunschweig Group (ÖVBS) are monitored using a mature early warning system, which is a significant part of its risk management system. The early warning system is regularly examined by Internal Audit and by the auditors of ÖVBS.

The risk management of ÖVBS is carried out in three dimensions. Planning, measuring, managing, controlling and reporting all focus on economic, regulatory and accounting factors.

In terms of insurance risks at Öffentliche Lebensversicherung Braunschweig, life insurance policies involve future biometric, cancellation, investment return and cost trend risks. The principles applied by the actuary responsible for calculating insurance provisions are the result of the assumption of future trends and hence allow for the risk of change. Calculations of projections form the basis for decisions on future profit shares.

Öffentliche Sachversicherung Braunschweig deals with these insurance risks by aiming to achieve a balanced insurance portfolio with the main focus on business with private customers. This primarily involves a balanced assumption strategy and comprehensive measures to regulate portfolios. Risks relating to the level of loss provisions are monitored ongoing. Risks relating to terrorist attacks have been covered with the maximum level of reinsurance available on the market.

The risks of both companies have been effectively safeguarded from a commercial point of view with differing reinsurance solutions.

The issue of risk management and the relating regulatory provisions under Solvency II are becoming increasingly significant in the insurance industry. The provisions are laid down in concrete terms in the Minimum Requirements for Risk Management for Insurance Companies (MaRisk VA). With the MaRisk VA requirements, the German Federal Financial Supervisory Authority is pioneering the development of solvency guidelines in Europe.

ÖVBS designed and implemented a quarterly risk reporting system in 2010, which includes in particular quantitative risk control with a limit system. It is envisaged that further steps will be implemented in 2011 in the area of MaRisk VA, e.g. the finalisation of ÖVBS's risk manual.

The company also continues to ensure that only risks which can effectively be borne by the company in the event of realisation are entered into. There are no material risks which endanger the Group.

### NORD/LB Asset Management Group

The NORD/LB Asset Management Group is the NORD/LB Group's central platform for asset management services. The Group includes the non-operational NORD/LB Asset Management Holding GmbH, NORD/LB Capital Management GmbH, which is responsible for portfolio management, and NORD/LB Kapitalanlagegesellschaft AG, which performs all of the administrative services for institutional asset management in the NORD/LB Asset Management Group. The above-mentioned companies are included as subsidiaries in the IFRS basis of consolidation, but are not companies which are significant for risk reporting.

The basis of risk management in the operational companies is provided by the business and risk strategies specified by the respective management in accordance with MaRisk and the Minimum Requirements for Risk Management for Investment Companies (InvMaRisk). NORD/LB Capital Management GmbH and NORD/LB Kapitalanlagegesellschaft AG are integrated with regard to operational risk into the NORD/LB Group's system, i.e. they prepare a risk map on an annual basis and continually carry out scenario analyses. Coordination in the NORD/LB Group is ensured by participation in regular method boards on operational risk.

The companies also perform a regular risk inventory. The department heads are required to report on changes in the risk situation in the monthly meetings between management and the department heads. In this meeting possible measures for reducing risks are discussed and decided. The Risk Officer of the NORD/LB Asset Management Group is responsible for monitoring the implementation of the measures and he reports on this to management in the quarterly risk report.

In the management information system established in the two operational companies, the finance and operational risks of the companies are subject to constant monitoring and control.

There are currently no material risks which endanger the Group here either.

### Investment Risk – Outlook

Significant tasks for 2011 will be the further optimisation of the investment portfolio and Investment Management.

Due to the efforts initiated in 2010 concerning the sale of the share in DekaBank Deutsche Girozentrale, Frankfurt, held directly by Landesbanks to the German Association of Savings Banks and Girobanks or its regional associations, a transaction is expected to be completed in the first half of 2011.

## Market Price Risk

Market price risk is defined as the potential losses which may be incurred as a result of changes in market parameters. With market price risk a distinction is made between interest rate risk, currency risk, share price risk, fund price risk, volatility risk as well as the credit spread risk and commodity risk:

- Interest rate risk always occurs when the value of an item or a portfolio reacts to changes to one or several interest rates or to changes in full yield curves and when these changes may consequently impair the item. This also includes the credit spread risk in the trading book.

- Credit spread risk defines potential changes in value which would result if the credit spread applicable for the respective issuer, borrower or reference entity used for the market valuation the item changed. In order to prevent risks from being counted twice, credit-rating-induced changes to ratings can be ignored when measuring credit spread risks in the banking book as they are considered in issuer risk.

- 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 indexes (share price risk), fund prices (fund price risk) or volatilities applied for valuing options (volatility risk) and the changes result in a reduction in the item's value.

### Market Price Risk – Management

#### Strategy

The activities of the NORD/LB Group associated with market price risks are concentrated on selected markets, customers and product segments. Their positioning on money, currency and capital markets should be in line with the significance and dimension of the Group and is primarily geared towards the needs of customers and supporting the control measures of the bank as a whole. Positions are also taken opportunistically.

Trading activities focus on interest rate risk. Here the NORD/LB Group aims, within the scope of set limits, to achieve earnings from term transformation or credit spreads and to participate in general market developments within the framework of these risk limits.

Significant credit spread risks also result from existing investments in securities and credit derivatives in the banking book. The NORD/LB Group generally aims to incorporate the credit spread to maturity. The credit banking books which are currently frozen are managed by the Credit Investments Working Committee.

## Structure and Organisation

The control of market price risks involves all divisions handling items bearing market price risks which also account for profits and losses resulting from changes in market parameters. At NORD/LB this includes the Treasury, Markets and Portfolio Investments divisions. Within the scope 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.

Trade transactions are processed and controlled in separate divisions, while support services are provided by the Financial Markets Business Development division.

Risks are monitored by the Risk Control division, which in accordance with MaRisk operates independently of divisions responsible for market price risk control in terms of both function and organisation and performs comprehensive monitoring, limiting and reporting activities for NORD/LB (including its foreign branches) and the NORD/LB Group. This also includes calculating amounts eligible for the quarterly SolvV report to the Bundesbank.

The Treasury Division presents the current maturity profile for strategic planning and, if necessary, makes proposals to the planning committee concerning the method of strategic planning in future. This committee, which convenes monthly, is an advisory body of the Financial Markets director and its members include representatives from the Treasury, Markets, Research/Economy, Controlling/Taxes and Risk Control divisions as well as Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. The Treasury Division is responsible for implementing the measures within the framework of basic instructions issued by the Managing Board and of the risk limit for strategic planning.

In the Credit Investments Working Committee the Portfolio Investments Division shows positioning in maturity-congruent refinanced securities and credit derivatives in the banking book and makes proposals for the risk management of the portfolio. The Working Committee meets as and when required and advises the Managing Board on the management of risk and demonstrates related economic effects. Due to the investment stop resolved by the Managing Board, the measures proposed in the year under review served to reduce risk relating to the portfolio. Members of the Credit Investment task force include the Financial Market and Risk Control Directors and representatives from the divisions of Portfolio Investments, Risk Control, Credit Risk Management and Finance. The Portfolio Investments Division implements measures agreed by the Managing Board.

The market price risks of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are managed decentrally by the local trade and treasury divisions. They have their own risk control units which are responsible for monitoring the risks. The data is integrated into the reporting at group level.

**Market Price Risk – Measurement, Control and Monitoring**

For the internal control and monitoring and limiting of market price risks, Value-at-Risk (VaR) methods are generally employed for all significant portfolios.

The VaR figures are calculated daily using the historical simulation method or, in the case of Bremer Landesbank and Deutsche Hypo, based on a variance-covariance approach. In the process a Group-wide unilateral confidence level of 95 per cent and a holding period of one trading day are used. At the end of each quarter the bank also prepares a VaR calculation for the NORD/LB Group based on the above parameters when calculating the risk-bearing capacity.

The analysis 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.

For the VaR values limits are set which are derived from the RBC model. Compliance with the limits is monitored both throughout the day and at the end of the day by the Risk Control units. Any losses are immediately added to the loss limits, hence resulting in a reduction in VaR limits in accordance with the principle of self-absorption. Correlation effects between the portfolios are included in calculating VaR and in the delegation of sub-limits. In some areas specific sensitivity limits are added to the VaR limits. Credit spread risks for fixed assets are currently not controlled with the help of a VaR method; instead they are ascertained in a scenario analysis and limited separately.

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

The prediction quality of the VaR model is verified with comprehensive back-testing analyses. This involves a comparison of the daily change in value of the respective portfolio with the VaR of the previous day. A back-testing exception exists if a negative change in value observed exceeds the VaR.

The number of back-testing exceptions rose during the course of the year under review and was as at the reporting date amber for NORD/LB and Deutsche Hypo and green for the other significant companies of the NORD/LB Group. The increased number was expected after a relatively calm period in the relevant markets was followed due to the Greek crisis by a more turbulent market phase with higher volatilities. The VaR values of the trading areas concerned rose accordingly due to backtesting mark-up.

In daily stress test analyses, in addition to the VaR, the effects of extreme market changes on the risk position of NORD/LB are examined. Various stress scenarios were defined for each of the market price risk types relevant for the NORD/LB Group, namely interest rate risk, currency risk, share price risk, fund price risk, volatility risk and credit spread risk in the banking book, and these approximately reflect the most considerable changes in the respective risk factors which were observed in the past for a period of ten trading days. The risk factors observed were selected in such a manner that material risks relating to the entire portfolio of NORD/LB and to the individual sub-portfolios of the trading divisions are covered.

In addition, other stress test analyses are conducted at least once a month, for example strategy-related stress tests for selected trading items. Further general 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 as and when required.

Since the internal risk model was approved by the Federal Financial Supervisory Authority (BaFin) in 2005, NORD/LB has also been the only institute to use the VaR model for calculating equity capital required for general interest rate risks and for general and special share price risks in accordance with the German Solvency Regulation (SolvV) at the locations in Hanover, London and Singapore. In the year under review regulatory approval was extended to New York. The standard method is applied for the remaining types of risk (in particular interest rate risk and currency risk) and the subsidiaries.

**Market Price Risk – Reporting**

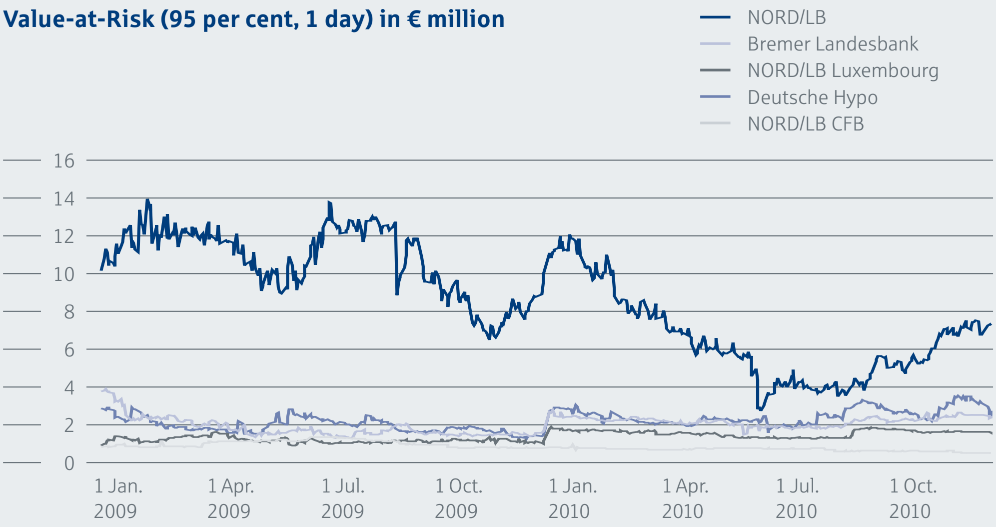
In compliance with MaRisk requirements, the Risk Control Division, which is independent of the divisions responsible for the items, reports daily on market price risks to the respective Director. The Directors are therefore also informed about the effect of stress scenarios beyond the scope of VaR scenarios. A weekly report is also provided on the credit spread risks in the banking book. The Managing Board is informed in detail once a month about market price risks and the earnings position.

**Market Price Risk – Development in 2010**

At the start of 2010 low and falling volatilities were seen in the markets relevant for the NORD/LB Group. For the NORD/LB Group this resulted primarily due to this development in the VaR figure falling.

The Greek crisis which escalated in April resulted in considerable fluctuations in European interest and credit markets. This is reflected in gradual increases in historic volatilities and a rising VaR during the course of the year. This was countered by risk-reduction measures taken in the year under review both in the strategic interest rate position and in the trading books.

**Value-at-Risk (95 per cent, 1 day) in € million**




The average NORD/LB utilisation of market price risk limits for the year was 10 per cent (27 per cent), with maximum utilisation amounting to 23 per cent (39 per cent) and minimum utilisation at 5 per cent (19 per cent). In Bremer Landesbank the average was 24 per cent (14 per cent), in NORD/LB Luxembourg 23 per cent (16 per cent), in Deutsche Hypo 40 per cent (32 per cent) and in NORD/LB CFB 28 per cent (60 per cent).

During the course of 2010, the daily VaR calculated as the sum of the VAR values of the significant subsidiaries (confidence level of 95 per cent and holding period of one day, without credit spread risks for the liquidity reserve) fluctuated between € 7 million and € 18 million, with an average value of € 12 million. As at 31 December 2010, a VaR of € 12.3 million was calculated for the NORD/LB Group, representing a rise of 37 per cent compared to the previous year (confidence level of 95 per cent and a holding period of one day, not including credit spread risks for the liquidity reserve). The historical simulation method was used throughout the Group.

The rise in VaR compared to the end of the previous year is primarily attributable to a change in the method for treating perpetual equity components in interest rate risk. Since 1 January 2010 maturity assumptions are no longer made. As a result the share of interest rate risk and VaR has risen overall.

In order to improve the RBC model, the credit spread risks for the liquidity reserved were integrated into the reported VaR. The VaR calculated as at 31 December 2010 (confidence level 95 percent, holding period one day) including these risks is € 12.5 million. The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted in the NORD/LB Group to € 76 million as at 31 December 2010. The figures also include the interest rate, share price and currency risks in the banking book.

| Market price risks (in € 000) 1) 2) 3) | Maximum 1 Jan.– 31 Dec. 2010 | Maximum 1 Jan.– 31 Dec. 2009 | Average 1 Jan.– 31 Dec. 2010 | Average 1 Jan.– 31 Dec. 2009 | Minimum 1 Jan.– 31 Dec. 2010 | Minimum 1 Jan.– 31 Dec. 2009 | End-of-year risk 31 Dec. 2010 | End-of-year risk 31 Dec. 2009 |
|---|---|---|---|---|---|---|---|---|
| Interest rate risk (VaR 95 %, 1d) | 9 631 | 18 624 | 5 418 | 12 973 | 3 399 | 8 776 | 12 248 | 9 511 |
| Currency risk (VaR 95 %, 1d) | 2 869 | 4 831 | 1 272 | 2 134 | 967 | 929 | 735 | 1 823 |
| Share price and fund price risk (VaR 95 %, 1d) | 2 576 | 7 936 | 1 325 | 5 079 | 741 | 1 207 | 1 610 | 1 722 |
| Volatility risk (VaR 95 %, 1d) | 488 | 2 667 | 290 | 1 157 | 188 | 43 | 361 | 645 |
| Other add-ons | 202 | 164 | 46 | 30 | 3 | – | 54 | 265 |
| **Total** | **18 215** | **19 107** | **11 626** | **14 915** | **6 907** | **9 658** | **12 349** | **9 036** |

1) Maximum, average and minimum risks are calculated on the basis of the VaR totals for the significant subsidiaries; end-of-year risks are consolidated figures
2) Maximum, average and minimum of the partial risk types are shown under consideration of the equity capital's duration
3) Credit-spread-risks of the liquidity reserve are not included in the shown figures

Unlike the credit spread risks for the liquidity reserve, the credit spread risks for credit investments recognised as fixed assets are not included in the VaR for market price risks, but are measured for operational control with scenario analyses and limited separately. Overall credit investment positions were further reduced in 2010 by slimming down.

The effects of a standardised interest-rate shock in the banking book are also analysed in accordance with SolvV requirements. The result for the NORD/LB Group as at 31 December 2010 is at 3 per cent (4 per cent) well below the regulatory threshold which provides for a maximum share of 20 per cent of authorised regulatory capital.

### Market Price Risk – Outlook

The NORD/LB Group will continue to observe all the relevant asset categories closely in 2011 as short-term, volatile market fluctuations can still be expected. Based on the gradual developments of the risk models, the risk control process and focused trading strategy, the NORD/LB Group believes though that it is also well prepared for turbulent market phases.

With regard to methods, a further standardisation of the VaR calculation used in the NORD/LB Group is envisaged in 2011 with the Group-wide application of historical simulation.

In view of the extension of regulatory approval of the market risk model, the aim in the NORD/LB in the medium term is for full approval of the model. After receiving approval from the Federal Financial Supervisory Authority (BaFin) in 2010, from 2011 the trading books of the New York branch will also be included in the regulatory capital requirements using the internal model. Due to the extensive reform of the requirements of SolvV for the particular interest rate risk, the implementation and regulatory approval of this model extension is envisaged from 2013 on.

## Liquidity Risk

Liquidity risks are risks which may result from malfunctions in the liquidity of individual market segments, unexpected events in lending, investment or new issue business or deterioration in the bank's own refinancing conditions. The NORD/LB Group understands placement risk to be a component of liquidity risk. It describes the risk of own issues not being placed in the market or only placed at poorer conditions. Liquidity risks are broken down into traditional liquidity risk, funding risk and market liquidity risk:

- Traditional liquidity risk is the risk that payment obligations cannot be met or cannot be met on time. Potential causes can be a general disruption in the liquidity of money markets which affects individual institutes or the entire financial market. Market disruptions may in particular result in significant asset classes not being available for use as collateral. Alternatively unexpected events in lending, investment or new issue business may also result in liquidity shortages. The focus of the NORD/LB Group's consideration is on the respective coming twelve months.

- Funding risk constitutes potential declines in earnings resulting from a deterioration in the bank's own funding conditions on the money market or capital market. The most significant cause in this case is a change in the assessment of the bank's credit rating by other market participants. The focus of consideration here is on the entire range of terms to maturity.

- Market liquidity risk defines 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. Market liquidity risks may primarily result from security items in the trading and banking books.

### Liquidity Risk – Management

#### Strategy

Securing perpetual liquidity for the NORD/LB Group is strategically essential. While traditional liquidity risk is principally to be avoided through maintaining a sufficient supply of liquid assets (in particular central bank eligible securities), a structural transformation of liquidity terms is undertaken for the funding risk. Risks are constrained with suitable limits in both cases.

The limit for traditional liquidity risk serves to secure the ability to make payment even in a conservative stress scenario, while the limit for the funding strategy is derived from the risk strategy and the risk-bearing capacity of NORD/LB and allows term transformation to contribute to earnings.

In order to limit market liquidity risk the NORD/LB Group primarily makes trading transactions in markets which have proven themselves to be sufficiently liquid even when they are under pressure. This applies in particular to all transactions in the trading book.

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

Risk concentrations on the liabilities side are prevented by a diversified investor base and product range. The focus is on institutional and public investors, which is in line with the risk-based orientation of the NORD/LB Group. The diversification of refinancing sources is also reinforced by the covered bond business, which provides the NORD/LB Group with additional access to the funding market.

### Structure and Organisation

In addition to the Treasury division, the global trading divisions Markets and Portfolio Investments and the Risk Control Division are included in the process of liquidity risk management at NORD/LB.

The Treasury is responsible for the controlling of items bearing liquidity risks and producing profits and losses resulting from changes in the liquidity situation (in general or specific to NORD/LB).

The Treasury also presents the liquidity maturity balance sheet to the planning committee. It also reports to this committee on refinancing risk and makes recommendations for action concerning the future approach towards strategic planning.

The Risk Control Division is in charge of the implementation and development of internal procedures for measuring, limiting and monitoring liquidity risks. The Risk Control Division also ascertains and monitors traditional liquidity risk and refinancing risk. It also ascertains and monitors regulatory indicators in accordance with German Liquidity Regulations (LiqV).

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.

The liquidity risks of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are managed decentrally by the local Treasury units and monitored by their own Risk Control units. In order to coordinate the decentralised units of the NORD/LB Group, information is regularly exchanged between the significant companies to address both issues relevant to control in the Treasury Division and also model-relevant issues in the Risk Control Division.

### Liquidity Risk – Control

The refinancing risk of NORD/LB and the significant subsidiaries is regulated by restricting the risk with volume structure limits for various maturity bands which cover the entire range of maturities. The liquidity maturities are also considered by currency.

Traditional liquidity risk is limited by a dynamic stress test scenario. The scenario describes the most likely crisis situation in each case, hence also describing a current market environment which is characterised by economic problems in the periphery countries of the EU (the PIIGS countries) and a continuing loss of confidence in financial markets. Analysis is based on liquidity cash flows and covers the coming twelve months on a daily basis. For products without fixed liquidity flows, 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.

With the help of the limit system it is ensured that in the event of a stress case, surplus liquidity is available for at least three months. This means that securing the ability to make payment at any time in this maturity band is given preference over possible opportunities to generate profits. The aim is to ensure a liquidity surplus for at least six months in the dynamic stress scenario taking into account profitability aspects.

Furthermore the dynamic stress scenario is supplemented by other statical stress tests every month. 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 for a market-wide liquidity problem. The scenario for calculating the liquidity buffer resulting from the third MaRisk amendment is currently being developed.

Market liquidity risks are implicitly accounted for by means of classifying securities in the liquidity maturity balance sheet in accordance with their market liquidity. Securities are allocated to one of eight categories (e.g. trading book, cover pool, central bank eligibility) on the basis of a detailed liquidity category concept. The presentation of the liquidity maturity balance sheet is contingent on the liquidity category and is carried out in a maturity range extending from call money to the final due date.

For control at group level a Group liquidity maturity balance sheet is prepared. For this purpose all of the cash flows in euro and the translated foreign currency cash flows of the significant Group companies are compiled in an overview. The liquidity progress reports are also prepared in the most important foreign currencies.

**Liquidity Risk – Measurement**
The NORD/LB Group calculates the utilisation of volume structure limits for the various maturity bands on the basis of a liquidity maturity balance sheet of the entire item, which essentially reflects the standard case. Liquidity risk is quantified in the risk-bearing capacity concept resulting from a present-value consideration of the funding risk.

Calculation of dynamic and static stress scenarios for modelling traditional liquidity risk is based on current liquidity maturity balance sheet. These are stressed until they reflect a crisis. For example, a reduced amount of accounting liquidity and an increased utilisation of credit commitments is presumed. The stress scenarios can be used to show the effect of unexpected events on the liquidity situation of the Group, enabling it to plan for the future and to be well-prepared for cases of emergency.

The analysis of stress scenarios takes into consideration the vital significance of the market liquidity of all of the securities in the portfolio. In addition, a separate credit spread risk calculation is made for securities in the banking book when calculating market price risks. Since the spreads observed on the market reflect both the credit rating of an issuer and the market liquidity of the securities and since the parameters applied for calculating a scenario are specified in relation to current market spreads, the risk report also indirectly takes into account the market liquidity of the securities. No separate risk dimension is applied for market liquidity risks.

### Liquidity Risk – Reporting

The Risk Control division reports to the responsible divisional heads several times a week, and depending on the amount of the limit used on a daily basis if necessary, on the dynamic stress test scenario for the NORD/LB Group's traditional liquidity risk.

In addition to this the NORD/LB's major investors in new business are monitored regularly. The responsible divisional and departmental heads are informed of liquidity concentrations in the concentration risk report.

The Managing Board is informed in detail in the monthly report on market and liquidity risks of the NORD/LB Group's liquidity risk situation. Information is also provided on a quarterly basis in the report on risk-bearing capacity.

The monthly refinancing risk reporting is shown in euro and in the most important foreign currencies. The liquidity maturity balance sheet upon which the refinancing risk is based are also presented together with the stress tests to the planning committee which meets on a monthly basis.

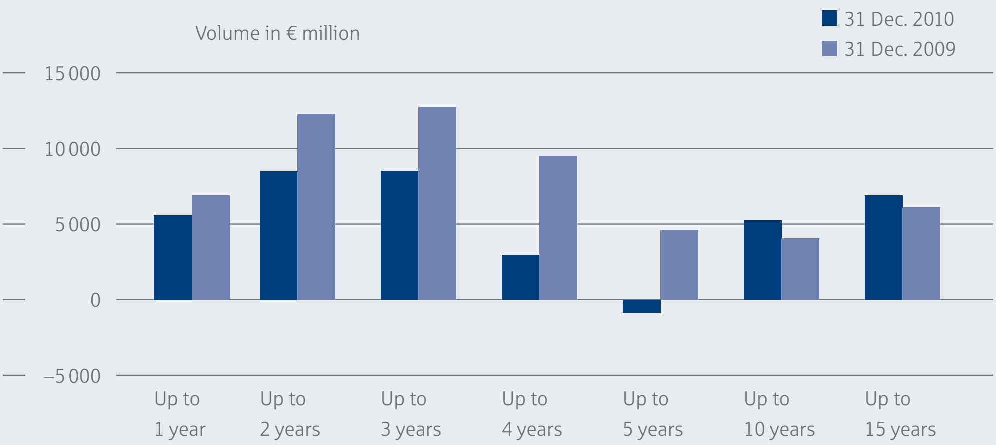
The liquidity ratios calculated in accordance with the German Liquidity Regulation (LiqV) can be calculated daily and submitted to the Treasury Division for the purpose of controlling liquidity risk. The report in accordance with LiqV for the entire bank and each location is submitted to the Bundesbank, the control divisions and to the Managing Board of NORD/LB.

### Liquidity Risk – Development in 2010

The largely calm situation in the financial markets at the start of the year under review became tense as a result of the crises in Greece and Ireland. Despite both countries being bailed out by European Unions' rescue package, the risk of further countries failing and a prolonged loss of confidence in financial markets cannot be averted.

The NORD/LB Group had sufficient liquidity at all times. The liquidity maturity balance sheet shows that liquidity surpluses in the maturity periods to five years have been reduced as planned. The longer term shows an increase in liquidity surpluses.

**Accumulated liquidity maturities in € million**



The forward-looking liquidity control in the market phases affected by the financial market crisis produced a liquidity supply which again resulted in low utilisation of the limits in virtually all maturity periods. The NORD/LB Group also operates in markets with the highest possible level of liquidity and maintains a portfolio of high-quality securities. The companies of the NORD/LB Group significant for risk report possess as at the reporting date securities in the amount of € 65 billion, 83 per cent of which are eligible for repo transactions with the European Central Bank (ECB) or the US Federal Reserve.

Overall the measurement and control processes were extended in 2010. This included among other things the separate calculation of liquidity risks for individual currencies and their integration into the RBC model, the development of the limiting procession and the implementation of specific liquidity stress tests for selected currency areas.

Due to the attentive monitoring of markets and active liquidity control, it was ensured at all times in the year under review that the NORD/LB Group had sufficient liquidity. The liquidity ratios calculated by the institutes subject to the German liquidity regulation were always well above the minimum of 1.00 required by regulatory provisions during the year.

**Liquidity ratio in accordance with the LiqV [1)]**

| in % | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| NORD/LB | 1.39 | 1.40 |
| Bremer Landesbank | 1.52 | 1.81 |
| Deutsche Hypo | 1.45 | 1.32 |

1) NORD/LB Luxembourg and NORD/LB CFB are not required to show comparable ratios

The analysis of contractual due dates for financial liabilities can be found in Note 62.

## Liquidity Risk – Outlook

Liquidity risk is not expected to increase significantly in 2011 due to the liquidity supply available. Liquidity risk control in the NORD/LB Group will continue to be developed with e.g. the concentration risk report and other reports being introduced at Group level.

An important part of this is the implementation of the much greater requirements for the management and external reporting of liquidity risks announced by the international regulatory authorities in reaction to the financial market crisis. Here in particular the new regulations of the British Financial Services Authority (FSA) which have to be implemented in 2010, the third MaRisk amendment and the requirements of Basell III are of great importance to the NORD/LB Group.

In order to meet the requirements resulting from the MaRisk amendment, NORD/LB prepared for the first time as at 31 January 2011 a report on the liquidity buffer in accordance with MaRisk. The minimum buffers to be held for one week resp. one month were complied with.

# Operational Risk

Operational risk is defined as the risk of incurring losses as a result of the inadequacy or failure of internal procedures, employees and technology or losses which occur as a result of external influences. This definition includes legal risks and reputation risks as consequential risks. The NORD/LB Group understands compliance risk and outsourcing risk to be components of operational risk as well.

- Legal risk defines the risk of losses occurring due to the non- or insufficient consideration of the legal framework specified by legal regulations and case law. Legal risk only exists in the bank's external relations.

- Reputation risk defines the risk of a loss occurring due to a loss of confidence among customers, business partners or guarantors.

- Compliance risk defines the risks of penalties being handed out by courts, authorities or disciplinary bodies as a result of improper procedures, processes etc. due to non-compliance with laws, regulations, codes of conduct and standards in the bank's internal relations.

- Outsourcing risk defines the risks resulting from the outsourcing of activities and processes.

## Operational Risk – Management

### Strategy

The main aim is to avoid operational risks as far as this is economically viable. The NORD/LB Group protects itself against operational risks if the costs for the protection are not greater than the costs directly incurred as a result of the risk or if its reputation could be significantly affected.

The NORD/LB Group possesses a suitable framework in the form of technical and organisational measures, contractual regulations and working instructions in order to prevent operational risks from occurring as far as possible. This includes contingency planning and appropriate insurance cover. The raising of risk awareness among all employees plays a key role in preventing operational risks in day-to-day business (risk culture).

The management of operational risks is supported by a methodical framework for risk assessment. Escalation processes are defined in order to implement targeted measures promptly.

With continual analysis of loss events, risk indicators and scenarios, causes of risk should be identified and concentrations of risk prevented. The internal control system (ICS) is reviewed regularly in relation to its appropriateness and effectiveness with regard to risk (ICS control cycle). Appropriate countermeasures are taken as and when required. Contingency plans serve to limit damage in the case of extreme unexpected events.

### Structure and Organisation

The Managing Board, the Risk Control Division and the Internal Audit Division as well as all the other divisions are involved in the process of managing operational risks. The Managing Board stipulates the basic method of handling operational risk, taking into account the risk situation at general bank level. Responsibility for the control of operational risk within the general environment specified is decentralised and lies with the individual divisions.

The Risk Control Division is responsible for the central monitoring of operational risks and the independent reporting of these risks. The division is also responsible for specifying methods to be applied, for properly implementing centralised methods and for coordinating the implementation of decentralised methods. Internal Audit is responsible for the process-independent audit whether methods and procedures are properly implemented and carried out.

All of strategic and conceptual responsibilities relating to security and contingency management are combined in the Group Security division. NORD/LB has a security strategy and uniform standards in order to efficiently and sustainably protect the bank from harm and at the same time meet legal and supervisory requirements. Contingency measures ensure appropriate operation in the event of an emergency and a return to normal operations as quickly as possible with consistent business continuation and recovery planning which focus on time-critical activities and processes.

The operational risks of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are managed decentrally. They have their own Risk Control units which coordinate closely with the Risk Control Division of NORD/LB. There is also close coordination with the Risk Control unit of the NORD/LB Asset Management Group. The methods and guidelines which apply throughout the Group are defined by the Risk Control Division of NORD/LB.

**Operational Risk – Control**

Personnel risk is countered by an appropriate personnel level in terms of quality and quantity. The bank pays particular attention to employee qualifications and the qualification status is reviewed with the help of a system of job specifications and employee assessments. Personnel development measures can therefore be initiated in a targeted manner. The remuneration system comprises a performance-related component which provides incentives and at the same time supports sustainability and risk awareness in work practices.

Criminal actions are countered in close cooperation with the criminal prosecution authorities. It is the responsibility of the Fraud Prevention Management as a part of the Compliance department, to continually improve the bank's protection against internal and external acts of fraud and to prevent these as far as possible.

An important element of the preventive measures is the generation of staff awareness. As elements of a comprehensive awareness concept, online learning programmes for all staff combined with classroom events, a regular newsletter and information as required with relevant warnings are used. The established whistle-blowing system and online fraud training were also used in the subsidiaries in the year under review.

In the IT Division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security concepts and contingency plans supplement pre-emptive measures in order to prevent loss or damage resulting from the failure or the manipulation of systems and information.

Process-related and structural organisational risks are countered with well-organised structures and procedures. If weaknesses in the organisation are identified, appropriate countermeasures are initiated immediately. The structures in the internal control system which have been further improved in the year under review should support this and permanently guarantee regulated cooperation between all of the divisions involved in the process of managing operational risks.

The ICS framework implemented for this purpose is based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for internal controls and includes a specific operational and organisational structure. With the use of standardised methods and procedures, an appropriate and effective ICS should be ensured throughout the bank and a lasting improvement sought.

The operational structure of NORD/LB's ICS is geared towards a recurrent control cycle. The overriding goal is the bank-wide assessment of the ICS based on the consideration of the appropriateness and effectiveness of the controls implemented. The control cycle will be supported by an organisational structure optimised for this purpose. This includes roles related specifically to the ICS, the tasks, competencies and responsibilities of which are defined and distinguished from one another. The current reporting to different groups of recipients is part of this control cycle.

The NORD/LB Group has a standard process map. Based on this processes involving particular risk are identified with the help of a scoring model and a detailed analysis with regard to the appropriateness and effectiveness of the ICS is undertaken. In the year under review the scoring model was revised, whereby a detailed analysis has been enabled.

The NORD/LB Group's insurance cover is appropriate. NORD/LB's insurance cover was subjected in the year under review to a full analysis with regard to its scope and effectiveness. The resulting optimisation measures will be implemented in 2011.

The respective legal department is to be consulted in terms of securing legal risks, for example when legal steps are to be initiated and when contracts which are not based on approved sample contracts are concluded.

The quality of external suppliers and service companies is ensured by concluding service level agreements or detailed specifications and subsequently controlling respective key figures. NORD/LB has a process for assessing service providers in terms of their significance for risk aspects in order to implement MaRisk requirements concerning outsourcing. For each significant service outsourced a position is nominated which is responsible for managing services and risk relating to the business relationship. An individual contingency concept is also drawn up for each significant service outsourced.

Natural disasters and terrorist attacks are defined as force majeure. These risks are countered in contingency concepts.

### Operational Risk – Accounting-Related ICS

The ICS of NORD/LB also covers in relation to the accounting process all of the principles, processes and measures implemented by management which are aimed at the organisational implementation of decisions by management relating to

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

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 to be carried out periodically or as and when required and the results of which are to be documented. In the year under review a comprehensive review and assessment of all controls took place.

The NORD/LB Group's accounting process is structured decentrally. The preparation of the annual accounts and the management report for the NORD/LB Group in compliance with legal regulations is the responsibility of the Finance Division of NORD/LB. Many accountable facts are already recorded in the market and back-office divisions in upstream systems of NORD/LB and its subsidiaries and are already subjected there to controls with regard to existence, completeness and valuation. There are also controls here with regard to the correct recording of data which control the reporting of facts and the preparation of the disclosures in the notes.

The accounting processes of NORD/LB, its foreign branches and significant subsidiaries are basically structured independently and they have their own accounting-related control processes.

The accounts of all of the companies included in the consolidation are provided online and consolidated via a SAP module for the consolidated financial statements. The consolidation process is subject to a documented catalogue of controls. Manual processes are subject to the four-eyes principle.

In selected accounting-relevant areas, in particular relating to the calculation of liabilities to employees, NORD/LB uses external service providers.

The accounting process is monitored in the Finance Division by a central, intranet-based management application. This application allows all activities and milestones relevant to the financial statements to be tracked throughout the Group in relation to their respective completion dates and their processing status, so that in the event of delays immediate action can be taken.

NORD/LB's Internal Audit ensures as a process-independent unit compliance with the ICS with systematic audits. The ICS and risk management system are also subject to an annual audit by the auditor. The results are reported to the Audit Committee.

The efficiency of the accounting process will continue to be ensured by continual improvements in the future.

## Operational Risk – Measurement

NORD/LB has been collecting data on loss events resulting from operational risk since the beginning of 2003 and has classified these events by process, cause and effect. There is no "insignificant" level; however there is a simplified reporting process for gross losses of less than € 2 500. Data in the loss event database provides the basis for analyses in support of risk management and is an important element of a statistical/mathematical risk model developed by the bank. The significant companies of the NORD/LB Group and the NORD/LB Asset Management Group for risk reporting are included in the collection of loss events.

The loss events collected are entered in anonymous form in the DakOR data consortium initiated by the German Federal Association of Public Sector Banks (VÖB). In return the NORD/LB Group receives the loss events collected by the consortium as a data basis, which is used for the internal model. In addition information contained in a public loss event operational risk database (ÖffSchOR) is available in which press releases on major losses resulting from operational risk are collected, structured and processed. The two sources of data are used for scenario analyses and for regular benchmarking.

With the help of the risk assessment method applied in NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo, NORD/LB CFB and the NORD/LB Asset Management Group, the recording of data concerning past losses is supplemented with future components. Expert appraisals on the impact of specific scenarios provide a detailed insight into the risk situation of the individual bank divisions so that relevant measures can be derived if necessary. The method was completely revised in the year under review and replaces the previous self-assessment method.

At the start of 2009 a method for collecting risk indicators was implemented in NORD/LB. The selection of indicators takes place on a risk-oriented basis and is regularly reviewed for its appropriateness. NORD/LB aims to identify potential risks early on and to take countermeasures. Likewise with continual analysis of loss events, risk indicators and scenarios, causes of risk should be identified and concentrations of risk prevented.

The NORD/LB Group has an internal model to measure operational risk. For this purpose a loss distribution approach is used in which elements of the extreme value theory are considered. The distribution parameters are calculated based on internal data, scenario analyses and external data from the DakOR consortium. Correlation effects are modelled with the help of a Gaussian copula. Risk indicators in the warning area affect models by mark-up. The VaR calculated by the model is used as a control variable for operational risks in the RBC model.

An allocation process which combines size indicators with risk-sensitive elements is used to distribute the model results to the individual institutes. The model's parameters are regularly subjected to comprehensive validation and stress tests.

The methods and procedures implemented in the NORD/LB Group meet the requirements of § 272 SolvV concerning the use of the standard approach for operational risk. The amount allowable for operational risk was calculated in the year under review using the standard approach in accordance with SolvV. The further developments based closely on the requirements of SolvV also enable the prompt implementation of an advanced measurement approach (AMA).

### Operational Risk – Reporting

Within the framework of a continuous risk management process, results from the collection of loss events, risk assessment, risk indicators and internal model are analysed and communicated to the Managing Board on a quarterly basis and the responsible divisions as and when required and at least once a year. All of the results are included in the quarterly RBC reporting.

### Operational Risk – Development in 2010

In the year under review the self-assessment method was replaced by the further-developed risk-assessment method, which consists of the three components, the risk map, self-assessment and in-depth scenario analyses. Based on objective information and a greatly simplified qualitative self-assessment, a risk map is produced based upon which risk-oriented scenarios are assessed by experts of the parts of the company concerned. This further improved the analysis of Group-wide scenarios, risk concentrations and the carrying out of stress tests. The results are included in the internal model, further improving measurement accuracy and enabling a process-related view of the bank's operational risks.

As at 31 December 2010 the internal model was applied Group-wide for the first time. For this purpose the former model was extended and subjected to a detailed revalidation, with an allocation process being added. With the extension of the model, a further requirement for the Group-wide application of an AMA was met. The standard implementation of all methods across the Group was largely completed. This achieved a standard process for risk control and refined the controls which can be derived from the model.

In addition to this the controlling of operational risks was further interlinked with fraud prevention, contingency planning and the ICS. Within the scope of a business continuation planning project, the contingency planning for all time-critical processes was completely reviewed and updated. The effectiveness of selected processes was reviewed with contingency tests.

The ICS concept continued to be implemented in the year under review. Within the scope of a control inventory all of the key controls were tested for suitability and effectiveness. Required measures were implemented on a case-by-case basis. Application of the ICS framework was extended to other areas of the NORD/LB Group.

The Value-at-Risk as at 31 December 2010 for the operational risk based on the internal model is, with a confidence level of 99.9 per cent and a holding period of one year, € 240 million. The total of all losses from operational risks (not including credit-related losses) was € 2 million and therefore well below the previous year's value (€ 13 million). There is no apparent concentration of losses in respect of the distribution of losses across the loss categories.

There were no significant legal risks as at the reporting date.

**Operational Risk – Outlook**

In 2011 it is planned that the controls will be further refined at individual institute level. The results of the internal model should be considered when calculating the contribution margin for all divisions. The system of risk indicators already established in NORD/LB will shortly be extended to the NORD/LB Group.

The ICS concept will continue to be developed in 2011. Here application of the ICS framework is currently being extended to other areas of the NORD/LB Group. A process for controlling measures for operational risks which covers all methods should also be developed.

At the start of 2011 the new unit Regulatory Compliance commenced operations. It should provide evidence in all divisions that NORD/LB complies with all applicable banking regulatory requirements. The security level of the companies in the NORD/LB Group with regard to business continuation and recovery planning should also be further harmonised in 2011. For this purpose a bank-wide control process should be established.

The NORD/LB Group is endeavouring to apply an advanced measurement approach for operational risk.

## Summary

The NORD/LB Group has taken precautions to adequately account for all of the risks known to the bank. Suitable instruments have been implemented for the purpose of recognising risks early.

Ratios determined in the risk-bearing capacity model show that risks were covered at all times during the period under review. The NORD/LB Group does not believe that there are any risks at present that would put the existence of the bank at risk.

The NORD/LB Group and its significant subsidiaries which are subject to independent reporting requirements complied with the applicable regulatory provisions concerning equity capital and liquidity throughout 2010. They also took due account of the regulations relating to large credits limits in accordance with §§ 13a and 13b of the German Banking Act (KWG) in the year under review.

The consequence of the financial and economic crisis were noticeable for the NORD/LB Group in the year under review. In particular increased probabilities of default and an increase in non-performing loans had a negative impact. In order to actively counter the effects of the financial and economic crisis, the NORD/LB Group has implemented various measures both to reduce risk and strengthen capital.

The NORD/LB Group is expecting general conditions to improve in 2011. It will continue to monitor developments closely and if necessary implement further measures to improve the risk situation.

In particular the greater requirements placed on capital and liquidity resources as a result of Basel III represent a challenge. The NORD/LB Group is actively tackling the associated strategic and operational challenges and taking the necessary measures within the scope of capital management and technical implementation to be equipped for the future.

In addition to the risk report, the following forecast report presents the opportunities and risks relating to the future development of the NORD/LB Group.

# Forecast Report

## General Economic Development

In 2011 lower growth is expected in the global economy due to the monetary environment no longer being so expansive and more restrictive fiscal policies. However, global GDP (in purchasing power parities) should increase again in real terms by more than 4 per cent in 2011. Some voices are expecting slow growth in the US economy to be subdued due to the current tense situation in the US job market and the possible associated negative repercussions for private consumption. NORD/LB believes there is no reason for exaggerated pessimism. The growth trend in the United States is still intact and has even gathered pace recently, and NORD/LB is expecting real gross domestic product to rise by 3.2 per cent in 2011. The Federal Reserve has indicated many times that it intends to stick to its very expansive monetary policy for a long time. In particular the weak condition of the job market and moderate price developments are currently providing the Federal Reserve with arguments for this. Against this background NORD/LB is not expecting the Federal Reserve to raise the prime rate until the fourth quarter of 2011.

Germany will again be at the forefront of economic development in the eurozone with economic growth of 2.8 per cent. Although the rate of growth might also slow down in Germany, there remain great differences as regards general economic development, particularly because there is much greater need for consolidation in public finance in many euro member states and because these states also often face further structural adjustments.

In the eurozone the moderate economic recovery will continue despite the recent turbulence in the markets for government bonds and enable GDP growth of 1.6 per cent. Above all the precarious situation of public budgets in a number of member states provide hardly any scope for government investment or other expansive measures. In this respect it is expected that development in the southern member states will subdue growth in the eurozone. High unemployment remains a problem in many states. NORD/LB is not expecting any significant improvement in 2011. The average annual unemployment rate is only expected to fall slightly from 10 per cent in 2010 to 9.8 per cent in 2011. The job market situation in Spain continues to be particularly difficult.

The expected rise in the eurozone's debt ratio to around 90 per cent of GDP by 2012 may be worrying and require a change in policy. However, in view of the severe crisis in 2009 and compared to other important industrial countries, this fundamentally provides no cause for doom and gloom in the eurozone. In the public debate it is not only, particularly from a German point of view, the enormous benefits of the common economic and currency area that are neglected. On the one hand all of the states in the currency area are jointly responsible for the insufficient constitutional arrangement of the currency union when it was founded and for the at best slack monitoring of the criteria of the Stability and Growth Pact. On the other hand the share of the five largest economics of Germany, France, Italy, Spain and the Netherlands in the overall debt of the eurozone in 2009 totalled 83.5 per cent. These states contributed almost the same amount (83.4 per cent) to GDP in the same year. However, the level of debt rose considerably in some small states during the crisis.

Against the background of the recent unrest in the Arab world, the price of crude oil has risen considerably. As a result the rate of inflation has risen significantly. In February it was 2.4 per cent in the eurozone and therefore above the ECB target, which considers prices to be stable if the rate of inflation is just below 2 per cent. The jump in prices is largely attributable to temporary rises in the costs of energy, crude oil and food. After the sharp rise in prices in the first quarter, it is expected that pricing pressure will reduce slightly during the course of the year and that average annual inflation will not be much above 2 per cent in Germany and the eurozone. The ECB President Jean-Claude Trichet was surprisingly frank when indicating that the interest rate might be raised in April in reaction to the current inflationary trend. The background to this might be fears of rising inflationary expectations. The first warning signs to this effect were provided by the latest change in inflationary expectations established by surveys. This has not yet been reflected in market-based indicators. The recent development concerning the issuing of loans in the eurozone and the aggregated money supply do not currently provide any indication of the possible threat of inflation either. The ECB will though gradually break away from the extraordinarily low interest rate and by the end of 2011 and raise the tender rate to 2 per cent, which is still a low rate. In view of the ongoing difficult situation in the financial markets against the background of the debt crisis, the ECB will cut back only very cautiously and gradually on the unconventional measures in 2011.

NORD/LB believes that the potential for new tensions due to the debt crisis might result in government bonds again benefiting from a safe-haven effect in 2011, although to a lesser degree. Inflation is also not expected to rise significantly in 2011 due to the ECB’s surprisingly early change in the course of interest rates, and the rise in returns from government bonds should therefore be moderate. However, a completely different picture would emerge if the euro crisis is managed with high (risk) transfers (e.g. with eurobonds, guarantee extensions etc.) or the massive purchase of government bonds by the ECB, and this cannot be ruled out. However, NORD/LB believes the latter to be a rather unlikely scenario.

## NORD/LB Planning for 2011

NORD/LB is planning for 2011, based on the operational successes of the previous year, to continue to develop the solid result of 2010 qualitatively and quantitatively. The strong economic recovery in recent months will gradually slow down in 2011, but will remain on a restrained path of growth. NORD/LB is expecting a significant rise in earnings in the medium term after the national debt crisis in the eurozone has been overcome and opportunities for growth are capitalised upon.

On the income side the bank has budgeted for a fall in net interest income for 2011 as a result of lower earnings due to interest rates and a fall in net commission income due to lower one-time effects due to restructuring. A significant rise is expected in profit/loss from financial instruments at fair value compared to 2010 as the events impacting on the performance of credit spreads in the previous year are not expected in the plan for 2011. The profit/loss from hedge accounting is expected to be zero. The profit/loss from financial assets in 2011 is due to one-off effects in 2010 from investments below the previous year’s figure. The corrections to the profit/loss from investments accounted for using the equity method for Bank DnB NORD which needed to be made in the past are no longer required in the planning period. Overall the NORD/LB Group is expecting income to be higher in 2011 than in 2010.

In administrative expenses a slight increase in staff expenses is expected as a result of new jobs to comply with regulatory standards and rises in pay scales. Moderate investment will result in a slight increase in cost of materials, while write-downs will increase as a result of the capitalisation of project costs.

The situation with regard to loan loss provisions is easing. All the same, NORD/LB remains cautious and has provided a sufficient risk buffer for 2011.

In the plan for 2011 the NORD/LB Group's earnings before taxes are well above the previous year's level; the negative impact of the planned bank levy is considered in other operating profit/loss. Accordingly the CIR and RoE will develop positively.

## Business Segment Planning for 2011

**Private and Commercial Customers**
The Private and Commercial Customers segment mainly reports on the results of the Private, Individual, Commercial and Small Business and Middle-market Corporate Customers strategic business units of Braunschweigische Landessparkasse (BLSK), Bremer Landesbank, Norddeutsche Landesbank Luxembourg and Öffentliche Versicherung Braunschweig.

In this business segment the NORD/LB Group is continuing its strategy of positioning itself in the market as a quality supplier. It aims to consolidate its strong position as market leader in the area of private customers by using the S finance concept and providing advice on selected products and services with attractive terms. At the same time NORD/LB is aiming to establish itself in the locations of BLSK and in Bremen as the top address in private banking and as a quality leader for commercial and corporate customers.

The NORD/LB Group is planning to increase earnings in particular by increasing the volume of new lending business and increasing commission income. This should compensate for the expected fall in earnings on the deposits side due to interest rates. The corrections to the profit/loss from investments accounted for using the equity method for Bank DnB NORD which needed to be made in the past are no longer required in the planning period.

Staff expenses in the Private and Commercial Customers segment will rise due to new jobs to implement the strategy and temporary jobs to implement projects. However, expenditure on materials and depreciation of property and equipment will fall in this segment due in particular to a cost-reduction programme in Öffentliche Versicherung Braunschweig.

As a precautionary measure the standard risk costs are included in the planning of this segment; these are above the previous year's level, in which loan loss provisions were close to zero.

Overall the planned result for this segment in 2011 is well above the previous year's result due in particular to the improvement in the profit/loss from investments accounted for using the equity method, with an improvement in the CIR and the RoRaC.

Competitive pressure from other market participants, predominantly from direct banks and large banks pushing business with private customers and middle-market companies, remains high and the impact on the margins and business volume of BLSK remains to be seen.

## Savings Bank Network

In 2011 the savings bank network will focus on intensifying its market presence, expanding its sales activities in the associated business region of Schleswig-Holstein, its successful institutional savings bank business and public sector customers. The sale and issue of commission and trading products should be intensified and sales with savings banks in North Brandenburg increased. NORD/LB is planning its first business activity in South Brandenburg.

In the business region of Bremer Landesbank a stagnant development in volumes with a slight fall in margins is expected in this segment. Municipal business promises market opportunities by extending its large-volume lending business to regions across Germany.

While earnings from interest-bearing business (increased volumes in lending business cannot compensate for interest-rate-induced falls in deposit business) will fall overall, there should be a strong rise in earnings from commission business with institutional customers and in profit / loss from financial instruments at fair value with the sale of structured products, so that there will be an increase in planned earnings in the savings bank network.

Investment on intensifying the savings bank network's market presence and the higher costs relating to compliance with legal standards have resulted in an increase in administrative expenses for the savings bank network compared to 2010. Due to the easing of the risk situation in the market, the segment expects that it can get by with loan loss provisions at the level of the long-term average.

This development should result overall in the contribution to earnings being significantly above the previous year's level and, as a result, an improvement in the RoRaC for the savings bank network is expected. The CIR will remain around the same level as 2010.

Pressure from domestic and foreign competitors may have a negative impact on the achievement of targets.

## Financial Markets/Institutional Customers

The Financial Markets business segment provides the investors and customers of NORD/LB with efficient access to the financial markets and in doing so relies on a combination of relationship management and specialist knowledge.

With a systematic alignment to the customer segments of NORD/LB, the Corporate Sales and Markets divisions aim to pool know-how and increase in earnings with corporate and structured finance customers. In addition to advising other business segments of NORD/LB, the Markets department in the Trading/Structured Products profit centre is planning to launch various inflation-linked financial products and to actively manage sales with institutional customers with relationship management across the entire product range. The Treasury division focuses on liquidity management and the gradual development of its consulting and pricing expertise for the credit areas at the bank. Treasury is also responsible for the "Liquidity Management" project to optimise the bank's liquidity control. The portfolios of NORD/LB which are no longer considered to be strategic are phased out in the Portfolio Investment division. It has no new business; the existing portfolios are optimised within the phasing-out process in terms of equity commitment, risk and earnings. It also aims to reduce the negative effects from rating migrations in ABS portfolios.

After the previous year's very good development particularly in the Markets and Treasury divisions, a fall in interest income is expected in 2011 in particular in the Financial Markets segment of NORD/LB AöR due to the forecasted rise in interest rates and the continued phasing out of portfolios which are no longer considered to be strategic. Commission income on the other hand should develop positively on the basis of the planned measures.

In Luxembourg targeted derisking measures (including the slimming down of the credit investment portfolio, reserved targeted new business in different assets classes for diversification) and the forecasted interest rate trend is expected to result in fall in earnings compared to the previous year. However, in the Financial Markets division of Bremer Landesbank and Deutsche Hypo it is expected that there will be no further negative impact in 2011 from in particular CDS valuations. A fall in commission income (credit linked obligations) is also expected with investment companies in this segment.

The expected rise in administrative expenses compared to the previous year relates to investment in IT and the filling of vacant positions, the full cost impact of which will first be felt in 2011. Additional loan loss provisions were made in the plan for the ABS portfolio for 2011.

Compared to the previous year the Financial Markets segment's contribution to earnings will rise significantly due in particular to the positive development in financial instruments at fair value, with a corresponding improvement in the CIR and the RoRaC.

Risks in the planning of financial market divisions lie in unexpected developments in credit spreads and restrained economic development with negative consequences such as the valuation of portfolios being adjusted, a fall in new lending business with the associated opportunities to generate income from cross selling and unexpected developments in interest rates.

**Corporate Customers**

The strategy of focusing on growth which has been pursued with success in recent years will also define the next year. In the process the earnings base should be broadened by extending the involvement of the Corporate Finance division and extended cross-selling. NORD/LB is planning to increase its earnings from corporate customers in 2011 in particular on the deposits side on the basis of volume increases and in commission income. In addition, both the Agricultural Division and the Housing Division will contribute towards the planned result.

The Corporate Customers business of Bremer Landesbank is planning to increase the volume of working capital credit and investment credit as the economy recovers with greater exploitation of existing customers and potential-oriented new customer acquisition.

An important condition for the implementation of these measures is the quantitative and qualitative development of back-office capacity, which will result in a rise in secondary costs, and the implementation of the planned IT projects (e.g. the development of the FoCs customer platform into a customer management system FoCsII). Due to the planned increase in the bank's own staff capacity, administrative expenses will be higher in 2011 than in 2010.

The Corporate Customers segment's planned loan loss provisions are at the same level as the expected loss and are therefore slightly above the previous year's level. Due to the expected development in expenses for 2011, the CIR will not quite reach the level of 2010 in spite of the planned increase in earnings. The planned RoRaC for 2011 is an improvement on the previous year's figure.

The rediscovery of middle-market corporate business by some commercial banks will result in further competitive pressure with a corresponding risk for margins and commissions planned for 2011.

### Energy and Infrastructure Customers

This segment's strategy should be implemented with the long-term development of core customer relationships in the target sectors of renewable energies and infrastructure with the targeted use of limited resources. The focus is on risk-weighted-assets-friendly transactions and extending the mandated-lead-arranger position. Due to the global control of this segment, NORD/LB is also planning to extend the global transfer of know-how and achieve standard processes and structures with workshops covering all of the locations. The intended intensified collaboration with Sales serves the development of origination activities (including cross-selling). Non-strategic divisions in this segment (e.g. Corporates and Financial Engineering) on the other hand should be reduced in the coming year.

At Bremer Landesbank, in the Renewable Energies segment the sub-segments of wind energy, biogas and photovoltaics remain significant. The syndications for portfolio management should be extended to meet the rising demand for finance.

With these measures new lending business should be further developed with stable margins. This compensates for the lower one-off effects due to restructuring in the previous year. It is also planned, in collaboration with the Financial Markets division, to increase the trading profit. Overall NORD/LB is expecting the Energy and Infrastructure Customers segment to continue to achieve income at the same high level of the past and to sustained significant contributions to earnings.

For these earnings to be achieved additional risk-weighted assets will be required and jobs will need to be filled, which will be reflected in higher operating costs. During the course of the planned business expansion secondary costs will also increase. The loan loss provisions are at the level of the expected loss and are well below the previous year's level.

Overall the business segment is expecting increased contributions to the operating result and the RoRac to remain at a high level. The CIR will rise slightly due to the investment in this business segment.

NORD/LB has achieved, as a pioneer in the area of financing renewable energies (such as wind energy plants, bioenergy and solar energy) an important market position in Europe. With the entry of competitors into this area, possible risks to the future development of margins and commission can be seen.

### Ship and Aircraft Customers

In the ship lending business, which came through the crisis in the shipping sector comparatively well in 2010, NORD/LB intends to achieve close to the previous year's pleasing earnings in 2011. NORD/LB considers with all due caution the positive development seen since the middle of last year to be the start of a sustained market recovery. In most segments rising charter rates and the return of new orders for merchant and passenger ships are viewed as positive signs of a return to normal.

Bremer Landesbank continues to act as the NORD/LB Group's competence centre for financing river cruises and shipping containers. Due to the limit which has been set, original new business in 2011 is only planned within the scope of equivalent repayments, cancellations and unscheduled repayments, which will result in a slight fall in income compared to the previous year's high level.

In the area of aircraft financing NORD/LB is relying on qualitative growth, which should be enabled above all by active portfolio management, detailed identification of customer needs and based upon this individual support for customers. NORD/LB would like to continue to diversify the product range in the coming year. In addition to negative rating migrations, risk-weighted assets should also be reduced by the aircraft rating tool which has now been approved by the Federal Financial Supervisory Authority. Furthermore the issue of an aircraft mortgage covered bond is planned.

In order for the above-mentioned measures to be implemented, NORD/LB is creating new jobs while at the same time reducing temporary staff, while expenditure on projects (special finance platform) and marketing and the quantitative and qualitative development of back-office capacity with the resulting increase in secondary costs are also required. The risk situation will ease and NORD/LB is counting on much lower loan loss provisions for 2011 than in the previous year. In the medium term it may be possible to reverse special valuation allowances.

This segment's contribution to earnings is much higher in 2011 than in the previous year. There will be a slight rise in the CIR in 2011, which will be attributable to a rise in operating costs, but it will remain at a very low level. The RoRaC will rise again in 2011 due to the expected lower loan loss provisions compared to 2010.

Risks to earnings lie in a later recovery of the market for shipping loans than expected and a possible return to depression.

### Real Estate Banking Customers

The planning premise for NORD/LB is to transfer its real estate banking to Deutsche Hypo in the medium term. With a stronger concentration and harmonisation of products and processes, synergy effects can be used and additional income can therefore be generated. The business will be transferred gradually. The transfer of business activities will result in a fall in income and costs for NORD/LB, and the reverse development is planned in Deutsche Hypo. The Bremer Landesbank's financing of community interest properties is also shown in the Real Estate Banking Customers segment.

The NORD/LB Group is planning a moderate overall rise in income in the Real Estate Banking Customers segment in 2011. In 2011 growth in interest-bearing business and in the profit/loss from financial instruments at fair value will be countered by a fall in net commission income, which benefited in the previous year from the restructuring commission received.

Administration expenses remain stable compared to the previous year. The situation with regard to loan loss provisions is easing. Nevertheless NORD/LB will also remain cautious in this segment and has made loan loss provisions for 2011 at the previous year's high level.

This segment's contribution to earnings in 2011 will be at the previous year's level. The CIR and RoRaC can be maintained at the previous year's level in 2011.

Risks to the development in earnings lie in a decline in the real estate market, which would be against the expectations of market participants, with the corresponding impact on earnings and loan loss provisions.

## Medium-Term Planning for the Period up to 2015

NORD/LB will continue to resolutely pursue its strategy of operating its customer-oriented business model which has proved itself in the crisis and its risk-conscious business policy. In its estimation of its medium-term development, NORD/LB assumes that there will be a positive economic climate and that the economy will continue on a sustainable path of growth. The planned increase in earnings in the medium term will focus on growth in all earnings components and at the same time improving the earnings structure and a return to normal loan loss provisions.

Despite increasing staff expenses (increases in factor prices, strategically motivated investments and for compliance with banking regulatory standards and specifications), administrative expenses will only rise slightly in the medium term. In order to counter a further upward trend in administrative expenses, the efficiency of the processes relating to the provision of services will be constantly reviewed and improved.

On the basis of far-advanced considerations by the legislator to set up a restructuring fund for banks, NORD/LB is expecting to be called upon to help finance it in the next few years. The draft regulation relating to the contributions to the restructuring fund, which is expected to be finalised shortly, provides for a levy which is proportionate on the one hand to the balance sheet total and to the annual profit on the other. NORD/LB assumes that the levy will have a significant impact on earnings in the next few years. The estimated impact of the bank levy is included in the medium-term plan.

Given the overall development of earnings and expenditure, with loan loss provisions at the level of the required imputed covering, the bank expects earnings before taxes to increase significantly in the period up to 2015, accompanied by a corresponding improvement in key figures.

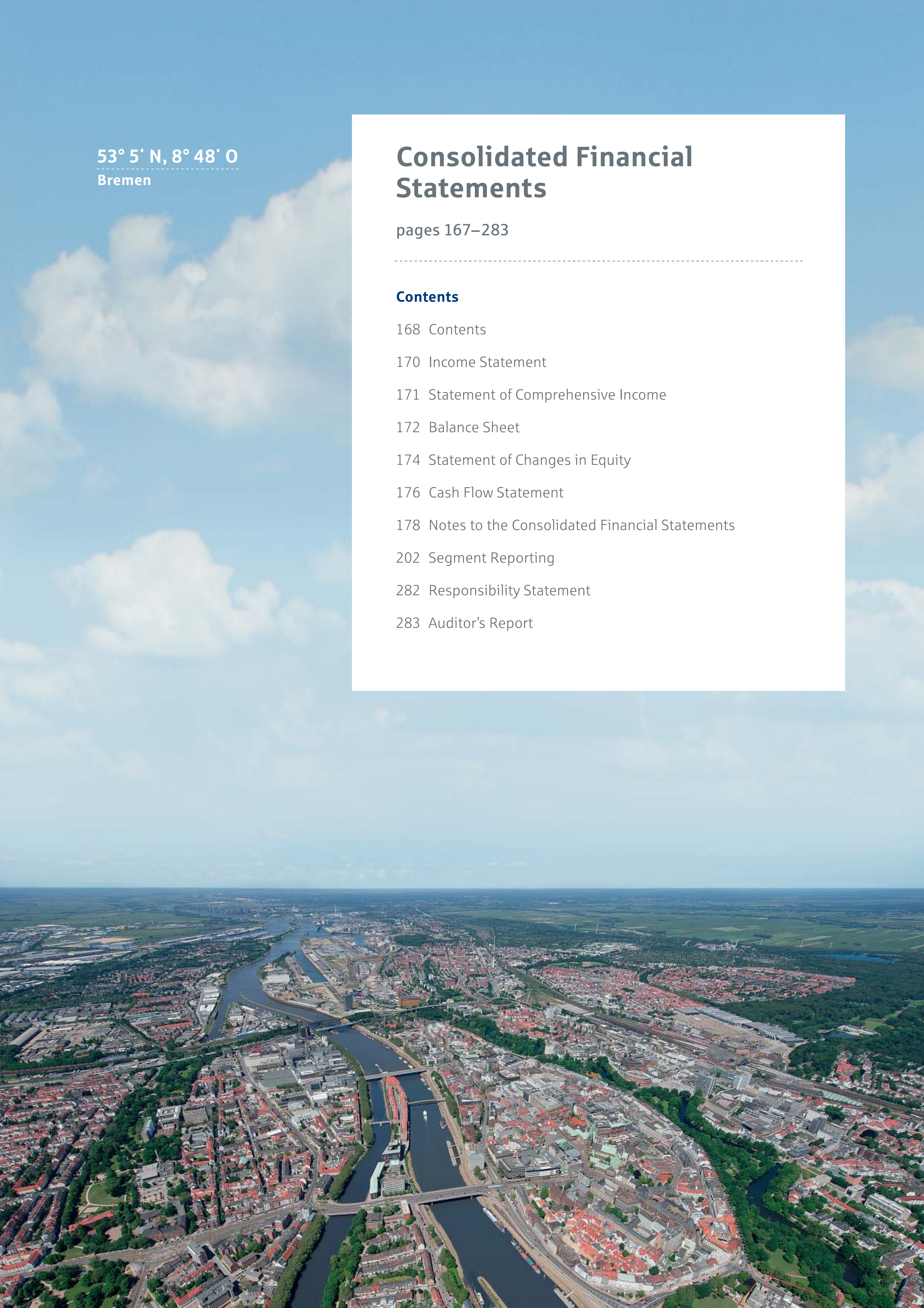
## Impact of current and future changes to banking regulations on the internal capital adequacy of the NORD/LB Group

With effect of 31 December 2010 the regulations resulting from the EU Capital Requirements Directive II (CRD II) will be passed into German law with the amendment of the of the German Banking Act (KWG). This will impact on the one hand on the NORD/LB Group's regulatory capital structure with the inclusion of silent participations as hybrid core capital. On the other hand from 2011 risk-weighted assets from market risk positions in the trading book will increase. The Group strives to continually optimise its capital structure in view of the new regulatory requirements and has already been able to make some progress here.

Further changes are likely from 2013 following the implementation of the Basel III regulations passed by the Basel Committee on Banking Supervision and their passing into law at EU level in CRD IV. Following this, among other things the requirements for quantitative and qualitative minimum capital and liquidity resources of banks will increase and a tough upper debt limit will be set by way of a leverage ratio. It is expected that these new international regulatory conditions will have an impact on the business models and profitability of banks. NORD/LB has analysed the impact of these legal changes on the future level and structure of regulatory capital for the Group on the basis of the version of "Basel III" framework finalised in December 2010 and agreed the result of the analysis with its guarantors. In particular the future definition of the so-called hard core capital will require adjustments in the Group. The impact of this though is likely to be absorbed for NORD/LB as a registered public institute by grandfathering regulations, in which existing silent participations will still be able to be included proportionately as hard core capital until up to 2022. NORD/LB will adapt in good time to the new regulatory environment in close cooperation with its guarantors.

# Statements relating to the future

This report contains statements relating to the future. They can be recognised in terms such as "expect", "intend", "plan", "endeavour" and "estimate" and are based on our current plans and estimations. These statements contain uncertainties since a number of factors which affect our business are beyond the sphere of influence of NORD/LB. These factors notably include developments in the financial markets and changes in interest rates and market prices. Actual results and developments may deviate considerably from current assumptions. NORD/LB does not assume any responsibility and nor does it intend to update these statements relating to the future or to adjust them in the event of developments which deviate from those that had been anticipated.



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Bremen

# Consolidated Financial Statements

pages 167–283

## Contents


168 Contents

170 Income Statement

171 Statement of Comprehensive Income

172 Balance Sheet

174 Statement of Changes in Equity

176 Cash Flow Statement

178 Notes to the Consolidated Financial Statements

202 Segment Reporting

282 Responsibility Statement

283 Auditor's Report

## Income Statement 170

## Statement of Comprehensive Income 171

## Balance Sheet 172

## Statement of Changes in Equity 174

## Cash Flow Statement 176

## Notes to the Consolidated Financial Statements 178

**General Information 178**
(1) Principles for the preparation of the consolidated financial statements 178
(2) Adjustment of figures for the previous year 179
(3) Adopted IFRSs 182
(4) Consolidation principles 183
(5) Basis of consolidation 184
(6) Currency translation 186
(7) Financial instruments 186
(8) Risk provisions 194
(9) Property and equipment 195
(10) Leases 195
(11) Investment property 196
(12) Intangible assets 196
(13) Assets held for sale 197
(14) Provisions for pensions and similar obligations 198
(15) Other provisions 199
(16) Insurance contracts 199
(17) Income taxes 201
(18) Subordinated capital 201

**Segment Reporting 202**
(19) Segment reporting by business segment 206
(20) Segment reporting by geographical segment 208

**Notes to the income statement 209**
(21) Net interest income 209
(22) Loan loss provisions 210
(23) Net commission income 211
(24) Profit/loss from financial instruments at fair value through profit or loss 212
(25) Profit/loss from hedge accounting 214
(26) Profit/loss from financial assets 215
(27) Profit/loss from investments accounted for using the equity method 216
(28) Administrative expenses 217
(29) Other operating profit/loss 218
(30) Income taxes 219

**Notes to the statement of comprehensive income 220**

**Notes to the balance sheet 221**
(31) Cash reserve 221
(32) Loans and advances to banks 221
(33) Loans and advances customers 222
(34) Loan loss provisions 222
(35) Financial assets at fair value through profit or loss 224
(36) Positive fair values from hedge accounting derivatives 225
(37) Financial assets 226
(38) Investments accounted for using the equity method 227
(39) Property and equipment 229
(40) Investment property 229
(41) Intangible assets 231
(42) Assets held for sale 232
(43) Income tax assets 233
(44) Other assets 234
(45) Liabilities to banks 235
(46) Liabilities to customers 236
(47) Securitised liabilities 237
(48) Adjustment item for financial instruments hedged in the fair value hedge portfolio 237
(49) Financial liabilities at fair value through profit or loss 238
(50) Negative fair values from hedge accounting derivates 239
(51) Provisions 239
(52) Income tax liabilities 244
(53) Other liabilities 245
(54) Subordinated capital 246

**Notes to the statement of changes in equity** 247

**Notes to the cash flow statement** 248

**Other disclosures** 249

**Notes to financial instruments** 249
(55) Fair value hierarchy 249
(56) Carrying amounts by measurement category 253
(57) Net gains or losses by measurement category 254
(58) Impairments/reversals of impairment by measurement category 254
(59) Fair value of financial instruments 255
(60) Derivative financial instruments 256
(61) Underlying transactions in effective hedges 257
(62) Residual terms of financial liabilities 259
(63) NORD/LB group as assignor and assignee 260
(64) Securities sale and repurchase agreements and securities lending 261

**Other notes** 262
(65) Equity management 262
(66) Regulatory capital 263
(67) Foreign currency volume 264
(68) Non-current assets and liabilities 265
(69) Contingent liabilities and other obligations 266
(70) Other financial obligations 267
(71) Subordinated assets 269
(72) Trust activities 269
(73) Events after the balance sheet date 269

**Related parties** 270
(74) Number of employees 270
(75) Related parties 270
(76) Members of governing bodies and list of mandates 273
(77) Remuneration and loans to governing bodies 275
(78) Group auditor's fees 275
(79) Every holdings 276

**Responsibility Statement** 282

**Auditor's Report** 283

# Consolidated Financial Statements

## Income Statement

| | Notes | 1 Jan. – 31 Dec. 2010 (in € million) | 1 Jan. – 31 Dec. 2009 *) (in € million) | Change (in %) |
|---|---|---|---|---|
| Interest income | | 12 508 | 16 027 | – 22 |
| Interest expense | | 10 858 | 14 647 | – 26 |
| **Net interest income** | 21 | **1 650** | **1 380** | **20** |
| Loan loss provisions | 22 | – 657 | – 1 045 | – 37 |
| Commission income | | 351 | 277 | 27 |
| Commission expense | | 141 | 100 | 41 |
| **Net commission income** | 23 | **210** | **177** | **19** |
| Trading profit/loss | | 119 | 627 | – 81 |
| Profit/loss from the use of the fair value option | | – 171 | – 206 | 17 |
| **Profit/loss from financial instruments at fair value through profit or loss** | 24 | **– 52** | **421** | **> 100** |
| Profit/loss from hedge accounting | 25 | 153 | 161 | – 5 |
| Profit/loss from financial assets | 26 | 82 | – 140 | > 100 |
| Profit/loss from investments accounted or using the equity method | 27 | – 128 | – 200 | 36 |
| Administrative expenses | 28 | 1 070 | 986 | 9 |
| Other operating profit/loss | 29 | 48 | 144 | – 67 |
| **Earnings before taxes** | | **236** | **– 88** | **> 100** |
| Income taxes | 30 | – | 50 | – 100 |
| **Consolidated profit for the period** | | **236** | **– 138** | **> 100** |
| of which: attributable to the owners of NORD/LB | | 218 | – 149 | |
| of which: attributable to non-controlling interests | | 18 | 11 | |

*) some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

# Statement of Comprehensive Income

The statement of comprehensive income for the year under review 2010 (2009) comprises the income and expense from the income statement and the income and expense recognised directly in equity:

| | 1 Jan. – 31 Dec. 2010 (in € million) | 1 Jan. – 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Consolidated profit** | **236** | **– 138** | **> 100** |
| Increase/decrease from available for sale (AfS) financial instruments | | | |
| Unrealised profit/losses | 42 | 411 | – 90 |
| Transfer due to realisation profit/loss | 35 | 53 | – 34 |
| Changes in value investments accounted for using the equity method recognised directly in equity | – 18 | 20 | > 100 |
| Translation differences of foreign business units | | | |
| Unrealised profit/losses | 13 | – | – |
| Actuarial gains and losses for pensions for defined benefit obligations | – 15 | – 115 | – 87 |
| Deferred taxes | – 22 | – 103 | – 79 |
| **Other profit/loss** | **35** | **266** | **– 87** |
| **Comprehensive income for the year under review** | **271** | **128** | **> 100** |
| of which: attributable to the owners of NORD/LB | 243 | 94 | |
| of which: attributable to non-controlling interests | 28 | 34 | |

For the breakdown of deferred taxes into their individual components the notes to the statement of comprehensive income are referred to.

# Balance Sheet

| Assets | Notes | 31 Dec. 2010 (in € million) | 31 Dec. 2009 *) (in € million) | Change (in %) |
|---|---|---|---|---|
| Cash reserve | 31 | 1 069 | 1 844 | – 42 |
| Loans and advances to banks | 32 | 36 734 | 42 356 | – 13 |
| Loans and advances to customers | 33 | 113 605 | 112 083 | 1 |
| Loan loss provisions | 34 | – 2 018 | – 1 792 | 13 |
| Financial assets at fair value through profit or loss | 35 | 15 103 | 14 514 | 4 |
| Positive fair values from hedge accounting derivatives | 36 | 2 938 | 2 874 | 2 |
| Financial assets | 37 | 58 666 | 63 076 | – 7 |
| Investments accounted for using the equity method | 38 | 402 | 723 | – 44 |
| Property and equipment | 39 | 702 | 395 | 78 |
| Investment property | 40 | 96 | 93 | 3 |
| Intangible assets | 41 | 161 | 135 | 19 |
| Assets held for sale | 42 | 1 | 1 | – |
| Current income tax assets | 43 | 70 | 137 | – 49 |
| Deferred income taxes | 43 | 480 | 353 | 36 |
| Other assets | 44 | 577 | 1 808 | – 68 |
| **Total assets** | | **228 586** | **238 600** | **– 4** |

| Liabilities and equity | Notes | 31 Dec. 2010 (in € million) | 31 Dec. 2009 *) (in € million) | Change (in %) |
|---|---|---|---|---|
| Liabilities to banks | 45 | 60 962 | 62 152 | – 2 |
| Liabilities to customers | 46 | 60 742 | 61 303 | – 1 |
| Securitised liabilities | 47 | 71 061 | 79 151 | – 10 |
| Adjustment item for financial instruments hedged in the fair value hedge portfolio | 48 | 390 | 484 | – 19 |
| Financial liabilities at fair value through profit or loss | 49 | 16 587 | 16 136 | 3 |
| Negative fair values from hedge accounting derivatives | 50 | 2 269 | 2 102 | 8 |
| Provisions | 51 | 3 357 | 3 238 | 4 |
| Current income tax liabilities | 52 | 182 | 177 | 3 |
| Deferred income taxes | 52 | 5 | 14 | – 64 |
| Other liabilities | 53 | 568 | 2 114 | – 73 |
| Subordinated capital | 54 | 6 573 | 5 931 | 11 |
| **Equity** | | | | |
| Issued capital | | 1 085 | 1 085 | – |
| Capital reserves | | 2 597 | 2 597 | – |
| Retained earnings | | 2 173 | 2 037 | 7 |
| Revaluation reserve | | 66 | 24 | > 100 |
| Currency translation reserve | | – 37 | – 49 | 24 |
| **Equity capital attributable to the owners of NORD/LB** | | **5 884** | **5 694** | **3** |
| Equity capital attributable to non-controlling interests | | 6 | 104 | – 94 |
| | | **5 890** | **5 798** | **2** |
| **Total liabilities and equity** | | **228 586** | **238 600** | **– 4** |

*) some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

# Statement of Changes in Equity

The individual components of equity and their development in 2009 and 2010 are shown in the following statement of changes in equity:

| (in € million) | Issued capital | Capital reserves | Retained earnings | Revaluation reserve | Currency translation reserve | Equity attributable to the owners of NORD/LB | Equity attributable to non-controlling interests | Consolidated equity |
|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 2009** | **1 085** | **2 479** | **2 390** | **– 276** | **– 49** | **5 629** | **66** | **5 695** |
| Adjustments according to IAS 8 | – | – | – 42 | – | – | – 42 | – | – 42 |
| **Adjusted equity as at 1 January 2009** | **1 085** | **2 479** | **2 348** | **– 276** | **– 49** | **5 587** | **66** | **5 653** |
| Consolidated profit | – | – | – 149 | – | – | – 149 | 11 | – 138 |
| Increase / decrease from available for sale (AfS) financial instruments | – | – | – | 433 | – | 433 | 31 | 464 |
| Changes in value investments accounted for using the equity method recognised directly in equity | – | – | 20 | – | – | 20 | – | 20 |
| Actuarial gains and losses for pensions for defined benefit obligations | – | – | – 111 | – | – | – 111 | – 4 | – 115 |
| Deferred taxes | – | – | 34 | – 133 | – | – 99 | – 4 | – 103 |
| **Comprehensive income for the year under review** | **–** | **–** | **– 206** | **300** | **–** | **94** | **34** | **128** |
| Distribution | – | – | 117 | – | – | – 117 | – 5 | – 122 |
| Capital payments | – | 118 | – | – | – | 118 | 4 | 122 |
| Changes in the basis of consolidation | – | – | 1 | – | – | 1 | 5 | 6 |
| Consolidation effects and other changes in capital | – | – | 11 | – | – | 11 | – | 11 |
| **Equity as at 31 December 2009** | **1 085** | **2 597** | **2 037** | **24** | **– 49** | **5 694** | **104** | **5 798** |

| (in € million) | Issued capital | Capital reserves | Retained earnings | Revaluation reserve | Currency translation reserve | Equity attributable to the owners of NORD/LB | Equity attributable to non-controlling interests | Consolidated equity |
|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 2010** | **1 085** | **2 597** | **2 037** | **24** | **– 49** | **5 694** | **104** | **5 798** |
| Consolidated profit | – | – | 218 | – | – | 218 | 18 | 236 |
| Increase/decrease from available for sale (AfS) financial instruments | – | – | – | 67 | – | 67 | 10 | 77 |
| Changes in value investments accounted for using the equity method recognised directly in equity | – | – | – 18 | – | – | – 18 | – | – 18 |
| Translation differences of foreign business units | – | – | – | – | 12 | 12 | 1 | 13 |
| Actuarial gains and losses for pensions for defined benefit obligations | – | – | – 16 | – | – | – 16 | 1 | – 15 |
| Deferred taxes | – | – | 5 | – 25 | – | – 20 | – 2 | – 22 |
| **Comprehensive income for the year under review** | **–** | **–** | **189** | **42** | **12** | **243** | **28** | **271** |
| Distribution | – | – | – 47 | – | – | – 47 | – 4 | – 51 |
| Capital payments | – | – | – | – | – | – | 32 | 32 |
| Changes in the basis of consolidation | – | – | 10 | – | – | 10 | – 80 | – 70 |
| Consolidation effects and other changes in capital | – | – | – 16 | – | – | – 16 | – 74 | – 90 |
| **Equity as at 31 December 2010** | **1 085** | **2 597** | **2 173** | **66** | **– 37** | **5 884** | **6** | **5 890** |

For a more detailed account the notes to the statement of changes in equity are referred to.

# Cash Flow Statement

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Consolidated profit** | **236** | **– 138** | **> 100** |
| Adjustment for non-cash items | | | |
| Depreciation, impairment and write-ups of property and equipment and financial assets | 1 207 | 88 | > 100 |
| Increase/decrease in provisions | 143 | 40 | > 100 |
| Gains/losses from the disposal of property and equipment and financial assets | – 104 | – 14 | > 100 |
| Increase/decrease in other non-cash items | 452 | 885 | – 55 |
| Other adjustments net | – 1 544 | – 814 | – 83 |
| **Sub-total** | **390** | **47** | **> 100** |
| Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items | | | |
| Loans and advances to banks and customers | 2 879 | 5 217 | – 45 |
| Trading assets | – 324 | 2 011 | > 100 |
| Other assets from operating activities | 5 267 | 1 855 | > 100 |
| Liabilities to banks and customers | – 1 507 | – 8 415 | 82 |
| Securitised liabilities | – 8 279 | – 1 477 | > 100 |
| Other liabilities from operating activities | – 814 | 624 | > 100 |
| Interest and dividends received | 8 628 | 6 867 | 26 |
| Interest paid | – 7 089 | – 6 001 | 18 |
| Income taxes paid | – 33 | – 27 | 22 |
| **Cash flow from operating activities** | **– 882** | **701** | **> 100** |

| | 1 Jan.–31 Dec. 2010 (in € million) | 1 Jan.–31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Cash receipts from the disposal of | | | |
| financial assets | 259 | 97 | > 100 |
| property and equipment | 1 | 13 | – 92 |
| Cash payments for acquisition of | | | |
| financial assets | – 68 | – 22 | > 100 |
| property and equipment | – 118 | – 100 | 18 |
| Cash receipts from the disposal of consolidated companies and other business units | 167 | 299 | – 44 |
| Cash payments for the acquisition of consolidated companies and other business units | – | – 98 | – 100 |
| Net increase/decrease in funds from other investing activities | – | 10 | – 100 |
| **Cash flow from investing activities** | **241** | **199** | **21** |
| Cash receipts from equity contributions | 8 | 4 | 100 |
| Cash payments to owners and non-controlling interests | – | – 2 | – 100 |
| Increase/decrease in funds from other capital | 214 | 292 | – 27 |
| Interest expense on subordinated capital | – 324 | – 309 | 5 |
| Dividends paid | – 51 | – 122 | – 58 |
| **Cash flow from financing activities** | **– 153** | **– 137** | **12** |
| **Cash and cash equivalents as at 1 January** | **1 844** | **1 110** | **66** |
| Cash flow from operating activities | – 882 | 701 | > 100 |
| Cash flow from investing activities | 241 | 199 | 21 |
| Cash flow from financing activities | – 153 | – 137 | 12 |
| **Total cash flow** | **– 794** | **763** | **> 100** |
| Effects of changes in exchange rates and in the basis of consolidation | 19 | – 29 | > 100 |
| **Cash and cash equivalents as at 31 December** | **1 069** | **1 844** | **– 42** |

# Notes to the Consolidated Financial Statements

## General Information

### (1) Principles for the preparation of the consolidated financial statements

The consolidated financial statements of Norddeutsche Landesbank Girozentrale, Hanover, Braunschweig, Magdeburg (NORD/LB) as at 31 December 2010 were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002 (IAS Regulation) in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). Standards published at the end of the financial year and adopted by the European Union were relevant. National regulations contained in the German Commercial Code (HGB) under § 315a of the HGB were also observed. NORD/LB as a group in terms of commercial law is referred to in the following as the NORD/LB Group.

The consolidated financial statements as at 31 December 2010 comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes. The segment reporting is shown in the notes (Note (19) Segment reporting by business segment and Note (20) Segment reporting by geographical segment. The reporting on the nature and scope of risks relating to financial instruments in accordance with IFRS 7 is provided mainly in a risk report within the Group Management Report.

Assets are always measured at amortised cost, apart from the financial instruments in accordance with IAS 39, which are measured at fair value. In the accounting it was assumed that the company was a going concern. Income and expenses are recognised pro rata temporis. They are recognised and reported in the period to which they relate. Significant accounting policies are described below.

Estimations and assessments required by management in accordance with IFRS are made in compliance with the respective standard and are reviewed regularly. They are based on experience and other factors, including expectations as to future events which appear reasonable under prevailing circumstances. Estimations and assessments are made relating in particular to the calculation of the fair value of financial assets and liabilities of Level 2 and Level 3 including the estimation of the existence of an active or inactive market, the valuation of pension provisions in terms of determining the underlying parameters, the assessment of loan loss provisions with regard to future cash flows the calculation of deferred tax assets relating to the recoverability of tax losses not yet utilised. If significant estimations were required, the assumptions made are presented. Estimations and assessments and the underlying assessment factors and methods of estimation are reviewed regularly and compared with actual events. Provided that an amendment only refers to a single period, amendments to estimations are only taken into account for this period. If an amendment refers to the current and following reporting periods it is duly observed in this period and in the following periods.

The reporting currency for the consolidated financial statements is the euro. All amounts are reported rounded in euro millions (€ million), unless otherwise is indicated. The previous year's figures are shown afterwards in brackets.

The consolidated financial statements will be released for publication by the Managing Board after being endorsed by the Supervisory Board on 12 April 2011.

## (2) Adjustment of figures for the previous year

In these consolidated interim financial statements adjustments were made to the balance for the financial year 2009 of the items “financial assets at fair value through profit or loss” and “financial liabilities at fair value through profit or loss” in accordance with the specifications of IAS 8.41 ff. An adjustment was also made to the item “liabilities to customers”. These financial instruments did not meet the eligibility criteria for IAS 39 at the balance sheet date for the financial years 2008 and 2009.

This adjustment therefore also results in the figures reported for the previous year’s opening balance being corrected. The relevant corrections of reported deferred income tax asset can be found in the following notes.

The following items were corrected in the balance sheet as at 31 December 2009:

| 31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| **Assets** | | | |
| Financial assets reported at fair value through profit or loss | 14 651 | – 137 | 14 514 |
| Deferred income taxes *) | 310 | 46 | 356 |
| **Liabilities and equity** | | | |
| Liabilities to customers | 61 306 | – 3 | 61 303 |
| Financial liabilities reported at fair value through profit or loss | 16 166 | – 30 | 16 136 |
| Retained earnings *) | 2 076 | – 58 | 2 018 |

*) Terminal value before further adjustments

The adjustment had an effect on the following items in the income statement for the period of 1 January to 31 December 2009:

| 1 Jan.–31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| Trading profit/loss | 635 | – 8 | 627 |
| Profit/loss from fair value option | – 207 | 1 | – 206 |
| . . . | | | |
| **Earnings before taxes *)** | **– 92** | **– 7** | **– 99** |
| Income taxes *) | 49 | – 2 | 47 |
| **Consolidated profit for the period *)** | **– 141** | **– 5** | **– 146** |

*) Terminal value before further adjustments

The following adjustments were made in the balance sheet as at 31 December 2008:

| 31 Dec. 2008 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| **Assets** | | | |
| Financial assets reported at fair value through profit or loss | 16 995 | – 170 | 16 825 |
| Deferred income taxes *) | 421 | 44 | 465 |
| **Liabilities and equity** | | | |
| Liabilities to customers | 61 998 | – 2 | 61 996 |
| Financial liabilities reported at fair value through profit or loss | 16 700 | – 71 | 16 629 |
| Retained earnings *) | 2 390 | – 53 | 2 337 |

*) Terminal value before further adjustments

For the period 1 January 2008 to 31 December 2008 the following adjustments were made in the income statement:

| 1 Jan.–31 Dec. 2008 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| Trading profit / loss | – 443 | – 105 | – 548 |
| Profit/loss from fair value option | 168 | 4 | 172 |
| . . . | | | |
| **Earnings before taxes** | **22** | **– 101** | **– 79** |
| Income taxes | – 129 | – 31 | – 160 |
| **Consolidated profit** | **151** | **– 70** | **81** |

In the consolidated financial statements as at 31 December 2009 the amortisation value calculated for a subordinated liability reported in subordinated capital was too high. As a result the value reported for subordinated capital was too high by € 9 million. The valuation allowance for a silent investment reported in loans and advances to banks was set too low by € 3 million. The pro-rata interest recognised for a loan reported in financial assets as at 31 December 2009 was too high by € 2 million. For this loan interest income from amortisation was also calculated too low in 2009 by € 7 million.

The adjustment of figures for the previous year including the deferred tax effects as a result of the adjustments and the changes to retained earnings can be seen in the following table:

| 31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| **Assets** | | | |
| Provisions | – 1 789 | – 3 | – 1 792 |
| Financial assets | 63 078 | – 2 | 63 076 |
| Deferred income texes**) | 356 | – 3 | 353 |
| **Liabilities and equity** | | | |
| Subordinated capital | 5 940 | – 9 | 5 931 |
| Deferred income taxes | 16 | – 2 | 14 |
| Retained earnings**) | 2 018 | 8 | 2 026 |
| Revaluation reserve | 29 | – 5 | 24 |

**) Initial value after adjustment of measurement with regard to IAS 39

For the income statement from 1 January to 31 December 2009 there are the following retrospective adjustments.

| 1 Jan.–31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| Interest income from fixed-income and book entry securities | 1 850 | 5 | 1 855 |
| Interest expense from subordinated capital | 309 | – 9 | 300 |
| Loan loss provisions | – 1 042 | – 3 | – 1 045 |
| **Earnings before taxes**)** | **– 99** | **11** | **– 88** |
| Income taxes**) | 47 | 3 | 50 |
| **Consolidated profit**)** | **– 146** | **8** | **– 138** |

**) Initial value after adjustment of measurement with regard to IAS 39

For tax rebate claims for previous years there are as at 31 December 2008 and 31 December 2009 receivables in the amount of € 11 million. The resulting adjustments are presented in the table below:

| 31 Dec. 2008 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| **Assets** | | | |
| Other assets including prepaid expenses | 264 | 11 | 275 |
| **Liabilities and equity** | | | |
| Retained earnings***) | 2 026 | 11 | 2 037 |

**) Initial value after adjustment of measurement with regard to IAS 39

| 31 Dec. 2008 (in € million) | Prior to adjustment | Adjustment | After adjustment |
|---|---|---|---|
| **Assets** | | | |
| Other assets including prepaid expenses | 61 | 11 | 72 |
| **Liabilities and equity** | | | |
| Retained earnings**) | 2 337 | 11 | 2 348 |

**) Initial value after adjustment of measurement with regard to IAS 39

The respective adjustments were also taken into account in the following notes: (21) Net interest income, (22) Loan loss provisions, (24) Profit/loss from financial instruments at fair value through profit or loss, (30) Income taxes, (34) Risk provisions, (35) Financial Instruments at fair value through profit or loss, (37) Financial assets, (43) Income tax assets, (46) Liabilities to customers, (49) Financial liabilities at fair value through profit or loss, (52) Income tax liabilities, (54) Subordinated capital, (55) Fair value hierarchy, (56) Carrying amounts by measurement category, (57) Net gains or losses by measurement category, (59) Fair values of financial instruments, (60) Derivative financial instruments, (62) Residual terms of financial liabilities, (68) Non-current assets and liabilities.

We did not show a three-column chart in accordance with IAS 1 in the balance sheet as there were no material changes compared to the corresponding period of the previous year.

## (3) Adopted IFRS

In the year under review all IFRS, interpretations and their respective amendments which have been endorsed by the EU and were relevant for the NORD/LB Group in the financial year 2010 were adopted.

As is allowed, we have not yet applied the following standards which did not need to be implemented prior to 31 December 2010:

- **IAS 24 (rev. 2009) – Related party disclosures**
  The revised IAS 24 was published in November 2009 and will come into force for reporting periods which start on or after 1 January 2011. The aim of the revision is essentially to define more precisely and supplement the definition of related parties and to implement an exemption clause with regard to disclosures which have to be published by government-related entities.

- **IFRS 9 – Financial instruments**
  A revised version of IFRS 9 was published in October 2010 and is mandatory for financial years which start on or after 1 January 2013. The standard shall gradually replace the current IAS 39 in three phases. The first phase concluded with the publication contains the regulations for the categorisation and measurement of financial assets and financial liabilities. IFRS 9 only provides two options for the categorisation of financial assets, measurement at amortised cost and measurement at fair value. The categorisation will in future be based on the entity's business model and the contractual cash flows of the asset. Furthermore the regulations for embedded derivatives and reclassification have also been modified. The regulations relating to financial liabilities are largely unaltered compared to IAS 39. Rating-induced changes in the value of financial liabilities will in future only be shown in other comprehensive income if the fair value option is applied. The final standards for the remaining phases with the issues of impairment and hedge accounting are expected in 2011.

The following revised standards have also not been applied early:
- Improvements to IFRS (May 2010)
  within the scope of the IASB's annual improvements project
- Amendments to IFRS 7 –
  Disclosures: Transactions to transfer assets
- Amendments to IAS 12 –
  Deferred taxes: Recovery of underlying assets

These amendments must be applied in the Group for financial years which start on or after 1 January 2011 or 1 January 2012 respectively; the amendments to IFRS 7 and IAS 12 have not yet been adopted into European law.

Due to the revised regulations of IAS 24, the NORD/LB Group's circle of related parties and as a result the volume of transactions to be disclosed in the notes will increase.

It is expected that IFRS 9 will have a significant impact on the accounting, valuation and reporting in future consolidated financial statements. In order to present a comprehensive picture of the potential impact, the impact will only be quantified in the NORD/LB Group when the final regulations for all phases of IFRS 9 have been passed by the IASB.

Within the scope of the modification made to IAS 34 by the annual improvements project, the Level disclosures of IFRS 7 will essentially be added to the notes to financial reports for periods shorter than a full financial year. The amendment to IFRS 7 is likely to expand the scope of the disclosures of financial instruments, while the modified IAS 12 as it stands at present will not have a major impact on the NORD/LB Group. The adoption of these amendments is not expected to have an impact on the assets, financial and earnings position.

## (4) Consolidation principles

NORD/LB's consolidated financial statements, prepared in accordance with uniform accounting policies throughout the Group, comprise the financial statements of the parent company (NORD/LB) and of the companies controlled by the parent company, including special purpose entities (subsidiaries). Control exists as soon as a Group company has the power to determine the financial and business policies of a company so as to obtain benefits from its activities.

The purchase method of accounting is applied, i.e. assets and liabilities relating to subsidiaries were recognised at fair value on consideration of deferred taxes on the date on which a controlling interest was gained. Goodwill resulting from initial consolidation is reported under intangible assets. The value of goodwill is reviewed at least once a year and is the subject of unscheduled depreciation if necessary. Shares in the equity of subsidiaries which are not held by the parent company are reported as non-controlling interests in consolidated equity.

Receivables and liabilities and expenses and income generated within the Group are eliminated in the consolidation of intercompany balances and income and expenses. Intragroup profits and losses are consolidated in the elimination of intercompany profits and losses.

Results of subsidiaries included or disposed of during the course of the year are recognised in the income statement as at the effective date of acquisition or up to the effective date of disposal, respectively.

Joint ventures and associated companies are accounted for using the equity method and are reported as investments accounted for using the equity method. The cost of acquisition of investments accounted for using the equity method and the differences are determined as at the date on which significant influence is obtained. In this case the rules applied are the same as those applied for subsidiaries. Adjustments to the at equity value are recognised in profit or loss or under equity on the basis of uniform accounting policies for the Group. Losses exceeding the at equity value are not reported unless the Group has entered into legal or factual obligations or makes payments on behalf of the investment accounted for using the equity method.

For transactions between a Group company and a joint venture or an associated company, profits and losses are eliminated in proportion with the shareholding of the Group in the respective company.

Deconsolidation is carried out from the date on which control or significant influence ceases to exist.

## (5) Basis of consolidation

In addition to NORD/LB as the parent company, the consolidated financial statements include 51 (38) subsidiaries (including special purpose entities in accordance with SIC-12) in which NORD/LB directly or indirectly holds more than 50 per cent of the voting rights or over which NORD/LB is in a position to exercise control in another manner. 2 (3) joint ventures and 13 (12) associated companies are accounted for using the equity method.

As a result of the restructuring NORD/LB Capital Management GmbH, Hanover, was included as a subsidiary for the first time in the consolidated financial statements as at 1 January 2010.

After the tasks and activities of NORD/LB Informationstechnologie GmbH, Hanover, were reintegrated into NORD/LB, the company was deconsolidated as at 1 January 2010.

For the NORD/LB AM Global Challenges Index Fund a transitional consolidation took place as at 1 October 2010 as the fund, due to a reduced share, is no longer included in the consolidated financial statements as a subsidiary, but is accounted for as an associated company using the equity method.

The effects resulting from the first-time consolidation and from the deconsolidation of the above-mentioned companies have no significant impact on the net assets, financial position and results of operations of the Group.

Restructuring at a borrower resulted in KMU Shipping Invest GmbH, Hamburg, as a new investor, its associated holding fund GEBAB Ocean Shipping II GmbH & Co. KG and GEBAB Ocean Shipping III GmbH & Co. KG, both Hamburg, and 11 other special purpose entities being consolidated as subsidiaries for the first time as at 31 December 2010, as since this date the NORD/LB Group bears the majority of the opportunities and risks in these companies in accordance with IAS 27 in conjunction with SIC 12.

Within the scope of the initial consolidation, the assets and liabilities were revalued in accordance with IFRS 3 as follows:

| (in € million) | Carrying amount before acquisition | Fair Value-Adjustments | Fair Value |
|---|---|---|---|
| Loans and advances to banks | 4 | | 4 |
| Loans and advances to customers | 3 | | 3 |
| Property and equipment | 512 | – 232 | 280 |
| Other assets | 2 | | 2 |
| | **521** | **– 232** | **289** |
| Liabilities to banks | 401 | – 70 | 331 |
| Liabilities to customers | 12 | | 12 |
| Provisions | 2 | | 2 |
| Other liabilities | 9 | | 9 |
| | **424** | **– 70** | **354** |
| **Net assets** | **97** | **– 162** | **– 65** |

As the NORD/LB Group holds no interest in KMU Shipping Invest GmbH, the net assets were classified as non-controlling interests.

The 49 per cent interest in Bank DnB NORD A/S, Copenhagen, which was previously accounted for using the equity method, has been accounted for as held for sale since 30 September. All of the shares were sold with effect of 23 December 2010 and therefore deconsolidated as at this reporting date.

The earnings position of the NORD/LB Group is affected in the amount of € – 151 million by the deconsolidation and the proportionate profit/loss of Bank DnB NORD A/S in the 2010 financial year.

Subsidiaries, joint ventures and associated companies included in the consolidated financial statements are shown in Note (79) Equity holdings.

## (6) Currency translation

Monetary assets and liabilities in foreign currencies and non-monetary items recognised at fair value were translated at ECB reference exchange rates as at 31 December 2010. Non-monetary items carried at cost are recognised at historical rates. Expenses and income in foreign currencies are translated at market exchange rates. Currency differences relating to monetary items are always shown in the income statement; non-monetary items are recognised through profit or loss or using the equity method in accordance with reporting the profits or losses of such items.

The assets and liabilities of foreign subsidiaries with a currency other than the euro were translated at ECB reference exchange rates as at 31 December 2010. With the exception of the revaluation reserve (closing rate method) and the profit for the year, equity is translated at historical currency rates. Income and expenses are translated into the Group currency at period-average exchange rates; resulting translations are reported as a separate item in consolidated equity. On disposal, the cumulative amount of exchange differences is included in the gain or loss on disposal.

## (7) Financial instruments

A financial instrument is defined as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are reported accordingly in the NORD/LB Group. They are allocated to valuation categories and measured according to this classification in accordance with IAS 39 requirements.

The financial instruments contain financial guarantees in accordance with the definition of IAS 39.

### a) Addition to and disposal of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to a contract in accordance with the contractual provisions of the financial instrument. In the case of the regular cash purchases or cash sales of financial assets, the date of trade and the date of settlement generally do not fall on the same date. These regular cash purchases or cash sales bear the option of recognition as at the date of trade (trade date accounting) or as at the date of settlement (settlement date accounting). Trade date accounting applies for the recognition and disposal of all financial assets transacted by the Group.

IAS 39 disposal regulations comply with both the concept of risk and reward and of control; measuring risks and rewards should be given priority over measuring the transfer of control on verifying derecognition entries.

The continuing involvement approach is employed when opportunities and risks are only partly transferred and control is retained. In this case a financial asset is recognised to the extent equivalent to its continuing involvement on consideration of certain accounting policies. The extent of continuing involvement is determined by the scope in which the Group continues to bear the opportunities and risks of changes in the values of the assets transferred.

A financial liability (or part of a financial liability) is derecognised when the liability has been eliminated, i.e. when the liabilities specified in the contract have been settled or eliminated or if they have expired. The reacquisition of the bank's own debt instruments is also included in the derecognition of financial liabilities. Differences between the carrying amount of a liability (including premiums and discounts) and the purchase price are recognised through profit or loss; a new financial liability whose cost of acquisition is equivalent to the sales proceeds will arise in the case of resale at a later date. Differences between these new costs of acquisition and the amount repaid are spread over the remaining term of the debt instrument in accordance with the effective interest method.

### b) Categorisation and measurement

Fair value is applied when financial assets and financial liabilities are recognised for the first time. The net method is applied for financial guarantees reported in the NORD/LB Group. For financial instruments in the categories Loans and Receivables (LaR), Held to Maturity (HtM), Available for Sale (AfS) and Other Liabilities (OL), transaction costs are included in the cost of acquisition if they are directly apportionable. They are accounted for in the nominal value or the repayment amount on distribution of premiums and discounts in compliance with the effective rate of interest component. Transaction costs for financial instruments in the categories financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Subsequent measurement of financial assets and financial liabilities is contingent on the IAS 39 category under which the assets or liabilities had been classified on the date of acquisition:

ba) Loans and Receivables (LaR)

Non-derivative financial assets involving fixed or determinable payments which are not listed in an active market are allocated to this category provided that they have not been classified as financial assets at fair value through profit or loss or available for sale. The loans and receivables category is the largest in the Group since this category essentially comprises all traditional credit and loan transactions. Subsequent measurement is at amortised cost applying the effective interest method. The recoverability of loans and receivables (LaR) is verified and they are written down if necessary on each balance sheet reporting date and in the event of indications of potential impairment losses cf. Notes (8) Risk provisions and (22) Loan loss provisions and (26) Profit / loss from financial assets). Appreciations in value are recognised through profit or loss. The upper limit for appreciations in value is the amortised cost which would have resulted at the date of measurement without impairment losses.

bb) Held to Maturity (HtM)

Non-derivative financial assets involving fixed or determinable payments and a fixed term are classified in this category if they are intended to be held until maturity. They may be allocated if the financial instruments are not classified as financial assets at fair value through profit or loss (AFV), as available for sale (AfS) or as loans and receivables (LaR). Subsequent measurement is at amortised cost applying the effective interest method. The held to maturity category is currently not employed in the NORD/LB Group.

bc) Financial Assets or Financial Liabilities at Fair Value through Profit or Loss (AFV)

This category is divided into two sub-categories:

i) Held for Trading (HfT)
This sub-category comprises financial instruments (trading assets and trading liabilities) acquired with the intention of gaining profits from short-term acquisitions and sales and contains all the derivatives which do not constitute collateral instruments within the scope of hedge accounting. Trading assets essentially comprise money market instruments, bonds and debt securities and derivatives with a positive fair value. Trading liabilities mainly comprise derivatives with a negative fair value and delivery obligations resulting from futures sales. Trading assets and trading liabilities are recognised at fair value through profit or loss upon subsequent measurement. There is no amortisation at constant effective interest rates of premiums and discounts.

ii) Designated at Fair Value through Profit or Loss (DFV)
Any financial instrument can be allocated to this sub-category, known as a fair value option, provided that certain requirements are met. Exercising the fair value option means that recognition and measurement mismatches resulting from different measurement methods for financial assets and liabilities is avoided or significantly reduced (for example, by presenting economic hedges of structured bond issues and corresponding derivatives without having to fulfil the restrictive requirements of hedge accounting). Allocation to this category also meant that embedded derivatives in structured products do not need to be separated. The category was used in some cases because the management and measurement of the performance of a portfolio is at fair value. More information on the type and the scope of application of the fair value option in the Group is presented in Note (35) Financial assets at fair value through profit or loss and in Note (49) Financial liabilities at fair value through profit or loss. Financial instruments measured using the fair value option are recognised in the respective balance sheet items and are measured at fair value through profit or loss upon subsequent measurement. There is no amortisation at constant effective interest rates of premiums and discounts.

bd) Available for Sale (AfS)
Any non-derivative financial assets which have not been assigned to any of the aforementioned categories are allocated to this category. These assets are primarily bonds, debt securities, shares and investments which are not measured in accordance with IAS 27, IAS 28 or IAS 31. Subsequent measurement was at fair value. Measurement is at cost if the fair value of financial investments in equity instruments such as certain shares or investments for which no price is available on an active market (and the relating derivatives) cannot be determined with sufficient reliability. The result of measurement at fair value is recognised using the equity method in a separate equity item (revaluation reserve). In the event of the sale of the financial asset, the accumulated estimated profit/loss reported in the revaluation reserve is written back and reported in the income statement.

Rating-induced impairment is only carried out in the case of permanent impairment. The occurrence of rating-induced impairment is examined on the basis of specific objective factors. Objective factors in this context are the trigger events listed in IAS 39, for example significant financial difficulty of the issuer or the obligor or a breach of contract or default or delay in interest or principal payments. In addition to the criteria of permanence, a measurable decrease in the fair value of equity securities to below the acquisition cost is an objective indication of impairment.

In the case of rating-induced impairments, the difference between cost and current fair value must be recognised in the income statement. Appreciations in the value of debt capital instruments are reported through profit or loss in the income statement and appreciations in the value of equity instruments are recognised using the equity method unless they are measured at acquisition cost. With equity instruments differences between the cost of acquisition and repayment amounts are amortised in recognition of profit or loss on application of the effective interest method.

be) Other Liabilities (OL)
This category includes in particular liabilities to banks and customers, securitised liabilities and subordinated capital provided that these liabilities have not been designated at fair value under the fair value option. Subsequent measurement is at amortised cost applying the effective interest method.

The carrying amounts and gains/losses for each measurement category are presented in notes (56) and (57).

**c) Reclassification**

In accordance with the regulations of IAS 39 financial instruments in the HfT (trading assets) and AfS categories are allowed to be reclassified to the LaR category under certain circumstances. The NORD/LB Group did not make use of this right to reclassify.

**d) Establishing fair value**

In the NORD/LB Group the three-tier fair value hierarchy is applied with the Level 1 (Mark to Market), Level 2 (Mark to Matrix) and Level 3 (Mark to Model) terminology provided for in IFRS 7.

The respective level is determined by the input data used in the measurement and reflects the market proximity of the variables included in establishing the fair value.

Under the fair value hierarchy, a financial instrument is categorised in Level 1 if it is traded on an active market and is used to establish the fair value of publicly listed market prices or prices actually traded on the OTC market. If no market prices or prices actually traded on the OTC market are available, in the Level 1 measurement the prices quoted by dealers are used for measurement purposes, with prices quoted by other banks or market makers being applied when price sources other than stock exchange quoted prices are used.

In the event that no price quotes are available, the fair value is calculated by means of recognised measurement methods or models as well as by means of external pricing services, if measurement in this case is carried out either fully or in part with spread curves (Level 2). These valuation parameters are significant for establishing the fair value.

For the measuring of financial instruments, these methods include measurement methods which are established on the market (e.g. discounted cash flow method and the Hull-White model for options) whose calculations are always based on input parameters available on the market. A requirement here is that variables which market participants would have taken into account when specifying prices are included in the measurement process. Wherever possible, respective parameters are taken from markets on which the instruments are issued or acquired.

Measurement models are employed primarily for OTC derivatives and securities listed on inactive markets. Various parameters are applied for the models, for example market prices and other market quotations such as volatility and market liquidity. A standard market method is always applied if estimations are required in given cases, if need be when option price models are used.

Market data which forms the basis of risk controlling is applied for these Level 2 measurements. For discounted cash flow methods, all payments are discounted by the risk-free interest rate curve adjusted for the credit spread of the counterparty. Spreads are determined on the basis of comparable financial instruments (for example on consideration of the respective market segment and the issuer's credit rating).

For financial instruments for which there was no active market on 31 December 2010 and for which measurement can no longer be based on market prices, fair value is determined for measurement purposes in accordance with a mark-to-matrix method that is based on discounted cash flows.

The financial instruments in the NORD/LB Group to be measured in this manner are ascertained on the basis of individual securities and a subsequent separation into active and inactive markets. Changed market assessments are consistently included in measurement.

In this case the measurement model for financial instruments on inactive markets is based on term-related interest rates, the credit rating of the respective issuer and an adequate return on capital employed.

Among other things the method uses the ratings of the respective counterparties as parameters. If they are taken from publicly available sources, the financial instruments measured in this way are allocated to Level 2.

Financial instruments for which there is no longer an active market and for which measurement can no longer be based completely on observable market parameters are allocated to Level 3. Accordingly financial instruments are allocated to Level 3 if the method uses the NORD/LB Group's internal ratings based on the Internal Ratings-Based Approach. This is the case regardless of whether the internal data for the regulatory eligibility check was gauged using data from publicly available ratings which form the basis of pricing decisions by market participants.

In comparison and in differentiation to Level 2 measurement, this method employs models specific to the bank and also data which is not observable on the market. The share of these parameters is restricted as far as possible and the inclusion of market-related data is given preference, i.e. basic signals from the market which are observed on the reporting date are included in the method.

The Level 3 method is essentially used to measure the Group's CDS and ABS/MBS portfolios for which the market has been classified as being inactive. In addition to this, further interest-bearing securities are allocated to Level 3 if they are measured using the approach based on internal ratings.

Individual CDO tranches are also measured in accordance with Level 3.

All measurement models applied in the Group are reviewed periodically.

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Notes (55) and (59).

### e) Measurement of investments which do not fall under IAS 27, IAS 28 or IAS 31

Investments which do not fall under IAS 27, IAS 28 or IAS 31 are measured at fair value. If the fair value of financial investments in equity instruments which do not have a listed price on an active market cannot be reliably established, they are measured at acquisition cost (cf. Note (59) Fair values of financial instruments).

If investments are traded on an active market, the market/stock exchange price is used to determine the fair value. If it is not possible to use prices listed on active markets, the fair value is established using recognised measurement methods. In addition to the peer-group method, the NORD/LB Group also uses the income-value method. This method is allocated in the fair value hierarchy in accordance with IFRS 7 to Level 3 (cf. Note (55) Fair value hierarchy).

The fair value is calculated in the income-value method from the present value of the shareholders' future net earnings associated with the ownership of the company.

The net earnings of shareholders, which are discounted to calculate the income value, relate primarily to the distributions of financial profits generated by the company. The starting point for calculating the fair value of the investment is a forecast of growth in earnings for 2010, a detailed plan for 2011 and where applicable the medium-term plan for the following four years (planning phase I). For the following years beyond the planning horizon in general perpetuity of the undertaking is assumed. For this purpose a perpetual annuity is calculated which should reflect the long-term situation of the affiliated company (planning phase II). These anticipated future profits are discounted taking into account the anticipated distributions on the balance sheet date.

The discount rate used represents the yield from an adequate alternative investment in respect of maturity and risk to the investment in the affiliated company and is derived on the basis of a capital market model. The discount rate comprises the components of risk-free interest and the risk premium for future financial profits. The risk premium is the product of an average market risk premium and the beta factor which expresses the specific risk structure of the company to be valued. The beta factor describes as a relative measure to what extent the yield of the respective share in the affiliated company follows changes in the yield of the market portfolio.

In order to value investments in companies which are not listed on the stock exchange, comparison groups of similar titles traded on the stock exchange are formed and for each individual value the beta is calculated in relation to the respective broadest national index. In brief, the beta factor of the comparison group calculated in this way is a significant multiplier used when calculating the capitalisation interest.

### f) Structured products

Structured products comprise two components – a basic contract (host contract, e.g. security) and one or several embedded derivative financial instruments (embedded derivatives, e.g. swaps, futures or caps). The two components are the subject matter of a single contract relating to the structured product, i.e. these products constitute a legal unit and may not be negotiated separately due to the circumstance of a contractual unit.

In accordance with IAS 39 an embedded derivative is to be separated from the host contract and accounted for as a separate derivative provided that all of the following criteria are fulfilled:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate instrument with the same terms as the embedded derivative financial instrument would meet the definition of a derivative financial instrument.
- The structured product is not measured at fair value through profit or loss.

If separation of financial instruments is obligatory these financial instruments are measured and recognised separately in the Group – provided they have not been classified as aFV. The host contract is accounted for in compliance with the regulations of the category to which a financial instrument is allocated and embedded derivatives are accounted for at fair value through profit or loss as part of the trading assets or trading liabilities.

#### g) Hedge accounting

Hedge accounting is the balance sheet presentation of hedging relationships. In this framework, hedging relationships are established between underlying items and hedging transactions. The aim is to avoid or reduce fluctuations in profits and equity resulting from differing measurements of underlying and hedging transactions.

A distinction is made between three basic forms of hedges, each needing to be handled differently in hedge accounting. The fair value hedge involves the hedging of (parts of) assets and liabilities against changes in fair value. In particular investment and lending transactions in the Group as well as the security portfolios under liquidity control, provided that the securities bear interest, are subject to this type of risk in changes to value. Both individual transactions and portfolios are hedged by fair value hedges. Currently the fair value is only hedged against interest rate risk. Interest rate swaps and currency swaps are mainly used to hedge these risks.

The two other basic forms, the cash flow hedge and the hedge of a net investment in a foreign operation, are currently not used in the Group.

Only hedging relationships which have fulfilled the restrictive requirements of IAS 39 may be reported in accordance with the regulations of hedge accounting. Hedge accounting requirements, in particular evidence of the effectiveness of the hedge transaction, must be met for each hedging relationship on each balance sheet reporting date. Critical term matching, the market data shift method and the regression method are applied in the Group for the prospective conducting of effectiveness tests. The modified dollar offset method is used for retrospective effectiveness tests. This method takes account of the problem of small numbers in the case of minor changes in the value of underlying transactions and hedges by means of an additional tolerance limit.

In accordance with the fair value hedge accounting rules, derivative financial instruments used for hedging purposes are reported at fair value as positive or negative fair values from hedge accounting (Note (36) and Note (50) Positive and negative fair values from hedge accounting derivatives). Amendments to measurement are reported through profit or loss (Note (25) Profit/loss from hedge accounting). Changes in fair value resulting from the hedged risk of hedged assets or hedged liabilities must also be recognised through profit or loss in the profit/loss from hedge accounting item.

When employing hedge accounting for financial instruments in the annual financial statements category, the portion of any change in fair value relating to hedged risks is recognised in profit or loss as profit / loss from hedge accounting, while the portion of a change in fair value which is not related to the hedged risk is accounted for in the revaluation reserve.

Changes in the fair value of underlying liability-side transactions related to the hedged risk are reported on the liabilities side of the balance sheet in the adjustment item for financial instruments hedged in the fair value hedge portfolio. Underlying transactions relating to AfS items carried as assets continue to be reported at their full fair value under financial assets. There are currently no assets under the AfS category in the fair value hedge portfolio.

In micro hedge accounting, financial instruments measured at amortised cost are adjusted in the balance sheet item by the change in fair value resulting from the hedge risk (hedge adjustment).

A hedge relationship is terminated when the basic transaction or the hedging transaction expires, is sold or exercised or when hedge accounting requirements are no longer fulfilled; for underlying transactions in effective hedges cf. Note (61).

### h) Securities sale and repurchase agreements and securities lending

The transfer of securities assigned for sale or re-purchase in genuine security sale and repurchase agreements (repo transactions) does not result in derecognition of such securities since the transferring company essentially retains all the risks and rewards relating to ownership of the assigned item. The asset transferred must therefore still be reported by the transferor and measured according to its respective category. Payment received is carried as a financial liability (in liabilities to banks or liabilities to customers, depending on the counterparty). Interest payments agreed are reported as interest expenses over the respective terms.

Reverse repo transactions are reported accordingly as loans and advances to banks and customers and are allocated to the LaR category. Securities for sale and repurchase which constitute the basis of the financial transaction are not reported in the balance sheet. Interest resulting from such transactions is reported as interest income over the respective term.

Security sale agreements with a repurchase option were not concluded in the Group.

Principles which apply for reporting genuine repurchase transactions also apply for securities lending transactions. Securities lent are reported as security portfolios and measured in accordance with IAS 39, while borrowed securities are not reported. Cash collateral pledged for security lending transactions is reported as a claim and cash collateral received is reported as a liability.

With regard to the scope and the volume of security sale and repurchase agreements and securities lending transactions, we refer to Note (64) Security sale and repurchase agreements and securities lending.

### i) Securitisations

Various financial assets relating to lending business are securitised either in synthetic securitisation using credit derivatives or by non-recourse factoring to special purpose entities (SPEs), which in turn issue securities to investors (true sale securitisation). Interest and capital repayments resulting from such securities are directly linked to the performance of the underlying claim, and not to that of the issuer.

The accounting of such transactions depends on the method of securitisation. Assets relating to synthetic securitisation remain in the balance sheet and are reported with the credit derivatives concluded in accordance with IAS 39 regulations. In the case of true sale securitisation, the assets are written off if the opportunities and risks relating to these assets have been (virtually) fully transferred to the SPE. With securitisation transactions normally (virtually) all of the opportunities and risks are transferred to the SPE or the buyer. Assets of consolidated SPEs remain in the NORD/LB Group's consolidated balance sheet.

## (8) Loan loss provisions

Risks relating to lending business are accounted for by forming specific valuation allowances, lumpsum specific loan loss provisions and general loan loss provisions.

Recoverability is reviewed for all significant claims at individual transaction level. Risk provisions cover all recognisable credit risks in the form of specific valuation allowances. A valuation allowance is required when observable criteria indicate that it is likely that not all the interest and capital repayments or other obligations will be met on time. The essential criteria for a valuation allowance are for example the default on interest and capital payments or a delay in such payments of more than 90 days and considerable financial difficulties on the part of the debtor. The amount of the specific valuation allowance is calculated as the difference between the carrying amount and the recoverable amount as the present value of future cash flows.

If the criteria for a valuation allowance have been met for claims which are not significant, these claims are concentrated in narrowly defined portfolios with similar risk structures, measured by a standard method and are the subject of an appropriate flat-rate specific valuation allowance. The calculation is made on the basis of historical probabilities of default and loss rates.

To cover impairments which have occurred but have not yet been identified, general loan loss provisions are made. These are calculated on the basis of historical probabilities of default and loss rates, with the portfolio-specific LIP factor (loss identification period factor) also being considered.

The parameters employed in the lumpsum specific loan loss provisions and the general loan loss provisions derived from the Basel II system.

The total amount of loan loss provisions resulting from balance sheet business is recognised as a separate item under assets.

Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision.

Irrecoverable debts for which there is no specific valuation allowance are written off immediately. Payments received for written-off loans and advances are recognised in profit or loss.

Financial assets classified as LaR are only written off directly.

### (9) Property and equipment

Property and equipment are recognised at cost on the date of addition. Property and equipment subject to wear are reported upon subsequent measurement less scheduled straight-line depreciation charged over the useful life. Impairments are charged at the amount at which the carrying amount exceeds the higher amount of fair value less the cost of disposal and value in use of the asset. If reasons for impairment no longer exist, write-ups (appreciations in value) are carried out, but not in excess of the amount of amortised cost. Scheduled depreciation and impairments/write-ups are reported in administrative expenses.

Property and equipment is depreciated over the following periods:

| | Property and equipment is amortised over the following periods: Useful life in years |
|---|---|
| Land and building | 25–50 |
| Operating and office equipment | 3–25 |
| Ships | 25 |
| Other property and equipment | 3–25 |

### (10) Leases

In accordance with IAS 17, leases must be classified as finance or operating leases at the inception of a lease. If significant opportunities and risks associated with ownership are transferred to the lessee, the lease is classified as a finance lease and the leased asset is accounted for by the lessee. If significant opportunities and risks associated with ownership are not transferred to the lessee, the lease is classified as an operating lease and the leased asset is accounted for by the lessor.

#### Finance lease

If the NORD/LB Group is considered to be the lessor, a receivable to the amount of the lessee's payment obligations resulting from the lease is reported at the inception of the lease. The receivable is reported at the net investment value (difference between the gross investment in the lease and finance income not yet realised) and is shown in other loans and advances to banks or loans and advances to customers. Any additional costs incurred are spread over the term of the contract.

Lease payments relating to a finance lease are split into a capital and an interest amount. The capital amount is deducted from loans and advances directly in equity. The interest amount is accounted for as interest income through profit or loss.

Finance lease contracts are only of minor significance for the NORD/LB Group as the lessor.

No finance lease agreements have been concluded with the NORD/LB Group as the lessee.

### Operating lease

If the Group is considered to be the lessee in operating leases, lease payments made are reported as an expense in other administrative expenses. Initial direct costs (for example costs for appraisers) are immediately recognised through profit or loss.

Operating lease contracts are only of minor significance for the NORD/LB Group as the lessee.

No operating lease agreements have been concluded with the NORD/LB Group as the lessor.

## (11) Investment property

Investment property is considered to be land and buildings or parts of buildings held to generate rental income and/or for the purpose of capital appreciation. Properties where more than 20 per cent of the leased floor space is utilised by third parties are examined to determine whether the part used by third parties can be separated. If this is not the case then the whole property is reported in property and equipment.

Investment property is reported at cost on the date of acquisition; transaction costs are included in initial measurement. Subsequent costs are capitalised if they result in a significant improvement in the asset and therefore increase the future economic benefit of the asset.

Scheduled straight-line depreciation is charged upon subsequent measurement of investment property. Impairments are charged at the amount at which the carrying amount exceeds the higher amount of fair value less the cost of disposal and value in use of the asset. If the reasons for impairment cease to exist, impairment losses are reversed, but not above the amortised cost. Scheduled depreciation and impairments/write-ups are reported in administrative expenses.

Investment property is depreciated over a period of 25 to 50 years.

The income value method is used, based on market data, to calculate the fair value of investment property. The valuation is carried out in part by independent experts.

## (12) Intangible assets

Intangible assets which are acquired by the NORD/LB Group are reported at cost of acquisition and internally developed intangible assets are reported at cost of production provided that the criteria for recognition required under IAS 38 are met.

Scheduled straight-line amortisation over the useful life is charged for intangible assets with a finite useful life. Impairments are charged at the amount at which the carrying amount exceeds the higher of fair value less cost of disposal and value in use of the asset for intangible assets with a finite useful life. If the reasons for the impairment no longer exist, write-ups are carried out, but not in excess of the amortised cost. Scheduled depreciation and impairments/write-ups are reported in administrative expenses.

Intangible assets with a finite useful life are amortised over a period of three to five years.

Intangible assets with an indefinite useful life are tested at least once a year (in the fourth quarter) for their recoverability. The value of goodwill is reviewed on the basis of cash generating units (CGUs). Goodwill is allocated to those CGUs in which synergies are expected from the underlying business combination. It has to be considered here at which divisional level the goodwill is to be monitored for internal management purposes. In the NORD/LB Group the existing goodwill is allocated to the CGU Commercial Real Estate Finance, a subdivision of the Real Estate Banking segment. This business segment is primarily responsible as a competence centre for the NORD/LB Group's commercial real estate financing business.

In the recoverability test the recoverable amount for each CGU carrying goodwill is compared with its carrying amount. The recoverable amount of a CGU is basically equal to its value in use. The fair value less the cost of disposal of a CGU is calculated if the carrying amount of a CGU is greater than its value in use. The carrying amount is the capital tied up in the CGU.

A CGU's value in use is calculated using a measurement model which is based on forecasted and discounted annual profits. The annual profits are planned in detail for a period of five years. They are the result of the medium-term plan for the CGU passed by management and therefore form the basis for calculating perpetual annuity. The present value of perpetual annuity is finally modified by a growth discount which takes into account the unit's specific growth expectations and market environment. The respective annual profits are discounted using a risk-adequate after-tax interest rate.

In addition to the medium-term plan, the capitalisation rate is used to determine the market value of the CGU. The discount rate used is calculated on the basis of a modified income-value method. The capitalisation rate is based on a risk-free base interest rate, a market risk premium and a factor for systematic risk, the beta factor. The two interest rates express the unit's expected yield, depending on the current market level and the secured capital costs taking into account the entrepreneurial risk. The beta factor is calculated from the industry-specific comparison group (peer group) identified for the respective unit. It shows the company's changes compared to the other units in the peer group. The discount rate applied to the CGUs in the year under review 2010 is 8.37 per cent.

## (13) Assets held for sale

Non-current assets or disposal groups held for sale whose carrying amounts are realised through a sale and not through operational use are recognised in separate balance sheet items. Such assets are measured at fair value less costs of disposal provided that these costs do not exceed the carrying amount. Non-current assets held for sale are no longer amortised as at the date of reclassification. Impairment losses resulting from non-current assets and disposal groups held for sale are, however, taken into account.

No entire business divisions were discontinued in 2010 or in 2009.

### (14) Provisions for pensions and similar obligations

The NORD/LB Group's company pensions are based on several retirement benefit systems. On the one hand employees acquire an entitlement to a pension through a defined contribution made by the Group to an external pension fund (defined contribution plan). In this case contributions are reported as current expenses on application of IAS 19 financial reporting regulations for defined contribution plans. No pension provisions need to be made.

Employees also acquire entitlements to pensions with defined benefits, dependent on factors such as anticipated wage and salary increases, age, length of service and a forecast pension trend (defined benefit plan). These mainly concern various pension modules, with benefits for reduction in earnings capacity and dependent's pensions also being granted in addition to a retirement pension, depending on the occurrence of the insured event. There are also entitlements to allowance payments.

Different occupational pension schemes are in place in the NORD/LB Group, with commitments based on collective bargaining employment agreements or on individual contractual commitments. Significant occupational pension schemes in this case are the total benefit commitment according to German civil service law, the benefit ordinance from 1973 and the benefit ordinance from 2000. The accounting regulations according to IAS 19 for defined benefit plans are applied for these retirement benefit schemes.

The components of the provisions for pensions to be recognised through profit or loss comprise service costs and interest costs on the present value of the liability. In this case anticipated net income from the plan assets reduces the pension expenditure. Furthermore a service cost to be subsequently settled is to be recognised through profit or loss if necessary. Interest expenses and anticipated earnings from plan assets are shown in net interest income.

The NORD/LB Group reports the full amount of actuarial gains and losses using the equity method in order to prevent the repayment of actuarial gains or losses which have not yet been accounted for through profit or loss from decreasing or increasing pension expenditure. Actuarial profits accumulated in equity in accordance with IAS 19.93A amount to € 411 million (€ 429 million) before taking into account deferred taxes and minority interests. Disposals in the year under review amount to € 18 million.

Pension obligations from defined benefit plans are calculated by independent actuaries as at the balance sheet date in accordance with the projected unit credit method. For the purpose of calculation, the discount rate for first-class industrial securities and anticipated future salary and pension increase rates are taken into account in addition to biometric assumptions.

The following actuarial assumptions serve as a basis for domestic and foreign calculations:

| (in %) | Actuarial assumptions |
|---|---|
| **Domestic** | |
| Actuarial interest rate | 5.25 |
| Increase in salaries | 2–2.38 |
| Increase in pensions (contingent on the occupational pension scheme) | 1–3.50 |
| Cost increase rate | 4.50 |
| Mortality, invalidity, etc. | Based on Heubeck 2005G mortality tables |
| Anticipated plan asset yield | 3.62 |
| **Abroad (weighted parameters)** | |
| Actuarial interest rate | 5.30 |
| Increase in salaries | 3.42 |
| Increase in pensions | 3.28 |
| Mortality, invalidity, etc. | USA 1994 GAM<br>GB AxC00 and PxCA00<br>Luxembourg Grand Ducal regulation of 15 January 2001 |
| Anticipated plan asset yield | 5.27 |
| Inflation | 3.04 |

## (15) Other provisions

Other provisions are established in accordance with IAS 37 and IAS 19 for uncertain liabilities to third parties and anticipated losses on pending transactions if utilisation is likely and if its amount can be reliably determined. Provisions are measured as the best estimate. This is based on the assessment of management taking into account empirical values and, if necessary, experts' reports or opinions. Risks and uncertainties are taken into account. Future events which may influence the amount required to meet an obligation are only included if there are objective indications of their occurrence. Provisions are discounted if the effect is material.

## (16) Insurance contracts

Insurance contracts are recognised in current balance sheet and income statement items. Where these significant components of a balance sheet and income statement item refer to sector-specific insurance contracts, information is presented in the corresponding notes. Reference is made in particular to information in Notes (23), (29), (44), (51) and (53). Insurance company investments that fall within the scope of application of IAS 39 are recognised in accordance with accounting policies which apply for the entire Group. Investments for the account and risk of holders of life insurance policies are reported at fair value through profit or loss.

In accordance with IFRS 4.13, insurers may temporarily report insurance items in accordance with the previously applied accounting regulations. Provisions relating to insurance are therefore reported and measured in accordance with commercial law in keeping with IFRS 4.25. For consolidated insurers, this law is German commercial law, notably § 341a to § 41n of the German Commercial Code (HGB), the German Law Regulating Insurance Companies (VAG) and the German Insurance Accounting Ordinance (RechVersV). In contrast to the German Commercial Code, the creation of an equalisation provision or similar provision is not allowed according to IFRS.

The application of German accounting principles to measure insurance obligations in accordance with IFRS 4 also involves the principle of prudence. In this case, in the event of uncertainty concerning the amount of a value, the tendency is to include a conservative value instead of the most probable value. This ensures that when values are determined in accordance with German commercial law, liability adequacy tests in accordance with IFRS 4.14 (b) will already have been performed.

Premium surpluses for insurance contracts concluded directly have been calculated in accordance with the 360th system in accordance with the communication of the German Federal Finance Ministry of 30 April 1974. Reinsurer shares are taken from their calculation. Premium surpluses for insurance contracts taken over as reinsurance are assumed in accordance with the functions of the previous insurance company.

Actuarial reserves for insurance contracts concluded directly, including the relevant share in surpluses and the corresponding claims on policy holders, are calculated on an individual contract basis with implicitly calculated costs for each insurance contract. With the exception of unit-linked life insurance and annuity insurance policies, prospective methods are applied here. Calculations of bonus and administrative cost provisions for existing and new contracts are based on the same accounting principles as for the relevant primary insurance policy. The biometric accounting principles employed have been derived from Deutsche Aktuarvereinigung e.V. (German Association of Actuaries) and comply with requirements of the General Equal Treatment Act (AGG).

In insurance contracts directly concluded, individual provisions for unsettled insurance claims are created for each reported insurance claim and adjusted if necessary if new findings are made. Long-tail claims are reported globally on the basis of statistical measurement methods. Reinsurer shares were taken over from their calculation. A corresponding provision is established for redemptions in the case of paid-up and cancelled insurance policies. The provision for business assumed as reinsurance is reported in accordance with the functions of the previous insurance company. Some of the values stated are estimates due to the late submission of final accounts.

The provision for the reimbursement of premiums contains amounts which have been provided for future distribution to policy holders in accordance with the law or the statutes. Calculations for final surplus share funds contained in provisions for the reimbursement of insurance contributions are prospective and have all been calculated on an individual contract basis. Amounts resulting from temporary differences between conclusions according to IAS/IFRSs and those according to German commercial law are proportionately allocated to a deferred provision for the reimbursement of insurance contributions.

Insofar as the investment risk is borne by policy holders, the retrospective method is applied for calculating the value of insurance provisions in life insurance from the current investment units of the individual insurers in the corresponding item on “Investments for the account and risk of holders of life insurance policies”.

Financial assets and liabilities specific to insurance held in the Group are accounted for in accordance with IFRS 4. These are net deposit receivables and payables from lending and deposit reinsurance business, amounts receivable and amounts payable from reinsurance business and amounts receivable and amounts payable under direct insurance contracts. These items are all netted at their nominal value. Any allowances required for receivables from insurance contracts concluded directly are reported in loan loss provisions.

### (17) Income taxes

Current income tax assets and tax liabilities were calculated at currently valid tax rates to the amount expected to be received from/paid to the respective tax authority or to the amount of tax refunds expected to be received from the respective tax authority.

Deferred tax assets and tax liabilities are calculated on the basis of the difference between the carrying amount of an asset or a liability in the balance sheet and the corresponding tax value. In this case, deferred tax assets and tax liabilities will probably result in effects which increase or reduce income tax in future periods due to temporary differences. They were measured on the basis of tax rates expected to be valid in the period in which an asset is realised or an obligation is met. In this case tax rates (and tax regulations) which are valid for individual companies on the balance sheet date or which have been resolved by the reporting date are applied.

Deferred tax income for carrying forward tax losses not yet utilised and tax credits not yet utilised is only reported to the extent that it is probable that taxable future income will be available for applying tax losses not yet utilised and tax credits not yet utilised.

Current income tax assets and tax liabilities as well as deferred tax assets and tax liabilities are offset when requirements for netting are met. They are not discounted. Depending on the handling of underlying circumstances, deferred tax assets and tax liabilities are reported either through profit or loss or using the equity method.

Income tax assets and income tax liabilities are shown separately in the balance sheet and separated into actual and deferred assets and liabilities for the year under review. The carrying amount of deferred tax asset is reviewed for recoverability as at every balance sheet date.

Taxes on earnings or income tax proceeds are recognised in the income tax item in the consolidated income statement.

### (18) Subordinated capital

The subordinated capital item comprises secured and unsecured subordinated liabilities, participatory capital and silent participations. A major proportion of silent participations must be classified as debt in accordance with regulations specified in IAS 32 due to contractual cancellation rights; under the German Commercial Code silent participations always qualify as equity. For regulatory purposes in accordance with the German Banking Act, they are primarily recognised as liable equity.

Subordinated capital is reported at amortised cost. Premiums and discounts are distributed over the term in accordance with the effective interest method and are recognised through profit or loss in net interest income. Deferred interest not yet due is allocated directly to the corresponding items in subordinated capital.

# Segment reporting

The segment reporting provides information on the business areas of the Group. Further information on the figures and their interpretation can be found in the Group management report under “Development of the Business Segments”. The segment reporting below is based on IFRS 8 “Operating segments”, which follows the “management approach”. The segment information is presented on the basis of internal reporting in the same way that it is reported internally on a regular basis for assessing performance and making decisions on the allocation of resources to the segments. In the segment reporting adjustments of figures for the previous year are taken into account (cf. Notes (3) Adjustment of figures for the previous year).

## Segment reporting by business segment

The segments are defined as customer or product groups which reflect the organisational structures and therefore the internal control of the Group. Calculations are based on the internal data of Group member companies. The internal control focuses on the operational units’ earnings before tax.

An important criterion for the formation of segments is the greatest possible homogeneity of the customers aggregated in the segment in relation to financing and investment requirements and the products demanded. It is not possible to recognise dependencies on individual customers. The product ranges offered in the segments are described below and the earnings generated are shown in the overview. Aggregation currently does not take place at product level in the Group due to the different product definitions in the Group. The product range offered comprises traditional lending business and syndicate business, savings and giro products, securities, currency and derivative transactions, complex structured financing solutions, private banking products, liquidity and risk management, mergers and acquisitions, services such as accounting management, payment transactions, securities business, brokering, documentary business, credit processing, sureties, guarantees and advisory services for asset management.

Net interest income generated by the individual segments is calculated on the basis of the market interest rate method. In the process the contribution from the interest rate conditions for each customer transaction is calculated by comparing the customer conditions with the structure-congruent market interest rate for a fictitious counter transaction applicable at the time the transaction is completed. This market interest rate is at the same time the cost value for the Treasury division’s balancing provision.

Segment expenditure comprises primary expenses plus expenses allocated on the basis of cost and service allocations. Loan loss provisions are allocated to segments on the basis of actual costs incurred. Overall bank revenue, such as net interest received from equity employed, general loan loss provisions, profit/loss from hedge accounting and overhead costs, is not allocated to the operational profit centres of the bank but to the segment “Group controlling/others”.

In addition to figures relating to the statement of operating results, the segment report also shows risk-weighted assets to be allocated on the basis of regulatory provisions, segment assets and liabilities, core capital employed, the cost income ratio (CIR) and return on equity (RoE). The cost-income ratio is defined as the ratio between administrative expenses and the sum total of the following income items: net interest income, net commission income, profit/loss from financial instruments at fair value, profit/loss from hedge accounting, profit/loss from investments accounted for using the equity method and other operating profit/loss.

RoRaC calculations in the segments include the contribution to income after risk provisions and valuation on committed capital (here five per cent of the higher value of the RWA limits and the amount called on). Calculation of the return on equity at Group level complies with the standard international definitions of financial ratios and refers to earnings before taxes (less interest expenses for silent investments in reported equity) on long-term equity under commercial law (share capital plus capital reserves, retained earnings and minority interests less silent investments in reported equity).

A capital charge of five per cent of risk-weighted asset values is used to calculate the capital employed in the segments. These are based on regulations pertaining to German solvency regulations. Capital tied up in the segments is calculated on the basis of average annual figures. The reconciliation figure for the tied-up capital reported in the segments and the long-term equity in the Group in accordance with commercial law is included in the segment reconciliation. A transfer from long-term equity under commercial law to equity reported in the balance sheet is shown separately at the end of the segment overview.

The NORD/LB Group has revised its business model against the background of changes in general and market conditions and to sharpen its focus on customer potential. As a result the structure and the number of segments which are subject to reporting have changed. The following segments are reported by business segment in the segment reporting (the previous year's figures were adjusted accordingly):

## Private and Commercial Customers

As well as business with private, individual, commercial and small-business customers, this business segment includes middle-market corporate customer business in the Braunschweig region. It also includes the business conducted by Öffentliche Lebensversicherung Braunschweig and Öffentliche Sachversicherung Braunschweig, including restricted funds, and the share of the profit/loss accounted for using the equity method from DnB NORD.

The product range for the segment private and commercial customers is based on the savings bank finance concept in comprises all of the usual banking services and products for account and lending business, savings and investment business and the provision of internet banking and direct brokerage. Extended services for wealthy private customers range from the integrated advisory approach of asset structure analysis, financial planning, asset succession and inheritance and foundation management. The product range also includes investment loans and start-up advice for the middle-market company business.

## Savings Bank Network

In the business segment Savings bank network transactions with the public sector, institutional business with associated savings banks and syndicated business transacted with associated savings banks are reported. Products and services are offered which the savings banks require as direct customers for their own trading business or to complete their product range in their own business with private or corporate customers. This includes the offer of all kinds of securities, currencies and derivatives as well as special kinds of debt securities which are not standardised in respect of their interest and repayment, but instead offer alternatives in respect of returns and the type or time of repayment (structured securities). These may also be designed in accordance with the savings banks' specifications. The product range also includes private banking products for the savings banks, such as investment products in the form of for example open or closed funds with assets in German or foreign real estate, ships or aircraft, products for individual asset management or inheritance or foundation management.

**Financial Markets/Institutional Customers**
This segment mainly includes the following divisions of the bank in Germany, in the foreign branches and in the Group companies: Markets, Corporate Sales, Portfolio Management & Solutions, Portfolio Investment and Treasury. The financial markets business segment also includes NORD/LB COVERED FINANCE BANK S.A., Luxembourg, and NORD/LB Asset Management Holding GmbH, Hanover, including investments and allocated special funds and public funds.

In addition to standard products, alternative products which are detached from retail banking including derivatives are offered. For example structured debt securities which offer various alternatives in respect of returns or type of repayment are included. The Financial Markets segment gears its product range and its sales towards demand and the needs of its customers. In the secondary business all kinds of securities are sold and traded. Tailored solutions for institutional customers such as for example the structuring of special funds, pool funds solutions, portfolio management mandates and institutional public funds are also offered.

**Corporate Customers**
The Corporate Customers segment includes all of the NORD/LB AöR business conducted with corporate customers in the core regions (excluding the Altes Braunschweiger Land region) and in neighbouring regions, and in particular agricultural banking, residential housing and the business of Skandifinanz Bank AG, Zurich. As a full-service provider, banking products and banking services are offered. The services include traditional transaction management, tailored business financing, management of interest and currency risk and solutions for company pension schemes. In the Corporate Customers segment comprehensive solutions are developed for complex business financing and for the strategic positioning of corporate customers. This division also provides its customers with a professional, conceptual liquidity and risk management, measures for the structuring of equity and innovative financing instruments.

In the Energy and Infrastructure Customers, Ship and Aircraft Customers and Real Estate Banking Customers segments traditional lending products and innovative products such as for example asset-backed securities transactions and financial engineering are generally offered irrespective of the respective industry. This primarily concerns financing for specific purposes.

**Energy and Infrastructure Customers**
This segment summarises the global business relations of the Group companies NORD/LB AöR and Bremer Landesbank in the Infrastructure, Energy (in particular renewable energy) and Leasing divisions. Primarily project financing which is related to a specific project or asset is offered and accordingly tailored to meet the respective individual need. The structure of this financing is developed taking into account the respective political and economic risks, legal and task factors, social determinants and optimal equity structures. The aim is to tailor project requirements and cash flows to the respective customers.

**Ship and Aircraft Customers**
In this segment the national and international activities of NORD/LB AöR and Bremer Landesbank in ship and aircraft financing are reported. The customers of the Ship and Aircraft Customers segment are offered if needed short to long-term financing, such as equity pre-financing, interim finance, construction period finance (short and medium term) and financing to completion (long term). Ships or aircraft are financed by the provision of loans or guarantees on a property-related and normally property-secured basis. Products such as for example swap, option, future or forward transactions complete the product range.

### Real Estate Banking Customers

Here NORD/LB AöR and Deutsche Hypo's national and international financing of commercial real estate and Bremer Landesbank's financing of community interest properties are aggregated. This normally concerns structured financing for large-volume commercial real estate projects and portfolios in Germany and abroad. Both interim finance for new construction projects and long-term loans for existing properties are offered.

### Group Controlling / Others

This segment covers all other performance data directly related to the business activity, Group companies not included in the segments, performance elements at group level which are not allocated to the segments, costs of the corporate and service centres which have not been allocated and consolidations.

### Reconciliations

Here the reconciliation items from internal accounting for the consolidated figures in the income statement are shown. The shortfall in the regulatory capital requirement is converted into risk-weighted assets within internal reporting and assigned to the operational units; the adjustment item resulting from the regulatory risk-weighted assets report flows into the reconciliation.

### Regions

The profit, segment assets and segment liabilities are allocated regionally based on the respective location of the branch or Group company. Consolidation issues are shown separately.

## (19) Segment reporting by business segment

| 31 December 2010 (in € million) | Private and Commercial Customers | Savings Bank Network | Financial Markets/Institutional Customers ***) | Corporate Customers | Energy and Infrastructure Customers | Ships and Aircraft Customers | Real Estate Banking Customers | Group Management/Others | Reconciliations | NORD/LB Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income before loan loss provisions | 293 | 63 | 511 | 223 | 157 | 368 | 248 | – 98 | – 115 | 1 650 |
| Loan loss provisions | 10 | 16 | 10 | 68 | 53 | 180 | 114 | 205 | 1 | 657 |
| **Net interest income after loan loss provisions** | **283** | **47** | **501** | **155** | **104** | **188** | **134** | **– 303** | **– 116** | **993** |
| Net commission income | 33 | 16 | 50 | 29 | 55 | 67 | 27 | – 55 | – 12 | 210 |
| Profit/loss from financial instruments at fair value | 7 | 7 | – 318 | 9 | 2 | 18 | 1 | 142 | 80 | – 52 |
| Profit/loss from hedge accounting | – | – | – | – | – | – | – | 151 | 2 | 153 |
| Profit/loss from financial assets | 1 | – | – 3 | – | – | – | – | 87 | – 3 | 82 |
| Profit/loss from investments accounted for using the equity method | – 149 | – | 3 | – | – | – | – | 18 | – | – 128 |
| Administrative expenses | 326 | 52 | 150 | 71 | 42 | 45 | 67 | 299 | 18 | 1 070 |
| Other operating profit/loss | 80 | 1 | 10 | – | – | 2 | – | 14 | – 59 | 48 |
| **Earnings before taxes (EBT)** | **– 71** | **19** | **93** | **122** | **119** | **230** | **95** | **– 245** | **– 126** | **236** |
| Taxes | – | – | – | – | – | – | – | – | – | – |
| **Consolidated profit** | **– 71** | **19** | **93** | **122** | **119** | **230** | **95** | **– 245** | **– 126** | **236** |
| Segment assets | 11 954 | 27 447 | 141 361 | 14 172 | 14 168 | 26 662 | 21 961 | – 25 785 | – 3 354 | 228 586 |
| of which: investments at equity | – | – | 32 | – | – | – | – | 370 | – | 402 |
| Segment liabilities | 10 048 | 5 627 | 198 415 | 7 921 | 4 159 | 3 924 | 12 586 | – 26 051 | 11 957 | 228 586 |
| Risk-weighted assets | 5 167 | 1 761 | 21 909 | 10 721 | 8 967 | 34 840 | 21 396 | 4 595 | – 22 506 | 86 850 |
| Capital employed *) | 411 | 88 | 1 098 | 536 | 448 | 1 742 | 1 070 | 74 | – 625 | 4 842 |
| CIR | 123.5 % | 60.0 % | 58.2 % | 27.2 % | 19.8 % | 9.9 % | 24.3 % | – | – | 56.9 % |
| RoRaC/RoE **) | – 13.2 % | 19.8 % | 6.8 % | 18.6 % | 24.2 % | 13.2 % | 8.9 % | – | – | 3.8 % |

| 31 December 2009 (in € million) | Private and Commercial Customers | Savings Bank Network | Financial Markets/Institutional Customers ***) | Corporate Customers | Energy and Infra-structure Customers | Ships and Aircraft Customers | Real Estate Banking Customers | Group Manage-ment/Others | Recon-ciliations | NORD/LB Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income before loan loss provisions | 294 | 62 | 407 | 209 | 136 | 276 | 219 | – 168 | – 55 | 1 380 |
| Loan loss provisions | 33 | 9 | 95 | 255 | 41 | 157 | 134 | 329 | – 8 | 1 045 |
| **Net interest income after loan loss provisions** | **261** | **53** | **312** | **– 46** | **95** | **119** | **85** | **– 497** | **– 47** | **335** |
| Net commission income | 43 | 16 | 51 | 29 | 41 | 33 | 21 | – 49 | – 8 | 177 |
| Profit/loss from financial instruments at fair value | 2 | 13 | 260 | 6 | 2 | 16 | 1 | 169 | – 48 | 421 |
| Profit/loss from hedge accounting | – | – | – 1 | – | – | – | – | 155 | 7 | 161 |
| Profit/loss from financial assets | – 34 | – | – 119 | – | – | – | – 4 | 36 | – 19 | – 140 |
| Profit/loss from investments accounted for using the equity method | – 238 | – | 1 | – | – | – | – | 37 | – | – 200 |
| Administrative expenses | 318 | 53 | 138 | 71 | 35 | 40 | 56 | 265 | 10 | 986 |
| Other operating profit/loss | 77 | 1 | 32 | – | 1 | 1 | – | 110 | – 78 | 144 |
| **Earnings before taxes (EBT)** | **– 207** | **30** | **398** | **– 82** | **104** | **129** | **47** | **– 304** | **– 203** | **– 88** |
| Taxes | – | – | – | – | – | – | – | – | 50 | 50 |
| **Consolidated profit** | **– 207** | **30** | **398** | **– 82** | **104** | **129** | **47** | **– 304** | **– 253** | **– 138** |
| Segment assets | 12 526 | 27 614 | 159 411 | 14 889 | 13 170 | 23 826 | 22 393 | – 31 919 | – 3 310 | 238 600 |
| of which: investments at equity | 302 | – | 39 | – | – | – | – | 382 | – | 723 |
| Segment liabilities | 10 102 | 8 134 | 207 537 | 7 212 | 5 558 | 3 703 | 11 139 | – 22 677 | 7 892 | 238 600 |
| Risk-weighted assets | 5 855 | 2 101 | 24 847 | 11 274 | 8 710 | 26 230 | 16 963 | 7 177 | – 10 582 | 92 575 |
| Capital employed *) | 515 | 105 | 1 242 | 564 | 436 | 1 311 | 848 | 98 | 17 | 5 136 |
| CIR | 178.9 % | 57.6 % | 18.4 % | 28.9 % | 19.4 % | 12.2 % | 23.3 % | – | – | 47.3 % |
| RoRaC/RoE **) | – 35.2 % | 28.7 % | 32.2 % | – 14.3 % | 20.7 % | 9.9 % | 5.7 % | – | – | – 2.6 % |

*) Reconciliation of long-term equity under commercial law to reported equity:

| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Long-term equity under commercial law | 4 842 | 5 136 |
| Revaluation reserve | 66 | 24 |
| Currency translation reserve | – 37 | – 49 |
| Accumulated profits | 201 | – 131 |
| Silent participations in reported equity | 818 | 818 |
| **Reported equity** | **5 890** | **5 798** |

**) By business segment RoRaC:
(earnings before taxes) / core capital employed (5 percent of the higher value coming from RWA-Limit or usage amount)

For the Group RoE:
(earnings before taxes – interest expenses for silent participations in reported equity) / long-term equity under commercial law (= share capital + capital reserves + retained earnings + minority interests – silent participations in reported equity)

***) Sales income in 2010 not related to Financial Markets = € 50.9 million (€ 42.2 million)

## (20) Segment reporting by geographical segment

| 31 December 2010<br>(in € million) | Federal Republic of Germany | Europe excluding Germany | America | Asia | Consolidation | NORD/LB Group |
|---|---|---|---|---|---|---|
| Earnings before taxes (EBT) | 269 | – 113 | 9 | 42 | 30 | 236 |
| Segment assets | 225 260 | 30 963 | 7 523 | 7 292 | – 42 451 | 228 586 |
| Segment liabilities | 225 260 | 30 963 | 7 523 | 7 292 | – 42 451 | 228 586 |
| Risk-weighted assets | 68 067 | 10 027 | 7 095 | 2 811 | – 1 149 | 86 850 |
| Capital employed | 4 046 | 640 | 355 | 141 | – 340 | 4 842 |
| CIR | 60.6 % | > – 100.0 % | 41.3 % | 24.6 % | – | 56.9 % |
| RoRaC/RoE *) | 7.1 % | – 17.7 % | 2.4 % | 29.6 % | – | 3.8 % |

| 31 December 2009<br>(in € million) | Federal Republic of Germany | Europe excluding Germany | America | Asia | Consolidation | NORD/LB Group |
|---|---|---|---|---|---|---|
| Earnings before taxes (EBT) | – 237 | 104 | 52 | 77 | – 83 | – 88 |
| Segment assets | 227 223 | 36 819 | 8 796 | 7 191 | – 41 429 | 238 600 |
| Segment liabilities | 227 223 | 36 819 | 8 796 | 7 191 | – 41 429 | 238 600 |
| Risk-weighted assets | 69 895 | 11 471 | 6 220 | 2 922 | 2 067 | 92 575 |
| Capital employed | 4 349 | 580 | 311 | 146 | – 250 | 5 136 |
| CIR | 65.4 % | 16.3 % | 16.4 % | 13.2 % | – | 47.3 % |
| RoRaC/RoE *) | – 6.2 % | 18.0 % | 16.6 % | 52.4 % | – | – 2.6 % |

*) By business segment RoRaC:
(earnings before taxes) / core capital employed
(5 percent of the higher value coming from RWA-Limit or usage amount)

For the Group RoE:
(earnings before taxes – interest expenses for silent participations in reported equity) / long-term equity under commercial law
(= share capital + capital reserves + retained earnings + minority interests – silent participations in reported equity)

# Notes to the income statement

## (21) Net interest income

The items interest income and interest expense comprise interest received and paid, deferred interest and pro rata reductions in premiums and discounts relating to financial instruments. Due to the fact that under certain circumstances silent participations are to be classified as liabilities under IAS 32, payments to silent partners are reported as interest expense.

| | 1 Jan. – 31 Dec. 2010 (in € million) | 1 Jan. – 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Interest income** | | | |
| Interest income from lending and money market transactions | 5 184 | 5 809 | – 11 |
| Interest income from fixed-income and book entry securities | 1 496 | 1 855 | – 19 |
| Interest income from financial instruments at fair value | | | |
| Interest income from trading profit/loss and hedge accounting derivatives *) | 5 373 | 7 927 | – 32 |
| Interest income from fair value option | 90 | 101 | – 11 |
| Current income | | | |
| from shares and other variable-yield securities | 11 | 16 | – 31 |
| from investments | 17 | 32 | – 47 |
| Interest income from other amortisations *) | 326 | 281 | 16 |
| Other interest income and similar income | 11 | 6 | 83 |
| | **12 508** | **16 027** | **– 22** |
| **Interest expense** | | | |
| Interest expense from lending and money market transactions | 2 904 | 3 507 | – 17 |
| Interest expense from securitised liabilities | 2 095 | 2 569 | – 18 |
| Interest expense from financial instruments at fair value | | | |
| Interest expense from trading profit/loss and hedge accounting derivatives *) | 4 741 | 7 447 | – 36 |
| Interest expense from fair value option | 316 | 323 | – 2 |
| Interest expense from subordinated capital | 324 | 300 | 8 |
| Interest expense from other amortisations *) | 397 | 419 | – 5 |
| Interest expense for provisions and liabilities | 71 | 72 | – 1 |
| Other interest expenses and similar expenses | 10 | 10 | – |
| | **10 858** | **14 647** | **– 26** |
| **Total** | **1 650** | **1 380** | **20** |

*) For the first time amortisations from hedge accounting derivatives are shown in the item “interest income from other amortisations” and thereby not anymore in the item “interest income from trading profit / loss and hedge accounting derivatives”.

Interest income from lending and money market transactions includes interest income relating to impaired loans (unwinding) of € 49 million (€ 30 million).

The interest income includes € 7 006 million (€ 7 945 million) relating to income from financial instruments which are not measured at fair value through profit or loss. The interest expenses include € 5 720 million (€ 6 795 million) relating to expenses from financial instruments which are not measured at the fair value through profit or loss.

## (22) Loan loss provisions

| | 1 Jan. – 31 Dec. 2010 (in € million) | 1 Jan. – 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Income from loan loss provisions** | | | |
| Reversal of specific valuation allowance | 264 | 228 | 16 |
| Reversal of lumpsum specific loan loss provisions | 20 | 1 | > 100 |
| Reversal of general loan loss provisions | 82 | 13 | > 100 |
| Reversal of provisions for lending business | 43 | 18 | > 100 |
| Additions to receivables written off | 21 | 11 | 91 |
| | **430** | **271** | **59** |
| **Expenses for loan loss provisions** | | | |
| Allocations to specific valuation allowance | 675 | 861 | – 22 |
| Allocation to lumpsum specific loan loss provisions | 13 | 42 | – 69 |
| Allocation to general loan loss provisions | 297 | 270 | 10 |
| Allocation to provisions for lending business | 76 | 75 | 1 |
| Direct write-offs of bad debts | 25 | 66 | – 62 |
| Premium payments for credit insurance | 1 | 2 | – 50 |
| | **1 087** | **1 316** | **– 17** |
| **Total** | **– 657** | **– 1 045** | **– 37** |

## (23) Net commission income

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Commission income** | | | |
| Lending and guarantee business | 95 | 97 | – 2 |
| Account management and payment transactions | 42 | 42 | – |
| Trust activities | 57 | 37 | 54 |
| Security transactions and custody service | 32 | 27 | 19 |
| Brokerage business | 23 | 26 | – 12 |
| Insurance business | 8 | 12 | – 33 |
| Other commission income | 94 | 36 | > 100 |
| | **351** | **277** | **27** |
| **Commission expense** | | | |
| Lending and guarantee business | 14 | 12 | 17 |
| Account management and payment transactions | 2 | 2 | – |
| Trust activities | 35 | 22 | 59 |
| Security transactions and custody service | 24 | 28 | – 14 |
| Brokerage business | 8 | 15 | – 47 |
| Insurance business | 29 | 25 | 16 |
| Other commission expenses | 29 | – 4 | > 100 |
| | **141** | **100** | **41** |
| **Total** | **210** | **177** | **19** |

Commission income includes income from financial instruments which are not measured at fair value through profit or loss in the amount of € 170 million (€ 166 million). Commission expenses include expenses from financial instruments which are not measured at fair value through profit or loss in the amount of € 41 million (€ 42 million).

## (24) Profit/loss from financial instruments at fair value through profit or loss

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading profit/loss** | | | |
| Realised profit/loss | | | |
| Profit/loss from debt securities and other fixed-interest securities | 43 | – 15 | > 100 |
| Profit/loss from shares and other variable-yield securities | 6 | 5 | 20 |
| Profit/loss from derivatives | 853 | 297 | > 100 |
| Profit/loss from receivables held for trading | 47 | 31 | 52 |
| | **949** | **318** | **> 100** |
| Profit/loss from valuation | | | |
| Profit/loss from debt securities and other fixed-interest securities | – 13 | 55 | > 100 |
| Profit/loss from shares and other variable-yield securities | 4 | 18 | – 78 |
| Profit/loss from derivatives | – 844 | 247 | > 100 |
| Profit/loss from receivables held for trading | – 32 | – 19 | – 68 |
| Profit/loss from other trading transactions | – | 3 | – 100 |
| | **– 885** | **304** | **> 100** |
| Foreign exchange gains | 52 | – | – |
| Other income | 3 | 5 | – 40 |
| | **119** | **627** | **– 81** |

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change |
|---|---|---|---|
| **Profit/loss from the use of fair value option** | | | |
| Realised profit/loss | | | |
| from debt securities and other fixed-interest securities | – | 3 | – 100 |
| from liabilities to banks and customers | 93 | – 35 | > 100 |
| from securitised liabilities | – 70 | 17 | > 100 |
| | **23** | **– 15** | **> 100** |
| Profit/loss from valuation | | | |
| from loans and advance to banks and customers | 6 | 7 | – 14 |
| from debt securities and other fixed-interest securities | 11 | – 43 | > 100 |
| from shares and other variable-yield securities | 1 | 2 | – 50 |
| from liabilities to banks and customers | – 172 | 74 | > 100 |
| from securitised liabilities | – 40 | – 230 | – 83 |
| from other activities | – | – 1 | – 100 |
| | **– 194** | **– 191** | **2** |
| | **– 171** | **– 206** | **– 17** |
| **Total** | **– 52** | **421** | **> 100** |

Commission income from trading activities in the amount of € 4 million (€ 7 million) is reported under other income.

## (25) Profit/loss from hedge accounting

The profit/loss from hedge accounting includes fair value adjustments relating to the hedged risk of an underlying transaction and offset fair value adjustments to hedge instruments in effective fair value hedge relationships.

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Profit/loss from micro fair value hedges** | | | |
| from hedged underlying transactions | 24 | – 485 | > 100 |
| from derivatives employed as hedging instruments | 8 | 539 | – 99 |
| | **32** | **54** | **– 41** |
| **Profit/loss from portfolio fair value hedges** | | | |
| from hedged underlying transactions | – 179 | – 64 | > 100 |
| from derivatives employed as hedging instruments | 300 | 171 | 75 |
| | **121** | **107** | **13** |
| **Total** | **153** | **161** | **– 5** |

## (26) Profit/loss from financial assets

Shown in the profit/loss from financial assets are profits/losses from disposals and estimated profits/losses relating to securities and company shares in the financial asset portfolio.

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Profit/loss from financial assets classified as LaR** | **– 18** | **– 51** | **65** |
| **Profit/loss from financial assets classified as AfS (excluding investments)** | | | |
| Profit/loss from the disposal of | | | |
| debt securities and other fixed-interest securities | 46 | – 3 | > 100 |
| shares and other variable-yield securities | 6 | – 30 | > 100 |
| Profit/loss from allowances for losses on | | | |
| debt securities and other fixed-interest securities | – 24 | – 14 | – 71 |
| shares and other variable-yield securities | – 11 | – 28 | 61 |
| | **17** | **– 75** | **> 100** |
| **Profit/loss from shares in companies (not consolidated)** | **83** | **– 14** | **> 100** |
| **Total** | **82** | **– 140** | **> 100** |

### (27) Profit/loss from investments accounted for using the equity method

The profit/loss from investments accounted for using the equity method is summarised below. It shows the contributions to earnings of joint ventures and associated companies accounted for using the equity method.

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Shares in joint ventures** | | | |
| Income | 2 | 1 | 100 |
| Expenses | 151 | 228 | – 34 |
| | **– 149** | **– 227** | **34** |
| **Shares in associated companies** | | | |
| Income | 33 | 36 | – 8 |
| Expenses | 12 | 9 | 33 |
| | **21** | **27** | **– 22** |
| **Total** | **– 128** | **– 200** | **36** |

## (28) Administrative expenses

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Staff expenses** | | | |
| Wages and salaries | 440 | 393 | 12 |
| Social insurance contributions | 60 | 54 | 11 |
| Expenditure on pension schemes and other benefits | 33 | 28 | 18 |
| Other staff expenses | 7 | 5 | 40 |
| | **540** | **480** | **13** |
| **Other administrative expenses** | | | |
| Costs for IT and communications | 200 | 151 | 32 |
| Building occupancy costs | 44 | 45 | – 2 |
| Expenses for marketing, communications and entertainment | 28 | 28 | – |
| Personnel-related material expenses | 30 | 52 | – 42 |
| Costs for legal, auditing, appraisal and consulting services | 75 | 65 | 15 |
| Levies and contributions | 33 | 30 | 10 |
| Expenses for operating and office equipment | 5 | 5 | – |
| Other services | 21 | 20 | 5 |
| Other administrative expenses | 32 | 40 | – 20 |
| | **468** | **436** | **7** |
| **Amortisation and depreciation** | | | |
| Amortisation and depreciation | | | |
| Property and equipment | 29 | 32 | – 9 |
| Intangible assets | 31 | 36 | – 14 |
| Investment properties | 2 | 2 | – |
| | **62** | **70** | **– 11** |
| **Total** | **1 070** | **986** | **9** |

Expenditure on pension schemes and other benefits includes expenditure for defined contribution plans in the amount of € 1 million (€ 1 million).

## (29) Other operating profit/loss

| | 1 Jan.– 31 Dec. 2010 (in € million) | 1 Jan.– 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Other operating income** | | | |
| from the reversal of provisions | 282 | 325 | – 13 |
| from insurance contracts | 447 | 410 | 9 |
| from other business | 154 | 201 | – 23 |
| | **883** | **936** | **– 6** |
| **Other operating expenses** | | | |
| from allocation to provisions | 401 | 345 | 16 |
| from insurance contracts | 291 | 314 | – 7 |
| from other business | 143 | 133 | 8 |
| | **835** | **792** | **5** |
| **Total** | **48** | **144** | **– 67** |

Income from the reversal of provisions and expense from allocation to provisions primarily concern provisions relating to insurance contracts.

Other operating income from insurance contracts is primarily the result of premium income (364 million € (€ 337 million)) and income from insurance contracts (€ 50 million (€ 48 million)).

Income from other business includes reimbursement of costs (€ 13 million (€ 21 million)), income from the redemption of the banks's own issues (€ 12 million (€ 54 million)), rental income from investment property (€ 11 million (€ 11 million)) and income from data processing services for third parties (€ 3 million (€ 9 million)).

Other operating expenses from insurance contracts mainly comprise indemnity expenses (€ 234 million (€ 248 million)) and expenses from reinsurance contracts (€ 49 million (€ 56 million)).

Expenses from other business essentially comprise expenses from the redemption of debt securities (€ 49 million (€ 53 million)) expenses from reductions in loans and advances (€ 40 million (€ 41 million)) and expenses from investment property (€ 2 million (€ 2 million))

## (30) Income taxes

| | 1 Jan.–31 Dec. 2010 (in € million) | 1 Jan.–31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Current taxes on income and earnings | 159 | 57 | > 100 |
| Deferred taxes | – 159 | – 7 | > 100 |
| **Total** | **–** | **50** | **– 100** |

The following tax reconciliation statement shows an analysis of the difference between the expected income taxes which would result applying the German income tax rate to earnings before tax in accordance with IFRS and the income taxes actually reported.

| (in € million) | 1 Jan.–31 Dec. 2010 | 1 Jan.–31 Dec. 2009 |
|---|---|---|
| **IFRS earnings before taxes** | **236** | **– 88** |
| Anticipated income tax expenditure | 74 | – 28 |
| **Effects of reconciliation:** | | |
| Effects of differing tax rates | – 9 | – 16 |
| Taxes from previous years reported in the reporting period | – 53 | – 32 |
| Effects of changes in tax rates | 1 | – 2 |
| Non-creditable income taxes | 1 | 4 |
| Non-deductible operational expenditure | 144 | 24 |
| Effects of tax-free earnings | – 66 | – 74 |
| Effect of permanent accounting-related effects | – 58 | 173 |
| Effects of write-ups/write-downs/recognition adjustments | – 48 | – 21 |
| Other effects | 14 | 22 |
| **Reported income tax expense** | **–** | **50** |

Anticipated income tax expenditure in the tax reconciliation statement is calculated on the basis of the corporation tax rate of 15 per cent plus a solidarity surcharge of 5.5 per cent and the average trade tax rate of approximately 15.6 per cent, as valid in Germany in 2010. The income tax rate for Germany is therefore 31.5 per cent (31.5 per cent).

The deferred taxes of the Group entities in Germany are measured using the tax rate applicable as at or the future tax rate applicable as at the balance sheet date of 31.5 per cent (31.5 per cent).

Effects resulting from deviating tax rates are caused by differing tax rates in each country. The effects of write-ups/write-downs/recognition adjustments also include effects from the subsequent increase or decrease in the recognition of losses carried forward.

# Notes to the statement of comprehensive income

Income tax effects fall upon the individual components of comprehensive income recognised directly in equity as follows:

| (in € million) | 1 Jan.– 31 Dec. 2010 Amount before taxes | 1 Jan.– 31 Dec. 2010 Income tax effect | 1 Jan.– 31 Dec. 2010 Amount after taxes | 1 Jan.– 31 Dec. 2009 Amount before taxes | 1 Jan.– 31 Dec. 2009 Income tax effect | 1 Jan.– 31 Dec. 2009 Amount after taxes |
|---|---|---|---|---|---|---|
| Increase/decrease from available for sale (AfS) financial instruments | 77 | –27 | 50 | 464 | –139 | 325 |
| Changes in value investments accounted for using the equity method recognised directly in equity | –18 | – | –18 | 20 | – | 20 |
| Translation differences of foreign business units | 13 | – | 13 | – | – | – |
| Actuarial gains and losses for pensions for defined benefit obligations | –15 | 5 | –10 | –115 | 36 | –79 |
| **Other** | **57** | **–22** | **35** | **369** | **–103** | **266** |

# Notes to the balance sheet

## (31) Cash reserve

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Cash on hand | 329 | 902 | – 64 |
| Balances with central banks | 740 | 942 | – 21 |
| **Total** | **1 069** | **1 844** | **– 42** |

Of the balances with central banks € 628 million (€ 729 million) are credit balances with the Bundesbank. We refer to information contained under other liabilities (note (53)) in this respect. The required minimum reserve was maintained at all times in the period under review and amounted to € 387 million (€ 437 million).

## (32) Loans and advances to banks

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Loans and advances resulting from money market transactions** | | | |
| German banks | 5 415 | 7 233 | – 25 |
| Foreign banks | 2 822 | 2 649 | 7 |
| | **8 237** | **9 882** | **– 17** |
| **Other loans and advances** | | | |
| German banks | | | |
| Due on demand | 584 | 745 | – 22 |
| With a fixed term or period of notice | 22 465 | 24 884 | – 10 |
| Foreign banks | | | |
| Due on demand | 298 | 419 | – 29 |
| With a fixed term or period of notice | 5 150 | 6 426 | – 20 |
| | **28 497** | **32 474** | **– 12** |
| **Total** | **36 734** | **42 356** | **– 13** |

Of the loans and advances to banks in Germany, € 11 854 million (€ 11 824 million) are loans and advances to associated savings banks.

## (33) Loans and advances to customers

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Loans and advances resulting from money market transactions** | | | |
| Domestic customers | 2 049 | 959 | > 100 |
| Customers abroad | 26 | 29 | – 10 |
| | **2 075** | **988** | **> 100** |
| **Other loans and advances** | | | |
| Domestic customers | | | |
| Due on demand | 1 804 | 1 722 | 5 |
| With a fixed term or period of notice | 79 072 | 78 694 | – |
| Customers abroad | | | |
| Due on demand | 260 | 272 | – 4 |
| With a fixed term or period of notice | 30 394 | 30 407 | – |
| | **111 530** | **111 095** | **–** |
| **Total** | **113 605** | **112 083** | **1** |

## (34) Loan loss provisions

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Specific valuation allowance** | | | |
| German banks | 6 | 6 | – |
| Foreign banks | 83 | 163 | – 49 |
| Domestic customers | 905 | 829 | 9 |
| Customers abroad | 318 | 278 | 14 |
| | **1 312** | **1 276** | **3** |
| **Lumpsum specific loan loss provisions** | **35** | **44** | **– 20** |
| **General loan loss provisions** | **671** | **472** | **42** |
| **Total** | **2 018** | **1 792** | **13** |

Loan loss provisions recognised on the asset side and provisions in lending business developed as follows:

| | Specific valuation allowance | | Lumpsum specific loan loss provisions | | General loan loss provisions | | Provisions in lending business | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in € million) | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **1 January** | **1 276** | **983** | **44** | **3** | **472** | **218** | **135** | **79** | **1 927** | **1 283** |
| Allocations | 675 | 861 | 13 | 42 | 297 | 270 | 76 | 75 | 1 061 | 1 248 |
| Reversals | 264 | 228 | 20 | 1 | 82 | 13 | 43 | 18 | 409 | 260 |
| Utilisation | 370 | 310 | 1 | – | – | – | 4 | – | 375 | 310 |
| Unwinding | – 49 | – 30 | – | – | – | – | – 1 | – | – 50 | – 30 |
| Effects from currency translation and other changes | 44 | – | – 1 | – | – 16 | – 3 | 9 | – 1 | 36 | – 4 |
| **31 December** | **1 312** | **1 276** | **35** | **44** | **671** | **472** | **172** | **135** | **2 190** | **1 927** |

### (35) Financial assets at fair value through profit or loss

This item contains the trading assets (HfT) and financial assets designated at fair value (dFV).

The trading activities of the Group comprise trading in debt securities and other fixed-interest securities, shares and other variable-yield securities and derivative financial instruments which are not used for hedge accounting.

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading assets** | | | |
| Bonds and debt securities | | | |
| issued by public-sector borrowers | 782 | 337 | > 100 |
| issued by other borrowers | 2 272 | 2 944 | – 23 |
| | **3 054** | **3 281** | **– 7** |
| Shares and other variable-yield securities | | | |
| Shares | 112 | 88 | 27 |
| Investment certificates | – | 33 | – 100 |
| | **112** | **121** | **– 7** |
| Positive fair values from derivatives relating to | | | |
| Interest rate risks | 5 501 | 5 044 | 9 |
| Currency risks | 1 437 | 1 332 | 8 |
| Share-price and other price risks | 83 | 59 | 41 |
| Credit derivatives | 30 | 103 | – 71 |
| | **7 051** | **6 538** | **8** |
| Trading portfolio claims | 2 501 | 1 860 | 34 |
| | **12 718** | **11 800** | **8** |
| **Financial assets at fair value through profit or loss** | | | |
| Loans and advances to banks and customers | 242 | 517 | – 53 |
| Debt securities and other fixed-interest securities | 2 132 | 2 187 | – 3 |
| Shares and other variable-yield securities | 11 | 10 | 10 |
| | **2 385** | **2 714** | **– 12** |
| **Total** | **15 103** | **14 514** | **4** |

For receivables designated at fair value there is a maximum default risk of € 242 million (€ 517 million).

The change in the fair value, which is attributable to changes in the credit risk of receivables designated at fair value, amounts to € 0 million (€ 5 million) in the period under review, the cumulative change is € 5 million (€ 5 million).

The credit-risk-induced change in fair value is calculated on te basis of considering the difference between two fair values, which are calculated on the basis of market data applicable at the start of the year. This difference is solely the result of the change in the relevant spread curves which takes place during the course of the financial year.

### (36) Positive fair values from hedge accounting derivates

This item includes positive fair values of hedging instruments in effective micro fair value hedges and portfolio fair value hedges.

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Micro fair value hedge derivatives | 1 914 | 1 544 | 24 |
| Portfolio fair value hedge derivatives | 1 024 | 1 330 | – 23 |
| **Total** | **2 938** | **2 874** | **2** |

## (37) Financial assets

The balance sheet item financial assets includes all the debt securities and other fixed-interest securities classified as available for sale (AfS), shares and other variable-yield securities, shares in companies which are not measured in accordance with IAS 27, IAS 28 or IAS 31 and financial assets classified as loans and receivables (LaR).

Investments in the equity of other companies are allocated to the category (AfS). In addition to the AfS category, some of the silent investments classified as debt are also allocated to the LaR category.

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Financial assets classified as LaR** | **4 910** | **4 905** | – |
| **Financial assets classified as AfS** | | | |
| Debt securities and other fixed-interest securities | | | |
| Money market instruments | | | |
| issued by public-sector borrowers | 30 | 3 | > 100 |
| issued by other borrowers | 558 | 143 | > 100 |
| | **588** | **146** | **> 100** |
| Bonds and debt securities | | | |
| issued by public-sector borrowers | 18 236 | 16 415 | 11 |
| issued by other borrowers | 33 827 | 40 341 | – 16 |
| | **52 063** | **56 756** | **– 8** |
| Shares and other variable-yield securities | | | |
| Shares | 232 | 334 | – 31 |
| Investment certificates | 139 | 157 | – 11 |
| Participation certificates | 15 | 24 | – 38 |
| Other | 2 | 2 | – |
| | **388** | **517** | **– 25** |
| Shares in companies | 717 | 742 | – 3 |
| Other AfS financial assets | – | 10 | – 100 |
| | **53 756** | **58 171** | **– 8** |
| **Total** | **58 666** | **63 076** | **– 7** |

### (38) Investments accounted for using the equity method

The shares in joint ventures in terms of IAS 31 and associated companies in terms of IAS 28 accounted for using the equity method are broken down as follows:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Joint ventures** | | | |
| Banks | – | 302 | – 100 |
| Financial institutions | 26 | 24 | 8 |
| Other entities | 1 | 1 | – |
| | **27** | **327** | **– 92** |
| **Associated companies** | | | |
| Banks | 185 | 203 | – 9 |
| Other entities | 190 | 193 | – 2 |
| | **375** | **396** | **– 5** |
| **Total** | **402** | **723** | **– 44** |

The development of investments accounted for using the equity method is as follows:

| (in € million) | Joint ventures | Associated companies | Total |
|---|---|---|---|
| **1 January 2009** | **465** | **380** | **845** |
| Additions | 99 | 60 | 159 |
| Disposals | 237 | 44 | 281 |
| **31 December 2009** | **327** | **396** | **723** |
| Additions | 2 | 49 | 51 |
| Disposals | 302 | 61 | 363 |
| Depreciation | – | 9 | 9 |
| **31 December 2010** | **27** | **375** | **402** |

The share of profits/losses of joint ventures and affiliated companies accounted for using the equity method is reported under additions and disposals, while impairments are reported under depreciation. Dividends received are reported under disposals.

Shares in investments accounted for using the equity method amounted to € 402 million (€ 723 million), a fall of € 321 million compared to the previous year. The development in the financial year 2010 is the result of the share of profits/losses in the amount of € – 128 million (€ – 200 million), changes recognised directly in equity in the amount of € – 18 million (€ 20 million) and distributions received in the amount of € 23 million (€ 27 million) for joint ventures and associated companies accounted for using the equity method and reported under additions and disposals. In addition to this, the deconsolidation of Bank DnB NORD A/S, Copenhagen, and capital reductions resulted in disposals of € 167 million. This is countered by the transitional consolidation of the NORD/LB AM Global Challenges Index Fund, which resulted in an increase in the equity value of € 15 million.

In the financial year the equity value was subject to unscheduled depreciation in the amount of € 9 million.

The table below shows the summarised financial information for joint ventures and affiliated companies accounted for using the equity method based on the NORD/LB Group's share in the assets, liabilities, income, expenses and contingent liabilities.

| (in € million) | Joint ventures 31 Dec. 2010 | Joint ventures 31 Dec. 2009 | Affiliated companies 31 Dec. 2010 | Affiliated companies 31 Dec. 2009 |
|---|---|---|---|---|
| Short-term assets | 67 | 1 686 | 831 | 873 |
| Long-term assets | 24 | 3 305 | 3 179 | 3 104 |
| Short-term liabilities | 55 | 3 254 | 314 | 375 |
| Long-term liabilities | 10 | 1 358 | 3 330 | 3 230 |
| Total income | 156 | 320 | 595 | 609 |
| Total expenses | 232 | 547 | 565 | 581 |
| Contingent liabilities | 140 | 690 | 42 | 42 |

## (39) Property and equipment

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Land and buildings | 310 | 308 | 1 |
| Operating and office equipment | 71 | 70 | 1 |
| Ships | 281 | – | – |
| Other property and equipment | 40 | 17 | > 100 |
| **Total** | **702** | **395** | **78** |

## (40) Investment property

The carrying amount of investment property is € 96 million (€ 93 million). The fair value of investment property is € 126 million (€ 116 million).

The profit/loss from investment property is summarised as follows:

| (in € million) | 1 Jan.– 31 Dec. 2010 | 1 Jan.– 31 Dec. 2009 |
|---|---|---|
| Rental income | 11 | 11 |
| Direct operating expenses | 2 | 2 |

The development of cost and accumulated depreciation for property and equipment and investment property is shown as follows:

| (in € million) | Land and buildings | Operating and office equipment | Ship | Other property and equipment | Total | Investment property |
|---|---|---|---|---|---|---|
| **Cost as at 1 January 2009** | **598** | **272** | **–** | **9** | **879** | **113** |
| Additions | 23 | 14 | – | 15 | 52 | – |
| Disposals | 2 | 14 | – | 3 | 19 | 4 |
| **Total 31 December 2009** | **619** | **272** | **–** | **21** | **912** | **109** |
| **Accumulated depreciation as at 1 January 2009** | **299** | **197** | **–** | **6** | **502** | **17** |
| Depreciation | 13 | 18 | – | 1 | 32 | 2 |
| Disposals | 1 | 13 | – | 3 | 17 | 3 |
| **Total 31 December 2009** | **311** | **202** | **–** | **4** | **517** | **16** |
| **Closing balance as at 31 December 2009** | **308** | **70** | **–** | **17** | **395** | **93** |
| **Cost as at 1 January 2010** | **619** | **272** | **–** | **21** | **912** | **109** |
| Additions | 8 | 18 | – | 33 | 59 | 10 |
| Disposals | – | 6 | – | – | 6 | 7 |
| Transfers | 8 | – | – | – 8 | – | – |
| Change from the basis of consolidation | – | – 2 | 281 | – 5 | 274 | – |
| Changes from currency translation | – | 1 | – | – | 1 | – |
| **Total 31 December 2010** | **635** | **283** | **281** | **41** | **1 240** | **112** |
| **Accumulated depreciation as at 1 January 2010** | **311** | **202** | **–** | **4** | **517** | **16** |
| Depreciation | 12 | 17 | – | – | 29 | 2 |
| Write-ups | – | 1 | – | – | 1 | – |
| Additions | 2 | – | – | – | 2 | – |
| Disposals | – | 6 | – | – | 6 | 2 |
| Change from the basis of consolidation | – | – 1 | – | – 3 | – 4 | – |
| Changes from currency translation | – | 1 | – | – | 1 | – |
| **Total 31 December 2010** | **325** | **212** | **–** | **1** | **538** | **16** |
| **Closing balance as at 31 December 2010** | **310** | **71** | **281** | **40** | **702** | **96** |

## (41) Intangible assets

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Software** | | | |
| Purchased | 15 | 19 | – 21 |
| Internally generated | 45 | 51 | – 12 |
| | **60** | **70** | **– 14** |
| Intangible assets under development | 77 | 40 | 93 |
| Goodwill | 11 | 11 | – |
| Other intangible assets | 13 | 14 | – 7 |
| **Total** | **161** | **135** | **19** |

Intangible assets under development refer primarily to internally generated software. Fully amortised software is still in use.

The development of intangible assets is as follows:

| (in € million) | Software Purchased | Software Internally generated | Goodwill | Other Purchased | Other Internally generated | Total |
|---|---|---|---|---|---|---|
| **Cost as at 1 January 2009** | **105** | **104** | **11** | **17** | **7** | **244** |
| Additions | 8 | 4 | – | – | 36 | 48 |
| Disposals | 1 | – | – | – | – | 1 |
| Transfers | – | 3 | – | – | – 3 | – |
| **Total 31 December 2009** | **112** | **111** | **11** | **17** | **40** | **291** |
| **Accumulated depreciation as at 1 January 2009** | **80** | **40** | **–** | **1** | **–** | **121** |
| Depreciation | 14 | 20 | – | 2 | – | 36 |
| Disposals | 1 | – | – | – | – | 1 |
| **Total 31 December 2009** | **93** | **60** | **–** | **3** | **–** | **156** |
| **Closing balance as at 31 December 2009** | **19** | **51** | **11** | **14** | **40** | **135** |
| **Cost as at 1 January 2010** | **112** | **111** | **11** | **17** | **40** | **291** |
| Additions | 4 | 4 | – | – | 48 | 56 |
| Transfers | 1 | 11 | – | – | – 11 | 1 |
| Change from the basis of consolidation | – 5 | – | – | – | – | – 5 |
| **Total 31 December 2010** | **112** | **126** | **11** | **17** | **77** | **343** |
| **Accumulated depreciation as at 1 January 2010** | **93** | **60** | **–** | **3** | **–** | **156** |
| Depreciation | 9 | 21 | – | 1 | – | 31 |
| Change from the basis of consolidation | – 5 | – | – | – | – | – 5 |
| **Total 31 December 2010** | **97** | **81** | **–** | **4** | **–** | **182** |
| **Closing balance as at 31 December 2010** | **15** | **45** | **11** | **13** | **77** | **161** |

Goodwill is solely the result of the aquisition of Deutsche Hypothekenbank AG, Hanover-Berlin, in 2008 and is allocated to the CGU Commercial Real Estate Finance, which comprises the commercial real estate business of NORD/LB and Deutsche Hypothekenbank.

## (42) Assets held for sale

Assets held for sale in accordance with IFRS 5 as at 31 December 2010 include solely property and equipment (buildings) in the amount of € 1 million (€ 1 million).

## (43) Income tax assets

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Current income tax assets | 70 | 137 | – 49 |
| Deferred tax assets | 480 | 353 | 36 |
| **Total** | **550** | **490** | **12** |

Deferred tax assets reflect potential relief on income taxes from temporary differences in the values of assets and liabilities between the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax assets which were offset directly against equity amounted to € 132 million as at 31 December 2010 (€ 102 million).

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

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 8 | 7 | 14 |
| Loan loss provisions | 190 | 113 | 68 |
| Financial assets at fair value through profit or loss | 769 | 100 | > 100 |
| Financial assets | 362 | 373 | – 3 |
| Property and equipment | 21 | 18 | 17 |
| Other assets | 43 | 15 | > 100 |
| **Liabilities** | | | |
| Liabilities to customers | 284 | 226 | 26 |
| Securitised liabilities | 101 | 89 | 13 |
| Financial liabilities at fair value through profit or loss | 267 | 1 589 | – 83 |
| Fair values from hedge accounting derivatives | 574 | 572 | – |
| Provisions | 343 | 309 | 11 |
| Other liabilities | 78 | 125 | – 38 |
| Tax losses carried forward | 110 | 139 | – 21 |
| **Total** | **3 150** | **3 675** | **– 14** |
| Net | 2 670 | 3 322 | – 20 |
| **Total** | **480** | **353** | **36** |

No deferred taxes were recognised on losses carried forward to the amount of € 7 million (corporation tax) and € 6 million (trade tax) due to a limited planning horizon and the resulting insufficient likelihood of their utilisation by 31 December 2010. There is no time limit on the utilisation of existing tax losses carried forward.

## (44) Other assets

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Loans and advances on interim accounts | 205 | 1 357 | – 85 |
| Assets from insurance contracts | 150 | 156 | – 4 |
| Rights to reimbursement from defined benefit plans | 19 | 20 | – 5 |
| Loans and advances to atypical silent partners | 66 | 141 | – 53 |
| Other assets including prepaid expenses | 137 | 134 | 2 |
| **Total** | **577** | **1 808** | **– 68** |

Assets relating to insurance contracts are assets from outwards reinsurance. Reimbursement claims from defined benefit plans include allocated provisions for pensions to the benefit of parties outside the Group. Loans and advances to atypical silent partners result from losses carried forward and withdrawals made by silent partners with investments in fully consolidated companies.

The loans and advances on interim accounts relate solely to the trading of securities.

## (45) Liabilities to banks

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Deposits from other banks** | | | |
| German banks | 229 | 1 331 | – 83 |
| Foreign banks | 50 | 718 | – 93 |
| | **279** | **2 049** | **– 86** |
| **Liabilities resulting from money market transactions** | | | |
| German banks | 17 269 | 14 161 | 22 |
| Foreign banks | 12 592 | 15 393 | – 18 |
| | **29 861** | **29 554** | **1** |
| **Other liabilities** | | | |
| German banks | | | |
| Due on demand | 2 015 | 2 195 | – 8 |
| With a fixed term or period of notice | 23 325 | 23 209 | – |
| Foreign banks | | | |
| Due on demand | 323 | 162 | 99 |
| With a fixed term or period of notice | 5 159 | 4 983 | 4 |
| | **30 822** | **30 549** | **1** |
| **Total** | **60 962** | **62 152** | **– 2** |

Of the liabilities to banks in Germany, € 2 629 million (€ 3 674 million) are due to associated savings banks.

## (46) Liabilities to customers

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Savings deposits** | | | |
| With an agreed notice period of three months | | | |
| Domestic customers | 985 | 1 022 | – 4 |
| Customers abroad | 21 | 21 | – |
| With an agreed notice period of more than three months | | | |
| Domestic customers | 455 | 433 | 5 |
| Customers abroad | 3 | 4 | – 25 |
| | **1 464** | **1 480** | **– 1** |
| **Liabilities resulting from money market transactions** | | | |
| Domestic customers | 11 466 | 11 679 | – 2 |
| Customers abroad | 3 062 | 3 333 | – 8 |
| | **14 528** | **15 012** | **– 3** |
| **Other liabilities** | | | |
| Domestic customers | | | |
| Due on demand | 9 530 | 8 173 | 17 |
| With a fixed term or period of notice | 33 541 | 34 863 | – 4 |
| Customers abroad | | | |
| Due on demand | 494 | 350 | 41 |
| With a fixed term or period of notice | 1 185 | 1 425 | – 17 |
| | **44 750** | **44 811** | **–** |
| **Total** | **60 742** | **61 303** | **– 1** |

## (47) Securitised liabilities

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Issued debt securities** | | | |
| Mortgage bonds | 8 060 | 6 985 | 15 |
| Municipal debentures | 19 347 | 27 057 | – 28 |
| Other debt securities | 36 314 | 38 536 | – 6 |
| | **63 721** | **72 578** | **– 12** |
| **Money market instruments** | | | |
| Commercial paper | 4 691 | 4 171 | 12 |
| Certificates of deposit | 768 | 861 | – 11 |
| Other money market instruments | 1 089 | 285 | > 100 |
| | **6 548** | **5 317** | **23** |
| **Other securitised liabilities** | **792** | **1 256** | **– 37** |
| **Total** | **71 061** | **79 151** | **– 10** |

Repurchased debt securities issued by the bank itself have been directly deducted from securitised liabilities to the amount of € 8 398 million (€ 7 796 million).

## (48) Adjustment item for financial instruments hedged in the fair value hedge portfolio

This item includes the fair value adjustments to liabilities in portfolio fair value hedges for transactions classified as other liabilities (OL); these fair value adjustments are attributable to the hedged risk.

## (49) Financial liabilities at fair value through profit or loss

This item shows trading liabilities (HfT) and financial liabilities designated at fair value (dFV).

Trading liabilities comprise negative fair values resulting from derivative financial instruments which are not used in hedge accounting and delivery obligations resulting from short sales of securities.

The category financial liabilities designated at fair value includes liabilities to banks and customers, securitised liabilities and subordinated capital.

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading liabilities** | | | |
| Negative fair values from derivatives relating to | | | |
| interest rate risks | 5 854 | 5 624 | 4 |
| currency risks | 1 287 | 1 087 | 18 |
| share-price and other price risks | 58 | 185 | – 69 |
| credit derivatives | 520 | 151 | > 100 |
| | **7 719** | **7 047** | **10** |
| Delivery obligations from short sales | 235 | 232 | 1 |
| | **7 954** | **7 279** | **9** |
| **Financial liabilities designated at fair value** | | | |
| Liabilities to banks and customers | 4 970 | 5 012 | – 1 |
| Securitised liabilities | 3 638 | 3 821 | – 5 |
| Subordinated capital | 25 | 24 | 4 |
| | **8 633** | **8 857** | **– 3** |
| **Total** | **16 587** | **16 136** | **3** |

The change in the fair value of liabilities designated at fair value is the result of changes in the credit risk and amounts to € 5 million (€ 99 million) in the period under review; the cumulative change is € 19 million (€ 6 million).

The credit-risk induced change in fair value is calculated on the basis of difference consideration. The amount stated is the result of the difference between the fair value determined on the balance sheet data on the basis of current market data as well as the current NORD/LB spread curves and the fair values calculated with the help of current market data and the NORD/LB spread curves used in previous reporting periods.

The carrying amount of liabilities designated at fair value as at 31 December 2010 is 2 123 million (€ 3 571 million) less than the corresponding repayment amount. The difference essentially comprises compounding effects from zero bond issues and is the difference between the discounted payment typical for zero bonds and their repayment at nominal value.

## (50) Negative fair values from hedge accounting derivates

This item includes negative fair values of hedge instruments in effective micro fair value hedge relationships and portfolio fair value hedges.

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Micro fair value hedge derivatives | 2 199 | 1 688 | 30 |
| Portfolio fair value hedge derivatives | 70 | 414 | – 83 |
| **Total** | **2 269** | **2 102** | **8** |

## (51) Provisions

Provisions are broken down as follows:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Provisions for pensions and other obligations** | **1 355** | **1 308** | **4** |
| **Other provisions** | | | |
| Provisions in lending business | 172 | 135 | 27 |
| Provisions for restructuring measures | 39 | 48 | – 19 |
| Provisions for uncertain liabilities | 110 | 114 | – 4 |
| Provisions for insurance contracts | 1 681 | 1 633 | 3 |
| | **2 002** | **1 930** | **4** |
| **Total** | **3 357** | **3 238** | **4** |

Provisions for pensions and similar obligations are derived as follows:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Present value of defined benefit obligations | 1 414 | 1 364 | 4 |
| Less fair value of plan assets | – 59 | – 56 | 5 |
| **Total** | **1 355** | **1 308** | **4** |

With regard to the allocation for pensions, there is a reimbursement claim against LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover, in the amount of € 19 million (€ 20 million) and this is reported in other assets. The current value of reimbursement claims is € 0 million (€ 1 million).

The present value of defined benefit obligations can be reconciled from the opening to the closing balance of the period taking into account the effects of the items shown below:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Opening balance** | **1 364** | **1 212** | **13** |
| Current service cost | 24 | 20 | 20 |
| Interest expense | 73 | 71 | 3 |
| Actuarial gains/losses from the obligation | 18 | 119 | – 85 |
| Increase/decrease resulting from currency translation | 1 | 1 | – |
| Benefits paid | – 57 | – 60 | – 5 |
| Increases/decreases resulting from business combinations | – 9 | – | – |
| Effects from settlements/assignments (compensation payments) | – | 1 | – 100 |
| **Closing balance** | **1 414** | **1 364** | **4** |

In addition to pension commitments, the present value of defined benefit obligations includes allowance payments in the amount of € 106 million (€ 101 million).

The defined benefit obligation is broken down as at the balance sheet date into amounts for defined benefit plans in the amount of € 1 087 million (€ 1 054 million) which are not financed through a fund and into amounts from defined benefit obligations in the amount of € 328 million (€ 310 million) which are either fully or partially financed through a fund.

Based on experience, adjustments were made to the liabilities of the plan in the amount of € 27 million (€ – 23 million) and to the assets of the plan in the amount of € 3 million (€ 0 million).

The fair value of plan assets developed as follows:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Opening balance** | **56** | **52** | **8** |
| Anticipated earnings from plan assets | 3 | 2 | 50 |
| Actuarial gains/losses from plan assets | 3 | 4 | – 25 |
| Increases/decreases resulting from currency translation | – | 1 | – 100 |
| Employer contributions | 11 | 11 | – |
| Benefits paid | – 14 | – 14 | – |
| **Closing balance** | **59** | **56** | **5** |

The fair value of plan assets is broken down as follows:

| (in %) | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Equity instruments | 17 | 15 |
| Debt instruments | 63 | 66 |
| Real Estate | 4 | – |
| Other assets | 16 | 19 |

The fair value of plan assets includes the bank's own debt instruments in the amount of € 37 million (€ 37 million), other internally utilised assets in the amount of € 9 million (€ 11 million) and own equity instruments in the amount of € 10 million (€ 8 million).

The anticipated yield from plan assets is ascertained separately for each plan. The yield of each asset category is taken into account and the ascertainment of the target value of the plan on the valuation date is used instead of the actual value. In addition to this, the expected long-term yield of the plan assets for each asset category is weighted with the aim of determining the development of the expected yield for the portfolio. Assessments are drawn up in cooperation with investment consultants and pension experts.

The actual amount of income generated by plan assets was € 6 million (€ 5 million), with the resulting difference to expected income amounting to € 4 million (€ 3 million) or 150 per cent (150 per cent).

The figure for allocations to/withdrawals from plan including the benefit payments made directly by the Group is expected to be € 55 million (€ 54 million) in the next reporting period.

Pension costs comprise the following:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Current service cost | 25 | 20 | 25 |
| Interest expense | 73 | 71 | 3 |
| Anticipated earnings from plan assets | – 2 | – 2 | – |
| Anticipated earnings from reimbursement claims | – | – 1 | – 100 |
| **Total** | **96** | **88** | **9** |

Overview of the amounts in the current period under review and previous reporting periods:

| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|---|
| Defined benefit obligation | 1 414 | 1 364 | 1 212 |
| Plan assets | – 59 | – 56 | – 52 |
| Deficit | 1 355 | 1 308 | 1 160 |
| Actuarial gains/losses | 411 | 429 | 544 |
| Experience adjustments to | | | |
| defined benefit obligation | 27 | – 23 | 18 |
| plan assets | 3 | – | 1 |

Assumptions on the development of costs in the medical sector have effects on the amounts shown for the health care schemes. A change in the assumed development of health costs of one percentage point would have had the following effects for the Group:

| | Increase by 1 percentage point | | Decline by 1 percentage point | |
|---|---|---|---|---|
| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 |
| Effect on the obligation at the end of the year | 24 | 20 | – 20 | – 15 |
| Effect on total current service costs and interest expense for the past accounting period | 2 | 2 | – 1 | – 1 |

The payments relating to defined benefit plans also include obligations relating to early retirement schemes, partial retirement schemes and long-services awards. These obligations are reported in other provisions.

Other provisions developed as follows in the year under review:

| (in € million) | Provisions in lending business | Provisions for restructuring | Provisions for uncertain liabilities: Provisions for liabilities to personnel | Provisions for uncertain liabilities: Other provisions for uncertain liabilities | Insurance provisions | Total |
|---|---|---|---|---|---|---|
| **1 January** | **135** | **48** | **28** | **86** | **1 633** | **1 930** |
| Utilisation | 4 | 14 | 7 | 19 | 70 | 114 |
| Reversals | 43 | – | 1 | 3 | 276 | 323 |
| Allocations | 76 | 5 | 2 | 23 | 394 | 500 |
| Transfers | 5 | – | – | –5 | – | – |
| Effects from changes in interest rates | –1 | – | 8 | –2 | – | 5 |
| Changes from mergers | – | – | –1 | 1 | – | – |
| Changes from currency translation | 4 | – | – | – | – | 4 |
| **31 December** | **172** | **39** | **29** | **81** | **1 681** | **2 002** |

Provisions for restructuring relate to the implementation of the business model initiated in 2005.

Of the provisions for liabilities to personnel, provisions due to early retirement schemes account for € 17 million (€ 15 million) and provisions for long-service awards account for € 9 million (€ 8 million).

Insurance provisions mainly contain actuarial reserves in the amount of € 1 265 million (€ 1 208 million), provisions for known losses in the amount of € 223 million (€ 235 million) and provisions for the reimbursement of premiums in the amount of € 115 million (€ 124 million).

The remaining provisions are mainly due in the long term.

## (52) Income tax liabilities

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Current Income tax liabilities | 182 | 177 | 3 |
| Deferred tax liabilities | 5 | 14 | – 64 |
| **Total** | **187** | **191** | **– 2** |

Current income tax liabilities comprise payment obligations from current income tax to domestic and foreign tax authorities.

Deferred tax liabilities reflect potential income tax liabilities from temporary differences between the values of assets and liabilities in the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax assets which were offset directly against equity amounted to € 200 million as at 31 December 2010 (€ 148 million).

Deferred tax liabilities relate to the following balance sheet items:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 26 | 28 | – 7 |
| Loans and advances to customers | 142 | 120 | 18 |
| Financial assets at fair value through profit or loss | 299 | 1 851 | – 84 |
| Fair values from hedge accounting derivatives | 702 | 644 | 9 |
| Financial assets | 333 | 281 | 19 |
| Intangible assets | 40 | 33 | 21 |
| Property and equipment | 10 | 10 | – |
| Other assets | 19 | 22 | – 14 |
| **Liabilities** | | | |
| Securitised liabilities | 18 | 17 | 6 |
| Financial liabilities at fair value through profit or loss | 902 | 165 | > 100 |
| Provisions | 133 | 137 | – 3 |
| Other liabilities | 51 | 28 | 82 |
| **Total** | **2 675** | **3 336** | **– 20** |
| Net | 2 670 | 3 322 | – 20 |
| **Total** | **5** | **14** | **– 64** |

## (53) Other liabilities

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Liabilities resulting from unsettled invoices | 33 | 34 | – 3 |
| Liabilities from premiums | 1 | 3 | – 67 |
| Liabilities from short-term employee remuneration | 44 | 36 | 22 |
| Deferred income | 46 | 52 | – 12 |
| Liabilities from payable taxes and social insurance contributions | 31 | 21 | 48 |
| Liabilities from interim accounts | 222 | 1 412 | – 84 |
| Liabilities from insurance contracts | 47 | 45 | 4 |
| Other liabilities | 144 | 511 | – 72 |
| **Total** | **568** | **2 114** | **– 73** |

Liabilities from short-term employee remuneration comprise residual leave entitlements as well as compensation payments and bonuses; the latter are to be paid to employees in the Group in the first half of 2011.

Liabilities from insurance contracts relate to liabilities from direct insurance and reinsurance contracts in the amount of € 3 million (€ 4 million).

Liabilities from interim accounts relate solely to the trading of securities.

Due to an agreement with a minority shareholder, there is a liability to buy own equity instruments. The corresponding financial liability is reported at fair value (proportionate enterprise value) in the amount of € 71 million (€ 68 million) in other liabilities.

### (54) Subordinated capital

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Subordinated liabilities | 3 622 | 2 949 | 23 |
| Participatory capital | 530 | 593 | – 11 |
| Silent participations | 2 421 | 2 389 | 1 |
| **Total** | **6 573** | **5 931** | **11** |

Subordinated liabilities are not paid back until the claims of all senior creditors have been satisfied. They meet the requirements of § 10 para. 3a of the German Banking Act (KWG) in the amount of € 38 million (€ 38 million) for inclusion as core capital in accordance with § 10 para. 2a of the German Banking Act and they meet the requirements of § 10 para. 5a of the German Banking Act for inclusion to supplementary capital in accordance with § 10 para. 2b of the German Banking Act in the amount of € 3 443 million (€ 2 762 million). Interest expenses for subordinated liabilities amount to € 143 million (€ 122 million).

Participatory capital comprises bearer participating certificates and registered participatory capital. The bearer participatory capital was issued with an unlimited term and has not been terminated. The participatory capital meets the requirements of § 10 para. 5 of the German Banking Act in the amount of € 297 million (€ 297 million) for attribution to supplementary capital in accordance with § 10 para. 2b of the German Banking Act. Interest expenses for participatory capital amount to € 37 million (€ 56 million).

Due to their contractual structure and their substance, silent participations constitute debt in accordance with IAS 32; they do, however, meet requirements for recognition as core capital in the amount of € 51 million (€ 51 million) in accordance with § 10 para. 2a clause 1 no. 5 of the German Banking Act and they meet the requirements for recognition as core capital in accordance with § 10 para. 2a clause 1 no. 10 of the German Banking Act in the amount of € 2 037 million (€ 2 065 million). Interest expenses relating to silent participations amount to € 144 million (€ 131 million).

# Notes to the statement of changes in equity

The equity is made up as follows:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Issued capital | 1 085 | 1 085 | – |
| Capital reserves | 2 597 | 2 597 | – |
| Retained Earnings | 2 173 | 2 037 | 7 |
| Revaluation reserve | 66 | 24 | > 100 |
| Currency translation reserve | – 37 | – 49 | 24 |
| Equity capital attributable to the owners of NORD/LB | 5 884 | 5 694 | 3 |
| Equity capital attributable to non-controlling interests | 6 | 104 | – 94 |
| **Total** | **5 890** | **5 798** | **2** |

Capital reserves include amounts contributed in previous years by the guarantors in excess of issued capital in capital increases.

Retained earnings include amounts accumulated at NORD/LB in previous reporting periods comprising allocations from the profit for the year of the Group less minority interests in earnings, the offsetting of actuarial gains and losses directly in equity as well as the changes in equity relating to the shares in associated companies and joint ventures accounted for using the equity method and recognised directly in equity.

The revaluation reserve item reports the effects of the measurement of available for sale (AfS) financial instruments.

The currency translation reserve includes the effects of the translation of annual reports of foreign business units with a currency other than the euro relating to the application of the closing rate method.

The guarantors of the parent company NORD/LB are the federal state of Lower Saxony, with 41.75 per cent, the federal state of Saxony-Anhalt, with 8.25 per cent, the Sparkassenverband Niedersachsen (Association of the Savings Banks of Lower Saxony), with 37.25 per cent, the Sparkassenbeteiligungsverband Sachsen-Anhalt (Holding Association of the Savings Banks of SaxonyAnhalt), with 7.53 per cent, and the Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern (Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania), with 5.22 per cent.

The profit share for the silent cash contribution made by the federal state of Lower Saxony in the amount of € 700 million, which qualifies as equity in accordance with IAS 32 and is recognised in capital reserves, will be 5.85 per cent of the contribution to 2016. In subsequent periods interest will be charged at the 12-month EURIBOR rate plus 1.88 per cent. Interest for the state of Lower Saxony's silent participation of € 118 million amounted to € 10.5 million in 2010. For the financial years 2011 – 2019 the profit share for the contribution will be 9 per cent. In subsequent periods interest will be charged at the 12-month EURIBOR rate plus 5.5 per cent.

For 2010 a dividend in the amount of 7 per cent of issued capital is proposed.

# Notes to the cash flow statement

The cash flow statement shows the change in cash and cash equivalents for the reporting period as a result of cash flows from operating, investing and financing activities.

Cash and cash equivalents are defined as the cash reserve (cash on hand and balances with central banks).

The cash flow statement is prepared using the indirect method whereby the cash flow from operating activities is calculated on the basis of the consolidated earnings for the period. Prior to this calculation, expenses which have no effect on cash in the accounting period are added and income which has no effect on cash in the year under review is deducted. Furthermore, all cash expenses and income which are not allocated to operating activities are eliminated. These payments are taken into account in cash flows from investing or financing activities.

In compliance with IASB recommendations, payments from loans and advances to banks and customers, trading securities, liabilities to banks and customers and from securitised liabilities are reported under cash flow from operating activities.

Cash flow from investing activities includes payments relating to investment and security portfolios classified as financial assets as well as cash receipts and payments relating to property and equipment and to the acquisition of subsidiaries.

Cash flow from financing activities includes cash flows from changes in capital, interest payments on subordinated capital and dividend payments to the guarantors of the parent company NORD/LB.

We refer to information contained in the risk report concerning liquidity risk management in the NORD/LB Group.

# Other disclosures

# Notes to financial instruments

### (55) Fair value hierarchy

The table below shows the application of the fair value hierarchy for financial assets and liabilities at fair value recognised through profit or loss and directly in equity:

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 |
| Assets held for trading | 5 373 | 4 879 | 7 129 | 6 725 | 216 | 196 | 12 718 | 11 800 |
| Designated financial assets reported at fair value | 1 258 | 1 324 | 419 | 661 | 708 | 729 | 2 385 | 2 714 |
| Positive fair values from hedge accounting derivatives | – | – | 2 938 | 2 874 | – | – | 2 938 | 2 874 |
| Financial assets at fair value *) | 38 602 | 42 005 | 6 994 | 7 974 | 7 921 | 7 945 | 53 517 | 57 924 |
| **Assets** | **45 233** | **48 208** | **17 480** | **18 234** | **8 845** | **8 870** | **71 558** | **75 312** |
| Liabilities held for trading | 214 | 196 | 7 461 | 6 992 | 279 | 91 | 7 954 | 7 279 |
| Designated financial liabilities reported at fair value | 3 161 | 10 | 5 472 | 8 847 | – | – | 8 633 | 8 857 |
| Negative fair values from hedge accounting derivatives | – | 11 | 2 269 | 2 091 | – | – | 2 269 | 2 102 |
| **Liabilities** | **3 375** | **217** | **15 202** | **17 930** | **279** | **91** | **18 856** | **18 238** |

*) Previous year's figures of Level 1 and Level 2 were adjusted.

The trading assets and liabilities of Level 3 include among other things CDS for illiquid basic risks and CDS which were concluded on the basis of old ISDA framework agreements. The fair value of the latter is calculated based on the indicative spreads quoted for similar CDS in accordance with the new ISDA framework agreements.

In the process security spreads of liquid bonds of reference entities are included. As a result when establishing the fair value it is considered that, in accordance with the old ISDA agreements, settlement is made physically in the event of a credit event, i.e. with delivery of a bond.

The parameters used to estimate the value of the CDS were subjected to an analysis in accordance with IAS 39.AG76 and adjusted in accordance with market developments on the balance sheet date. This results in an additional expense relating to negative fair values of € 66 million compared to the previous value.

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

| 2010 (in € million) | from Level 1 to Level 2 | from Level 1 to Level 3 | from Level 2 to Level 1 | from Level 2 to Level 3 | from Level 3 to Level 1 | from Level 3 to Level 2 |
|---|---|---|---|---|---|---|
| Assets held for trading | – | 71 | – | 3 | 46 | 2 |
| Designated financial assets reported at fair value | – | 47 | 11 | 66 | 137 | 59 |
| Financial assets reported at fair value | 137 | 1 473 | 117 | 1 453 | 3 857 | 736 |
| Liabilities held for trading | – | – | – | 35 | – | 117 |
| Designated financial liabilities reported at fair value | – | – | 402 | – | – | – |

| 2009 (in € million) | from Level 1 to Level 2 | from Level 1 to Level 3 | from Level 2 to Level 1 | from Level 2 to Level 3 | from Level 3 to Level 1 | from Level 3 to Level 2 |
|---|---|---|---|---|---|---|
| Assets held for trading | – | – | 24 | 1 | 700 | 16 |
| Designated financial liabilities assets reported at fair value | 8 | – | 561 | 287 | 597 | – |
| Financial assets at fair value*) | 359 | 316 | 1 495 | 278 | 8 165 | 946 |
| Liabilities held for trading | – | – | 4 | 7 | 10 | 43 |

*) Previous year's figures of Level 1 and Level 2 were adjusted.

For the financial instruments the activity status of the parameters used for the measurement is reviewed on an individual transaction basis as described in Note 7 d). The review as at the balance sheet date has revealed that there was a decline in market activity for some prodcuts, so these can now be allocated to Level 3 and measured accordingly. There was a revival in the market for in particular financial instruments classified as financial assets; these had been allocated to Level 3 in the reference period and were transferred to Level 1.

Financial assets and liabilities in Level 3 of the fair value hierarchy developed as follows:

| Assets (in € million) | Trading assets | Designated financial assets report at fair value | Financial assets at fair value | Total |
|---|---|---|---|---|
| **1 January** | **196** | **729** | **7 945** | **8 870** |
| Effect on the income statement *) | 5 | – 15 | 1 665 | 1 655 |
| Effect on the equity capital | – | – | 36 | 36 |
| Addition from purchase or issuance | – | – | 60 | 60 |
| Disposal from sale | 11 | 3 | 120 | 134 |
| Repayment/exercise | 1 | 1 | 70 | 72 |
| Addition from Level 1 and 2 | 74 | 113 | 2 926 | 3 113 |
| Disposal to Level 1 and 2 | 48 | 196 | 4 593 | 4 837 |
| Increase/decrease resulting from currency translation | – | 81 | 72 | 153 |
| **31 December** | **215** | **708** | **7 921** | **8 844** |

| Liabilities (in € million) | Liabilities held for trading | Total |
| --- | --- | --- |
| **1 January** | **91** | **91** |
| Effect on the income statement *) | 246 | 246 |
| Addition from purchase or issuance | 25 | 25 |
| Repayment/exercise | 2 | 2 |
| Addition from Level 1 and 2 | 35 | 35 |
| Disposal to Level 1 and 2 | 117 | 117 |
| Increase/decrease resulting from currency translation | 1 | 1 |
| **31 December** | **279** | **279** |

*) Profit/losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement.

In the case of Level 3 measurement the fair value depends on the assumptions made, so that changes in the assumptions may result in corresponding fluctuations in the fair value. Significant effects as a result of these changes in the assumptions on the fair values recognised in the report are reviewed by means of a sensitivity analysis. In the sensitivity analysis when measuring the ABS securities the rating was stressed by one rating class and the WAL (Weighted Average Life) was stressed separately by one year. In the sensitivity analysis for securities the internal ratings were upgraded and downgraded by one rating class. Accordingly a change in the assumption-based parameters changes the fair values of trading assets by € 4 million, financial assets designated at fair value by € 25 million and financial assets reported at fair value by € 71 million.

## (56) Carrying amounts by measurement category

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Financial assets held for trading | 12 718 | 11 800 | 8 |
| Financial assets designated at fair value through profit or loss | 2 385 | 2 714 | – 12 |
| Available for sale assets | 53 756 | 58 171 | – 8 |
| Loans and receivables | 153 438 | 158 910 | – 3 |
| **Total** | **222 297** | **231 595** | **– 4** |
| **Liabilities** | | | |
| Financial liabilities held for trading | 7 954 | 7 279 | 9 |
| Financial liabilities designated at fair value through profit or loss | 8 633 | 8 857 | – 3 |
| Other liabilities | 199 560 | 209 948 | – 5 |
| **Total** | **216 147** | **226 084** | **– 4** |

Fair values from hedge accounting as defined by IAS 39 and the cash reserve are not included since they are not allocated to any measurement category.

## (57) Net gains or losses by measurement category

| | 1 Jan. – 31 Dec. 2010 (in € million) | 1 Jan. – 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Financial instruments held for trading | 119 | 627 | – 81 |
| Financial instruments designated at fair value through profit or loss | – 171 | – 206 | – 17 |
| Available for sale assets | 100 | – 88 | > 100 |
| Loans and advances | – 696 | – 1 081 | – 36 |
| Other Liabilities | – 37 | 1 | > 100 |
| **Total** | **– 685** | **– 747** | **8** |

The category financial instruments held for trading relates solely to trading profit/loss, while the category financial instruments designated at fair value through profit or loss includes the profit/loss of the fair value option. The category available for sale assets comprises loan loss provisions, the profit/loss from loans and receivables and the profit/loss from disposals of receivables. The category other liabilities includes solely income and expenses from the repurchase of own liabilities.

The net gains/losses of the measurement categories of financial instruments held for trading and financial instruments designated at fair value through profit or loss include the commission income for the related transactions. The hedge accounting result is not included in the gains/losses since hedge accounting is not allocated to any of the categrories.

## (58) Impairments/reversals of impairment by measurement category

| | 1 Jan. – 31 Dec. 2010 (in € million) | 1 Jan. – 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Available for sale assets** | | | |
| Profit/loss from impairment of AfS financial assets | – 35 | – 42 | 17 |
| Impairment of shares in unconsolidated companies | – 8 | – 11 | 27 |
| | **– 43** | **– 53** | **19** |
| **Loans and receivables** | | | |
| Profit/loss from impairment of LaR financial assets | – 22 | – 53 | 58 |
| Profit/loss from impairment of loans and advances | – 623 | – 986 | 37 |
| | **– 645** | **– 1 039** | **38** |
| **Total** | **– 688** | **– 1 092** | **37** |

## (59) Fair value of financial instruments

Fair values of financial instruments are compared with the carrying amounts in the following table:

| | 31 Dec. 2010 | | | 31 Dec. 2009 | | |
|---|---|---|---|---|---|---|
| (in € million) | Fair Value | Carrying amount | Difference | Fair Value | Carrying amount | Difference |
| **Assets** | | | | | | |
| Cash reserve | 1 069 | 1 069 | – | 1 844 | 1 844 | – |
| Loans and advances to banks | 37 651 | 36 734 | 917 | 42 746 | 42 356 | 390 |
| Loans and advances to customers | 113 071 | 113 606 | – 535 | 111 036 | 112 083 | – 1 047 |
| Provisions | – | – 2 018 | – | – | – 1 792 | – |
| **Sub-total of loans and advances to banks / customers (net after loan loss provisions)** | **150 722** | **148 322** | **2 400** | **153 782** | **152 647** | **1 135** |
| Financial assets reported at fair value through profit or loss | 15 103 | 15 103 | – | 14 514 | 14 514 | – |
| Positive fair values from hedge accounting derivatives | 2 938 | 2 938 | – | 2 873 | 2 873 | – |
| Financial assets not reported at fair value | 5 040 | 5 149 | – 109 | 4 994 | 5 152 | – 158 |
| Financial assets reported fair value | 53 517 | 53 517 | – | 57 924 | 57 924 | – |
| **Total** | **228 389** | **226 098** | **2 291** | **235 931** | **234 954** | **977** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Liabilities to banks | 61 249 | 60 962 | 287 | 63 099 | 62 152 | 947 |
| Liabilities to customers | 61 678 | 60 742 | 936 | 62 099 | 61 303 | 796 |
| Securitised liabilities | 74 593 | 71 061 | 3 532 | 83 080 | 79 151 | 3 929 |
| Adjustment item for financial instruments hedged in the fair value hedge portfolio | *) | 390 | – | *) | 484 | – |
| Financial liabilities reported at fair value through profit or loss | 16 587 | 16 587 | – | 16 136 | 16 136 | – |
| Negative fair values from hedge accounting derivatives | 2 269 | 2 269 | – | 2 102 | 2 102 | – |
| Subordinated capital | 6 478 | 6 573 | – 95 | 5 692 | 5 930 | – 238 |
| **Total** | **222 854** | **218 584** | **4 660** | **232 208** | **227 258** | **5 434** |

*) Amounts relating to the liabilities item "Adjustment item for financial instruments hedged in the fair value hedge portfolio" are shown in the fair values of the respective items of hedged financial instruments.

It was not possible to reliably determine a fair value for € 239 million (€ 247 million) of financial instruments. These are mainly investments for which there is no active market. There is no intention to sell these investments.

## (60) Derivative financial instruments

The NORD/LB Group employs derivative financial instruments for securing purposes in asset/liability management. Trading is also conducted in derivative financial transactions.

Nominal values constitute the gross volume of all purchases and sales. This item is a reference figure for calculating reciprocally agreed equalisation payments; it does not, however, refer to receivables and liabilities which may be recognised in the balance sheet.

The portfolio of derivative financial instruments comprises the following:

| (in € million) | | Nominal values | | Fair values | | | |
|---|---|---|---|---|---|---|---|
| | | 31 Dec. 2010 | 31 Dec. 2009 | Positive 31 Dec. 2010 | Positive 31 Dec. 2009 | Negative 31 Dec. 2010 | Negative 31 Dec. 2009 |
| **Interest rate risk** | | | | | | | |
| Interest rate swaps | | 285 507 | 288 134 | 7 747 | 7 346 | 6 610 | 6 551 |
| FRAs | | 17 258 | 288 | 2 | – | 5 | 1 |
| Interest rate options | Call | 2 890 | 2 834 | 237 | 210 | 1 | – |
| | Put | 9 417 | 10 131 | 2 | – | 1 059 | 896 |
| Caps, floors | | 7 484 | 7 697 | 129 | 118 | 77 | 70 |
| Stock exchange contracts | | 456 | 2 080 | 1 | 1 | 1 | 2 |
| Other forward interest rate transactions | | 402 | 1 800 | 66 | 117 | 17 | 49 |
| | | **323 414** | **312 964** | **8 184** | **7 792** | **7 770** | **7 569** |
| **Currency risk** | | | | | | | |
| Forward exchange contracts | | 16 564 | 13 606 | 246 | 159 | 265 | 219 |
| Currency swaps and interest rate/currency swaps | | 55 548 | 56 675 | 1 407 | 1 279 | 1 341 | 1 008 |
| Currency options | Call | 415 | 343 | 38 | 20 | – | – |
| | Put | 386 | 326 | – | – | 32 | 17 |
| Other currency transactions | | 190 | 38 | 1 | – | 1 | – |
| | | **73 103** | **70 988** | **1 692** | **1 458** | **1 639** | **1 244** |
| **Share price and other price risks** | | | | | | | |
| Equity swaps | | 892 | 823 | 18 | 14 | 16 | 31 |
| Stock options | Call | 1 159 | 497 | 64 | 43 | – | – |
| | Put | 1 017 | 335 | – | – | 42 | 153 |
| Stock exchange contracts | | 43 | 174 | 1 | 2 | 1 | 1 |
| | | **3 111** | **1 829** | **83** | **59** | **59** | **185** |
| **Credit risk** | | | | | | | |
| Assignor | | 1 596 | 1 795 | 21 | 11 | 3 | 8 |
| Assignee | | 8 167 | 8 399 | 9 | 92 | 517 | 143 |
| | | **9 763** | **10 194** | **30** | **103** | **520** | **151** |
| **Total** | | **409 391** | **395 975** | **9 989** | **9 412** | **9 988** | **9 149** |

The residual terms to maturity of the derivative financial instruments are shown below.

| Nominal values | Interest rate risk | | Currency risk | | Share price and other price risk | | Credit risk | |
|---|---|---|---|---|---|---|---|---|
| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 |
| Up to 3 months | 47 053 | 31 532 | 18 996 | 19 001 | 187 | 470 | 87 | 66 |
| More than 3 months up to 1 year | 41 790 | 41 921 | 12 383 | 10 416 | 1 896 | 230 | 655 | 503 |
| More than 1 year up to 5 years | 126 115 | 121 729 | 22 665 | 22 496 | 684 | 727 | 6 736 | 5 712 |
| More than 5 years | 108 456 | 117 782 | 19 059 | 19 075 | 344 | 402 | 2 285 | 3 913 |
| **Total** | **323 414** | **312 964** | **73 103** | **70 988** | **3 111** | **1 829** | **9 763** | **10 194** |

The residual term is defined as the period between the balance sheet date and the contractual due date.

The table below shows the nominal values and a breakdown of the positive and negative fair values of derivative transactions by counterparty.

| | Nominal values | | Fair values | | | |
|---|---|---|---|---|---|---|
| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 | Positive 31 Dec. 2010 | Positive 31 Dec. 2009 | Negative 31 Dec. 2010 | Negative 31 Dec. 2009 |
| Banks in the OECD | 369 262 | 355 897 | 8 244 | 8 017 | 9 417 | 8 696 |
| Banks outside the OECD | 860 | 926 | 4 | 6 | 33 | 12 |
| Public institutions in the OECD | 8 161 | 6 441 | 136 | 151 | 111 | 104 |
| Other counterparties (including stock exchange contracts) | 31 108 | 32 711 | 1 605 | 1 238 | 427 | 337 |
| **Total** | **409 391** | **395 975** | **9 989** | **9 412** | **9 988** | **9 149** |

## (61) Underlying transactions in effective hedges

Financial assets and liabilities which as underlying transactions are part of a hedge in accordance with IAS 39 continue to be reported together with unsecured transactions in the respective balance sheet items since the hedging transaction has no effect on the type of underlying transaction and its funktion. The balance sheet item for financial instruments (LaR and OL categories), otherwise reported at amortised cost, is adjusted by the change in fair value results in the hedged risk (by reporting the item in a separate balance sheet item). Financial instruments in the AfS category continue to be reported at their full fair value.

The financial assets and liabilities which are hedged underlying transactions in an effective micro fair hedge are shown below for information purposes:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 1 638 | 1 760 | – 7 |
| Loans and advances to customers | 6 153 | 5 446 | 13 |
| Financial assets *) | 13 749 | 11 961 | 15 |
| **Total** | **21 540** | **19 167** | **12** |
| **Liabilities** | | | |
| Liabilities to banks | 1 439 | 1 242 | 16 |
| Liabilities to customers | 9 496 | 9 016 | 5 |
| Securitised liabilities | 13 645 | 15 078 | – 10 |
| Subordinated capital | 1 097 | 984 | 11 |
| **Total** | **25 677** | **26 320** | **– 2** |

*) Previous year's figures were adjusted.

The financial assets and liabilities which are hedged underlying transactions in an effectice portfolio fair value hedge are shwon below for information purposes:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Financial assets | 554 | 6 497 | – 91 |
| **Total** | **554** | **6 497** | **– 91** |
| **Liabilities** | | | |
| Securitised liabilities | 13 517 | 10 562 | 28 |
| **Total** | **13 517** | **10 562** | **28** |

## (62) Residual terms of financial liabilities

| 31 December 2010<br>(in € million) | Up to 1 month | More than 1 month up to 3 months | More than 3 months up to 1 year | More than 1 year up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Liabilities to banks | 23 817 | 9 999 | 5 825 | 12 946 | 9 918 | 62 505 |
| Liabilities to customers | 20 086 | 5 484 | 3 958 | 15 698 | 23 471 | 68 697 |
| Securitised liabilities | 2 709 | 7 065 | 9 965 | 51 003 | 9 293 | 80 035 |
| Financial liabilities at fair value through profit or loss (no derivatives) | 143 | 427 | 961 | 4490 | 5 828 | 11 849 |
| Negative fair values from derivatives held for trading | 2 920 | 1 028 | 2 860 | 3 689 | 1 379 | 11 876 |
| Negative fair values from hedge accounting derivatives | 86 | 85 | 205 | 825 | 546 | 1 747 |
| Other liabilities (financial instruments only) | 3 | 1 | – | – | – | 4 |
| Subordinated capital | 302 | 60 | 472 | 2 534 | 4 364 | 7 732 |
| Financial guarantees | 3 843 | 43 | 87 | 360 | 545 | 4 878 |
| Irrevocable credit commitments | 1 491 | 42 | 2 624 | 6 396 | 2 424 | 12 977 |
| **Total** | **55 400** | **24 234** | **26 957** | **97 941** | **57 768** | **262 300** |

| 31 December 2008<br>(in € million) | Up to 1 month | More than 1 month up to 3 months | More than 3 months up to 1 year | More than 1 year up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Liabilities to banks | 23 116 | 11 972 | 7 915 | 12 404 | 10 319 | 65 726 |
| Liabilities to customers | 17 690 | 6 974 | 4 802 | 14 011 | 26 769 | 70 246 |
| Securitised liabilities | 5 346 | 4 897 | 12 094 | 51 752 | 15 846 | 89 935 |
| Financial liabilities at fair value through profit or loss (no derivatives) | 271 | 442 | 805 | 3 423 | 6 617 | 11 558 |
| Negative fair values from derivatives held for trading | 4 642 | 3 593 | 2 894 | 14 272 | 12 634 | 38 035 |
| Negative fair values from hedge accounting derivatives | 70 | 92 | 188 | 583 | 636 | 1 569 |
| Other liabilities (financial instruments only) | 5 | – | – | – | – | 5 |
| Subordinated capital | 45 | 10 | 468 | 1 562 | 4 692 | 6 777 |
| Financial guarantees | 4 548 | 81 | 127 | 460 | 399 | 5 615 |
| Irrevocable credit commitments | 2 335 | 117 | 3 486 | 8 606 | 1 808 | 16 352 |
| **Total** | **58 068** | **28 178** | **32 779** | **107 073** | **79 720** | **305 818** |

The residual term for undiscounted financial liabilities is defined as the period between the balance sheet date and the contractual due date.

### (63) NORD/LB group as assignor and assignee

The following financial assets have been pledged as collateral for liabilities (carrying amounts):

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Loans and advances to banks | 4 338 | 1 134 | > 100 |
| Loans and advances to customers | 4 240 | 4 179 | 1 |
| Financial instruments at fair value through profit or loss | 2 786 | 1 122 | > 100 |
| Financial assets | 11 956 | 12 796 | – 7 |
| **Total** | **23 320** | **19 231** | **21** |

Collateral has been provided for borrowing undertaken within the scope of sale and repurchase agreements with obligatory retransfer (repos). Collateral has also been provided for refinancing funds for specific purposes, securities lending transactions and Eurex transactions.

Financial assets deposited as collateral for which the assignee has the contractual or customary right to sell or re-pledge the collateral amount to € 10 315 million (€ 8 160 million).

Assets were assigned as collateral to the amounts shown for the following liabilities:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Liabilities to banks | 10 461 | 13 337 | – 22 |
| Liabilities to customers | 2 318 | 2 091 | 11 |
| Financial liabilities at fair value through profit or loss *) | 619 | 693 | – 11 |
| **Total** | **13 398** | **16 121** | **– 17** |

*) Previous year's figures were adjusted.

For collateral received which may be re-pledged or re-sold even if the assignor does not default, the fair value for security sale and repurchase agreements and securities lending is € 9 026 million (€ 5 309 million).

Collateral which may be re-pledged or re-sold even if the assignor does not default was realised. The repayment obligation at current market value is € 1 616 million (€ 1 371 million).

## (64) Securities sale and repurchase agreements and securities lending

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Reverse repurchase transactions as borrower** | | | |
| Loans and advances to banks | 1 319 | 4 755 | – 72 |
| Loans and advances to customers | 1 014 | 167 | > 100 |
| | **2 333** | **4 922** | **– 53** |
| **Repurchase transactions as lender** | | | |
| Liabilities to banks | 12 992 | 11 724 | 11 |
| Liabilities to customers | 2 838 | 2 158 | 32 |
| | **15 830** | **13 882** | **14** |

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Loaned securities** | | | |
| Loaned securities at fair value through profit or loss | – | 183 | – 100 |
| Loaned securities from financial assets | 26 | – | – |
| | **26** | **183** | **– 86** |
| **Borrowed securities** | **688** | **794** | **– 13** |

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Securities sold under repurchase agreements** | | | |
| Securities sold under repurchase agreements at fair value through profit or loss | 1 460 | 964 | 51 |
| Securities sold under repurchase agreements from financial assets | 12 210 | 12 321 | – 1 |
| | **13 670** | **13 285** | **3** |
| **Securities purchased under repurchase agreements** | **4 111** | **6 656** | **– 38** |

# Other notes

### (65) Equity management

Equity management is conducted at the parent company with effect for the Group. The aim is to secure an adequate supply of capital resources in terms of quantity and quality, to achieve an adequate return on equity and to permanently comply with regulatory minimum capital ratios at Group level in each case. Significant capital figures in equity management are:

- Reported equity
- Regulatory core capital
- Regulatory capital

For the majority of these capital figures, target capital ratios are specified for the Group for which the numerator is the respective capital figure and the denominator is respective risk-weighted assets in accordance with the German Solvency Regulation (Solvabilitätsverordnung). Regulatory minium capital ratios, which must be permanently maintained, are also in place for regulatory core capital and regulatory capital (regulatory core capital: currently 4 per cent, regulatory capital: currently 8 per cent). The target capital ratios at Group level for regulatory core capital and regulatory capital in some cases far exceed the regulatory minimum capital ratios. These regulatory minimum capital ratios are likely to gradually rise between 2013 and 2019 due to the changing regulatory requirements ("Basel III"). Compliance with these rising minimum capital ratios will result in specific requirements being placed in equity capital management in the next few years.

The actual development of the above capital figures and the related capital ratios is regularly determined and reported to the bank's management and supervisory bodies. Furthermore, if required, budgets and forecasts are prepared for these capital figures and ratios. If they indicate any risk for the defined target capital ratios either adjustment measures are taken in terms of risk-weighted assets or, on agreement with the guarantors of the bank, procurement measures will be taken for individual capital figures, or a combination of the two.

In 2009 and 2010 the bank maintained the regulatory minimum capital ratios at Group level at all times. The regulatory core capital ratio and the regulatory capital ratio (= overall ratio) at the end of each year are reported in note (66).

## (66) Regulatory capital

The consolidated regulatory capital below was calculated in accordance with the regulations of the German Solvency Regulation (SolvV).

| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Risk-weighted assets** | **86 850** | **92 575** |
| Capital requirements for credit risk | 6 468 | 6 934 |
| Capital requirements for market risk | 183 | 227 |
| Capital requirements for operational risk | 297 | 245 |
| **Capital requirements according to the SolvV** | **6 948** | **7 406** |

The following schedule shows the composition of regulatory equity for the group of institutes in accordance with § 10 in conjunction with § 10a of the German Banking Act.

| (in € million) | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Paid-in capital | 1 213 | 1 191 |
| Contributions from silent partners | – | 2 882 |
| Other reserves | 2 823 | 2 869 |
| Special item for general banking risks in accordance with § 340g of the German Commercial Code | 1 082 | 1 094 |
| Other capital *) | 2 855 | – |
| Other components | – 28 | 15 |
| **Core capital** | **7 945** | **8 051** |
| Non-current subordinated liabilities | 3 443 | 2 762 |
| Participatory capital liabilities | 297 | 297 |
| Other components | 152 | 106 |
| **Supplementary capital** | **3 892** | **3 165** |
| Deductions from core capital and supplementary capital | 2 232 | 2 240 |
| **Modified available equity** | **9 605** | **8 976** |
| **Eligible capital in accordance with § 10 of the German Banking Act** | **9 605** | **8 976** |

*) Due to changes of the German Banking Act there is a new structure of the core capital. Previous year's figures was shown in contributions from silent partners.

| (in %) | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Overall ratio according to § 2 Paragraph 6 of the German Solvency Regulation (SolvV) | 11.06 | 9.70 |
| Core capital ratio | 9.15 | 8.70 |

## (67) Foreign currency volume

As at 31 December 2010 the NORD/LB Group had the following assets and liabilities in foreign currency:

| 31 December 2010 (in € million) | USD | GBP | JPY | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash reserve | – | – | – | 2 | 2 |
| Loans and advances to banks | 1 288 | 148 | 236 | 948 | 2 620 |
| Loans and advances to customers | 24 525 | 3 215 | 2 093 | 2 552 | 32 385 |
| Loan loss provisions | – 177 | – 55 | – 25 | – 16 | – 273 |
| Financial assets at fair value through profit or loss | – 4 564 | – 1 079 | 2 433 | 1 193 | – 2 017 |
| Positive fair values from hedge accounting derivatives | 117 | 5 | 122 | 137 | 381 |
| Financial assets | 4 551 | 1 083 | 389 | 1 707 | 7 730 |
| Other assets | – | – | – | 1 | 1 |
| **Total** | **25 740** | **3 317** | **5 248** | **6 524** | **40 829** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to banks | 7 287 | 2 062 | 192 | 1 471 | 11 012 |
| Liabilities to customers | 2 430 | 311 | 53 | 673 | 3 467 |
| Securitised liabilities | 3 569 | 28 | 1 994 | 2 074 | 7 665 |
| Financial liabilities at fair value through profit or loss | 10 157 | – 391 | 2 704 | 2 212 | 14 682 |
| Negative fair values from hedge accounting derivatives | 453 | 40 | 138 | 135 | 766 |
| Provisions | – | – | – | 1 | 1 |
| Other liabilities | – | – | – | 2 | 2 |
| Subordinated capital | 23 | – | 18 | 40 | 81 |
| **Total** | **23 919** | **2 050** | **5 099** | **6 608** | **37 676** |

Existing exchange rate risks are eliminated by concluding transactions with matching maturities.

## (68) Non-current assets and liabilities

For balance sheet items which include both current and non-current assets and liabilities, the assets and liabilities which are to be realised or settled after more than 12 months are shown below.

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 *) (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 20 822 | 22 308 | – 7 |
| Loans and advances to customers | 93 800 | 89 833 | 4 |
| Assets held for trading | 10 176 | 10 386 | – 2 |
| Loans and advances to banks designated at fair value | 16 | 16 | – |
| Loans and advances to customers designated at fair value | 221 | 215 | 3 |
| Financial assets designated at fair value | 603 | 589 | 2 |
| Positive fair values from hedge accounting derivatives | 2 637 | 1 242 | > 100 |
| Financial assets classified as LaR | 4 632 | 4 553 | 2 |
| Financial assets classified as AfS | 41 054 | 47 056 | – 13 |
| Other assets | 31 | 30 | 3 |
| **Total** | **173 992** | **176 228** | **–** |
| **Liabilities** | | | |
| Liabilities to banks | 22 693 | 24 338 | – 7 |
| Liabilities to customers | 36 271 | 32 831 | 10 |
| Securitised liabilities | 59 376 | 68 669 | – 14 |
| Adjustment item for financial instruments hedged in the fair value hedge portfolio | 390 | 484 | – 19 |
| Liabilities held for trading | 6 677 | 5 997 | 11 |
| Liabilities to banks designated at fair value | 502 | 562 | – 11 |
| Liabilities to customers designated at fair value | 4 355 | 4 199 | 4 |
| Securitised liabilities designated at fair value | 3 638 | 3 785 | – 4 |
| Subordinated capital designated at fair value | 25 | 24 | 4 |
| Negative fair values from hedge accounting derivatives | 2 535 | 1 536 | 65 |
| Provisions | 1 522 | 1 459 | 4 |
| Other liabilities | 31 | 30 | 3 |
| Subordinated capital | 6 059 | 5 604 | 8 |
| **Total** | **144 074** | **149 518** | **– 4** |

*) Some of the previous year's figures were adjusted.

## (69) Contingent liabilities and other obligations

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Contingent liabilities** | | | |
| Liabilities from guarantees and other indemnity agreements | 7 026 | 7 349 | – 4 |
| **Other obligations** | | | |
| Irrevocable credit commitments | 12 978 | 16 332 | – 21 |
| **Total** | **20 004** | **23 681** | **– 16** |

Liabilities from guarantees and other indemnity agreements include credit guarantees, trade-related guarantees and contingent liabilities from other guarantees and indemnity agreements.

There are also letters of comfort for Norddeutsche Landesbank Luxembourg S.A., Luxembourg; NORD/LB COVERED FINANCE BANK S.A., Luxembourg; Skandifinanz Bank AG, Zurich; NORD/LB Asset Management Holding GmbH, Hanover; Nieba GmbH, Hanover and Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover.

Information on estimations of financial effects, uncertainty concerning the amount or the timing of outflows of capital and on possible equalisation payments is not given for reasons of practically.

### (70) Other financial obligations

The Group vouches for the obligations of the Sparkassenverband Niedersachsen (Association of the Savings Banks of Lower Saxony) resulting from its membership in the Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Girobanks) and the DekaBank Deutsche Girozentrale. In addition joint liability has been assumed for DekaBank Deutsche Girozentrale with the other shareholders of this bank within the scope of the guarantor function.

NORD/LB, together with Sparkassenverband Niedersachsen and Landesbank Berlin Holding AG, also acts as guarantor for LBS Norddeutsche Landesbausparkasse Berlin-Hannover.

In connection with the acquisition of Deutsche Hypothekenbank (Actien-Gesellschaft), the Group is obliged to reimburse Deutscher Sparkassen- und Giroverband e.V. as the guarantor of the security reserve for landesbanks and giro centres all expenditure including interest and interest lost for supporting measures which cannot be paid from the fund established for Deutsche Hypothekenbank in accordance with the agreement concluded between Deutscher Sparkassen- und Giroverband e.V. and Deutsche Hypothekenbank AG on 19 December 2008.

There was also an obligation to release Bundesverband deutscher Banken e.V. (Association of German Banks) from all losses which were a result of measures in accordance with § 2 paragraph 2 of the statute of the “Einlagensicherungsfond” (deposit protection fund) for the Deutsche Hypothekenbank (Actien-Gesellschaft). The participation of Deutsche Hypothekenbank (Actien-Gesellschaft) in the German bank’s 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).

Furthermore NORD/LB indemnifies a director of a limited company under British law from all costs, and claims for liability and damages which arise in relation to his activities as a director.

Due to its investments in Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig, NORD/LB is liable to the effect that the limited partners have released the general partner from liability.

In a joint investments 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. In the internal relationship the Group assumes 50 per cent of obligations that may result from this declaration of liability.

In connection with the sale of companies in the NILEG sub-group, a guarantee was made to the purchaser that taxes for periods for which tax audits had not yet been conducted have been fully paid or adequate provisions have been set up. In this respect NORD/LB is liable for any additional back taxes if the value exceeds of € 0.5 million.

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.

NORD/LB is also jointly liable for finance in the amount of € 0.1 million relating to the investment in AKA.

Concerning the disposal of the part of the share in LHI Leasing GmbH, Munich, a guarantee was also made to the purchaser that any taxes corresponding liabilities due on and before 31 December 2005 have been paid and provisions for any taxes over and above this amount have been carried in the financial statements for the periods ending on or before 31 December 2005. In this respect NORD/LB is liable for any additional back taxes if the value exceeds € 0.1 million.

There is also a liability for an amount of up to € 4 million (€ 4 million) to be paid to the employees of two public-sector insurance companies in the event of insolvency.

An obligation towards two companies (two companies) involves the granting of a shareholder loan to the amount of € 21 million (€ 25 million).

The Group is also obliged to make additional contributions up to an amount of € 258 million (€ 255 million) to the security reserve for landesbanks and giro centres. In the event of a need for support these subsequent contributions could be collected immediately.

Membership in the regional reserve fund, established on 1 January 2007, and its agent funds, results, in the event of the restructuring of the affiliated institutes, in an obligation to make a maximum additional contribution of € 259 million (€ 269 million) if funds available in the savings bank's support fund are insufficient.

Other obligations to make additional contributions amount to € 34 million (€ 34 million) in additional to further joint liabilities for other shareholders towards Liquiditäts-Konsortialbank GmbH.

Furthermore obligations to make additional contributions result on the basis of memberships of protection schemes for insurance companies to the amount of € 1 million (€ 1 million). Due to memberships in other protection schemes within the scope of insurance business, the Group, besides being a proportionate guarantor, also bears additional liability risks to the amount of € 4 million (€ 4 million).

The personally liable partners of a real estate investment fund have been released from their statutory liability.

Call-in obligations for shares and other interests amounted to € 20 million at year-end (€ 23 million).

Securities have been deposited as collateral relating to transactions on the Eurex, Frankfurt, and foreign forward markets in the nominal amount of € 255 million (€ 302 million).

Obligations pertaining to existing rental, lease, guarantee and other similar agreements are within the scope of standard business.

## (71) Subordinated assets

Assets are considered to be subordinated if they are only met after the claims of other creditors in the event of the liquidation or the insolvency of a debtor. The following subordinated assets are included in balance sheet assets:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| Loans and advances to banks | 63 | 203 | – 69 |
| Financial assets | 68 | 48 | 42 |
| **Total** | **131** | **251** | **– 48** |

## (72) Trust activities

In compliance with IFRS regulations, trust activities are not shown in the consolidated balance sheet of the NORD/LB Group; however, they are present in the Group.

Trust activities are broken down as follows:

| | 31 Dec. 2010 (in € million) | 31 Dec. 2009 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets held in trust** | | | |
| Loans and advances to banks | 3 | – | – |
| Loans and advances to customers | 233 | 272 | – 14 |
| Financial instruments at fair value through profit or loss | 11 | 9 | 22 |
| Financial assets | 47 | 65 | – 28 |
| Other assets held in trust | 111 | 134 | – 17 |
| **Total** | **405** | **480** | **– 16** |
| **Liabilities held in trust** | | | |
| Liabilities to banks | 186 | 201 | – 7 |
| Liabilities to customers | 61 | 80 | – 24 |
| Other liabilities held in trust | 158 | 199 | – 21 |
| **Total** | **405** | **480** | **– 16** |

## (73) Events after the balance sheet date

For significant events which occurred after the balance sheet date, the supplementary report is referred to.

# Related parties

## (74) Number of employees

The average number of employees in the Group for the period under review is shown as follows:

| | Male | | Female | | Total | |
|---|---|---|---|---|---|---|
| | 1 Jan. – 31 Dec. 2010 | 1 Jan. – 31 Dec. 2009 | 1 Jan. – 31 Dec. 2010 | 1 Jan. – 31 Dec. 2009 | 1 Jan. – 31 Dec. 2010 | 1 Jan. – 31 Dec. 2009 |
| NORD/LB | 1 976 | 1 826 | 2 065 | 1 965 | 4 041 | 3 791 |
| Bremer Landesbank sub-group | 543 | 516 | 537 | 506 | 1 080 | 1 022 |
| NORD/LB Luxembourg sub-group | 116 | 95 | 50 | 38 | 166 | 133 |
| Deutsche Hypothenbank | 208 | 175 | 160 | 136 | 368 | 311 |
| ÖVB | 346 | 310 | 334 | 324 | 680 | 634 |
| Other | 77 | 69 | 44 | 40 | 121 | 109 |
| **Group** | **3 266** | **2 991** | **3 190** | **3 009** | **6 456** | **6 000** |

## (75) Related parties

All the consolidated and unconsolidated subsidiaries, associated companies and joint ventures qualify as related parties. The guarantors of NORD/LB, Hannoversche Beteiligungsgesellschaft mbH, Hanover, the provident funds and the companies under IAS 24.9 (f) are also related parties.

Natural persons considered to be related parties in accordance with IAS 24 are the members of the Managing Board, the Supervisory Board and the committees of NORD/LB as the parent company and their close relatives.

Business transacted with related parties is concluded at standard market terms and conditions.

The scope of transactions conducted with related parties in 2010 and 2009, excluding those to be eliminated under consolidation, can be seen in the following statements:

| 31 December 2010 (in € 000) | Shareholders | Subsidaries | Joint Ventures | Affiliated companies | Persons in key positions | Other related parties |
|---|---|---|---|---|---|---|
| Outstanding loans and advances | | | | | | |
| to banks | – | – | – | 1 051 618 | – | – |
| to customers | 3 000 218 | 65 261 | 17 313 | 200 266 | 2 077 | 41 257 |
| Other unsettled assets | 1 762 628 | 211 | – | 31 204 | – | 105 |
| **Total assets** | **4 762 846** | **65 472** | **17 313** | **1 283 088** | **2 077** | **41 362** |
| Unsettled liabilities | | | | | | |
| to banks | – | – | – | 369 860 | – | – |
| to customers | 998 384 | 52 974 | 2 290 | 131 918 | 2 809 | 8 661 |
| Other unsettled liabilities | 46 634 | 1 236 270 | – | 477 | – | – |
| **Total liabilities** | **1 045 018** | **1 289 244** | **2 290** | **502 255** | **2 809** | **8 661** |
| Guarantees/sureties received | 4247 347 | 27 | – | 5 000 | – | – |
| Guarantees/sureties granted | 5 325 031 | 750 | 1 196 | 8 036 | – | – |

| 1 January – 31 December 2010 (in € 000) | Shareholders | Subsidaries | Joint Ventures | Affiliated companies | Persons in key positions | Other related parties |
|---|---|---|---|---|---|---|
| Interest expense | 107 713 | 91 909 | 4 | 16 321 | 41 | 324 |
| Interest income | 179 224 | 5 460 | 10 117 | 52 570 | 91 | 1 670 |
| Commission expense | 24 172 | – | – | – | – | – |
| Commission income | 200 | 261 | 7 | 276 | 1 | 1 |
| Other income and expenses | – 10 183 | 154 | – 311 | – 2 273 | – 4 904 | – 71 |
| **Total contributions to income** | **37 356** | **– 86 034** | **9 809** | **34 252** | **– 4 853** | **1 276** |

| 31 December 2009<br><br>(in € 000) | Shareholders | Subsidaries | Joint Ventures | Affiliated companies | Persons in key positions | Other related parties |
|---|---|---|---|---|---|---|
| Outstanding loans and advances | | | | | | |
| to banks | – | – | 49 939 | 946 856 | – | – |
| to customers | 3 338 377 | 83 511 | 5 339 | 211 992 | 2 071 | 75 327 |
| Other unsettled assets | 2 402 444 | 77 | 497 | 24 599 | 460 | 1 430 |
| **Total assets** | **5 740 821** | **83 588** | **55 775** | **1 183 447** | **2 531** | **76 757** |
| Unsettled liabilities | | | | | | |
| to banks | – | – | 7 | 311 277 | – | – |
| to customers | 574 387 | 58 793 | 1 368 | 139 044 | 5 140 | 16 521 |
| Other unsettled liabilities | 50 119 | 1 236 270 | – | – | 50 | – |
| **Total liabilities** | **624 506** | **1 295 063** | **1 375** | **450 321** | **5 190** | **16 521** |
| Guarantees/sureties received | 4 178 747 | – | – | – | – | – |
| Guarantees/sureties granted | 5 325 060 | 1 095 | 160 | 6 954 | – | – |

| 1 January – 31 December 2009<br><br>(in € 000) | Shareholders | Subsidaries | Joint Ventures | Affiliated companies | Persons in key positions | Other related parties |
|---|---|---|---|---|---|---|
| Interest expense | 9 266 | 78 280 | 49 | 9 976 | 80 | 667 |
| Interest income | 181 459 | 4 383 | 22 704 | 54 843 | 88 | 3 553 |
| Commission expense | 18 588 | – | – | – | 3 | 23 |
| Commission income | 111 | 114 | 2 | 292 | 5 | 37 |
| Other income and expenses | 42 015 | 144 | 106 | – 10 275 | – 7 237 | 468 |
| **Total contributions to income** | **195 731** | **– 73 639** | **22 763** | **34 884** | **– 7 227** | **3 368** |

In the item guarantees/sureties received from shareholders, guarantees to the amount of € 3 550 000 thousand (€ 3 550 000 thousand) are reported; these relate to an issue programme (G-MTN guaranteed by the states of Lower Saxony and Saxony-Anhalt which serves for the refinancing of the NORD/LB Group. In the item guarantees/sureties granted to shareholders, guarantees to the amount of € 5 325 000 thousand (€ 5 325 000 thousand) are reported; these relate to a security pool of loans and advances with which the aforementioned guarantees received from the states of Lower Saxony and Saxony-Anhalt are secured. The maximum term of the guarantees is 5 years.

Total remuneration and loans to governing bodies in accordance with commercial law presented in note (77) Remuneration and loans to governing bodies. Payments due in the short term to members of the committees who are related parties (other than members of the Managing Board or the Supervisory Board) amount to € 70 thousand (€ 49 thousand).

## (76) Members of governing bodies and list of mandates

### 1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman of the Managing Board)

Christoph Schulz
(Deputy Chairman of the Managing Board)

Dr. Jürgen Allerkamp
(up to 31 January 2010)

Eckhard Forst

Martin Halblaub
(up to 11 January 2010)

Dr. Hinrich Holm
(since 1 February 2010)

Dr. Johannes-Jörg Riegler

### 2. Members of the Supervisory Board

Hartmut Möllring
(Chairman)
Minister of Finance, State of Lower Saxony

Thomas Mang
(First Deputy Chairman)
President, Association of
Savings Bank in Lower Saxony

Jens Bullerjahn
(Second Deputy Chairman)
Minister of Finance, State of Saxony-Anhalt

Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Hermann Bröring
County Officer
Emsland District

Edda Döpke
Bank employee
NORD/LB Hannover

Ralf Dörries
Senior Vice President
NORD/LB Hannover

Dr. Josef Bernhard Hentschel
Chairman of the Managing Board
Sparkasse Osnabrück

Frank Hildebrandt
Bank employee
NORD/LB Braunschweig

Dr. Gert Hoffmann
Mayor, City of Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Walter Kleine
Chairman of the Managing Board
Sparkasse Hannover

Manfred Köhler
Chairman of the Managing Board
Salzlandsparkasse

Heinrich v. Nathusius
Managing Director
IFA Gruppe

August Nöltker
Union Secretary
ver.di Vereinte Dienstleistungsgewerkschaft
District administration

Freddy Pedersen
Deputy District Manager
United Services Union
ver.di Vereinte Dienstleistungsgewerkschaft

Ilse Thonagel
Bank employee
Landesförderinstitut
Mecklenburg-Western Pomerania

Mirja Viertelhaus-Koschig
Deputy Chairman of the Managing Board
VIEROL AG

As at 31 December 2010 the following mandates were held at large corporations by members of the Managing Board of the NORD/LB Group. Banks are treated as large corporations.

| Name | Company |
|---|---|
| Dr. Gunter Dunkel | Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen<br>Continental AG, Hanover<br>DekaBank Deutsche Girozentrale, Frankfurt<br>Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover<br>Norddeutsche Landesbank Luxembourg S.A., Luxembourg<br>Skandifinanz Bank AG, Zurich<br>Johannes Berenberg, Gossler & Co. KG, Hamburg (up to 2 August 2010) |
| Christoph Schulz | LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover<br>Norddeutsche Landesbank Luxembourg S.A., Luxembourg<br>Totto Lotto Niedersachsen GmbH, Hanover<br>Johannes Berenberg, Gossler & Co. KG, Hamburg (up to 2 August 2010) |
| Eckhard Forst | Bank DnB NORD A/S, Copenhagen (up to 23 December 2010)<br>DEUTSCHE FACTORING BANK GmbH & Co. KG, Bremen<br>Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover<br>NORD/LB Capital Management GmbH, Hanover<br>(since 22 February up to 22 November 2010)<br>NORD/LB Kapitalanlagegesellschaft AG, Hanover<br>(since 22 February up to 22 November 2010) |
| Dr. Hinrich Holm | Bank DnB NORD A/S, Copenhagen (since 1 February up to 23 December 2010)<br>Investitionsbank Sachsen-Anhalt, Magdeburg (since 25 February 2010)<br>LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover<br>(since 1 February 2010) |
| Dr. Johannes-Jörg Riegler | Bank DnB NORD A/S, Copenhagen (since 23 December 2010)<br>Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover<br>LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover<br>Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen<br>Johannes Berenberg, Gossler & Co. KG, Hamburg<br>Norddeutsche Landesbank Luxembourg S. A., Luxembourg<br>(since 1 January 2011) |

## (77) Remuneration of and loans to governing bodies

| (in € 000) | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Emoluments paid to active members of governing bodies** | | |
| Payments due short-term | | |
| Managing Board | 3 922 | 6 141 |
| Supervisory Board | 412 | 485 |
| **Emoluments paid to former members of governing bodies and their dependants** | | |
| Payments due short-term | | |
| Supervisory Board | 499 | 564 |
| Payments after termination of employment | | |
| Managing Board | 4 163 | 4 483 |
| Provisions for pension obligations | | |
| Managing Board | 48 772 | 34 928 |
| Supervisory Board | 961 | 1 080 |
| **Advance payments, loans and contingencies** | | |
| Managing Board | 848 | 1 268 |
| Supervisory Board | 157 | 157 |

## (78) Group auditor’s fees

| (in € 000) | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| **Group auditor’s fees for** | | |
| the statutory audit | 5 832 | 6 477 |
| other audit-related services | 2 081 | 2 036 |
| tax services | 105 | 4 |
| other services | 405 | 667 |

## (79) Equity holdings

The list of equity holdings includes all of the companies includes in the consolidated financial statements, the non-consolidated companies, joint ventures, affiliated companies and other equity holdings from 20 per cent. The information on the companies was taken from the most recent available annual financial statements which have been adopted.

| Company name and registered office | Shares (%) direct | Shares (%) indirect |
|---|---|---|
| **a) Companies included in the consolidated financial statements** | | |
| **aa) Subsidiaries included in the consolidated financial statements** | | |
| Beteiligungs- Kommanditgesellschaft MS „Buxmelody“ Verwaltungs- und Bereederungs GmbH & Co., Buxtehude | – | – |
| BLB Immobilien GmbH, Bremen | 100.00 | – |
| BLB Leasing GmbH, Oldenburg | 100.00 | – |
| Braunschweig-Informationstechnologie-GmbH, Braunschweig | 100.00 | – |
| Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen | – | 92.50 |
| Bremische Grundstücks-GmbH, Bremen | 100.00 | – |
| DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pöcking | – | – |
| Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover – Berlin | – | 100.00 |
| GEBAB Ocean Shipping II GmbH & Co. KG, Hamburg | – | – |
| GEBAB Ocean Shipping III GmbH & Co. KG, Hamburg | – | – |
| Hannover Funding Company LLC, Delaware/USA | – | – |
| KMU Shipping Invest GmbH, Hamburg [4)] | – | – |
| MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach im Isartal | – | 77.81 |
| MT „BALTIC COMMODORE“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg | – | – |
| MT „BALTIC CHAMPION“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg | – | – |
| MT „NORDIC SCORPIUS“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg | – | – |
| MT „NORDIC SOLAR“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg | – | – |
| MT „NORDIC STAR“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg | – | – |
| Nieba GmbH, Hanover | – | 100.00 |
| Norddeutsche Landesbank Luxembourg S.A., Luxembourg/Luxembourg | – | 100.00 |

| Company name and registered office | Shares (%) direct | Shares (%) indirect |
|---|---|---|
| NORD/FM Norddeutsche Facility Management GmbH, Hanover | – | 100.00 |
| NORD/LB Asset Management Holding GmbH, Hanover | – | 100.00 |
| NORD/LB Capital Management GmbH, Hanover | 100.00 | – |
| NORD/LB COVERED FINANCE BANK S.A., Luxembourg/Luxembourg | 100.00 | – |
| NORD/LB G-MTN S.A., Luxembourg/Luxembourg | – | 100.00 |
| NORD/LB Immobilien-Holding GmbH & Co. Objekt Magdeburg KG, Magdeburg | – | – |
| NORD/LB Kapitalanlagegesellschaft AG, Hanover | 100.00 | – |
| Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover | – | 100.00 |
| NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen | 100.00 | – |
| Öffentliche Facility Management GmbH, Braunschweig | 100.00 | – |
| Öffentliche Facility Management Leben GmbH & Co. KG, Braunschweig | 100.00 | – |
| Öffentliche Facility Management Sach GmbH & Co. KG, Braunschweig | 100.00 | – |
| Öffentliche Lebensversicherung Braunschweig, Braunschweig | – | 75.00 |
| Öffentliche Sachversicherung Braunschweig, Braunschweig | – | 75.00 |
| „OLIVIA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth | – | – |
| „OLYMPIA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth | – | – |
| „PANDORA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth | – | – |
| PANIMA GmbH & Co. Objekte Braunschweig KG, Pullach im Isartal | – | 94.00 |
| PANIMA GmbH & Co. Objekt Hannover KG, Pullach im Isartal | – | 94.00 |
| „PRIMAVERA“ Beteiligungsgesellschaft mbH & Co.KG, Elsfleth | – | – |
| „QUADRIGA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth | – | – |
| Skandifinanz Bank AG, Zurich/Switzerland | 100.00 | – |

| Company name and registered office | Shares (%) direct | Shares (%) indirect |
|---|---|---|
| **ab) Investment funds included in the consolidated financial statements** | | |
| NORD/LB AM 118 NLB | – | 100.00 |
| NORD/LB AM High-Yield | – | 89.38 |
| NORD/LB AM VT Renten Classic | – | 67.56 |
| NORD/LB AM 9 | 100.00 | – |
| NORD/LB AM 52 | – | 100.00 |
| NORD/LB AM 56 | – | 100.00 |
| NORD/LB AM 65 | – | 100.00 |
| NORD/LB AM OELB | 100.00 | – |
| NORD/LB AM OESB | 100.00 | – |
| **ac) Companies/investment funds accounted for in the consolidated financial statements using the equity method** | | |
| **Joint ventures** | | |
| KreditServices Nord GmbH, Hanover | – | 49.00 |
| LHI Leasing GmbH, Pullach im Isartal | 43.00 | 6.00 |
| **Affiliated companies** | | |
| Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede | 32.26 | – |
| BREBAU GmbH, Bremen | 48.84 | – |
| Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen | 27.50 | – |
| GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg | 22.22 | – |
| LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover | 44.00 | – |
| LINOVO Productions GmbH & Co. KG, Munich | – | 45.17 |
| NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover | – | 40.00 |
| NORD KB Beteiligungsgesellschaft mbH, Hanover | – | 28.66 |
| SALEG Sachsen-Anhaltinische Landesentwicklungsgesellschaft mbH, Magdeburg | – | 56.61 |
| Toto-Lotto Niedersachsen GmbH, Hanover | – | 49.85 |
| **Investment funds** | | |
| Lazard-Sparkassen Rendite-Plus-Fonds | 49.18 | – |
| NORD/LB AM Emerging Market Bonds | – | 47.02 |
| NORD/LB AM Global Challenges Index-Fonds | – | 47.63 |

| Company name and registered office | Share of capital held (in %) | Equity [1] (in € 000) | Profit/Loss (in € 000) |
|---|---|---|---|
| **b) Companies not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million** | | | |
| BGG Bremen GmbH & Co. KG, Bremen [7] | 100.00 | 1 918 | 165 |
| BGG Oldenburg GmbH & Co. KG, Bremen [7] | 100.00 | 7 715 | 919 |
| Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [2] [6] | 100.00 | 8 597 | – |
| Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [2] [6] | 100.00 | 30 626 | – |
| Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [7] | 100.00 | 4 200 | 820 |
| Deutsche Hypo Delaware Blocker Inc., Wilmington/USA [4] [7] | 100.00 | 10 685 | – 120 |
| HALOR GmbH, Pöcking [6] | 100.00 | 1 863 | 14 |
| HERMA Verwaltungs- und Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [6] | 100.00 | 2 146 | 69 |
| Medicis Nexus GmbH & Co. KG, Icking [6] | 66.01 | 9 762 | – 37 |
| NBN Grundstücks- und Verwaltungs-GmbH, Hanover [6] | 100.00 | 1 148 | – 1 063 |
| NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [6] | 90.00 | 1 894 | – 1 653 |
| Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [6] | 100.00 | 15 160 | 89 |
| NORD/LB RP Investments LLC, Wilmington/USA [6] | 100.00 | 1 771 | – 7 019 |
| Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [2] [6] | 98.00 | 3 088 | – |
| Schiffsbetriebs-Gesellschaft Bremen mnH, Bremen [6] | 100.00 | 1 070 | 11 |
| SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [6] | 100.00 | 1 192 | – 1 410 |
| Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [6] | 100.00 | 37 485 | 1 849 |
| Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [2] [6] | 100.00 | 1 278 | – |
| Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [8] | 72.70 | – 4 638 | 410 |
| Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Tiefgarage Stade Vermietungs KG, Hanover [8] | 90.00 | – 2 876 | 23 |

| Company name and registered office | Share of capital held (in %) | Equity [1] (in € 000) | Profit/Loss (in € 000) |
|---|---|---|---|
| **c) Capital share of greater or equal 20 % in companies with an equity capital of greater or equal +/– € 1 million** | | | |
| **Joint ventures/affiliated companies** | | | |
| BHS Berliner Hannoversche Software GmbH, Hanover [6] | 50.00 | 1 144 | 13 |
| Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [6] | 50.00 | 5 200 | 393 |
| Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [3] | 49.00 | – | – |
| Bremer Toto und Lotto GmbH, Bremen | 33.33 | 4 283 | 181 |
| Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [6] | 20.89 | 14 539 | 662 |
| Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [6] | 20.44 | 9 599 | 250 |
| Gewobau Gesellschaft für Wohnungsbau Vechta GmbH, Vechta [6] | 20.46 | 9 111 | 515 |
| Herrenhausen Verwaltungs GmbH Gastronomie & Co. KG, Hanover [6] | 25.00 | 1 696 | – 176 |
| Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen [6] | 52.56 | 1 763 | – 769 |
| INI International Neuroscience Institute Hannover GmbH, Hanover [8] | 22.67 | – 11 131 | – 1 066 |
| Medical Park Hannover GmbH, Hanover [6] | 50.00 | 1 513 | 127 |
| Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [6] | 26.00 | 8 511 | 746 |
| Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [6] | 39.82 | 5 982 | 740 |
| NBV Beteiligungs-GmbH, Hamburg [6] | 28.57 | 19 396 | 1 746 |
| Öffentliche Versicherung Bremen, Bremen [6] | 20.00 | 5 710 | 360 |
| USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [5] | 42.86 | 6 624 | – 797 |
| Wohnungsbaugesellschaft Wesermarsch mbH, Brake [6] | 21.71 | 22 704 | 198 |

| Company name and registered office | Share of capital held (in %) |
|---|---|
| **d) Subsidiaries not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million** | |
| BLBI Beteiligungs-GmbH, Bremen | 100.00 |
| Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig | 100.00 |
| Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig | 100.00 |
| Braunschweig Grundstücksvertriebsgesellschaft mbH, Braunschweig | 100.00 |
| Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen | 100.00 |
| City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover | 100.00 |
| FL FINANZ-LEASING GmbH, Wiesbaden | 58.00 |
| Interhansa Gesellschaft für Beteiligungen und Warenhandel mit beschränkter Haftung i. L., Hanover | 100.00 |
| LBT Holding Corporation, Wilmington, Delaware / USA [4)] | 100.00 |
| LHI Leasing GmbH & Co. Immobilien KG, Pullach im Isartal | 90.00 |
| NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover | 100.00 |
| NORDBAU Hamburger Wohnungs- und Baubetreuungsgesellschaft mbH i. L., Bremen | 100.00 |
| NORDIG Norddeutsche Investitionsgesellschaft mbH, Hanover | 100.00 |
| NORD/LB Beteiligungsgesellschaft in Mecklenburg-Vorpommern und Sachsen-Anhalt mbH, Hanover | 100.00 |
| NORD/LB Financial Services LLC, New York / USA | 100.00 |
| NORD/LB Informationstechnologie GmbH, Hanover | 100.00 |
| NORD/LB Project Holding Ltd., London / Great Britain | 100.00 |
| PLM Grundstücksverwaltung GmbH, Hanover | 100.00 |
| Ricklinger Kreisel Beteiligungs GmbH, Hanover | 100.00 |
| TANGENS Grundstücksverwaltung GmbH & Co. Vermietungs-KG, Pullach im Isartal | 100.00 |
| Terra Grundbesitzgesellschaft am Aegi mbH, Hanover | 100.00 |
| Themis 1 LLC, Wilmington / USA | 100.00 |
| Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Grundschulen-Vermietungs-KG, Hanover | 79.80 |

Anmerkungen:
1) equity capital in line with §§ 266 and 272 HGB less outstanding deposits
2) a profit and loss franfer agreement exists with the resp. company
3) figures are not shown acc. to § 313 sec. 2 no. 4, para 4 HGB
4) founded during the reporting period
5) data as at 30 Sep. 2009 exists (different reporting period)
6) data as at 31 Dec. 2009 exists
7) figures relate to the current annual report 2010, which has not been audited yet
8) There is no actual overindebtedness

# Responsibility Statement

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

Hanover / Braunschweig / Magdeburg, 15 March 2011

Norddeutsche Landesbank Girozentrale

**The Managing Board**

Dr. Dunkel Schulz Forst

Dr. Holm Dr. Riegler

# Auditor's Report

"We have audited the consolidated financial statements prepared by the Norddeutsche Landesbank Girozentrale, Hanover, Braunschweig and Magdeburg, comprising the consolidated income statement, statement of comprehensive income, consolidated balance sheet, statement of changes in equity, consolidated cash flow and statement, notes to the consolidated financial statements including the consolidated segment reporting, and the Group management report for the financial year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a of the German Commercial Code (HGB), is the responsibility of the legal representatives of the parent company. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) 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 net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB) and give a true and fair view of the net assets, financial and earnings position of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and overall provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, 18 March 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
[German Public Auditor]

Hultsch
Wirtschaftsprüfer
[German Public Auditor]

52° 16' N, 10° 31' O
Braunschweig

# Reports

pages 285–287

## Contents

286 Report of the Supervisory Board

287 Report of the Guarantors' meeting

# 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 the bank and the Group during the year under report. 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 statues and regulations pertaining to these articles. Fundamental issues relating to the business strategy and to operational areas were discussed in detail during several meetings.

The annual financial statements of NORD/LB for the 2010 accounting period were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, who issued joint and unqualified auditors' certification. The auditors also took part in the meeting of the Supervisory Board to discuss the annual financial statements, which was held on 28 March 2011 and 11 April 2011, and reported on the results 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 28 March 2011 the Supervisory Board adopted the management report and the annual financial statements as at 31 December 2010.

The annual financial statements and the management report as at 31 December 2010 according to IFRS was approved on 11 April 2011.

The Supervisory Board thanks the Board of Management of the bank for the trustful cooperation and expresses its appreciation of the work performed in the 2010 banking year by the Managing Board and by all of the employees of the bank.

Hanover / Braunschweig / Magdeburg
April 2011

Hartmut Möllring
Minister of Finance
State of Lower Saxony

# Report of the Guarantors' meeting

In the year under report the Guarantors' meeting performed the duties assigned to it by the state treaty and by the statues. The Guarantors' meeting resolved on the appropriation of the profit for the year as proposed by the Supervisory Board and ratified the actions of the Managing Board and the Supervisory Board of the bank.

In its meetings in 2010, the owner's meeting approved significant resolutions to the issue of long-term subordinated capital.

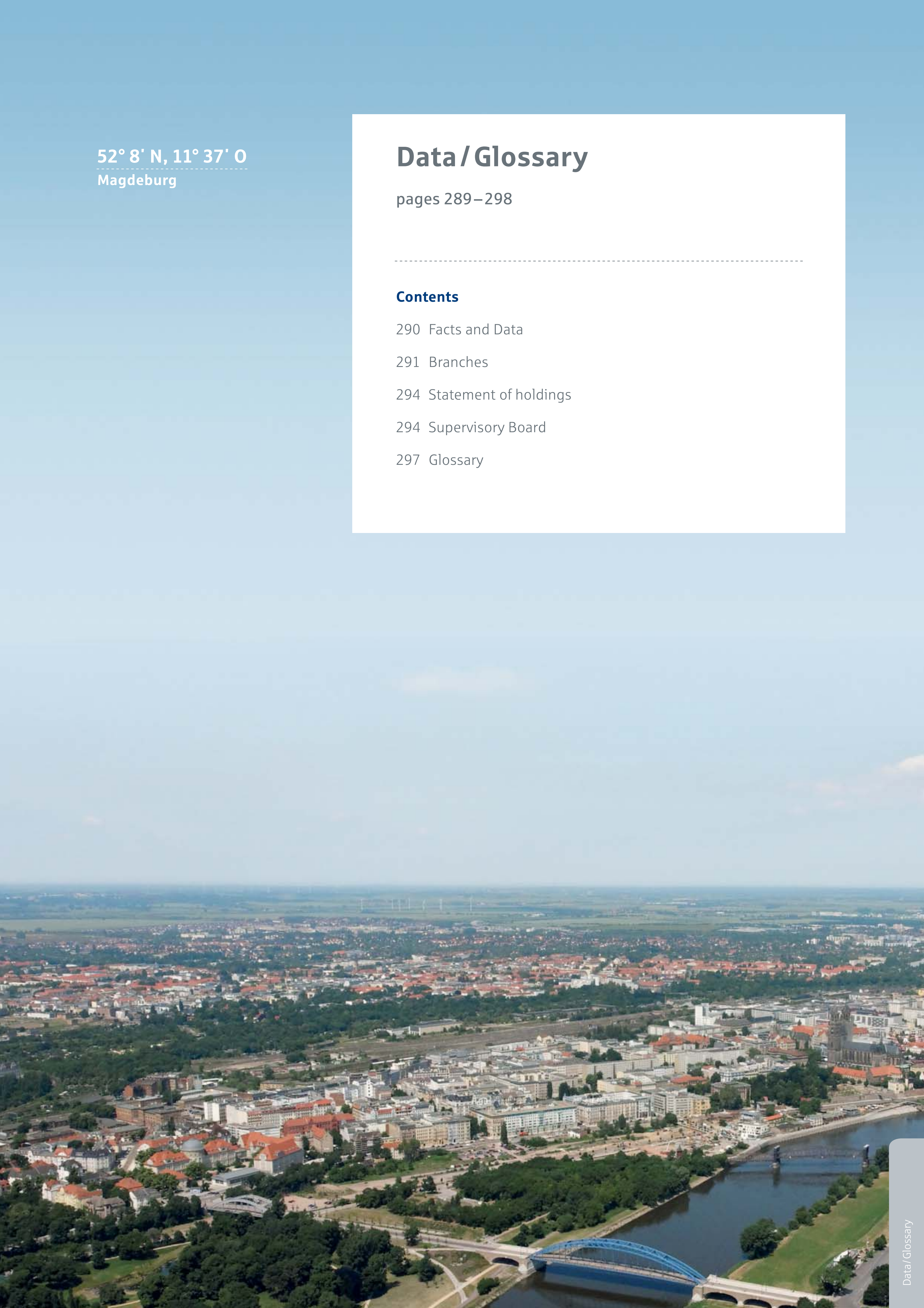
The following members resigned from the Guarantors' meeting:
Mr. Franz Halbritter as at 28 February 2010
Mr. Klaus Brandes as at 30 September 2010

The following new members were appointed to the Guarantors' meeting:
Mr. Jürgen Kiehne as at 22 March 2010
Mr. Hans-Heinrich Hahne as at 1 October 2010

The Guarantors' meeting thanks the Managing Board and the Supervisory Board for work performed.

Hanover / Braunschweig / Magdeburg
April 2011

Thomas Mang
President
Association of Savings Banks in Lower Saxony



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Magdeburg

# Data / Glossary

pages 289 – 298

## Contents


290 Facts and Data

291 Branches

294 Statement of holdings

294 Supervisory Board

297 Glossary

# Facts and Data

### Foundation

Norddeutschen Landesbank Girozentrale founded by merger of 1 July 1970

### Predecessors:

Niedersächsische Landesbank – Girozentrale – (founded 1917)
Braunschweigische Staatsbank (founded 1765)
Hannoversche Landeskreditanstalt (founded 1840)
Niedersächsische Wohnungskreditanstalt Stadtschaft – (founded 1918)

### Legal Basis

State treaty of 22 August 2007 concluded between the federal states of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania on Norddeutsche Landesbank Girozentrale (entered into force on 1 January 2008).

Statues of Norddeutsche Landesbank Girozentrale in accordance with a resolution taken at the Guarantors' meeting on 12 December 2008 (entered into force on 1 January 2009).

### Legal Form

Institution incorporated under public law

### Guarantors

State of Lower Saxony
Association of Savings Banks in Lower Saxony
State of Saxony-Anhalt
Savings Banks Holding Association in Saxony-Anhalt
Special Purpose Holding Association
of Savings Banks in Mecklenburg-Western Pomerania

### Executive Bodies

Managing Board
Guarantors' meeting
Supervisory Board

### Supervision

Supervised by the Minister of Finance of the State of Lower Saxony in consultation with the counterparts of the State of Saxony-Anhalt

### Managing Board

Dr. Gunter Dunkel
(Chairman)

Christoph Schulz
(Deputy Chairman)

Dr. Jürgen Allerkamp
(up to 31 Jan. 2010)

Eckhard Forst

Dr. Hinrich Holm
(since 1 Feb. 2010)

Martin Halblaub
(up to 11 Jan. 2010)

Dr. Johannes-Jörg Riegler

### Executive Vice Presidents

Ulrike Brouzi
(since 1 Jul. 2010)

Kurt Gliwitzky
(up to 31 Dec. 2010)

Sven Herlyn

Carsten Hüncken

Jürgen Machalett

Dr. Ulf Meier

Christoph Trestler

### Headquarters

Hanover (administrative centre)
Friedrichswall 10
30159 Hanover

Braunschweig
Friedrich-Wilhelm-Platz
38100 Braunschweig

Magdeburg
Breiter Weg 7
39104 Magdeburg

### Development Banks

Investitionsbank Sachsen-Anhalt
Domplatz 12
39104 Magdeburg

Landesförderinstitut
Mecklenburg-Vorpommern
Werkstraße 213
19061 Schwerin

## Branches

Hanover Branch
Georgsplatz 1
30159 Hanover

Hamburg Branch
Brodschrangen 4
20457 Hamburg

Magdeburg Branch
Landesbank für Sachsen-Anhalt
Breiter Weg 7
39104 Magdeburg

Schwerin Branch
Graf-Schack-Allee 10/10A
19053 Schwerin

## Foreign Branches

*(alphabetical)*

NORD/LB London
71, Queen Victoria Street
London EC4V 4NL
Great Britain

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, New York 10036

NORD/LB Shanghai
15F, China Insurance Building
166 east lujiazui road
Pudong New District
Shanghai 200120
PR China

NORD/LB Singapore
6 Shenton Way, 16-00
DBS BUILDING Tower 2
Singapore 068809

## Real Estate Office

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, New York 10036

## Deutsche Hypo

Georgsplatz 8
30159 Hanover

## Branch of Deutsche Hypo

Uhlandstraße 165/166
10719 Berlin

62–64 Cannon Street
Cannongate House – 1st Floor
London EC4N 6AE

## Offices of Deutsche Hypo

Koenigsallee 63–65
40215 Duesseldorf

Goethestraße 18
60313 Frankfurt

Brodschrangen 4
20457 Hamburg

Widenmayerstraße 15
80538 Munich

Karl-Grillenberger-Straße 3
90402 Nuremberg

## Representative Offices of Deutsche Hypo

Strawinskylaan 625
Tower B, Level 6
1077 XX Amsterdam

María de Molina, 40,
1° Centro
28006 Madrid

23, Rue de la Paix
75002 Paris

## Representative Offices

*(alphabetical)*

NORD/LB Moscow
Plotnikov per., 12, Office 114
119002 Moscow
Russian Federation

NORD/LB Beijing
C406, Beijing Lufthansa Center
50 Liangmaqiao Road
Chaoyang District
Beijing 100125
PR China

NORD/LB India
301, Madhava
Bandra Kurla Complex
Bandra – East
Mumbai 400 051
India

## Branches of the Braunschweigische Landessparkasse

**Bad Gandersheim**
Markt 6–8

**Bad Harzburg**
Breite Straße 18, Bündheim
Herzog-Wilhelm-Straße 2
Herzog-Wilhelm-Straße 72
Meinigstraße 48, Harlingerode

**Bevern**
Angernstraße 12

**Boffzen**
Mühlengrube 1

**Börßum**
Hauptstraße 63

**Braunlage**
Heinrich-Jasper-Platz 1
Hindenburgstraße 3, Hohegeiß

**Braunschweig**
Ackerweg 4a, Hondelage
Altstadtring 52
Am Mascheroder Holz 2, (SB-Center), Mascherode
Bevenroder Straße 134, Querum
Bohlweg 74 (SB-Center)
Borsigstraße 30 (SB-Center), Bebelhof
Brandenburgstraße 1, Wenden
Braunschweiger Straße 13, Rautheim
Celler Heerstraße 313, Watenbüttel
Dankwardstraße 1
David-Mansfeld-Weg 26, (SB-Center), Kanzlerfeld
Elbestraße 30
Feuerbrunnen 1, Waggum
Friedrich-Wilhelm-Platz, Bürgerpark
Humboldtstraße/Gliesmaroder Straße 1
Große Grubestraße 30 B, Broitzem
Im Remenfeld 5, Volkmarode
Kastanienallee 28/29
Ligusterweg 24b, Schwarzer Berg
Mühlenpfordtstraße 4/5 (SB-Center)
Neustadtring 9
Nibelungenplatz 16
Pfälzerstraße 35, Veltenhof
Querumer Straße 72, Gliesmarode
Saarplatz 6, Lehndorf
Sack 19 (SB-Center)
Stöckheimer Markt, Stöckheim
Thiedestraße 24, Rüningen
Tostmannplatz 18, Schuntersiedlung
Waisenhausdamm 7
Weimarstraße 10–12, Heidberg
Welfenplatz 5, Südstadt

**Büddenstedt**
Wulfersdorfer Straße 10

**Cremlingen**
Am Dorfplatz 11, Weddel
Hauptstraße 42a

**Delligsen**
Dr.-Jasper-Straße 56

**Eschershausen**
Steinweg 10

**Fürstenberg**
Neue Straße 2 (SB-Center)

**Golmbach**
Holenberger Straße 14 (SB-Center)

**Goslar**
Talstraße 11A, Oker

**Grasleben**
Bahnhofstraße 2A

**Groß Denkte**
Mönchevahlbergstraße 5 (SB-Center)

**Groß Twülpstedt**
Conringstraße 5

**Grünenplan**
Obere Hilsstraße 3

**Hahausen**
Neustadt 34

**Helmstedt**
Gröpern 1
Schöninger Straße 23
Vorsfelder Straße 52/54
Max-Planck-Weg 7b (SB-Center)

**Holzminden**
Am Wildenkiel 2, Neuhaus im Solling
Böntalstraße 9
Liebigstraße 22

**Jerxheim**
Scheverberg 2

**Kissenbrück**
Schlesierweg 10 (SB-Center)

**Königslutter**
Elmstraße 107

**Kreiensen**
Steinweg 22, Greene
Wilhelmstraße 13

**Langelsheim**
Bahnhofstraße 5
Goslarsche Straße 22b, SB-Center), Astfeld
Hauptstraße 9, Wolfshagen

**Lauenförde**
Hasenstraße 1

**Lehre**
Boimsdorfer Straße 2a

**Lutter am Barenberge**
Gerichtstraße 1 B

**Salzgitter**
Berliner Straße 148
Burgbergstraße 48D, Lichtenberg
Fischzug 1 (SB-Center)
Gärtnerstraße 4, Salder
In den Blumentriften 64
Kurt-Schumacher-Ring 4, Fredenberg
Maangarten 32, Hallendorf
Schäferwiese 4a, Steterburg
Weddemweg 5, Gebhardshagen
Wildkamp 28, Mammutring
Wolfenbütteler Straße 5, Thiede

**Schöningen**
Markt 11

**Schöppenstedt**
Markt 4/5

**Seesen**
Katelnburgstraße 17A, Rhüden
Jacobsonstraße 1
Kampstraße 43 (SB-Center)
Thüringer Straße 10, Münchehof

**Sickte**
Bahnhofsstraße 19a

**Stadtoldendorf**
Neue Straße 6A

**Süpplingen**
Steinweg 19

**Vechelde**
Hildesheimer Straße 83

**Velpke**
Grafhorster Straße 5

**Walkenried**
Harzstraße 7

**Wieda**
Otto-Haberlandt-Straße 28

**Winnigstedt**
Hauptstraße 4 (SB-Center)

**Wolfenbüttel**
Goslarsche Straße 14
Bahnhofstraße 6 (SB-Center)
Holzmarkt 20
Jahnstraße 36
Lindener Straße 57

**Wolfsburg**
Gerta-Overbeck-Ring 7, Reislingen
Lange Straße 19, Vorsfelde
Meinstraße 79 (SB-Center), Vorsfelde

**Zorge**
Taubentalstraße 26

## Statement of holdings

Braunschweig GmbH
Friedrichswall 10
30159 Hanover

Bremer Landesbank Kreditanstalt
Oldenburg Girozentrale
Domshof 26
28195 Bremen

Deutsche Hypothekenbank
(Actien-Gesellschaft)
Georgsplatz 8
30159 Hanover

Nieba GmbH*
Friedrichswall 10
30159 Hanover

GLB GmbH & Co OHG*
Neue Mainzer Straße 52–58
60311 Frankfurt am Main

** with the subsidiary*
*DekaBank Dt. Girozentrale*
*Mainzer Landstraße 16*
*60325 Frankfurt am Main*

NORD/LB Asset Management
Holding GmbH*
Calenberger Esplanade 2–4
30169 Hanover

** with the subsidiaries*
*NORD/LB Kapitalanlagegesellschaft AG*
*Calenberger Esplanade 2–4*
*30169 Hanover*

*NORD/LB Capital Management GmbH*
*Calenberger Esplanade 2–4*
*30169 Hanover*

NORD/LB Luxembourg S.A.*
26, route d'Arlon
L-1140 Luxembourg

** with the subsidiaries*
*Skandifinanz AG*
*Münsterhof 13*
*CH-8001 Zurich*

*NORD/LB Covered Finance Bank S.A.*
*26, route d'Arlon 26*
*L-1140 Luxembourg*

NORD/FM Norddt. Gesellschaft für
Facility Management mbH
Breite Straße 10
30159 Hanover

NORD Holding
Unternehmens-Beteiligungsgesellschaft mbH
Walderseestraße 23
30177 Hanover

Nord-Ostdeutsche
Bank-Beteiligungsgesellschaft mbH*
Friedrichswall 10
30159 Hanover

** with the subsidiaries*
*LBS Norddeutsche*
*Landesbausparkasse*
*Berlin-Hannover*
*Kattenbrookstrift 33*
*30539 Hanover*

*LHI Leasing GmbH*
*Emil-Riedl-Weg 6*
*82049 Pullach i. Isartal*

Öffentliche Versicherung
Braunschweig
Theodor-Heuss-Straße 10
38122 Braunschweig

## Supervisory Board

*(As at 23 February 2011)*

**Chairman**
Hartmut Möllring
Minister of Finance
State of Lower Saxony

**First Deputy Chairman**
Thomas Mang
President
Association of Savings Banks in Lower Saxony

**Second Deputy Chairman**
Jens Bullerjahn
Minister of Finance
State of Saxony-Anhalt

**Members**
Frank Berg
Chairman of the Board of Management
OstseeSparkasse Rostock

Hermann Bröring
County Officer
Emsland District

Edda Döpke
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Ralf Dörries
Senior Vice President
NORD/LB Norddeutsche Landesbank Girozentrale

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Chairman of the Board of Management
Sparkasse Osnabrück

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Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

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Mayor
City of Braunschweig

Martin Kind
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KIND Hörgeräte GmbH & Co. KG

Walter Kleine
Chairman of the Board of Management
Sparkasse Hannover

Manfred Köhler
Chairman of the Board of Management
Salzlandsparkasse

August Nöltker
Representative
United Services Union
(ver.di – Vereinte Dienstleistungsgewerkschaft)

Freddy Pedersen
United Services Union
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Ilse Thonagel
Bank employee
Landesförderinstitut
Mecklenburg-Western Pomerania

Mirja Viertelhaus-Koschig
Deputy Chairman of the Board of Management
VIEROL AG

Heinrich von Nathusius
Managing Director
IFA Gruppe

## Guarantors' meeting

*(as at 23 February 2011)*

**Chairman**
Thomas Mang
President
Association of Savings Banks in Lower Saxony

**First Deputy Chairman**
Peter Siebken
Chairman of the Board of Management
Sparkasse Neubrandenburg-Demmin

**Second Deputy Chairman**
Thomas Webel
Country Officer
Börde District

**For the State of Lower Saxony**
Thomas Brase
Managing Director
Hannoversche Beteiligungsgesellschaft mbH

Cora Jeanette Hermenau
Undersecretary
Ministry of Finance
State of Lower Saxony

**For the State of Saxony-Anhalt**
Dr. Ingolf Lange
Principal
Ministry of Finance
State of Saxony-Anhalt

Dr. Helmut Stegmann
Undersecretary
Ministerium der Finanzen
des Landes Sachsen-Anhalt

**Savings banks holding association in Saxony-Anhalt**
Jürgen Kiene
Chairman of the Board of Management
Sparkasse Burgenlandkreis

**Special Purpose Holding Association of Savings Banks in Mecklenburg-Western Pomerania**
Dr. Paul Krüger
Mayor
City of Neubrandenburg

**For the Association of Savings Banks in Lower Saxony**
Hans-Heinrich Hahne
Chairman of the Board of Management
Sparkasse Schaumburg

# Glossary

**Amortised cost**
Amount at which financial assets or liabilities are measured on initial recognition less repayments, including or less accumulated amortisation of any discount or premium using the effective interest rate method and less any allowances for impairment.

**Asset Backed Securities (ABS)**
Tradable, interest-bearing securities whose interest payments and capital repayments are derived from and collateralised or backed by secured underlying financial assets.

**Assets held for trading**
Financial assets acquired for the purpose of achieving a profit in the short term, as well as derivative financial instruments that are not hedging instruments in an effective hedge relationship.

**Available for sale financial assets**
Non-derivative financial assets which are not allocated to any other IAS 39 valuation category or assets which have been classified as available for sale. Until derecognition changes in the fair value are recognised directly in equity.

**Backtesting**
Method of monitoring the quality of value-at-risk models involving a retrospective comparison of losses calculated in the value-at-risk approach with losses effectively incurred.

**Confidence level**
In the value-at-risk model the confidence level describes the probability at which a potential loss will not exceed a defined value-at-risk loss limit.

**Deferred taxes**
If stated values in the tax balance sheet differ from the carrying amounts of assets and liabilities in the IFRS balance sheet and if these differences are taxable temporary differences, amounts of income tax liabilities payable in the future or amounts of income tax assets recoverable in the future are recognised as deferred taxes

**Derivative or derivative financial instrument**
Derivatives or derivative financial instruments are financial assets or liabilities whose value changes on the basis of a defined underlying asset (interest rate, currency, share, etc.), which requires no initial investment or only a small initial investment and is settled at a future date.

**Effective interest method**
Method for calculating the amortised cost of financial assets or liabilities and the allocation of interest income and expense to the respective periods. The effective interest rate is the interest rate used for calculating estimated future cash receipts and payments through the expected life of the financial instruments to their exact discounted net carrying amount.

**Embedded derivatives**
Structured products comprise a host contract and one or more embedded derivative financial instruments. The components are all the subject matter of a single contract relating to the structured product, i.e. they constitute a legal unit and may not be negotiated separately due to the circumstance of a contractual unit. Embedded derivatives are to be reported as separate financial instruments in certain circumstances.

**Equity method**
Accounting method whereby the investment in associated companies and joint ventures is initially recognised in the balance sheet at cost and adjusted in subsequent periods in accordance with the change in the investor's share of the net assets of the associate.

**Expected loss**
Expected loss is the loss of the bank which is expected to occur within a year and is calculated on the basis of historical loss data, e.g. in the loan portfolio.

**Fair value**
Amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties in an arm's length transaction.

**Finance lease**
Lease in which risks and rewards relating to ownership of the leased item are substantially transferred to the lessee.

**Financial assets or liabilities designated at fair value through profit or loss (dFV)**
Financial assets and liabilities may under certain circumstances be irrevocably designated at fair value through profit or loss upon initial recognition ("fair value option"). Recognition and measurement inconsistencies resulting from different valuation methods are thus avoided or significantly reduced.

**Financial instrument**
A financial instrument is a contract that gives rise to a financial asset of one entity and at the same time gives rise to a financial liability or equity instrument for another entity.

**Goodwill**
Future economic benefits from assets resulting from business combinations which cannot be individually identified and separately recognised.

**Hedge accounting**
Accounting and balance sheet presentation of hedging relationships between hedged item and hedging instrument in order to avoid fluctuation in the income statement and in equity which would results from different measurements of hedged item and hedging instrument.

**Hedged item**
Financial assets or liabilities, fixed liabilities, highly probable forecast transactions or net investments in foreign operations that a company exposes to the risk of a change in fair value or future cash flows and that are designated as part of an effective hedge relationship.

**Hedging instrument**
Derivative or (in the event of hedging currency risk) non-derivative financial instruments for which the fair value or cash flows are expected to effectively offset or reduce the changes in the fair value or cash flow of a designated hedged item.

**Impairment**
If the carrying amount of an asset exceeds its recoverable amount or if there is objective evidence of impairment to a financial asset and if this loss event has a measurable impact on the estimated future cash flows, the asset should be impaired.

**Investment Properties**
Land and buildings held solely to generate rental income or for the purpose of capital appreciation.

**Investments held to maturity (HtM)**
Non-derivative financial assets listed in an active market with fixed or determinable payments and a fixed maturity for which an entity has the ability and intention to hold to maturity. The held to maturity category is currently not employed in the NORD/LB Group.

**Level 1, Level 2, Level 3**
The respective level of the fair value hierarchy is determined by the input data used for valuation purposes and reflects the market proximity of variables used to measure fair value.

**Liabilities held for trading**
Financial liabilities entered into for the purpose of achieving a profit in the short term, as well as derivative financial instruments that are not hedging instruments in an effective hedge relationship.

**Loans and receivables (LaR)**
Non-derivative financial assets with fixed or determinable payments which are not listed in an active market.

**Operating lease**
All the leases that do not qualify for recognition as finance lease.

**Other financial Liabilities (OL)**
All the financial liabilities which are not held for trading or which are not designated at fair value through profit or loss through exercising the fair value option. These liabilities are measured at amortised cost.

**Rating**
Standardised evaluation of the credit rating of a security or a borrower carried out in a detailed internal risk assessment (internal rating) or by an independent rating agency (external rating).

**Securitisation**
In securitisation, receivables are pooled and possibly transferred to a special purpose entity which is refinanced through issuing securities.

**Stress testing**
Method which attempts to model the effects of extraordinary, but possibly feasible events.

**Unexpected loss**
Dimension to quantify risk as a potential deviation of effective loss from expected loss.

**Value-at-risk**
Value-at-risk (VaR) is the potential future loss which is not exceeded in a specific period and at a specific confidence level.

**Volatility**
Dimension to measure fluctuations (e.g. exchange rate fluctuations for securities or currencies). A higher degree of volatility shows wider fluctuations in the observation period and infers that risk may be higher in future.

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Die norddeutsche Art.

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