NORD/LB
Die norddeutsche Art.

Stability – the best link to the future

Annual Report 2009

Finanzgruppe

Erweiterter Konzernvorstand (extended Group Managing Board) left to right: Dr. Johannes-Jörg Riegler, Harry Rosenbaum, Dr. Jürgen Allerkamp, Dr. Gunter Dunkel, Christoph Schulz, Dr. Stephan-Andreas Kaulvers, Dr. Hinrich Holm, Eckhard Forst

These are our figures

	1 Jan.–31 Dec. 2009	1 Jan.–31 Dec. 2008	Change (in %)
In € million			
Net interest income	1,366	1,462	– 7
Loan loss provisions	– 1,042	– 266	> 100
Net commission income	177	180	– 2
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	589	– 308	> 100
Other operating profit/loss	144	96	50
Administrative expenses	986	898	10
Profit/loss from financial assets	– 140	– 250	44
Profit/loss from investments accounted for using the equity method	– 200	6	> 100
Earnings before taxes	– 92	22	> 100
Income taxes	49	– 129	> 100
Consolidated profit	– 141	151	> 100
Key figures in %			
Cost-Income-Ratio (CIR)	47.5	62.5	
Return on Equity (RoE)	– 2.7	–	

	31 Dec. 2009	31 Dec. 2008	Change (in %)
Balance figures in € million			
Total assets	238,688	244,329	– 2
Customer deposits	61,306	61,998	– 1
Customer loans	112,083	112,172	–
Equity	5,842	5,695	3
Regulatory key figures (acc. to BIZ)			
Core capital in € million	8,051	7,235	11
Regulatory equity in € million	8,976	8,999	–
Risk-weighted assets in € million	92,575	89,825	3
BIZ total capital ratio in %	9.7	10.0	
BIZ core capital ratio in %	8.7	8.1	

NORD/LB ratings (long-term / short-term / individual)
Moody's Aa2 / P-1 / C–   Standard & Poor's A– / A-2 / –   Fitch Ratings A / F1 / C / D

Our holdings

Our subsidiaries and holding companies are an important element of our corporate strategy. Thanks to these we have extended our business base and strengthened our position as a universal bank. Stable connections and short paths within the group allow us to have a direct link to our customers on the ground. Together we can offer our customers a wide range of high-quality products and bespoke services within an integrated customer care approach.

NORD/LB

Braunschweigische Landessparkasse Ein Unternehmen der NORD/LB	100 %	92.5 %	BREMER LANDESBANK
DEUTSCHE/HYPO Ein Unternehmen der NORD/LB	100 %	75 %	ÖFFENTLICHE VERSICHERUNG BRAUNSCHWEIG
NORD/LB Norddeutsche Landesbank Luxembourg S.A.	100 %	49 %	Bank DnB NORD
NORD/LB COVERED FINANCE BANK S.A.	100 %	49 %	LHI LHI Leasing GmbH
SKANDIFINANZ/BANK Ein Unternehmen der NORD/LB	100 %	44 %	LBS
NORD/LB Asset Management	100 %	40 %	NORDholding Unternehmensbeteiligungsgesellschaft mbH

Dear customers, associates and friends of NORD/LB

You hold in your hands the Annual Report of NORD/LB Norddeutsche Landesbank for 2009. As usual, you will find many pages that contain figures upon figures, facts upon facts. These may well constitute the essence of our financial year – but they cannot provide a complete overview of all that has happened in our bank on every one of the 365 days in 2009. In fact, NORD/LB has just experienced a lively and challenging year in which we have asserted our position in the market on our own merits, despite the difficult climate.

During the past business year, the financial crisis has further permeated into the real economy. This has greatly challenged NORD/LB as a bank that is deeply rooted in the real economy, with its customer-oriented business model. Our employees have demonstrated that they are up to the task of responding to these demanding times and that they are capable of bearing the responsibility of NORD/LB for the people and companies of our business region. During the past year, we paid particularly close attention to connections – connections between the bank and its customers, between the real economy and the financial markets, between revenues and risks – and to the connections between the individual components of our Group. We have further reinforced these connections, bundling expertise and creating networks to make the Group even more stable, to put it on a sustainable, stronger footing for the years to come.

Therefore, the rows and rows of figures in this Annual Report do not simply reflect a strong NORD/LB Group, but also tell the story of the many thousands of customers and partners who were able to rely on NORD/LB in 2009, and whom we will be pleased to assist in the realisation of their plans in the future, with our expertise, sound judgement and many good ideas.

We owe a debt of gratitude to our customers, our owners and our employees, all of whom have helped over the years to make NORD/LB what it is today – the strong bank in Northern Germany.

Dr. Gunter Dunkel
Chairman of the Managing Board

The most important dates of the eventful 2009 financial year – from the presentation of our new chairman to the early launch of our GMTN programme.

We introduce ourselves – who we are, where we come from, what we do and how we do it as a universal bank in the heart of North Germany, with a special focus on this region.

For us, stable relationships with our customers and our partners represent a vital cornerstone of our business, on which we consistently orientate our strategy. The members of our managing board explain how we achieve this.

Good corporate governance based on trust is an essential prerequisite for economic success and underpins nationally and internationally recognised standards. We implement these, as far as possible, both in the context of our legal form and in our supporting structure.

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News from 2009 – timeline

Dr. Hannes Rehm, Dr. Gunter Dunkel

2 January

Dr. Gunter Dunkel becomes new Chairman of the Managing Board of NORD/LB. Dr. Gunter Dunkel has taken over as Chairman of the Managing Board of NORD/LB, with effect from the beginning of the year. He has therefore assumed the office vacated by Dr. Hannes Rehm on his retirement at the end of 2008. Dr. Dunkel has been a member of the Managing Board since the beginning of 1997, and Deputy Chairman of the bank's Managing Board since 2007.

6 January and 8 October

Landessparkasse the victor in multiple tests. In the context of the WISO economics magazine programme broadcast by the ZDF television channel, Braunschweigische Landessparkasse was pronounced the best advisory bank in Braunschweig following a random survey on bank advisory services. A former board member of a co-operative bank went undercover to test the services of the branches of five renowned banks in Braunschweig. The results were clear – the advice provided by Braunschweigische Landessparkasse was "expert, friendly and above all in the interests of the customer – just the kind of advice that bank staff should be giving." At the beginning of October, the Landessparkasse was once again the subject of a comparison test, conducted by management consultants Nielsen + Partner Unternehmensberater GmbH and the Institute for Wealth Accumulation (Institut für Vermögensaufbau) into banking advice, and was the clear winner. The bank's final rating of 1.4 (on a scale of 1 to 6, where 1 is excellent and 6 is very poor) was the best result achieved by any institution so far, throughout Germany. The Landessparkasse is now entitled to show off the seal "Winner – Braunschweig Regional Bank Test" for a period of one year.

11 February and 12 May

NORD/LB with two successful G-MTN benchmark bond issues. The G-MTN (Guaranteed Medium Term Note) programme is an issue in which NORD/LB places secured short and medium-term bonds in the capital markets. These issues are secured to 150 per cent via uncommitted assets of the bank, and are guaranteed by the federal states of Lower Saxony and Saxony-Anhalt. In this way, the Landesbank will help even out the current market distortions in relation to the financial crisis, and will continue to pursue its proven refinancing strategy to take on covered funds independently, with matched maturities and without suffering competitive disadvantage. The first benchmark bond was issued with a total placement volume of € 2 billion. With high demand from investors, this placement was heavily oversubscribed when the order books were closed. The subscription volume for the second bond issue amounted to around € 2.5 billion, with around a third of the orders for which were submitted from outside Germany. Ultimately, € 1.5 billion were allocated.

24 March

NORD/LB reinforces reserves and pays out dividend. NORD/LB has paid its owners a dividend of 7 per cent of its share capital for 2008, disbursing around € 76 million to the federal states of Lower Saxony and Saxony-Anhalt and the savings banks in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania. As has also previously been the case, the bank's undisclosed capital contributions were also used in full. At the same time, the bank transferred around € 121 million to its own reserves, further strengthening its foundations even despite the financial crisis.

14 April

NORD/LB arranges DAWAG takeover. The M&A specialists at NORD/LB are arranging and orchestrating the takeover of the housing company, DAWAG Deutsche Angestellten-Wohnungsbau-Aktiengesellschaft, by the Hanover-based meravis Wohnungsbau- und Immobilien GmbH. NORD/LB has also fully financed the acquisition.

22 April

NORD/LB Group is lead arranger for world's second-largest solar park. Together with three further partners, NORD/LB and Bremer Landesbank are financing the construction of the world's second-largest solar park in the vicinity of Lieberose in the state of Brandenburg, on behalf of juwi Solar GmbH and First Solar Holdings GmbH. The entire project comprises an investment volume of over € 160 million, of which NORD/LB Group is providing € 43 million. In addition to its function as mandated lead arranger, the Landesbank is also assuming the role of technical bank. Together with the banks' independent technical consultant, the Landesbank is therefore responsible for the entire technical due diligence for this, the largest photovoltaic project in Germany.

5 May

Test winner in asset management for foundations – NORD/LB and Braunschweigische Landessparkasse take first place. NORD/LB's private banking operations and the Braunschweigische Landessparkasse achieved first place in a test of foundation asset managers. The Fuchsbriefe – the leading reference publication in the private banking sector – awarded the quality of advice and service provided by the banks in Braunschweig and Hanover a score of 89 out of 100 possible points, highlighting the very good performance in all disciplines as well as the "excellent derivation of the assets structure". On the basis of this performance, the Landessparkasse has taken first place in the ranking published by the latest Fuchs Report.

6 May

Standard & Poor's rating for NORD/LB revised slightly downwards. Rating agency Standard & Poor's (S&P) has revised its rating of NORD/LB and the bank's subsidiaries NORD/LB Luxembourg and NORD/LB Covered Finance Bank S.A. slightly downwards from "A" to "A-" (long-term) and from "A-1" to "A-2" (short-term). The negative outlook remains the same. The reason for this revision is that S&P expects value adjustments and risk provisions to increase more than previously anticipated, as a result of the worsening economic conditions. As a positive note, S&P noted that NORD/LB has been less badly hit than most other Landesbanks by write-offs of structured credit investments.

17 June

NORD/LB and Sparkasse secure financing of a large-scale glassworks in the Altmark region. NORD/LB is the primary lender to Agenda Glas AG in Gardelegen. Sparkasse Altmark/West has contributed to the financing of the project as regional partner, providing € 5 million. The state investment bank and holding companies are also adding to the finance pot.

21 July

NORD/LB finances cross-border wind-power portfolio. NORD/LB has structured an international wind-power portfolio with a total output of 60 MW for Wiesbaden-based developer ABO Wind AG. The total financing volume amounts to around € 105 million. The project has since been rounded off in cooperation with Commerzbank, with the introduction of a 32.5 MW sub-project in Ireland.

4 August

First renewable energy project on Cyprus. NORD/LB has worked with a number of other banks to arrange the finance for the first wind farm on Cyprus, on behalf of the Franco-British firm Platina Partners LLP. In its first phase, the project will have a total capacity of 82 MW, with the finance amounting to € 170 million.

31 August

Landessparkasse, Öffentliche and Stiftung present their social accomplishments. Braunschweigische Landessparkasse, Öffentliche Versicherung Braunschweig and STIFTUNG NORD/LB · ÖFFENTLICHE have published their first ever "balance sheet" of cultural, social and sporting commitments. Presented under the title "Good for the Braunschweig region", the 46-page report clearly summarises the community responsibilities of the three institutions, with ample illustrations.

2 September

Mecklenburg PPP project with a volume of € 28 million. NORD/LB is financing the renovation and operation of five schools in Magdeburg. The project, which takes the form of a public-private partnership (PPP) and comprises finance totalling € 28 million, involves the financial cooperation of the Stadtsparkasse Magdeburg and Harzsparkasse savings banks. The schools project involves the Scholl High School, the Heinrich Heine and August Wilhelm Francke Secondary Schools and the Buckau and Salbke Primary Schools. Construction is planned to conclude in February 2011.

22 September

Moody's confirms "Aa2" rating for NORD/LB. Rating agency Moody's confirmed its good ratings for NORD/LB in September. The outlook was revised from "stable" to "negative", since the rating agency expects weaker results in the coming quarters, associated with significant losses in the Ship Finance, Commercial Property and Corporate Customers business areas.

12 October

NORD/LB in first placement of a US dollar hybrid bond for international investors. The issue, which could have been subscribed more than two times over, has a total volume of $ 500 million (US) and has been placed through an international consortium of banks. The issue of the tier 1 core capital notes, which have no maturity date, has a profit-dependent return of 10.25 per cent for the first 10 years. The notes are rated by Moody's as "A1" and are listed on the Luxembourg Bourse. The issuer is Fürstenberg Capital International S.à.r.l. in Luxembourg, an issue company that is independent of NORD/LB and uses the issue revenue to subscribe to a silent participation in the Landesbank. This issue represents the first successful core capital issued by a Landesbank since 2006.

23 November

NORD/LB hires 111 additional trainees. NORD/LB Norddeutsche Landesbank has increased the number of trainee places it offers by 41 per cent. Rather than the current 272 places, the Group will offer a traineeship to around 383 trainees each year in the future. With around 400 traineeships, NORD/LB is now one of the largest trainers in Northern Germany.

25 November

NORD/LB and Leuphana Universität found Centre for Risk Research. NORD/LB Norddeutsche Landesbank and Leuphana Universität Lüneburg intend to consolidate their research into financial market risk and learn the lessons of the economic crisis. The cooperation includes the foundation of a professorial chair for integrated risk management and a programme of bursaries for students.

LEUPHANA
UNIVERSITÄT LÜNEBURG

30 November

Jürgen Allerkamp becomes Chairman of the Managing Board at Deutsche Hypo. Dr. Jürgen Allerkamp has taken over as Chairman of Deutsche Hypothekenbank (Actien-Gesellschaft) in Hanover. Since 1998, Allerkamp has been a member of the Managing Board of NORD/LB Norddeutsche Landesbank, operating from his official base in Magdeburg. His responsibilities include the Finance and Organisation/IT divisions at NORD/LB.

15 December

NORD/LB allows G-MTN programme to expire early. NORD/LB Norddeutsche Landesbank will no longer continue to use the G-MTN refinancing programme, which is guaranteed by the federal states of Lower Saxony and Saxony-Anhalt. The programme has been unused since May 2009, with the bank able to refinance itself without recourse to the G-MTN instrument.

This is the NORD/LB Group

NORD/LB is a universal bank in the heart of North Germany, which is clearly concentrated on its core business and focused in particular on the region in which it is based.

With total assets worth 238.7 billion euros and 6,463 employees, NORD/LB is one of the ten biggest banks in Germany. Its registered offices in Hanover, Magdeburg and Braunschweig prove that the bank has retained its roots in the federal states of Lower Saxony and Saxony-Anhalt, which hold legal and economic responsibility for the bank.

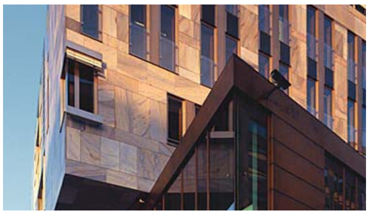
Although it was only founded in 1970, NORD/LB can look back on a centuries-old tradition in the region. Its two oldest predecessors, the “Braunschweigische Staatsbank” and the “Hannoversche Landeskreditanstalt” were founded in 1765 and 1840 respectively. Our identity as a bank is still influenced by this regional integration, which is also reflected in our business model.

NORD/LB’s five strategic business areas, Savings Bank Network, Private and Commercial Customers, Corporate Customers, Special Financing and Financial Markets, form the backbone of our business model throughout the whole group. Whereas the first three business areas are primarily focused on the domestic market, in the areas of special financing (consisting of customers from the energy and infrastructure sector, ship and aircraft financing and real estate financing) and financial markets, the bank is also active on the international markets.

For us it is important to provide an integrated customer care approach. Our goal is to maintain stable long-term relationships with our customers that are built on trust, in order to be a reliable partner for our customers, even in turbulent times and within a difficult market environment.

NORD/LB in Hanover

Braunschweigische Landessparkasse in Braunschweig



NORD/LB in Magdeburg

Bremer Landesbank in Bremen

Deutsche Hypo in Hanover

NORD/LB Luxembourg in Luxembourg

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. Abroad we concentrate on the classic corporate customer business in Northern and North-eastern Europe, working closely here with the bank DnB NORD, our joint venture with the Norwegian group DnB NOR.

In the area of special financing, we finance international projects in selected locations, 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, 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.

Strong connections

Dr. Gunter Dunkel: The phrase "customer relationship" is a core term for any bank – and not without reason. The banking business is not simply a matter of providing a colourful range of products that will be bought by as many customers as possible. The financial products, which often must be tailored to reflect an individual customer's needs, must be accompanied by personalised advice, and the development over many years of the bank as a partner on whom the customer can rely. The trust that arises from such relationships is a form of capital that is never reported on any balance sheet, but is nevertheless of vital importance for the success of any customer relationship. Relationships forge a bond through commitment.

NORD/LB Norddeutsche Landesbank attaches importance to its association with the savings banks (Sparkassen) in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania, its bond with the States of Lower Saxony and Saxony-Anhalt. It attaches importance to the deep roots it has established in its northern German business territory, an area in which it has been active for around 240 years, but equally to the optimum ties it enjoys with the international financial and trading marketplaces where subsidiaries, branches and representatives act on its behalf. It attaches importance to good connections with the major players in its core areas of business, in which it has developed a competitive advantage based on ability and trust over many years. It attaches importance to long-lasting, strong relationships with its customers – relationships in which both partners know each other well, and can rely on each other.

When many of these relationships come together, they connect to form networks, and networks provide stability and security. For NORD/LB, strong relationships are an indispensable basis for business. The financial crisis has demonstrated what can happen when these relationships are weakened, and the connections break: The connections between the bank and its customers, between credit and risks that are simply sold on, between the capital markets and the real economy. NORD/LB does not believe in performing high-wire acts without a safety net. It attaches importance to keeping its feet on the ground, to stability, to many years of experience in its areas of business and to the associated in-depth knowledge of the cycles on which this business is based.

As a multi-faceted Group with a highly organised division of labour, NORD/LB also needs the best internal connections to ensure that it can achieve more than simply the sum of its individual parts. For this reason, during the past year we formed the Erweiterter Konzernvorstand (extended Group Managing Board), bringing together not only the members of the Managing Board of NORD/LB as the parent company, but also the Chairmen of the Boards of the subsidiaries Bremer Landesbank, Deutsche Hypothekenbank and NORD/LB Luxembourg. Chaired by Dr. Gunter Dunkel, this group sets the strategic direction for the Group, and combines the many different areas of expertise of the Group to form a single strong force. In addition, there has been a systematic approach to refine the business model, realigning the business areas consistently within the Group, taking account of the strategically important holdings. The objective of refocusing the business model is to perfect the ways in which we meet our customers' needs and to improve the risk-adjusted profitability of the Group.

»For NORD/LB, strong relationships are an indispensable basis for business.«

A connection to the earth, the water and the air

In the Erweiterter Konzernvorstand, Eckhard Forst's remit means he is predestined to make connections – be they ground-based, water-borne or up in the air. He has been a member of the NORD/LB Managing Board since January 2007, and his responsibilities include the financing of ships, aircraft and railway locomotives. The commitments of NORD/LB in these segments have two basic characteristics. Firstly, they are based on an object – behind every loan there is a ship, aircraft or locomotive as security. Secondly, the commitments are broadly diversified. For example, in the shipping sector, the bank finances freighters, trading ships and special-purpose craft as well as luxury cruise liners and the operation of entire fleets.

Financing of ships, aircraft and railway locomotives comes under the title of structured finance. In this business segment, which also includes the areas of renewable energy, infrastructure and industry, NORD/LB has established an impressive competitive advantage for its customers, in terms of its capabilities and trust, over many years, and in some cases decades. In the meantime, the bank has become one of the world's leading financers in all of these segments. It profits from having joined these extraordinarily dynamic growth markets at an early stage.

As a bank that is firmly anchored in the real economy, business with medium-sized corporate customers counts as NORD/LB's core business. The bank's activities are far from being restricted to traditional lending, but also include the optimisation of working capital management, the management of interest and currency risks, pensions and investment products and specific project and export financing. In addition, NORD/LB is active in financing acquisitions, equipment leasing, the housing sector, the commercial real estate sector and in banking for the agricultural sector. Individual services in the corporate finance unit like mergers & acquisitions or financial advisory complete the range of products. "Our customers can get a complete package of company finance from us – all from one provider," emphasises Forst. "They have been able to trust in us and turn to us for many years – that is how you form a partnership that is based on mutual respect."

The range of products for the corporate customers of NORD/LB is rounded off by a range of capital-market oriented solutions and services for the financial markets business area. These solutions include services relating to risk management and the investment requirements of our customers, as well as those dealing with institutional customers. This area also handles the funding of the bank, controlling the equity management and optimising capital efficiency, for example by outsourcing selected assets. The Financial Markets division therefore acts as the connection from the bank and its customers to the capital markets.

»Our customers have been able to trust in us and turn to us for many years – that is how you form a partnership that is based on mutual respect«

A close bond with the savings banks (Sparkassen)

Alongside its corporate customers, NORD/LB Group also enjoys close ties with its private customers. A large proportion of these customers are looked after by Braunschweigische Landessparkasse, a public-law institute with partial legal status. The Chairman of the Board of the Landessparkasse is the Deputy Chairman of the Board of NORD/LB, Christoph Schulz. In addition to his responsibility for his bank's business with private and corporate customers, he is also responsible for the relationships with the savings banks (Sparkassen) in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania.

The history of the Landessparkasse dates back to 1765. Today, it is a modern savings bank, which excels thanks to the bond it enjoys with its community and its strong, regional ties. It has its own market presence in the business areas for private and corporate customers, which also include private banking and business with medium-sized customers in the commercial sector. With around 400,000 customers, almost 1,000 employees and over 100 branches, the Landessparkasse is the market leader in Braunschweig and the surrounding region, and forms an important component of the NORD/LB Group. The plan is to substantially expand the private and corporate customer business within the coming five years, in particular with a view to diversifying revenue sources in order to optimise risk.

Independently of its own Sparkasse operations, NORD/LB also maintains relationships of trust with a further 69 Sparkassen, through three distinct channels. The institutes in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania are therefore simultaneously owners, customers and strategic partners of the Landesbank. Through its Association Business division, NORD/LB provides them with all the products and services that they need as a direct customer or to round off their product portfolio. NORD/LB provides the Sparkassen with specific support in looking after private customers and medium-sized businesses, in the establishment of industries and infrastructure projects and in funding products and business with local authorities. The Landesbank is also on-hand with money and capital market products for their own retail business and as a refinancing partner.

“Our associated Sparkassen profit from the proven expertise in products and processes that we have built up over the past years and decades,” explains Schulz. In addition, NORD/LB provides the Sparkassen, in their branches and representative offices, with access to the most important international financial and trading centres.

»Our associated Sparkassen profit from the proven expertise in products and processes that we have built up over the past years and decades.«

A reliable partner in the North West

Bremer Landesbank is also active in the private customer business and private banking, and with around 1,000 employees is NORD/LB's largest subsidiary. Other key activities for the universal bank include corporate customer business, special financing and financial markets. Dr. Stephan-Andreas Kaulvers, Chairman of the Board of Bremer Landesbank, represents the interests of his institution on the Erweiterter Konzernvorstand of NORD/LB.

Bremer Landesbank is an important strategic component within NORD/LB Group. As the leading business and regional bank located in the North West corner of Germany, it is a strong, innovative partner for the medium-sized companies in the region. It has recognised expertise in foreign trade, and the bank provides its corporate customers with in-depth knowledge of trade, investment and cooperation in addition to its traditional banking products. All-round customer care means that customers' commercial and private needs are all met. In addition, it functions as a State bank and central bank for 13 savings banks. "We take responsibility for development and the quality of life in the North West," is how Kaulvers summarises the role Bremer Landesbank has assumed. "A successful business model, keeping our feet on the ground when doing business and a focus on solid figures mean we are a reliable partner in the region."

The bank's private customer business is split between tailored services for wealthy private customers and a standardised volume business with a defined product portfolio. In the private banking area, Bremer Landesbank makes consistent use of the synergies available to it through the NORD/LB Group association, in respect of the ability to harmonise processes and products across institutions. The Asset Management operations at Bremer Landesbank act as the centre of expertise for private wealth management within NORD/LB Group.

At the same time, the Bremen-based subsidiary is also the centre for expertise in the social real estate segment. This segment falls under the control of the Special Financing business area, which is oriented towards long-term property financing for medium-sized structured customers. These include medium-sized shipping agents, domestic leasing companies, operators in the areas of renewable energy and clinical, rehabilitation and nursing facilities. To exploit market opportunities and avoid the duplication of work and even competition, there is a close, strategic coordination of activities within the NORD/LB Group.

»A successful business model, keeping our feet on the ground when doing business and a focus on solid figures mean we are a reliable partner in the region.«

A fast service provider with an excellent network

The private banking activities of both Bremer Landesbank and its parent company NORD/LB and the Landessparkasse are coordinated within the Group from Luxembourg. The Luxembourg company, Norddeutsche Landesbank Luxembourg (NORD/LB Lux) is a wholly-owned subsidiary of the Landesbank. Around 140 employees work at the offices in Luxembourg and Zurich, in the Corporate Banking and Financial Markets business areas as well as in Private Banking. As the Chairman of NORD/LB Lux, Harry Rosenbaum is also a member of the Erweiterter Konzernvorstand.

»Thanks to the compact size of our operations and the advantages provided by our location, we are able to provide our customers with pragmatic solutions to their problems.«

In the area of Private Banking, NORD/LB Lux is a partner to investors who have an international outlook, and offers various wealth management solutions alongside its traditional investment advice. In addition, the Luxembourg subsidiary has also developed the new NORD/LB Horizont fund, which combines the concepts of protecting purchasing power and value retention with an appropriate return.

The Corporate Banking portfolio consists of structured and traditional corporate financing. A further activity is lending to other banks and to Sparkasse customers (with the institutions' guarantee). The Financial Markets business area generates significant revenue for NORD/LB through its investment portfolio and the management of financing flows from the lending business. In addition, the Treasury division contributes to Group funding and is integrated into cross-cutting processes and workflows.

NORD/LB Covered Finance Bank S.A. (NORD/LB CFB), a subsidiary of NORD/LB Lux that is also based in the Grand Duchy, provides NORD/LB Group with a further source of covered refinance. This special-purpose bank issues mortgage bonds (Pfandbriefe) according to Luxembourg law – known as Lettres de gage publiques – that are rated 'AAA'. NORD/LB CFB concentrates on refinancing Sparkassen and local-authority operated companies, and is the Group's centre of expertise for International Public Finance.

The second subsidiary within the Group network of NORD/LB Lux, Skandifinanz Bank AG in Zurich, is mainly active in the international factoring business and in other retail-related finance transactions. "Thanks to the compact size of our operations and the advantages provided by our location, we are able to provide our customers with pragmatic solutions to their problems," says Rosenbaum "Together with our two subsidiaries in Zurich and in Luxembourg, we see ourselves as small, nimble service providers within the large NORD/LB Group."

Finance with strong foundations

The most recent acquisition to the NORD/LB Group is Deutsche Hypothekenbank (Deutsche Hypo), which joined in 2008. Since February of this year, Dr. Jürgen Allerkamp has been the Chairman of the Managing Board at Deutsche Hypo. His is a well-known face to the others on the Erweiterter Konzernvorstand, since for the previous twelve years he was a member of the Managing Board at NORD/LB.

The wholly owned subsidiary has specialised in high-volume commercial financing with professional real estate customers, and offers tailored and innovative financing solutions. "By bundling its real estate finance within Deutsche Hypo, NORD/LB Group has been able to significantly increase its national and international market position in this important area of business," emphasises Allerkamp. Continuing the sustainable expansion of business activities in the field of real estate finance is part of the Group's strategy.

Deutsche Hypo has more than 300 employees based at its headquarters in Hanover as well as in offices in Düsseldorf, Frankfurt, Hamburg and Munich in Germany, and Amsterdam, London, Paris and Madrid abroad. The bank's national and international presence, its broad, balanced portfolio of products and varied target markets and its deep-rooted market expertise and conservative approach to risk combine to form a robust business model that is the basis for its further growth.

A further area of Deutsche Hypo's business is public sector lending in Germany and foreign markets. The customers in this sector comprise first-class rated regional corporations in Western Europe and North America and offices for which they provide a guarantee.

The refinancing is conducted by the issuing of mortgage and public Pfandbriefe that have been awarded the best rating "Aaa" from Rating Agency Moody's and offer significantly more attractive yields than government bonds. Alongside high-volume issues, Deutsche Hypo also offers structured bonds that it constructs according to the special wishes of investors.

»By bundling its real estate finance within Deutsche Hypo, NORD/LB Group has been able to significantly increase its national and international market position in this important area of business.«

In comparison with its activities before 2007, Deutsche Hypo's position in its new business remains risk-aware following the intervention of the crisis on the financial markets, and equally cautious and reticent in view of market weakness. Nevertheless, it does plan further, careful expansion of its business activities, retaining a consistent focus on selected customers, properties and markets.

Risk policy as a cornerstone

The effects of the crisis on the financial markets remained moderate within the entire NORD/LB Group. The conservative risk policy was demonstrated to be sound in the crisis-ridden circumstances, and is a solid cornerstone for the bank. Responsibility for risk management at NORD/LB is held by Dr. Johannes-Jörg Riegler, who is also answerable for the areas of General Credit, Risk Controlling, Credit Risk Management, Special Credit Management and Research / Macroeconomics.

Since autumn 2008, banks' risk management systems have been subject to extreme pressure. Previously, market-price and credit risks contributed the major proportion of a bank's risk, and liquidity risk played a minor role, since the banks could refinance in the market place at any time. However, during the worst phase of the financial markets crisis around the turn of the year from 2008 to 2009, this balance shifted considerably in the direction of liquidity risks.

In the meantime, the financial markets have calmed down somewhat. NORD/LB has been able to cover its refinancing requirements at all times, not least thanks to its successful G-MTN programme. Nevertheless, as a consequence of the exacerbating economic crisis, migration and default risks are gaining in importance as a "second wave". As the leading bank for business in Northern Germany, with a credit volume of around € 255 billion, we trimmed our sails at just the right time to cope with this challenge. The adjustments we made included, in particular, keeping to our risk standards at times in which the market and our competitors were prone to exaggeration. In the past few years, we have placed particular value on the level of granularity of the portfolio. We have set ourselves clear, conservative rules regarding concentration risks, at the level of both individual borrowers and specific areas of the portfolio. Our sector-based approach in credit risk management has allowed us to develop clearly structured risk standards, in conjunction with a corresponding, sector-specific risk strategy. In addition, at an early stage of the economic downturn we increased the integration of our credit risk management with our front-office divisions and the work-out department, in order to more rapidly identify potentially problematic commitments and establish possible solutions together in good time."

"The crises have tested the risk models of all banks," explains Riegler. "At the same time, they have provided impetus for further improvements." The calculations of the capacity to assume risk and the stress models have both been further harmonised. Cooperation within the Group has also increased, with risk managers meeting regularly with each other to analyse the Group's risk situation and discuss potential action points for the future design of the risk management systems. The internal credit processes have been further refined, from the initiation of business through to reporting, in order to optimise risk-weighted assets. At the end of 2008, a project to further improve the process-oriented internal control system was launched, the results of which have been rolled out across the bank since the middle of 2009. In addition, the reporting frequency has been increased significantly, and the analyses now go into far greater depth.

»The crises have tested the risk models of all banks. At the same time, they have provided impetus for further improvements.«

Risk policy should not be considered solely as an after-sales task – it is quite naturally also an important means of adjustment for the business strategy. Appetite for risk and return targets are directly linked. The sectors in which we specialise, or our diversification, are also important instruments in adjusting the bank's alignment. As a means of avoiding loss, therefore, risk policy is also an important guarantee of sustainable business opportunities. As a stable bank with good risk management and a proven business model, NORD/LB can grasp the crisis as an opportunity for acquiring new customers and generating additional business.

In partnership with the states

Dr. Hinrich Holm has been a member of the Erweiterter Konzernvorstand since February 2010. As Chief Financial Officer (CFO) of NORD/LB, he takes charge of the Finance mandate, and also answers for the Organisation/IT and Corporate Services divisions and the Saxony-Anhalt business region. Alongside Hanover and Braunschweig, the Saxony-Anhalt capital, Magdeburg, is home to a head office of NORD/LB.

This firm's regional base within the federal state of Saxony-Anhalt is an important supporting pillar of the bank's corporate structure. For over 18 years, NORD/LB has been the Landesbank for Saxony-Anhalt, and has stood shoulder to shoulder with its customers in the region in its Association Business, Corporate Customer Business and in Structured Finance. During this period, the bank has established and expanded a range of strong connections. For example, in numerous financing projects it has helped to ensure that PPP (public-private partnership) projects have been realised in the federal state, and that the volume of renewables as a share of the total amount of energy generation is higher in Saxony-Anhalt than in any other state in Germany. In addition, all of NORD/LB's housing activities are based at its Magdeburg offices. The Landesbank assists in urban development concepts and is a strategic partner for housing firms, with deep knowledge of the market.

Apart from its financing activities, NORD/LB also makes a major contribution to the economic development of the region through the Saxony-Anhalt Investment Bank (Investitionsbank Sachsen-Anhalt – IB). IB is the central funding institution in Saxony-Anhalt, and operates with the highest degree of independence as a body of the Landesbank. "NORD/LB and IB are trusted partners for Saxony-Anhalt, and act as creative playmakers in the state's economic development," explains Holm. The equivalent of IB in Mecklenburg-Western Pomerania is the Schwerin-based State Funding Institution of Mecklenburg-Western Pomerania (Landesförderinstitut Mecklenburg-Vorpommern), which also belongs to NORD/LB.

Alongside stable connections with our customers, the success of NORD/LB is also dependent on internal units such as Finance, Corporate Services and Organisation/IT. These units hold the entire

operation together and ensure that transactions are carried out correctly and on time, in compliance with internal and external standards as well as statutory requirements. In brief, they ensure that all processes and workflows fit seamlessly together and work with each other, rather than against each other. Information technology plays a vital role in this respect. The bank is currently preparing to switch from its existing IT systems to the OSPlus system from Finanz Informatik, which in the future will be used by all institutions in the Sparkassen-Finanz Group. In addition to a capable IT system and optimised processes, NORD/LB also attaches great importance to a high-quality accounting system and efficient controlling. Only when those are in place is it possible to ensure that reporting provides meaningful information to strengthen connections to customers, investors and owners in the long term.

»NORD/LB and IB are trusted partners for Saxony-Anhalt, and act as creative playmakers in the state’s economic development.«

Sustainability

Our 2009 profile

Our ambition

Working for sustainable development

Our action

Living values – acting sustainably – shaping the future

Working for sustainable development

Operating sustainably

As a state bank (Landesbank) and an institute under public law (Anstalt öffentlichen Rechts), we, more than other companies, form an integral part of society. For this reason, we also bear special responsibility. Our actions should always combine the common good with successful business. As a result, we have always been concerned with ensuring that the development of NORD/LB is viable in the long term. Obtaining and maintaining the confidence placed in us by our stakeholders form both the starting point and aim of all of our actions, characterising the responsible way in which we develop the success of our business, taking pride of place in all our work. The global economic, ecological and social challenges that are, today, increasingly affecting all areas of life, are redefining the parameters within which we must operate to ensure our future. These challenges have ensured that sustainability is increasingly a permanent area of focus for us in deciding the shape of our business.

For us, therefore, sustainability means more than simply making sure that our actions are compatible economically, ecologically and socially. Our focus is on how to operate responsibly, to provide the generations to come with an ecologically intact world that enjoys economic and social stability. This is our undertaking – as a provider of products and services, as an employer, as a corporate citizen and member of society and as a consumer of resources and energy. With our status as a business we can also combine this undertaking with the opportunity of developing new solutions that both respect the interests of our company's growth and meet our responsibilities towards our employees, the environment and society.

In combining our undertaking with this opportunity we will not simply secure the success of our company and its competitive position within the market for the long term, but will also make an active contribution to improving society as a whole, taking account of the needs of future generations. For this very reason, we have encapsulated sustainability and responsibility as the core values of our company's vision.

To ensure that these values are reflected in the actions of all parts of the company, not just now but also into the future, we have embedded them within a sustainability strategy that opens up opportunities and reduces risk, thus helping to secure the long-term success and competitiveness of our business. In our strategy, we have defined fields of action, areas of focus and absolute objectives for our sustainable actions, on the basis of these core ecological and social challenges.

Our focus is on how to operate responsibly, to provide the generations to come with an ecologically intact world that enjoys economic and social stability.

Managing Sustainability

We are able to determine our future, because we possess a vision and a clear strategy. Nevertheless, our focus on sustainability can only make an effective, continuing contribution to long-term viable development if all areas of our company and all levels of our management adhere to it on a day-to-day basis. This means that these values have to be integrated into our company control and management structures. Alongside a strategy that incorporates specific targets and a programme of measures to achieve and implement it, this approach also requires clearly defined organisational structures and responsibilities, rules and guidelines that set the implementation in stone, and benchmarks according to which the sustainability of our work can be measured. As part of our sustainability management process, we are committed to putting these prerequisites in place.

Embedding responsibility within the organisational structure

Therefore we have embedded the concept of sustainability within the organisation of NORD/LB and have established lines of responsibility to help implement this:

The **Managing Board** defines the vision and guiding principles of our sustainable activities, and of the sustainability strategy. It agrees the management system, sustainability objectives and programme of measures needed to achieve these objectives. At the same time, it is the highest representative of the sustainability strategy. The **Chairman of the Board** bears primary responsibility for sustainable development within NORD/LB, and represents the results to our owners.

The Managing Board is supported by the **Sustainability Control Committee**, which was established in 2009 and is composed of the managers with responsibility for areas that are particularly relevant for the sustainable development of NORD/LB. The control committee works with the Sustainability Management unit to analyse sustainable development at NORD/LB and the corresponding requirements for each individual area of the business, and develops objectives and measures which it proposes to the Managing Board for implementation. At the same time, the steering committee's members take responsibility for implementing the measures within their own spheres of responsibility. The control committee therefore makes a significant contribution to sustainable

development within NORD/LB. By adopting this approach, we have also embedded our core value of sustainability within the organisational structure right at the top level of management in the company.

Located within the Group Development Division, our **Sustainability Management** unit coordinates and controls the entire sustainability process of NORD/LB and the Group in close cooperation with the Sustainability Control Committee. It acts as an internal think-tank and proponent of sustainability within the bank and the Group. Together with the Sustainability Control Committee and the specialist bank divisions, it continually revises and refines the sustainability strategy, and supports all divisions in their efforts to integrate aspects of sustainability into their daily activities. It also controls and coordinates the dialogue among the bank's stakeholder groups on sustainability topics, including the bank's sustainability rating, and acts as a central point of contact for all of the bank's divisions.

The **specialist bank divisions** implement the respective measures and projects in their Group divisions and document the steps taken and results achieved in cooperation with the Sustainability Management unit as part of the stakeholder dialogue process. They also initiate new programmes of measures and projects within their divisions, and continue to refine existing programmes and projects. Tasks that affect all institutions and divisions are handled by working groups and project groups.

Living values – acting sustainably – shaping the future

For our customers

There is a direct link between our customers and the opportunity we have to shape the development of NORD/LB with long-lasting effect. Their demands will set the tone for the success of our business. Therefore, we must tailor our actions and our services to meet these demands, and ensure that all that we do is compatible with our customers' needs. We have two primary objectives – firstly to secure the confidence placed in us by our customers for the long term, and secondly to help prepare them for the future through the services we provide. This approach opens up the opportunity for long-term development, not only for our customers, but for NORD/LB too.

Sustainability starts with our everyday activities

We have a range of opportunities to help attain these objectives. At the root of these is acting responsibly in our daily activities as a financial services provider.

As a user of confidential information

Our customers entrust to us their personal information, to allow us to put our services to best use in their interest and also to allow us to meet all of our statutory obligations. Handling this information responsibly forms part of our efforts to protect the private lives of our customers. This responsibility is a basic tenet that governs all of our actions, and it forms the basis of the trust that our customers place in us. To ensure this trust will be maintained in the future, we not only comply with the particularly strict applicable security standards, but also constantly refine the organisational and technical framework on which these standards depend, and revise our processes in view of changing circumstances. In this respect, we have combined the tasks of data protection, IT security and health and safety/infrastructure within the new

Traineeship is a pillar of sustainable stability

"Group Security Division", which was set up in 2009. This unit, which operates across the entire Group, forms the foundation for continuing improvement of our safety and security systems. At the same time, during 2009 we implemented a number of measures relating to the revised German Federal Data Protection Act. We have trained all employees in the provisions of the new Federal Data Protection Act, and have updated our Data Protection Guidelines and various data protection processes accordingly.

As a manager of risks

Risks are a fixed component of our business, and managing them serves to secure the economic success of our customers and our bank. Moreover, taking responsibility in risk management also acts as a catalyst for sustainable development. This is our commitment, and we keep to it at all stages, including when planning and defining our activities. For this reason, we have decided to add ecological, social and ethical aspects to our lending rules. In our lending rules we define the profile that new business must match each relevant business area, so allowing us effectively to preselect our business.

The sustainability requirements of the rules open up a range of other useful effects: They allow us to take sustainability into account at an early stage of our core business, and reduce risks to our business and reputation. At the same time, we are building future compatibility into our portfolio control processes. We are introducing our customers to the ecological and social challenges, and supporting them as they attempt to improve their ratings and creditworthiness, therefore making a contribution to the security of their futures too. We consider such action to be a core contribution for a bank, to achieving development that is economically viable for the long term.

Currently, our Sustainability Management and Risk Governance units are conducting a GAP analysis in order to obtain starting points for the development of overarching cross-bank principles as well as specific sustainability rules for individual business segments and sectors. In parallel, until such a time as the process of embedding sustainability aspects within the lending rules is complete, all commitments that could entail an increased (relative to the sector) ecological or social potential for risk must first be verified to ensure that they are harmless. The lending approval process in these cases is only started if no significant risks are detected. Alongside the sensitisation of the business units, the process also provides additional information for the development of tools to implement the principles that are specifically tailored to our various segments, and therefore enable us to further orient our risk management and portfolio control in addition to ensuring that we keep to the applicable standards regarding sustainability.

We know our customers very well indeed. Our customers know us – just as they have for 245 years.

For us, the idea of managing risk responsibly means not entering into a commitment if we cannot verify the transaction or if we believe it entails significant levels of risk. This does not simply refer to the economic aspects, but also to ecological, social and ethical aspects – aspects that are embedded in the governance of a company. On the basis of these ESG (environmental, social and governance) aspects, we decided not to enter into lending totalling around € 90 million during 2009.

As a consultant to private customers

Thanks to the bank's traditionally deep roots in our core regions and the spirit of close partnership between the bank's employees and its customers, we know our customers very well indeed. Equally, our customers know us – just as they have for 245 years. Values such as responsibility and trust have evolved thanks to this history, and form an everyday part of the bond between the bank and its customers. This relationship is an important prerequisite for intensive dialogue, which goes further than simply providing us with the knowledge we need to meet the demands and fulfil the requirements that will ensure our customers remain loyal to our services. It also acts as a vital barometer of the trend of customer satisfaction. We use this communication to improve our products and the quality of our advice on an ongoing basis, and to tailor our offerings to the demands of our customers. It is the foundation for what our private customers understand as "fair" sales – of all products, from consumer loans to investment advice. This is equally true in our corporate business.

Our commitment to fair, transparent and responsible sales practices is set in stone within the quality standard of Braunschweigische Landessparkasse – the arm of NORD/LB that concentrates in particular on business with our private customers. Our philosophy of unity with the customer is also reflected in the working title of this standard: "We'll do it together. Well." Friendliness, willingness to help, capability and responsiveness, but also proactive handling of complaints, taking ownership and maintaining discretion – these are all characteristics that form the basis of our customers' trust in our bank.

Open, critical assessment is vital if we are to consistently tailor our services to the needs of our customers. For this reason, we conduct regular customer surveys. These confirm that our customers are happy with us. The results of the current customer satisfaction survey of private banking customers reveals that 78 per cent of customers are satisfied with the entire range of services offered by NORD/LB or their Landessparkasse. Our objective is to further improve this figure.

One prerequisite for doing this is the implementation of independent testing of the quality of our services. In 2009, NORD/LB's private banking operations and the Braunschweigische Landessparkasse achieved first place in a test of foundation asset managers. The Fuchsbriefe – the leading reference publication in the private banking sector – awarded the quality of advice and service provided by the banks in Braunschweig and Hanover a score of 89 out of 100 possible points, highlighting the very good performance in all disciplines as well as the "excellent derivation of the assets structure". In a random survey of banking advice commissioned by the ZDF television channel and broadcast as part of the channel's WISO economics magazine programme in January 2009, the Landessparkasse came out as the institution providing the best financial advice in Braunschweig. For us, being number one for our customers means striving to offer the best in quality. This is a path we want to continue to take together with our customers.

As the leading bank for SMEs

As the leading bank for SMEs in northern Germany, we enjoy close proximity to our customers. A business relationship between the bank and its customers that is characterised by openness and trust forms the basis for our providing companies with the best possible long-term support throughout the different stages of their development, especially during a period of difficult economic circumstances. We define a good customer relationship as a long-term partnership between the customer and the bank, and this is how we approach every new day. After all, generating opportunities in the marketplace and avoiding risks demands a reliable, transparent relationship. These are the basic principles that allow us to develop sound financial solutions even in difficult market conditions – solutions that are tailored to our customers' needs and are consistently designed to work to their benefit.

Integrated advice is not simply about products – it also makes processes more transparent and easier to follow. For this reason, we also provide our customers with an explanation of the rating method that we use to assess their companies' creditworthiness. This gives our customers the information they need to work proactively to improve their credit rating. As a result, they not only gain easier access to finance, but also increase their own competitiveness.

In our dialogue with our customers we regularly explore solutions to current economic issues, above and beyond our day-to-day business. As part of our NORDimpuls series of events in 2009, therefore, we considered questions such as "Can the German business model survive the crisis?" and "Credit crunch? A dispute – how companies, banks and credit insurers currently assess lending." A network of entrepreneurs, economists, academics and financial experts are using this forum to exchange ideas between their sectors and gather creative solutions.

> We define a good customer relationship as a long-term partnership between the customer and the bank, and this is how we approach every new day.

We wanted to find out in greater detail whether our levels of commitment, reliability and professionalism met our customers' expectations. To accomplish this, during 2009 we conducted a third customer satisfaction survey of a representative cross-section of our SME customers. Of those who completed the survey, 92 per cent stated that they were happy to continue working with NORD/LB in the future, and 82 per cent of our customers

Knowing your customer well is a prerequisite for a lasting partnership

awarded us with good or very good marks for the entire range of the services we offer. At the same time, the findings of the survey have provided us with real indicators of how we can continue to improve.

As a partner in troubled waters

The financial crisis has hit the real economy. This has directly raised the question of how companies can secure their futures, especially for SMEs. As a long-term partner to our customers, we believe it is our responsibility to strengthen our customers in the crisis. So we are taking our customers by the hand and helping them conquer the challenges they are facing as a result of the crisis. A hand is also extended in critical periods for our customers – we and our restructuring experts investigate the requirements on the basis of which a company can continue trading. Wherever we see promising shoots of success, we work with our customers to implement the required restructuring measures. This not only helps keep basically competitive companies above water, but also secures jobs and the economic stability of our entrepreneurial sector. At the same time, during this period of financial crisis, this is also a contribution to securing a strong, stable economic structure, built on small and medium-sized businesses, in our core regions.

Alongside our own products and services, however, we also provide companies with access to services offered by other reliable partners, who participate both in risk and refinancing. In particular, these partners comprise the funding bodies operating at federal and state levels. The use of funding not only helps distribute the burden of risk and refinancing, but also optimises the conditions of obtaining finance, reducing the interest payable by our customers. Therefore we are in constant communication with partners in various funding bodies, and work with them to produce finance packages we can support and fund together. Funding is an important additional stabiliser for many companies that have been hit by the crisis.

Products to protect the climate

We believe that the most opportune moment to make a contribution to sustainable development is when we are shaping our core business. For this reason, we started integrating sustainability aspects into our core business at an early stage, developing solutions involving new products and advisory services that are tailored to ecological and social challenges, and are therefore compatible with the future. In addition to meeting the challenge of demographic change, we are focusing particularly on solutions that protect scarce resources and the climate. A key part of this concept is the use of renewable energy. We adopted a strategic decision to incorporate these requirements into our core business very early on in the process.

As a pioneer in the field, NORD/LB Group has been financing renewable energy projects since the beginning of the 1990s. We have focused primarily on wind and solar power. Despite the major challenges in the wake of the global financial crisis, NORD/LB Group has reinforced its market position as one of the leading financers of renewable energy in Germany, Europe and the USA. Our total lending volume in this area amounts to € 3.75 billion.

Financing renewable energy projects

Project finance forms the core of our commitment to renewable energy. Thanks to the Kyoto Protocol and national funding systems, renewable energy has developed over the past few years into a separate branch of industry, with high global growth rates. In line with this trend, we have consistently expanded our formerly rather regionally focused business unit for project finance to form a global competence centre, creating a modern structure to reflect the development in this future-oriented sector. As one of the top arrangers in the field, NORD/LB Group today has a team of specialists in structuring and financing solutions distributed over several sites serving the European and North American markets. NORD/LB's Structured Finance division works out of Hanover, London, New York and Singapore in cooperation with the team from Bremer Landesbank on projects in many different countries. Alongside the active structuring and financing of projects in this segment, we also act as consultants to companies, with the aim of opening up and improving access to finance for new technologies and sub-sectors. The total commitment relating to ongoing project financing in this field is currently around € 3.6 billion. This means that over 50 per cent of our project financing is dedicated to renewable energy. In the 2009 reporting year, despite the difficult market conditions, we have agreed new financing volumes of around € 1.1 billion.

This has reinforced our market-leading position in the financing of wind-farm projects in Europe, especially in Germany, the UK and Ireland, and in the USA. The focus of our activities has been on the financing for a German developer of a cross-border portfolio of wind power that reaches from Germany, through France, to Ireland. Moreover, we have also arranged and financed the first wind-power project on Cyprus, which will provide 10 per cent of the Cypriot power requirement and replace high-emission heavy fuel oil power plants.

Furthermore, we have made a significant expansion in our commitment in the field of solar power. Alongside the largest solar park in Germany, we have also financed projects in Spain and Italy in particular.

In 2009 we reinforced our position as one of the leading banks in the provision of finance and consulting to manufacturers in the solar power sector, and have helped the sector navigate difficult market circumstances. As a result, existing jobs have been secured and new positions created in this future-oriented sector that is important in our core regions.

We believe the renewables sector will be a clear growth market.

The limited number of potential new sites for onshore wind power projects, especially in Germany, and the need to continue to push on with future-oriented power solutions, have led to us forge ahead with new ways of financing renewable energy solutions. For this reason, we believe a further sector for our activities will be off-shore wind power. In accordance with the principle of a forward-looking energy mix, we want to become more heavily involved in assisting projects in the solar power sector. Furthermore, in addition to the options of repowering existing wind farms, this will also open up new prospects from the opportunities of combined power plants. We believe this also represents the opportunity to develop solutions that will enable a reliable baseline supply, thus ensuring security of supply from renewables, without the need to resort to conventional power sources. In view of our position in the maritime areas of Europe, we are also putting increased energy into investigating the options of financing tidal power projects.

The development of future-oriented energy solutions is a vital prerequisite for making our civilisation and welfare model sustainable in the long term. Renewable energy sources form an elementary component of this concept. Therefore, we believe the renewables sector will be a clear growth market that is highly attractive to investors and financers in the future. As part of our long-term forward-looking business policy, we want to continue with our strategic alignment in this sector and guide future-oriented solutions with our expertise. On-shore wind power projects will continue to remain in the centre of this approach. Many of the small and medium-sized companies in this sector, whose technology and product expertise is already well represented in projects around the world, are based in our core regions. With our financing solutions, we support these companies in accessing additional growth regions in these future-oriented markets and also allow them to compete on the global stage thanks to the services we offer.

Renewable energy for corporate and private customers

The use of renewable energy currently forms the focus of thoughts on energy supplies of the future – for private users as well as for companies. As one of the leading providers of finance to the agricultural sector, we are particularly focusing on agricultural banking in our corporate business here.

With the provision of finance for wind and biogas plants, we are helping operators to access new growth markets from their own land, laying the foundations for forward-looking, low-cost energy supply. So far we have financed around 140 wind power systems for agricultural operations. The systems that are being operated and that have been financed by us are producing an average annual total output of some 165 MW.

In our agricultural banking business, we place particular emphasis on financing of farmyard biogas systems. These systems make it possible to exploit natural material cycles for energy production, and contribute to the efficient use of agricultural raw materials and products. Not least, the revision of the Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG) in respect of the potential for reusing slurry in biogas plants has opened up the way for new investment in the biogas segment. In 2009 we provided a total of € 60 million of finance for 40 new biogas plants producing an overall output of 20 MW. This means the number of biogas plants we have financed has now risen to around 130 systems.

In addition, we have provided finance to the value of € 10 million in order to assist agricultural businesses in installing photovoltaic systems, thus continuing to expand our portfolio in this segment of the renewable energy sector.

The financing of renewable energy projects also forms a solid basis for the solutions offered to our private customers. We have benefited in this respect from the Renewable Energy Heating Act (Er-

neuerbare-Energien-Wärme-Gesetz – EEWärmeG) which requires the use of renewable energy in new construction projects after 1 January 2009. We provide advice and financial solutions to help implement energy-efficient construction projects and to help realise renovation measures to conserve energy in existing buildings. This activity allows us to support home-owners in implementing solutions to save energy and costs. As a result, future-oriented buildings are being created, with value added, both for the current owners' use and for future prospects for sale and rental. To make the associated investment as feasible as possible for our customers, we also allow our customers to access appropriate public funding for these projects. NORD/LB and BLSK therefore both also arrange all funding programmes provided by the Reconstruction Credit Institute KfW including all environmental programmes, plus funding programmes for residential buildings and the corporate sector. This allows us to determine the optimum mix of own and third-party financing for each project.

Offering new opportunities

We provide M&A services to support the growth strategies of primarily small and medium-sized businesses in the renewable energy sector located in our core regions. We guide customers through the process of cooperating and merging, and support them in their quest to achieve the size they need in order to access the global market. With the growth in the renewable energy sector, these companies are also rapidly growing in importance as future-oriented investments themselves. In 2007, we created a "Renewable Energy" research branch in order to make this potential accessible to interested investors. This represents a value add for our customers, and also opens us up to new potential customers. With this commitment we are taking a leading role in strengthening the renewable energy sector in Germany.

Shaping demographic change

Our contribution: Housing

As the major players in forward-looking urban development, local authorities and their housing pools are currently facing the challenge of ensuring a plentiful supply of residential property at affordable rental prices. In view of the budgetary restrictions on many local authorities, the sale of local authority housing stocks is up for discussion. With our expertise in the housing sector, we are working as a long-term partner alongside our local-authority customers to develop solutions that will allow them to fulfil their responsibilities to their communities with the greatest possible economic efficiency. In line with this requirement, in 2009 we were solely responsible for structuring and financing the takeover of a Hamburg based housing construction company by a housing company from Hanover. The purchaser's awareness of its social and community responsibilities in the core business of real estate were a reason for awarding the contract to our client. The strategy is based on a policy of long-term retention of the acquired properties, and not on extracting short-term optimised profits at the expense of the tenants. For this reason, a comprehensive tenant protection package and social charter were also agreed.

Self-determined co-existence – young people, families, the elderly all have very different requirements from common residential settings today. Nevertheless, the opportunity to live in buildings that accommodate several generations is growing in popularity. In the towns of Wernigerode, Bernburg, Weißenfels, Halle and Halberstadt, we are supporting our customers in the realisation of housing projects such as these. Responsible use of energy while reducing CO_2 emissions is an important topic for the entire real estate industry. Renovation of existing properties and construction of new low-energy buildings both help improve the ecological balance and reduce operating costs. With this objective in mind, we are assisting projects such as the largest energy-optimised new construction project in Jena, the energy renovation of a major housing estate in Berlin and several projects to use solar energy, such as those in the Lutherstadt of Wittenberg and Magdeburg.

Self-determined co-existence – young people, families, the elderly all have very different requirements from common residential settings today.

Our contribution: Social buildings

Bremer Landesbank has been financing social construction projects since the 1980s, and therefore integrated social aspects into its core business at an early stage. The commitment of Bremer Landesbank to social construction is determined by a simple philosophy: combining social and regulatory requirements with economic demands. The main focus of this business unit, located in the Special Finance division, is on properties in the care sector, principally homes for the elderly, nursing homes, supervised residential complexes, clinics and rehabilitation facilities. The financing portfolio comprises 300 units, with a total financing volume amounting to around € 1 billion. As the competence centre of the NORD/LB Group, Bremer Landesbank is now one of Germany's leading providers in the social property financing segment. Despite public discussion on the future of nursing insurance and refinancing options for nursing services, Bremer Landesbank remains committed to this segment and is financing the realisation of new and innovative concepts here. This commitment as part of the bank's core business demonstrates an important contribution to the shaping of the demographic change in Germany.

Since 2008, the bank has extended this commitment through its partnership in the associated research project of the Fraunhofer Institut "Trend Study Nursing 2020" – for the 2nd research phase from 2008–2009 and the 3rd phase through to the end of 2010. The Fraunhofer Institut's associated research project "Nursing 2020" is concerned with questions relating to the current and future developments of nursing care in Germany. In this association of service providers, manufacturers and carers in the healthcare sector, trend-setting strategies and concepts are being developed to shape the nature of nursing care in the future.

Sensitisation and uncovering potential solutions

Uncovering potential solutions to successfully rise to the challenges of demographic changes is one of the core areas of work for NORD/LB's regional operations. In 2009, against the backdrop of the financial crisis, strategies for companies and regional corporations were joined by options for action by regional credit institutions. On the basis of the obvious demographic, economic and socio-cultural changes, we are making the resulting consequences transparent on the capital and services markets, underlining the effects on regional credit institutions and providing recommendations for modifying and realigning individual activities and the business focus of individual financial service providers. This is not only providing impetus for a more forward-looking strategy of the individual institutions, but is also making a contribution to securing the future of our own economic environment and community.

Options for sustainable development in the company have also been the focus of our SME magazine, "52° NORD." Under the general topic "Doing sustainable business", we have explained options for sustainable ways of operating and managing businesses to SMEs in our core regions, and have sensitised them for future-oriented solutions in areas such as HR, construction and ecologically sound information technology.

Saving energy and protecting the environment are also increasingly important to private households. For this reason, Braunschweigische Landessparkasse has participated in an information programme in its local region, amongst other programmes, in which independent energy consultants provide analysis and advice to show private owner-occupiers options for saving energy in their buildings, and explain to them how to implement these solutions at low cost.

Under the general topic "Saving energy around the house", Bremer Landesbank held the first Energy Savings Day at its Bremen headquarters in 2009. At the exhibition, which targeted private property owners, a number of firms and exhibitors showed off their products and gave presentations of innovative solutions, as well as useful tips on saving energy, and provided advice on topics such as cavity wall insulation, heating systems and solar roof tile collectors. The Landesbausparkasse, BLB Immobilien GmbH and Bremer Landesbank all provided information on the suitable financing options. With this event, the bank gave a wide audience the opportunity to find out about energy savings solutions for private properties – covering the full range from technical implementation to finance.

Enabling sustainable investment

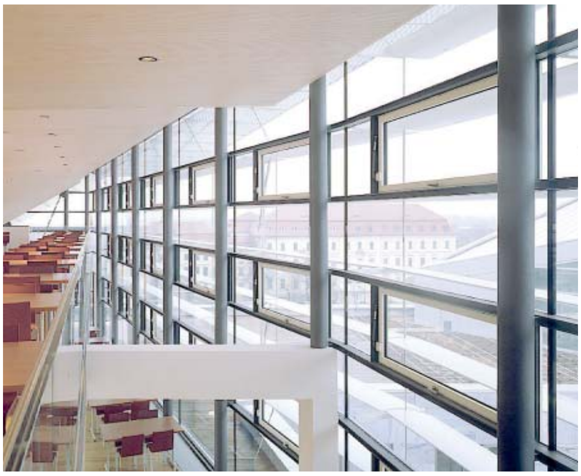
Sustainable investment not only offers investors the opportunity to put their money to use in ecologically and socially sound projects that make an attractive business case, it also makes a contribution to sustainable development. The companies that are committed to making their business succeed while remaining ecologically and socially responsible gain first of all, but in addition, the opportunity, as long as it adheres to the concept of the best-in-class approach, provides for competition for the best concepts and solutions in which companies in all sectors can participate. In this opportunity, we see a significant, market-based mechanism for allowing companies to participate directly in the shaping of long-term development. We are committed to this approach.

Our sustainable activities and responsible management principles secure our success in business and the value of our company.

Alongside the purely investment products, we are also committed, therefore, to creating the corresponding market structures to allow these investments to happen. For this reason, we assisted Börse Hannover in the preparation of the Global Challenges Index (GCX), which was introduced in 2007. With this index, Börse Hannover was Germany's first stock exchange to create a sustainability index that reflects the mastery of global ecological and social challenges. The listed international companies have excelled in seven particular fields of activity: climate protection, drinking water supply, forest protection, maintaining diversity, dealing with population growth, fighting poverty and sustainability-oriented systems of governance.

We believe the Global Challenges Index represents a great opportunity for promoting sustainable development while also participating in the growth in value of future-compatible listed companies. We have therefore created the Global Challenges Index funds, a product that allows institutional investors to commit to the achievement of these objectives.

NORD/LB and Bremer Landesbank offer private investors who wish to invest in sustainable projects with access to Green Invest Equity and Green Invest Balanced – two sustainability funds of Swisscanto AG that combine profit and sustainability aspects. With the Equity Fund Climate Invest, NORD/LB also offers a climate fund of Swisscanto AG.



Acting sustainably enables future stability

Our sustainable activities and responsible management principles secure our success in business and the value of our company. Through the valuation of our sustainability services by independent organisations they help position us as a sustainable investment to potential investors. Assessments by sustainability ratings agencies make an important contribution to this positioning. In the context of the corporate responsibility rating of the “Financials/Public & Regional Banks” sector conducted by oekom research AG, NORD/LB was valued with the overall score C in 2009, and thus received the investment status “Prime”. The “Prime” status is awarded by oekom research to companies that represent the best rating in the evaluated sector. It reflects our greater than average commitment to ecological and social fields. In addition, NORD/LB was rated in the context of the “Sustainability Valuation of Pfandbrief Issuers” conducted by imug in 2009 involving a group of 70 European issuers. NORD/LB received the second-best rating score “Positive” and is therefore among the best in the sector. The results we have achieved and the reaction of our customers and investors who are also committed to sustainability has confirmed the soundness of our approach and strengthens us in the decision we have made to continue to follow this path.

For our employees

Our employees are our future. Their performance has an immediate determining effect on our business success and how competitive we are. They are, therefore, the key to securing the long-term, viable growth of NORD/LB. For this reason, and especially in times of difficult market conditions, we are committed to securing this potential and allowing it to bloom to its optimum extent. We are currently focusing in particular on acquiring employees, ensuring they have the right qualifications, and securing their loyalty.

Gaining talent

In view of the demographic change facing our society, we are already preparing to meet the challenges of the future in the competition to attract qualified employees of the next generation. Our activities transcend the boundaries of age.

Even schoolchildren learn about aspects of the current banking business, through our Future Day and in work placements, as we hope to awaken their interest in the profession. As a participant in the "Fair Company" initiative, we have undertaken not to place anyone on work experience into a full-time post, and to offer them fair conditions of employment with appropriate remuneration. In 2010, the education authorities are changing the school-leaving age so that young people in two school-years will be completing their school leaving examinations (Abitur) at the same time – in response, we have significantly increased the number of trainees we will take on. In order to ensure a sufficient number of qualified applications for these places, we have been proactive in maintaining contact with the schools in our region, offering them information days and training for applicants. Across the bank, we provide vocational training for seven occupations, including banker, savings bank executive and also Bachelor of Arts and Bachelor of Science degrees.

A further area of emphasis in our activities relating to the recruitment of the next generation is in the acquisition of qualified university graduates. By participating in careers fairs, funding studies and dissertations and offering an increased number of work placements for qualified students, we have increased our visibility for this target group. Attractive internship remuneration and assistance to interns during the rest of their studies as part of the newly founded NORD/LB Alumni Group form the cornerstones of our intern package. Alongside our work with Hannover Center of Finance e.V., Leibnitz Universität Hannover and the Verein Braunschweiger Finanz- und Wirtschaftsmathematiker e.V. (an association of actuaries and financial mathematicians) we also enjoy particularly close ties with Leuphana Universität in Lüneburg, with which we are creating a centre for research and development of sustainable, and therefore future-oriented, risk management. As part of this cooperation we are setting up a five-year assistant professor post focusing on "Sustainable Risk Management in the Financial Sector" as well as a new programme of bursaries through which we will award up to nine bursaries each year.

This also increases the attraction of NORD/LB as an employer, and in 2009, we have thus hired 38 new trainees at NORD/LB. In addition to attracting the next generation of employees, we have also increased our recruitment of those who have already obtained their professional status. With these additions we have successfully placed new staff in vacant positions in our front and back-office divisions.

Gaining talent ensures success in future

Developing and retaining potential

Creating prospects strengthens stable connections

Our company's success is primarily based on committed, well qualified, experienced employees. Their targeted continuing development and professional training is therefore a basic principle of our HR work, according to the principle of "save our sources". These activities increase the loyalty of our employees to the bank, and therefore strengthen the long-term competitiveness of NORD/LB. We support professional and personal development through a comprehensive range of courses and seminars. As well as personal and social development, we have particularly strengthened our employees' capabilities in the marketplace and in management. In 2009, 3,706 NORD/LB employees attended a total of 10,055 seminar days.

We want to make specific use of the experience and expertise of our employees who are currently in their middle years. As the carriers of our long-term expertise, these people are vital for us – both as bearers of potential in their areas of responsibility and in respect of knowledge transfer across the generations. We want to realise this objective by building teams that span the generations, and offering age-specific seminars in which we prepare the specific group for the challenges of the future and introduce them to prospects for their own professional development.

As an alternative to the management career path, we have implemented an expert development programme to offer employees additional career opportunities without taking on management responsibilities. At regular workshop sessions, we work with these employees to develop the understanding of the role of expert and its importance for our bank, and develop targeted profiles together, thus also promoting individual development. This also takes account of the increasing levels of specialisation of our banking departments.

Accordingly, the participants of the first programme implemented the "ExChange" initiative, developing a web platform that introduces social projects conducted by non-profit organisations, to which employees of the bank and its pensioners can make donations in kind, or contribute their time and expertise. Another significant core element for the participants of this high-potential programme has been the implementation of the "overall bank management" programme. This introduced participants to the opportunity of building up expertise and experience both in theoretical situations and in practical applications. Following on from this, we provide future high-potential candidates with a high-performance leadership curriculum that runs for almost two years, giving them the opportunity to deal on an intensive basis with leadership tasks and a leadership role, and to develop the corresponding profile. Due to the positive experience gained from the first programme, we have selected a further six participants during the year under review.

Particular importance is attached to the targeted prospects support for our high-potential employees, whom we select as part of a structured process.

Particular importance is attached to the targeted prospects support for our high-potential employees, whom we select as part of a structured process. We prepare the staff we have identified for their future roles of responsibility through a programme of individual mentoring, including by members of the Managing Board of the bank. In addition to technical banking qualifications, with this group we place particular emphasis on social skills. For this reason we require this group's development to include a commitment to social aspects.

Performance and responsibility as basic principles

Placing performance at the core of our activities creates the basis for the success of every individual, and therefore of the entire bank. It is the responsibility of the bank's management not only to embody this philosophy themselves, but also to convey it to our other employees.

Promotion to positions of leadership is dependent on the capacity to delegate demanding tasks, and to deploy employees according to their abilities and to motivate them to accomplish their work. Even managers in leadership positions who already perform these tasks receive regular feedback on their leadership. In the context of a 360° feedback programme, all management, including the Managing Board, are assessed by their own employees and thus learn where they stand, and receive suggestions as to how they can expand potential and develop further themselves.

Performance should not simply be encouraged, it should also be rewarded.

In order to define a common benchmark for leadership, the existing management principles have been revised on the basis of our competence model and the company vision. We introduced these principles to the entire management team within the Group in December 2009, as part of the annual NORD/LB Management Conference. We see management as the foundation for reaching our corporate objectives. This means always keeping the interests of the bank in balance with the interests of its employees.

As part of our performance management, all employees receive annual feedback on their performance in a detailed personal appraisal interview. The target-setting process also forms a component of performance management. Objectives derived from the corporate strategy are cascaded through all hierarchical levels and agreed with the individual employees. Achievement of these objectives is also discussed. Performance should not simply be encouraged, it should also be rewarded. For this reason, our performance management – the results of the performance assessment and the achievement of objectives – forms the basis for the bonus payments, which we tailor to demanding performance-related aspects. During the period under review the system of performance management developed for NORD/LB was also implemented at Deutsche Hypo.

Protecting health

Proactive, preventive health protection is a key element of our philosophy as a responsible employer. The many measures that we have realised are coordinated centrally by the operating health management team (Betriebliches Gesundheitsmanagement – BGM). Our bank already has a long-lasting tradition of sharing in the responsibility for protecting the health of its employees. We took the potential risk arising from the A/H1N1 “swine flu” virus extremely seriously. A number of measures were implemented to protect our employees. These extended from hygiene and medical care measures, through to preparations that would allow us to set up emergency workplaces in the home at short notice.

Taking responsibility by promoting stability in health

BGM is also responsible for ensuring the working environment is a healthy one. However, we do not only concentrate on selecting healthy materials at and around the workplace. Our company doctors advise our employees, including on an individual basis, on how to configure their workplaces ergonomically and how to take preventive measures to counter problems with vision and posture. In addition, BGM manages the provision by qualified social advisors of support to our employees at difficult stages of their professional or private lives. This advice covers potential addiction problems as well as support for solutions and options in times of particularly increased workloads, with the objective of reducing or avoiding the burden on the individual. We understand the special responsibility we have to our employees when it comes to reintegrating those who have had long-term illness back into the workplace. We provide those affected with individual support comprising advice and a suitable pattern of working hours.

The “NORD/LB Football Cup” or the “Cycle to Work” initiative have become established as part of our company’s culture, as have our many different company sports groups, which offer more than 40 activities at our bank’s various sites.

Our site catering facilities not only offer a variety of food and drink, focusing on seasonally available regional produce, but also stage regular promotion weeks allowing our employees to find out about healthy eating.

Supporting work-life-balance

We believe sustainability in action also means supporting our employees in maintaining a healthy balance between their professional and private lives. We not only believe we have a central responsibility to our employees, but also want to help them to look after their children and other dependents, to secure our employees' expertise and experience for the good of the bank. During the year under review, therefore, we have significantly increased the number of activities staged to improve the balance between work and family life.

At our sites in Hanover and Braunschweig, we have cooperated with other employers to arrange care options for children up to three years of age. At our other sites, the bank shares the costs of childcare. We have put in place a contract with an external service provider to assist in the search for childcare places at crèches, nurseries and after-school centres, and to help in arranging child-minders. If the usual carer or establishment is unavailable or additional need arises due to business trips or training, our employees can also access options to have their children looked after by qualified staff in an emergency facility. During school holidays, we support the participation of our employees' children in holiday camps, for which we have concluded cooperation agreements with a number of providers. An external service provider also provides support throughout Germany for the search of suitable care for dependents who require nursing.

By making it technically possible for employees to carry out their work from home, for example when children or dependents requiring care need supervision, we have made a further contribution to improving the balance between family and work. Furthermore, we also offer this form of work to employees returning from long-term illness, to

allow them to gradually increase their participation in work. The option to work from home was taken up by a large number of employees during the year under review, and the flexibility of the scheme generated positive feedback among the employees and their managers.

While 51.5 per cent of the bank's employees are female, only 19.1 per cent of management positions are occupied by women. It is our medium-term objective to change this ratio. For this reason, in order to target an improvement in the career options for our female staff, we have started the "Women in Leadership" initiative, which was launched by the Managing Board. Through the medium of individual support, for example in the context of mentoring programmes, careers advice for women and targeted seminar offerings, we want to ensure the equality of opportunity for both female and male employees within the bank.

Following on from the successful "family and work" audit offered by Hertiestiftung and carried out by Bremer Landesbank and Öffentliche Versicherung Braunschweig, NORD/LB intends to subject itself to the audit process as well in the current calendar year.

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

	31 Dec. 2009	31 Dec. 2008	Unit
Employees	3,864	3,654	
Proportion of female employees	51.5 [2)]	53.3	%
Proportion of female employees in management positions	19.1 [2)]	20.5	%
Training hours per employee	19.8	17.9	Hours per employee
Part time rate	19.1	19.6	%
Proportion of trainees	4.3	4.3	%
Fluctuation rate	3.9	4.3	%
Illness rate	4.1	4.2	%

1) Comprises 59.8 per cent of the employees at NORD/LB Group.
2) The lower figures as at 31 Dec. 2009 are mainly the result of the integration of NORD/LB Informationstechnologie GmbH into NORD/LB AöR and the associated introduction of 181 employees, most of whom were male.

For society

Strong companies need a future-proof society. We are committed to achieving this, and take a proactive approach to our responsibility as a corporate citizen within society. In our commitment, we concentrate on areas in which the bank and society benefit equally. After all, our long-term development is intrinsically linked to the long-term development of the society in which we operate.

Our commitment to the future

As a major regional bank, this is of particular importance to us. The regions in which we are based are also the areas in which we do business. For this reason especially, more than other banks we form an integral part of the community on our doorstep – as an employer and customer and as a partner to businesses and local authorities. Therefore, throughout the 245 years of our existence, our activities have been designed to fit into this landscape, and thus contribute to its future. These include our activities as a provider of financial services, but also as a supporter of the arts, culture and science, supporting community projects, as a donor, sponsor and benefactor and through the voluntary commitment of our employees.

Supporting the arts, culture and science

We believe our contribution to the common good of our core regions is also about enabling cultural diversity through our support. A core emphasis of our cultural support is therefore the support we give to the major music festivals in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania. These include the Kurt Weill Fest in Dessau, which NORD/LB has supported for 14 years, the Usedom Music Festival and the Festspiele Mecklenburg-Vorpommern, as well as the Braunschweig Classix Festival, which takes place in many regions in which Braunschweigische Landessparkasse operates, and which has now enjoyed the support of the bank for 21 years. Braunschweigische Landessparkasse revealed another aspect of its cultural support in 2009, with its commitment to the State Exhibition "Otto IV – Dream of a Guelph

Empire". As part of the anniversary celebrations, we supported the Mittelalterweg – a trail that leads tourists interested in history through important buildings, monuments and views of the medieval city. We also supported the "Varusschlacht im Osnabrücker Land" exhibition, which commemorated the 2000th anniversary of the Battle of the Teutoburg Forest, with numerous events and exhibits throughout the city of Osnabrück and its surrounding region bringing this defining historical event to life.

We believe cultural support is more than simply funding individual projects, exhibitions and performances – and we also support the creation and maintenance of the required infrastructure. In this context our financial support during the year under review has helped in the renovation of the Eisfabrik cultural centre in Hanover and the renovation of the Simultaneum double church in Althaldensleben, Saxony-Anhalt.

In the context of our support for the arts, we have supported exhibitions and art projects in various art institutions and museums. These include the Kunstverein in Hanover, the Kestnergesellschaft, the Lower Saxony State Museum and the Sprengel Museum in Hanover. In addition, during 2009 our support has helped realise other art projects, such as the very unusual project entitled "Garden of Eden Church" in the Christuskirche in Hanover. NORD/LB is the chief patron of Hanover's Zinnober Kunstvolkslauf in 2009 – the ninth time we have assumed this role. In our own NORD/LB Art Gallery, we provide a venue for presentation of the works of both established artists and artists of the next generation. This venue became the stage for the first-time showing to a wide audience previously unpublished works by the Danish artist Per Kirkeby in 2009. In cooperation with Sprengel Museum, we also presented rarely seen pictures by Emil Nolde, and staged a video installation by the Lower Saxony artist Anne Nissen and a show of the new works of Krefeld's Uwe Esser.

The development of solutions that will make a positive contribution to shaping the future demands a successful symbiosis of research and entrepreneurial implementation. In our support of academic pursuits and the sciences, therefore, we focus on promoting solutions for the future that demonstrate a clear interaction between theory and practice. We place specific emphasis on supporting up-and-coming academics in disciplines that can make a contribution to current questions about the future. This support includes the award of targeted bursaries, promotion of scientific works and research projects and cooperation in various fields with academic institutions. Furthermore, we support selected newly created courses of study and academic chairs with specific packages of funding. In this context over a period of five years we are financing projects including a course of East Asian Studies at the University of Göttingen.

We also believe it is our responsibility as a bank to provide answers to the challenges of finance that affect the stability of the economy and society. Against the backdrop of the financial crisis and the associated effects, we therefore decided in 2009 to establish a centre for research and development of a sustainable, and therefore forward-looking, system of risk management, as part of our cooperation with Leuphana Universität in Lüneburg. This task has been supported by the funding of a five-year professorship at Leuphana. In addition, there will be an annual bursary programme targeted at up to nine Leuphana students. This helps to provide the bursary beneficiaries with specific technical expertise to allow them to gain insight into the principles of sustainable business and management.

Bremer Landesbank is an active member of the Advisory Council to the study of wind power at the joint Centre for Wind Power Research at the Universities of Oldenburg and Hanover and the Windenergie-Agentur Bremen/Bremerhaven e.V. In supporting this course of study, the bank makes an important contribution to the further development of wind-power expertise in the North West and to securing the centres of academic excellence in Lower Saxony and Bremen. It makes its contribution to the promotion of a future-oriented power supply for Germany as a member of the Bundesverband Windenergie (German WindEnergy Association).

Supporting community projects

Assuming responsibility for society as a whole means staying true to our values and passing them on to others. We are committed to this approach. Even in Germany, social problems are on the rise. Against this backdrop, NORD/LB and BLSK have concentrated their support in recent years increasingly on assisting community projects, and have kept up their budget for donating to nonprofit causes despite the financial crisis.

We believe it is our responsibility to provide assistance to help people help themselves in difficult social situations, and to make a contribution to help the young people of society, in particular, to make a start on the path to a stable future. For this reason, we support facilities and organisations that offer equal opportunities of education for all. These include day-care centres and schools in suburbs that are experiencing social discord, as well as various projects conducted by non-profit organisations such as Arbeiterwohlfahrt (German Workers' Welfare Organisation – AWO), church organisations and initiatives such as midday meals for socially disadvantaged children, young people

Watercolour by Per Kirkeby (detail)

and the homeless. In addition, we are currently conducting a pilot project to investigate the options for improving opportunity for access to training and work for socially disadvantaged young people, through holistic assistance and vocational qualifications. During the year under review we have also continued to support the work of the treatment and diagnosis centre for maltreated and abused children (KiD) in Hanover, following on from the start-up finance we provided in 2008. In the context of our many years of support for the children's initiative Heinz der Stier (Heinz the Bull) launched by the actor Heinz Hönig, who lives within the region covered by Braunschweigische Landessparkasse, the foundation we started has established itself successfully. The foundation's work assists children who have suffered trauma as the witnesses or victims of violence.

In terms of our commitment to equal opportunities for education, we also support the creation of the necessary infrastructure. Accordingly, in 2009 we provided funding to the tune of a five-figure amount to the "n-21 online" project. This is the seventh time we have supported this cause, which promotes IT skills among schoolchildren in Lower Saxony and aims to provide all schools in the state with an Internet connection. A further emphasis for this objective is set with our regional patronage for the Federal "Youth research" competition in Braunschweig, the realisation of Europe's largest stock trading game, the project "Economy in the school", the "Jump" training for job applicants in Holzminden and the "Children's University" in Braunschweig. Furthermore, since 2009 Braunschweigische Landessparkasse has been the primary patron of the "KnowledgeResearcher" project supported by the Lower Saxony Education Ministry. This project teaches primary schoolchildren the basic laws of physics through experiments that can be conducted in the kitchen at home, with audio-visual documentation so that the phenomena that are discovered can be appreciated again afterwards by viewing a teaching DVD. With this support the Landessparkasse is focusing further on the promotion of innovative ideas for early years education, in particular in the areas of science and technology.

Assuming responsibility for society as a whole means staying true to our values and passing them on to others.

Against the backdrop of increasing ecological demands, we concentrate heavily on making the children aware of proactive environmental protection. For this reason, Braunschweigische Landessparkasse also supports the Unesco-recognised federal education project Multivision "Climate & Energy" launched by BUND (Bund für Umwelt und Naturschutz), the German arm of Friends of the Earth. The project, which involved the participation of more than 1,000 schoolchildren from Braunschweig, provided information on climate change as a consequence of using fossil fuels, and on the possibilities and opportunities for using renewable energy. In supporting this project we have not only contributed to clarifying questions relating to the environment, but have also attempted to win over schoolchildren and young people in the process of shaping climate protection through the use of climate-sensitive energy resources.

With the NordWest Award, Bremer Landesbank has set the tone for the future shaping of its local market since 2005. The NordWest Award is a public advancement award, that was advertised for the fourth time in 2009. It seeks and presents particularly strong, creative initiatives that provide an impetus for processes in the community, the economy or in the region to promote identification with the "Metropole Nordwest" and therefore attract attention from outside the region. Bremer Landesbank hopes to support this process by rewarding excellent commitment in this field with the NordWest Award.

Our investment in the future capabilities of our local communities is aimed at achieving a very special “return”. For this reason, we also commit significant amounts of finance. The Lower Saxony Sparkasse Lottery “Save and Win” plays an important role in funding provided through the Braunschweigische Landessparkasse business unit. In 2009, over € 240,000 in funds from this source were successfully distributed to support projects involving children and young people, sports, arts and culture and social causes. These investments have a direct benefit for the people in the region.

As a sponsor we believe our responsibility is in using our financial resources to enable community projects to take place and remain in our core region for the long term. A particular focus in this area is placed on events within the business area of Braunschweigische Landessparkasse. These include the NORD/LB Open ATP tennis tournament, and the traditional horse race at Germany’s oldest natural race track in Bad Harzburg. During the year under review, Braunschweigische Landessparkasse supported the renowned Domfestspiele in Bad Gandersheim for the first time, securing the town’s theatre festival. Every two years the respected street theatre festival takes place in Holzminden, and we have supported this for a longer period of time. Further funding to cultural projects in 2009 was once again given to the “Schoduvel” carnival procession in Braunschweig, with the Landessparkasse donating a prize for visitors. We also supported the City Jazz Night, the 2nd Braunschweig Detective Story Festival, the “Javier Tellez” exhibition at the Braunschweig Kunstverein and the “Judith Joy Ross” exhibition at the Photography Museum. As part of a major project to establish a museum of pre-history in Schöningen, the Landessparkasse supported an academic project entitled “Palmenstümpfe”, which is concerned with the recording and cataloguing of well-preserved 50-million-year-old tree remains.

We see our work as a contribution to supporting the regional economy, and therefore have always supported a wide range of organisations and events. In 2009, these included a network for start-ups in Braunschweig and business support in Braunlage.

Strengthening our employees’ contribution

Many of our employees work voluntarily in associations, non-profit organisations, foundations and in educational facilities. We understand that this as a social policy task that is gaining importance as a cornerstone of securing the future of our society, against the backdrop of demographic change. Therefore, we believe it is our responsibility to our community not only to support this work, but to proactively invite our employees to sign up. For example, employees of the Landessparkasse once again took part in the Sauberes Braunschweig (“Clean Braunschweig”) action days in 2009. We also participated in projects of the Brücken bauen (“Bridge building”) initiative during the reporting period. A number of employees were involved in renovating a day-care centre for children in Fredenberg. In Braunschweig, the works sports group played against the team from Cura e. V., an association supporting the reintegration of young people who had become caught up in criminality, and took the opportunity to learn about the young people’s lives and gain an understanding of their efforts to reintegrate within society. Through our programme Sie engagieren sich … wir unterstützen Sie (“You give your time, we’ll support you”), we offer employees who work on a voluntary basis the opportunity to apply for exclusive funding for their organisations.

Team "Building bridges"

NORD/LB employee's soccer team

Providing social benefit

The STIFTUNG NORD/LB · ÖFFENTLICHE is a foundation launched jointly between NORD/LB and Öffentliche Versicherung Braunschweig in 1994, and is one of the largest regional foundations in Lower Saxony. Its work is concentrated on the area around Braunschweig, the region in which Braunschweigische Landessparkasse and Öffentlicher Versicherung operate. In 2009, it supported more than 50 individual projects in the region with funds of more than € 600,000, in the areas of arts and culture, education, research and knowledge transfer as well as sports.

The projects included the "Mobiles Atelier" which visited the Salzgitter region in October and November 2009. Twelve invited artists working in the visual arts took their workspaces out of their own studios and into nurseries and day-care centres for children in Salzgitter, in order to produce art work there together with the children and carers. This is a new form of bringing art to the community, and has made an effective, lasting contribution to creative education at the nursery schools. In Schöningen, work is ongoing, driven by the federal state of Lower Saxony, to create a research and experience centre focusing on the history of human kind and the climate, due to open in 2012. The conditions for this were put in place by STIFTUNG NORD/LB · ÖFFENTLICHE, which agreed in 2007 to provide the supporting association "Schöninger Speere – Erbe der Menschheit ("The Schöningen spears – the human legacy") with the financial assistance to conduct a feasibility study into the cultural potential of the eight hunting weapons discovered in the Schöningen open-cast mine in the 1990s. In addition, in 2009 the foundation supported a master-plan study to restructure and redesign the Bad Harzburg Burgberg (mountain near Bad Harzburg), at the behest of the Förderverein Burgberg Bad Harzburg e.V. The Burgberg Bad Harzburg occupies a significant position in the Braunschweig region thanks to its geographical location, its historic cable car and its rich historical importance that extends far beyond the borders of Braunschweig and the surrounding area.

Living integrity

Integrity and fair play form the foundation of the responsible management principles and vital corporate culture at NORD/LB. In addition to adhering to statutory requirements and avoiding risks, financial loss and sanctions, we are concerned with securing the trust placed in us by our customers, business partners and other groups for the long term. For this reason, we are proactive in encouraging integrity in the conduct of all our employees. Alongside clear guidelines, as well as control and sanction mechanisms that implement these rules, we place a clear emphasis on our requirement that all our employees take responsibility for their own ethical and legally unquestionable conduct, as a cornerstone of our corporate culture. Training measures and similar programmes provide in-depth information on topics such as bribery and corruption, and introduce employees to measures that help avoid conflicts of interest and illegal activities and combat money laundering.

We are fully committed to ensuring that all employees take responsibility for integrity in their conduct as a cornerstone of our corporate culture.

Expanding our compliance structure

Compliance comprises a set of preventive measures to ensure we keep to our statutory requirements. Potential areas of conflict should be identified at an early stage, so we can avoid resulting damage to business and our reputation, or resolve any disputes that occur in the interests of our customers. Our Compliance structure operates independently of the retail, corporate and back-office divisions. Through the responsible management of sensitive information and the monitoring of capital-market facing trading divisions and of all transactions that raise suspicion of money laundering, Compliance provides the evidence that our requirements for legal, ethically unimpeachable conduct and for transparent and traceable business practices are met.

NORD/LB's ethical principles

In May 2009, NORD/LB published its Ethical Principles for all employees, as a binding standard for ethical and value-aware interaction and for honest and fair conduct and demeanour. These principles complement the statutory and regulatory framework that governs the business activities of NORD/LB, and contain specific, clear rules on proper, professional conduct in situations such as conflicts of interest, combating corruption and bribery, corruptibility and money laundering, as well as on maintaining confidentiality and data protection, dealing with customers, protecting and using the bank's resources or protecting against discrimination. One area of emphasis is defined by the rules for accepting and granting perks and

gifts. The principles also define uniform rules governing the issuing and acceptance of invitations. These principles have been adopted by the Managing Board in agreement with the General Employees Council.

Alongside our ethical principles, we have also implemented a whistleblower system that provides all employees with the opportunity to report areas of disquiet without fear of discrimination. This process allows risks and potential internal grievances to be uncovered at an early stage. An external ombudsman is at the core of our system. The ombudsman's role is to receive tips regarding fraudulent actions, advise the whistleblower and inform NORD/LB of justified areas of suspicion. The identity of the whistleblower is never disclosed.

We are fully committed to ensuring that all employees take responsibility for integrity in their conduct as a cornerstone of our corporate culture. A copy of our ethical principles has been distributed to all employees and can be downloaded from the company intranet. They are also given to all new employees in their Employee Information Packs when they join NORD/LB. This creates the framework for ensuring that all employees throughout the Group take responsibility for maintaining a minimum standard of integrity in their conduct as an integral part of the corporate culture.

Focus on capital market compliance

To ensure the trust of our stakeholders in the bank, the absolute integrity of all employees including management and members of the Managing Board has always been a vital basic principle of NORD/LB. It lays the foundation for the responsible management principles that our customers and other market players can expect from us. The important aspect is to avoid transactions that give the perception that the bank's interests and the interests of the customer could conflict. If this should not be possible in exceptional circumstances, we will inform our customers and the public about this comprehensively and in a timely fashion. In order to implement these standard rules of behaviour for the long term, we have binding rules on insider information and other price-relevant information that complement our clear principles on handling conflicts of interest. These rules prohibit our employees' use of confidential information for business or private purposes. Brokers and analysts are also prohibited from influencing the capital market by means of confusing transactions or orders, or by deliberately disseminating false information. Furthermore, we continually expand and refine the existing body of rules and systems in order to adjust these to changing conditions and statutory requirements.

During the period under review, we have concentrated specifically on measures such as preparation for the introduction of the new German Bond Restructuring Act. The legislation requires for an "investment protocol" to be created for all advice provided to private customers regarding an investment in financial instruments, starting 1 January 2010. The purpose is to improve protection of the investor, and ensure greater transparency. In addition, we have further refined the quality of our complaints handling process, in order to continue meeting the justified interests of our customers to the fullest extent.

We are fully committed to ensuring that all employees take responsibility for integrity in their conduct as a cornerstone of our corporate culture.

Fighting white-collar-crime (fraud)

To prevent fraud, we have set up a cross-group network of decentrally organised controls and measures. We check this set of processes and systems at regular intervals to ensure they are up to date, and continue to refine them. NORD/LB has created the post of Fraud Prevention Manager within the Compliance/Money Laundering Prevention division, to effectively implement the security measures against fraudulent actions at the expense of the bank, as required by the German Banking Act (Kreditwesengesetz – KWG). The Fraud Prevention Manager analyses the risk situation and corresponding measures from his central position within the Group, in order to identify areas in which further action is required and to initiate specific courses of prevention. Since fraud can only be fought successfully in the long run if all employees are proactively committed to the fight, in 2009 we provided all employees and managers with targeted information and training on the latest developments, in a separate programme developed in-house.

Preventing money laundering

We take a proactive stance in our fight against criminal activities. This is not only a means to avoid economic loss, but also contributes to enhancing our reputation and the long-term success of our business. For this reason, NORD/LB has implemented the statutory requirements aimed at preventing money laundering and the financing of terrorism in the context of in-house rules. In 2009, we appointed a Group Money Laundering Officer, and are currently establishing a Group Money Laundering Policy containing specifications that are binding for all companies within the Group. Our system of hazard analysis, which is updated annually, allows us to analyse the risk situation within the Group, and implement measures to counter any risks that are detected. We also determine the reliability of our employees when they are hired, and as part of our regular employee appraisals. We inform our employees of the pertinent money laundering prevention rules, and train them in how to recognise unpermitted transactions at an early stage. To prevent NORD/LB becoming involved in or carrying on unlawful or criminal business relationships, we analyse our customers and their businesses and partners in detail. If suspicious transactions or business partners come to our attention, we report these facts to the responsible criminal investigation authorities.

For the environment

Our sustainable development is intrinsically linked with the protection of our natural environment. After all, in the long run, the economic success of our company is only possible given a stable natural ecosystem. Of course, our direct environmental impact is low in comparison with that of industrial companies. But even so, we are a long way from having a basic biological design for our activities. Nevertheless, we can make an active contribution to continuously reducing our effect on natural systems. Through our operational environmental management programme, which forms a core part of our sustainability management activities, we have been reducing our environment footprint constantly since the beginning of the 1990s, while simultaneously reducing our costs of energy and resources. As well as helping manage our environmental balance, this also benefits our financial situation.

Managing environmental protection

From the start, we have integrated our activities into the workflows and processes of our banking operations. Our system of operational environmental protection is organised around a networked structure. The environment team uses environmental assessments to control the flows of materials and energy within NORD/LB and defines specific annual environmental protection targets, coordinating measures to ensure that these are met. The team is supported by the central network of environmental partners, which also provides training in environmental management at the workplace and responds to all queries relating to environmental protection at NORD/LB.

To make our environmental protection activities binding and provide clear direction and enable uniformity of action across the company, we first formulated the NORD/LB Environmental Policies in 1991. From these policies, we derive a specific set of detailed guidelines for each relevant functional division. To ensure our operational environmental protection system is ready for the future, we updated the overarching environmental policies in 2009, thus amending them to reflect the latest requirements. We expect to complete the current ongoing process of updating the guidelines for the individual functional divisions during the first quarter of 2010.

Preserving resources

The responsible use of natural resources by means of careful management has always been a key concept of our environmental management system. We believe this entails not only using scarce resources responsibly, but also minimising our environmental impact in procurement and on disposal. As part of our resource management, we concentrate on reducing our use of paper, water and power, and on avoiding or recycling waste.

The year under review was characterised by many effects, especially those of the financial crisis and the resulting changes. Working harder to look after our customers and establish contact with new customers in many areas of our core business, combined with stricter regulatory requirements, have entailed significant effort. Our commitment to securing and expanding our business success has had a detrimental effect on our resource consumption, however. The rise in absolute consumption was also caused by rising numbers of employees. This was the result of both the creation of new jobs to deal with new potential markets and customers, and the integration of NORD/LB Informationstechnologie GmbH into NORD/LB.

As a consequence, our total consumption of printer and photocopier paper and pre-printed paper rose to 291,587 kg in 2009 (an increase of 14.7 per cent). Of this total, 228,850 kg (an increase of 20.4 per cent) consisted of printer and photocopier paper. Due to the factors mentioned above, the proportion of our paper use that comprised recycled paper bearing the “Blue Angel” environmental logo fell in 2009 to a lower level of 32 per cent. The virgin fibre paper we use comes exclusively from sustainable forests and bears the seal of the Forest Stewardship Council (FSC). In addition, we have now switched nearly all of our publications over to FSC paper. Since 2007, this has also included this Annual Report. In addition, we are continuing to work towards providing information and publications to our customers using electronic means. This not only helps ensure our customers receive the information in a timely fashion, but also helps protect resources. Our increased consumption of resources has also led to increasing waste. Our total waste increased to 839,135 kg (an increase of 10.4 per cent). The major proportion of this is paper waste, amounting to 498,009 kg (an increase of 10.9 per cent). However, this rise was also caused by the disposal of old documents on the expiry of the corresponding retention periods. Through closer dialogue with our waste disposal firms and the implementation of measures as a result of the employee information programme, we have been able to further improve our results in recycling waste in 2009, and have therefore more effectively closed material cycles. The amount of recycled material excluding paper rose disproportionately to the total waste figure, to 97,038 kg (an increase of 14.6 per cent).

When we renovate and modernise our buildings, only the latest generation of equipment and devices are used. This is particularly noticeable in our consumption of drinking water. Drinking water is an essential resource. For this reason, we have used modern, technical systems in recent years to continually reduce the consumption of drinking water per employee. In 2009 alone we reduced the consumption of each employee by 0.6 m^3 to 13.1 m^3. This trend has allowed us to counteract the rise in overall water consumption in 2009 (caused largely by the increasing number of employees) and limit this to 50,636 m^3 (an increase of 1.2 per cent).

Responsible procurement

Our effective environmental protection measures start at the procurement stage. For this reason, we decline packaging wherever possible, whilst also opting for materials that can be recycled and thus reducing waste and allowing us to effectively close existing material cycles. In addition, tt of energy-efficient, resource-efficient products has contributed to improving our ecological efficiency and has therefore benefitted climate protection. As a result, we include our vendors and service providers in our environmental protection measures, through our vendor management systems. For this purpose, we have incorporated sustainability aspects into our procurement standards. Ecological, social and ethical aspects therefore form fixed components of our procurement guidelines, and of all vendor and service contracts. This creates the conditions in which the environmental and social standards that apply here and form part of the corporate life of NORD/LB can also be maintained in our supply chain. At the same time, we support our vendors in their sustainable activities and therefore make a contribution to ensuring their suitability for the future.

Increasing energy efficiency

We have set ourselves the target of continuing to increase our energy efficiency and exploiting resulting potential even more effectively in the future. The largest contribution to this aim can be made in controlling our energy consumption in the procurement and energy supply of our offices and buildings, and in ensuring our business trips have a neutral impact on the climate. We are committed to this approach.

Our contribution: Buildings management

We believe that taking account of ecological principles in the construction, operation and renovation of our buildings generates ecological, social and economic value that has benefits for the environment, our employees and the bank. These measures allow us to put in place a healthy working environment for our employees, and in the long term will reduce our economic and environmental footprint.

In October 2009, with the modernisation of our main branch in Salzgitter-Lebenstedt we commenced the first major modernisation project for a long time, which we expect to complete in the third quarter of 2010. On the basis of our guidelines for environmentally compatible buildings planning, revised in 2008, we will implement new

A tight bond between energy efficiency and stability

ecological standards in this project. From the perspective of energy efficiency, we are selecting healthy materials and are focusing specifically on materials with high insulating properties. Intelligent control systems mobilise additional savings potential for day-to-day operation of the building. Our in-house standard for the construction of new buildings and modernisation of existing buildings in the bank's possession requires energy consumption at levels at least 15 per cent below the standard defined in the Energy Savings Ordinance (Energieeinsparverordnung – EnEV). With the modernisation project in Salzgitter-Lebenstedt, we are therefore setting the tone for the practical implementation of contemporary ecological standards and the realisation of future-compatible building concepts.

Among our existing buildings, we continue to emphasise an ongoing process of analysing energy weak spots, on the basis of which our buildings management units can implement the required measures. At the same time, we adjust our plant operation to actual requirements. This has allowed us to continually reduce our consumption of heating energy in recent years. In the reporting period alone, we reduced the consumption of heating energy by 2,177,000 KWh (13,5 per cent), therefore decreasing our CO_2 emissions in this area by 43 tonnes.

Our contribution: Electricity

Our services in our core business, which are focused on deriving maximum customer benefit, are based increasingly on a high-performance IT architecture that allows us to make our products and services available to the customer around the clock, around the world. With the increasing range of services, however, our IT architecture becomes an ever greater factor in our energy consumption. As part of our energy efficiency efforts, the amount of electricity consumed by equipment now forms an important selection criterion in our process of updating our technical infrastructure.

In the context of our green IT activities, we concentrate in particular on energy efficiency and the climate footprint of the products we used, as well as on closing material cycles. Against this backdrop, in 2008 we replaced 3,000 computers with low-energy, low-materials thin clients, and optimised our server architecture. This measure has already paid dividends in 2009, and has helped us to reduce our CO_2 emissions caused by electricity consumption by 326 tonnes during the year under review (2.3 per cent). Alongside the use of multifunctional devices that combine printer, scanner, copier and fax functionalities, and therefore contribute to the more efficient use of energy and resources thanks to the reduced consumption of electricity and raw materials, we are also optimising the operating hours of our electrical systems by carrying out flexible adjustments to current usage hours and changing requirements, in order to achieve our energy efficiency targets.

During the reporting period we reduced our electricity consumption by 351,000 KWh and therefore caused our CO_2 emissions to fall by 283 tonnes. In 2009, we therefore achieved a total reduction in our main energy areas of heating and electricity of more than 2,529,000 KWh (6.9 per cent). Despite slightly rising CO_2 emissions as a result of business trips, we therefore reduced our CO_2 emissions in 2009 by 232 tonnes (1.5 per cent) to 15,612 tonnes. In total, we have very successfully realised the targets set in our strategy for energy efficiency, and are currently exceeding them. Our aim remains to continue along this course, even though we do not expect the savings achieved in 2008 and 2009 to persist in the coming years.

Our contribution: Mobility

Customer proximity is irrevocably linked to mobility. We therefore make every effort to ensure that our mobility is as environmentally sound as possible, and have therefore incorporated this as a key component of our energy efficiency efforts. With the development of modern forms of communication, we have reduced the number of trips, especially long-distance trips, by the use of telephone and video conferencing. For journeys within Germany, we give priority to travel by rail, thus using the train to replace, wherever possible, journeys involving aircraft and private cars.

Customer proximity is irrevocably linked to mobility.

Our total air travel of 4,954,990 km or 1,258 km per employee is extremely moderate in comparison with the rest of the industry. Nevertheless, due to changes in our internal structures to meet new requirements, our air travel between Germany and the Group's and the bank's offices outside Germany rose sharply in 2009 by more than 31 per cent. We do not believe this represents a switch in the trend, however. Due to our presence throughout the country, the car remains the most commonly used form of transport. Despite this, we reduced its use for business trips slightly in 2009, by 0.6 per cent. By increasing our employees' awareness

we were also able to increase the number of business trips taken by rail by 9.4 per cent. In addition, we have continued to reduce the size of our vehicle pool in recent years and have switched over to vehicles that generate lower emissions.

In cities we are continuing our policy of using bicycles to get around from meeting to meeting. In Hanover, our business bicycles have proven their worth for over 20 years. Their flexibility, their capacity to shorten journey times on short inner-city trips, low costs of maintenance and the possibility for physical exercise make a useful contribution to the health of the employee and the bank.

For journeys of up to 20 km within city boundaries we also reserve tickets on public transport for our employees. We offer our staff reduced Mobil-Cards and Job-Tickets for local public transport services, to make environmental protection on their journey to work a more attractive proposition. In addition, many employees use their bicycles to get to work – many do this all year round. The initiative “Cycle to work” has been working since 2007 to educate employees in the benefits and increase participation. Since it not only eases the burden on the environment but also makes a positive contribution to preventive health care for our employees, we integrated this initiative as a fixed component of our operational health management programme in 2009.

Making people aware

We believe that sustainability and environmental protection are activities that transcend all areas of the company. We can only continue to maintain our success in the future if all our employees subscribe to our philosophy, at all workplaces, in all divisions and through all levels of management. Active dialogue will create the framework for achieving this. It therefore forms an integrated part of our environmental work. We educate our employees to the ecological challenges, evaluate the specific requirements for the bank and make our environmental targets and the measures by which we hope to achieve these fully transparent. Above all, we want to show the contribution that each person can make to attaining these targets. Alongside mail shots and the publication of information through the intranet, this also requires targeted information and advice on key individual topics. This is done in part by our network of environmental partners. We have integrated environmental and sustainability topics into our training plans. In the future, we want to tailor this offering more distinctively to individual target groups.

We believe that sustainability and environmental protection are activities that transcend all areas of the company.

Exchange with external experts and cooperation with other companies and organisations in the context of our work in corresponding associations and initiatives, such as the Association for Ecological Management in Banks, Sparkassen and Insurance Undertakings and Klima-Allianz Hannover 2020 provide us with important additional impetus for starting an ecological dialogue with our staff.

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

	Absolute[2] 31 Dec. 2009	Absolute 31 Dec. 2008	Unit	Per employee 31 Dec. 2009	Per employee 31 Dec. 2008	Unit
Total waste	839,135	759,983	kg	217.17	207.99	kg/MA
Paper	489,009	440,981	kg	126.56	120.68	kg/MA
Remaining waste	242,646	223,390	kg	62.80	61.14	kg/MA
Hazardous waste	10,442	10,921	kg	2.70	2.99	kg/MA
Recyclable materials excluding paper	97,038	84,691	kg	25.11	23.18	kg/MA
Consumption						
Water consumption	50,636	50,057	m^3	13.10	13.70	m^3/MA
Paper consumption[3]	228,850	190,138	kg	59.23	52.04	kg/MA
Paper consumption[4]	291,587	254,120	kg	75.46	69.55	kg/MA
Paper consumption[4]	66,682,302	59,354,726	sheet	17,257	16,244	sheet/MA
Energy consumption	34,082,773	36,612,323	kWh	8,820.59	10,019.79	kWh/MA
Heating	13,931,234	16,108,813	kWh	3,605.39	4,408.54	kWh/MA
Electricity	20,151,539	20,503,510	kWh	5,215,20	5,611.25	kWh/MA
Business travel[5]	14,158,362	12,714,878	km	3,595.32	3,413.80	km/MA
Air	4,954,990	3,775,177	km	1,258.25	967.25	km/MA
Rail	3,481,430	3,183,301	km	884.06	871.18	km/MA
Car	5,721,942	5,756,400	km	1,453.01	1,575.37	km/MA
CO_2 emission	15,612	15,844	t CO_2	4.04	4.34	t CO_2/MA
From energy consumption[6]	13,641	13,967	t CO_2			
From business travel	1,971	1,877	t CO_2			

[1] Comprises 59.8 per cent of the employees at NORD/LB Group.
[2] Also influenced by the increased number of employees due to new jobs and the integration of NORD/LB Informationstechnologie GmbH.
[3] Printer and copier paper.
[4] Including pre-printed paper.
[5] The absolute values comprise business travel at NORD/LB Bank in Germany and NORD/FM.
[6] Also influenced by changed calculation factors of the energy suppliers.

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 orientation 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 suggestions and recommendations of the Code, 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.

We believe transparent company management to be a significant aspect of this requirement.

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.

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Business Activities and the General Environment

(Previous year figures for the 2008 accounting period or as of 31 December 2008 are shown in brackets.)

Economic Development

Germany

The crisis year of 2009 was a unique year from an economic point of view. Real gross domestic product fell by five per cent, its greatest fall since the Federal Republic of Germany came into existence. The previous worst recession in 1975 was comparatively harmless with a negative growth rate of 0.9 per cent for real GDP. Other industrial nations such as the USA, Japan, the eurozone and many emerging economies (in particular Russia and many of the Central and Eastern European countries) occasionally recorded very heavy falls in economic output. Global trade fell by a rate in double figures in 2009 compared to the previous year. At the half-year point economic development steadied, global trade started to grow again and orders and production increased, albeit from a much lower level.

The major cause of the global recession in the past year was the financial market crisis; after the investment bank Lehman Brothers collapsed in the autumn of 2008 the recession required many countermeasures by governments and issuing banks all around the world. The cause of the financial crisis, in particular the high global inequalities, the strong (real estate) credit expansion and the financial sector's very high share of value creation in some countries, are though also an expression at least in part of the non-sustainable development in the real economy. The crisis has resulted to some extent in a correction of these undesirable developments.

In the first quarter of 2009 economic output in Germany fell dramatically by 3.5 per cent compared to the previous quarter. Exports fell in this quarter alone by more than 10 per cent in real terms, while real capital expenditure on machinery and equipment was in free fall, falling by nearly 19 per cent. The global collapse in orders which was particularly painful for the German economy, which depends greatly on exports, was reflected by much lower industrial production, which in spring was more than 20 per cent below the previous year's level. During the remainder of the year the economic situation steadied, with the global stabilisation and economic programmes as well as the very expansive monetary policy contributing towards this. The business climate for companies subsequently recovered from the historic lows which had been recorded.

In the whole year less was exported than the previous year for the first time since 1993. Correspondingly the trade balance was negative and at –3.4 percentage points contributed significantly to the 5 per cent fall in GDP. Gross investment in plant and equipment was also negative, falling by a total of 8.6 per cent. Public and private consumer expenditure provided some support for the economy in Germany with an overall contribution to growth of 0.7 percentage points. Private consumption showed itself to be surprisingly robust during the crisis and rose in real terms by 0.4 per cent.

This though is attributable not least of all to a few special factors. First of all government incentives to buy new cars (the scrap bonus) worked as intended, the total of € 5 billion available had already been used up in the third quarter due to the huge increase in demand. The base effects of very low inflation also temporarily stimulated consumption. After the previous year's high rise in prices, the Harmonised Index of Consumer Prices (HICP) rose by only 0.2 per cent in 2009; this is the lowest rate of inflation since the HICP has been recorded. In July the inflation rate was even negative at 0.7 per cent.

However, the effects of the large negotiated wage increases did not unfold in the past year. Effective gross wages and salaries even fell by 0.4 per cent, with this primarily being due to the massive use of short-time work and the use of collective opening clauses. Short-time work did though contribute significantly towards the sharp fall in the real economy having relatively little impact on the job market. Despite the difficult recession, the average number of people unemployed only rose slightly by approximately 160,000 to 3.4 million; in the second half of the year the situation improved slightly. The unemployment rate only rose slightly from 7.8 to 8.2 per cent.

Lower Saxony
The economy in Lower Saxony contracted greatly in 2009 as a result of the global economic crisis. In the first half of the year gross domestic product adjusted for prices fell by 6.3 per cent compared to the same period for the previous year. Economic out fell by less than the average for the whole of Germany and by less than all of the states in Western Germany. Development in Lower Saxony was characterised by the adverse development in the manufacturing sector. All most all branches of industry had to endure double-figure falls in sales compared to the previous year. Among the strongest industries, the automotive, engineering, chemical and metal industries reported particularly heavy falls in sales. A slight upswing was seen in the second half of the year.

The effects of the global economic crisis have made themselves felt in Lower Saxony's job market in falling demand for labour and in falling employment figures. However, the short-time allowance prevented a greater rise in unemployment. The average unemployment rate for the year in Lower Saxony was 7.8 per cent and therefore only marginally higher than the previous year's level. The rate was also higher than the average for Western Germany in 2009.

Bremen
In Bremen gross domestic product adjusted for prices fell in the first half of 2009 by 4.9 per cent. With industry having a smaller share in overall economic output, the federal state has been less affected by the fall in global economic demand than Germany as a whole. However, the economic environment has also deteriorated considerably in Bremen. For example, the volume of traffic at the Port of Bremen has fallen greatly due to the global economic crisis.

Viewed across the whole of 2009, the slight recovery seen in the job market seen in recent years continued in the federal state of Bremen despite the global economic crisis. The average unemployment rate for the year was 11.8 per cent and therefore 0.9 percentage points below the rate for the previous year. Bremen still has the highest rate of unemployment of any federal state in Western Germany.

Saxony-Anhalt
Saxony-Anhalt also had to endure a considerable fall in economic output in 2009. In the first half of the year gross domestic product adjusted for prices fell by –5.6 per cent compared to the previous year. Saxony-Anhalt therefore faired somewhat better than Germany as a whole, but compared with the states in Eastern Germany it had to endure relatively large losses. The reasons for this development were in particular events in the industrial sector and in the construction industry. The falls in these economic sectors were though not as heavy in Saxony-Anhalt as in Germany as a whole. The manufacturing sector in Saxony-Anhalt is overall less dependent on exports and less affected by the weak demand from abroad.

In Saxony-Anhalt the average unemployment rate for 2009 was 13.6 per cent. This was 0.4 percentage points less than the previous year; however it was once again higher than the average for Eastern Germany.

Mecklenburg-Western Pomerania
In Mecklenburg-Western Pomerania gross domestic product adjusted for prices fell in the first half of 2009 by 3.6 per cent compared to the same period for the previous year. The fall in economic output affected all economic sectors, and in particular the manufacturing and construction industries, wholesale and retail trade, hotels and restaurants and transport. In Mecklenburg-Western Pomerania economic output fell much less as industry plays a comparatively small role and the food industry, which is less reactive to the economy, is particularly important.

In Mecklenburg-Western Pomerania the unemployment rate fell by 0.5 percentage points to 13.6 per cent in 2009. The federal state therefore no longer occupies last place among all federal states and was in joint-second-to-last place with Saxony-Anhalt ahead of Berlin in 2009.

General Economic Development in Foreign Markets

USA

By mechanistic definition the US economy is no longer in recession since the return of positive growth rates. The prospects for the near future are also not bad. NORD/LB is expecting that the US economy will develop positively when the economic stimulus packages come to an end and that the upswing will then support itself. At any rate the bank is forecasting average economic growth of 3.0 per cent for 2010.

The unpleasant unemployment situation will remain a problem for the time being and was 10.0 per cent at the close of 2009. However, the first signs of an improvement in the US job market can be seen. The first signs are also slowly emerging in the US real estate market that the situation is about to stabilise. In brief it can be concluded that the simultaneous weakness in the job and real estate markets affected US consumption much less than many pessimists had feared. The consumer therefore remains a reliable pillar of the US economy.

During the crisis the Federal Reserve lowered the Fed Funds Target Rate to between 0 and 0.25 per cent. With inflation rates being positive since the end of 2009 and the US economy also starting to look more promising, the bank is expecting that US monetary policy will slowly return to normal in 2010. Capital market yields at the long end of the yield curve have already broken away from their lows in March 2009. 10-year US treasury notes for example are again being listed at around 3.60 per cent.

North-East Europe

The Baltic states have been massively affected by the global economic crisis. Gross domestic product fell according to estimates by the EU Commission in both Latvia and Lithuania by around 18 per cent. Latvia has therefore been in recession for two years in a row. It is also estimated that growth in Estonia fell by around 14 per cent. The one time Baltic “Tigers” were therefore at the bottom of the league for economic development in the European Union. The slump in growth was due not least of all to their sticking to their respective fixed exchange rates with the euro. This resulted in an internal devaluation of the Baltic currencies: The economic adjustment measures which were necessary due to the crisis took place not with a devaluation against the EU single currency and increased competitiveness, but solely with domestic economic measures, in particular with considerable wage and salary reductions in the public sector and reduced transfer payments. Both in turn had a negative effect on private demand. It is positive that in particular in Lithuania the extremely high and unsustainable balance of payment deficits of recent years have been reduced. In Latvia the political pressure against the reform measures demanded by the IMF in return for the stand-by credit granted had been so great that the government wanted to unilaterally relax the agreed goals. In response to this the IMF then put a question mark over further payments. The aid only started to flow again when the government relented.

Development in countries such as Poland and the Czech Republic was stable in comparison in 2009. Poland will in all probability even be the only country in the EU-27 to record positive economic growth in 2009.

Scandinavia’s economic development also deteriorated considerably in 2009, whereby Finland was the most heavily affected in its macroeconomic development. Denmark is in its second year of recession, while Sweden has been massively affected by the slump in the Baltic due to the leading market position of its banks there.

Asia

Asia recorded a further slow-down in economic growth in 2009. In some countries the full effects of the financial and economic crisis were not seen until the past year. Among these countries were Malaysia and Singapore. India and Indonesia were seen to be robust thanks to their strong domestic consumption. For India slight growth is even expected for 2010.

In particular Japan has been heavily affected by the global economic downturn, with its economy suffering the greatest slump in growth in Asia. This was mainly due to a downturn in the development of export business and investments. On top of this Japan’s high national debt is being viewed increasingly critically by the financial markets.

After China had to bid farewell to it double-figure growth rates, a further slump in growth was prevented in 2009. While exports made a negative contribution to growth, not least of all the extensive economic programme imposed by the government ensured that economic development stabilised. All in all the Chinese economy therefore remained one of the significant drivers of Asian growth.

Financial Markets

The financial market crisis with its real economic consequences remained the dominant issue in 2009. In reaction to the crisis, the world's most important issuing banks have lowered their base rates to historic lows. The European Central Bank lowered the tender rate to 1.0 per cent in May 2009, while the US Federal Reserve, the Bank of Japan, the Bank of England and the Swiss National Bank even switched to a de facto zero interest rate policy. Unorthodox measures were also taken to further ease monetary conditions, which the individual issuing banks made use of in different ways and to different degrees. The additional measures ranged from buying various debt instruments of private and public issuers, to relaxing the quality requirements for securities within the scope of refinancing operations and to refinancing transactions with extraordinarily long maturity periods with full allocation. The ECB was much more reserved in the buying of securities than the Fed and restricted itself to a programme of buying covered bonds with a maturity of one year and a volume of up to € 60 billion.

The situation in the interbank market eased during the course of the year as a result of the many stabilisation measures. The spread between unsecured (EURIBOR) and secured (EUREPO) money market loans with a three-month maturity fell by the end of the year to around 30 basis points. The situation in the financial sector remains unstable though. Global write-offs in the financial sector totalled more than USD 1.7 trillion at the end of 2009. The process of cleaning up the balance sheet is still taking place at many institutes.

Capital market yields remained at a historically low level in 2009 due to the recession, in particular because at times risks of deflation instead of inflation were being discussed in the markets. In addition the ongoing high demand of investors for secure investments had an impact on yields from German government bonds in particular. At the same time there were greater differences in the markets in terms of quality, including within the eurozone. In the middle of January 2009 the yields from 10-year German government bonds had reached a historic low of 2.85 per cent, but rose again by the middle of the year to over 3.7 per cent for a short period. At the end of the year yields fluctuated around 3.3 per cent. In parallel to this at the start of the year the spreads of in particular Irish and Greek government bonds rose to the level of German government bonds. The temporary convergence of spreads at the half-year point was followed, with reports that Greece's budget deficit for 2009 and 2010 had to be drastically corrected upwards, by a renewed differentiation. On top of this were the payment difficulties in the emirate of Dubai. The Dubai crisis has shown, however, that the markets have regained a certain degree of robustness and can obviously no longer be thrown off course by negative headlines.

The fluctuation range in the USA was again much more pronounced than with German government bonds; yields of 10-year treasuries rose from the low of 2.2 per cent in January to 3.8 per cent at the end of the year. Subsequently the outlook for the yield spread between the 10-year government bonds from Germany and the USA also changed, with treasures listed a good 40 basis points above German government bonds at the end of the year.

At the start of the year the US dollar rose against the euro to 1.25 dollars/euro, before it came under pressure again in March and gradually fell to 1.51 dollars/euro. The reasons for this were the lower yields in the USA than in the eurozone both in the money market and at the short end of the yield curve. The euro then came under increased pressure until the end of the year. In particular positive news about the economy in the USA supported the dollar to the end of the year, although some market participants expressed concerns on account of the Greek budget situation with regard to stability in the eurozone. The euro again moved away from parity with the pound sterling was quoted at around 0.90 pounds sterling/euro. The Japanese yen devalued slightly against the euro, while the Swiss franc had by the end of the year reached roughly the level of January at 1.48 francs/euro. Meanwhile the Swiss National Bank had been successfully trying for several months to prevent an excessive upward revaluation of the franc against the euro and stabilised it at the level of 1.50 francs/euro.

After the slump in the spring, the most important international share markets were able to make up lost ground by the end of the year and achieve an overall positive performance for the year. The share markets were supported significantly by the lower yield level and high surplus liquidity. In addition the previously extremely high aversion to risk gave way in the markets during the course of the year. The German leading share index DAX fell from around 5,000 points to its low for the year in March of around 3,600 points and recovered considerably by the end of the year to the 6,000-point mark.

NORD/LB Norddeutsche Landesbank Girozentrale

NORD/LB Norddeutsche Landesbank Girozentrale (hereafter NORD/LB or the bank) is a public-law 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 business segments of
- the Savings Bank Network,
- Private and Commercial Customers,
- Corporate Customers,
- Structured Finance (comprising the divisions of Ship Financing, Aircraft Financing, Commercial Real Estate Finance and Structured Finance) and
- Financial Markets (comprising the divisions of Markets, Corporate Sales, Portfolio Management & Solutions, Portfolio Investments and Treasury).

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), Bank DnB NORD A/S, Copenhagen/Denmark (hereafter DnB NORD), Öffentliche Lebensversicherung Braunschweig, Braunschweig and Öffentliche Sachversicherung Braunschweig, Braunschweig, (hereafter ÖVB). The bank also maintains other participating interests as shown in the disclosures in 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 2009 a total of 6,463 people were employed by the NORD/LB Group. The number of employees therefore rose compared to the previous year by 206 or ca. 3 per cent. The greatest rise within the NORD/LB Group was recorded by NORD/LB AöR with 198 new employees. This is mainly due to the integration of NORD/LB Informationstechnologie GmbH into NORD/LB AöR as at 1 July 2009 and the associated absorption of 183 employees. Accordingly NORD/LB Informationstechnologie GmbH no longer has any employees as at 31 December 2009.

Reporting date	31 Dec. 2009	31 Dec. 2008	Change – absolute terms	Change – percentage
NORD/LB	4,097	3,899	198	5
Bremer Landesbank sub-group	1,093	1,060	33	3
NORD/LB Luxembourg sub-group	151	140	11	8
ÖVB	656	636	20	3
NORD/IT	–	183	– 183	– 100
NORD/LB Asset Management	55	47	8	17
Deutsche Hypo	337	226	111	49
Other	74	66	8	12
Total employees	**6,463**	**6,257**	**206**	**3**

Results of Operations

The NORD/LB Group results of operations reflect the two major effects of 2009: the easing of the situation in financial markets has resulted on the one hand in a considerable appreciation in the value of the profit/loss from financial instruments at fair value through profit or loss including hedge accounting. The spreading of the financial crisis to the real economy has on the other hand resulted in much higher risk provisions in 2009, and this is reflected in several items in the income statement.

Due to the fraud case in the group company Skandifinanz Bank AG, Zurich, which became known in February 2010 and has resulted in a risk provision of € 134 million, the Group is reporting negative earnings before tax of € –92 million. The NORD/LB Group's overall profit for 2009 is € 130 million (€ –437 million).

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

(in € million)	2009	2008	Change*)
Net interest income	1,366	1,462	– 96
Loan loss provisions	– 1,042	– 266	– 776
Net commission income	177	180	– 3
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	589	– 308	897
Profit/loss from financial assets	– 140	– 250	110
Profit/loss from investments accounted for using the equity method	– 200	6	– 206
Administrative expenses	– 986	– 898	– 88
Other operating profit/loss	144	96	48
Earnings before income taxes	**– 92**	**22**	**– 114**
Income taxes	– 49	129	– 178
Consolidated profit	**– 141**	**151**	**– 292**

*) 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)	2009	2008	Change*)
Interest income	16,022	24,959	– 8,937
Interest expense	14,656	23,497	8,841
Net interest income	**1,366**	**1,462**	**– 96**

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

The slight fall of 7 per cent in interest income is a consequence of the increased stocking of liquidity and an associated fall in earnings from transformations. Current interest from derivatives was reported for the first time both in the year under review and in the previous year in interest income and not in profit/loss from financial instruments at fair value through profit or loss.

Loan Loss Provisions

Loan loss provisions were increased compared to the previous year by € 776 million to € 1,042 million. Net specific bad debt allowances and flat-rate specific bad debt allowances of € 671 million (€ 293 million) and net portfolio bad allowances of € 257 million (€ 6 million net reversal) were formed; on top of this a net provision of € 57 million (€ 15 million net reversal) was formed for credit risks. The specific bad debt allowances include an amount of € 134 million for the fraud case which became known at the start of 2010.

Net Commission income

(in € million)	2009	2008	Change[*)]
Commission income	277	284	– 7
Commission expense	100	104	4
Net commission income	**177**	**180**	**– 3**

[*)] 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 was virtually unchanged compared to the previous year.

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

(in € million)	2009	2008	Change[*)]
Net income from trading activities			
– Realised profit/loss	345	445	– 100
– Profit/loss from valuation	285	– 860	1,145
– Current and other income	5	– 28	33
Profit/loss from fair value option	– 207	168	– 375
Profit/loss from hedge accounting	161	– 33	194
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	**589**	**– 308**	**897**

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

Trading profit/loss reflects the easing of the situation in the financial markets with a considerable improvement in the profit/loss through valuation in particular for derivatives. Part of the appreciation in value reported here is directly related to opposite effects in the profit/loss from the use of the fair value option. The realised profit fell compared to the previous year by € 100 million to € 345 million.

Other Operating Profit / Loss

The other operating profit/loss includes earnings in the amount of € 936 million (€ 909 million) offset against expenses in the amount of € 792 million (€ 813 million). The fall in expenses is primarily due to lower provisions relating to insurance contracts. The increase in earnings is due among other things to the redemption of debt securities.

Administrative expenses

(in € million)	2009	2008	Change*)
Wages and salaries	393	376	– 17
Social contributions and expenditure on pension schemes	87	84	– 3
Staff expenses	**480**	**460**	**– 20**
Other administrative expenses	436	374	– 62
Depreciation and impairments	70	64	– 6
Administrative expenses	**986**	**898**	**– 88**

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

Administrative expenses rose by € 88 million to € 986 million. The increase in staff expenses is also a result of the targeted build-up of staff for risk management and to perform monitoring activities. Other administrative expenses rose by € 62 million. This increase is due in particular to IT and communication costs, legal and consultancy costs and space costs.

Profit / Loss from Financial Assets

Profit / loss from financial assets has not changed significantly compared to the previous year and is characterised by impairments and realised losses in the reporting period.

Profit / Loss from Investments Accounted for Using the Equity Method

The profit/loss from investments accounted for using the equity method is affected by the share in the loss of the joint venture DnB NORD A/S of € 228 million (€ 31 million).

Income Taxes

(in € million)	2009	2008	Change*)
Current income taxes	– 57	27	– 84
Deferred taxes	8	102	– 94
Income taxes	**– 49**	**129**	**– 178**

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

The positive contribution to income in current income taxes in 2008 was primarily due to the reversal of tax provisions for previous years.

Net Assets and Financial Position

(in € million)	31 Dec. 2009	31 Dec. 2008	Change
Loans and advances to banks	42,356	47,238	– 4,882
Loans and advances to customers	112,083	112,172	– 89
Provisions	– 1,789	– 1,204	– 585
Financial assets at fair value through profit or loss	14,651	16,995	– 2,344
Financial assets	63,078	62,299	779
Investments accounted for using the equity method	723	845	– 122
Other assets	7,586	5,984	1,602
Total assets	**238,688**	**244,329**	**– 5,641**
Liabilities to banks	62,152	69,862	– 7,710
Liabilities to customers	61,306	61,998	– 692
Securitised liabilities	79,151	77,335	1,816
Financial liabilities at fair value through profit or loss	16,166	16,700	– 534
Provisions	3,238	3,058	180
Other liabilities	10,833	9,681	1,152
Reported equity including minority interests	5,842	5,695	147
Total liabilities and equity	**238,688**	**244,329**	**– 5,641**

Total assets fell by € 5.6 billion compared to the previous year.

On the assets side the fall can be seen in particular in loans and advances to banks and financial assets at fair value through profit or loss. On the liabilities side in particular liabilities to banks fell. Equity rose due to the positive total income and due to capital contributions by € 147 million.

Loans and advances to customers are still the largest balance sheet item at 47 per cent (46 per cent), followed by financial assets at 26 per cent (25 per cent).

Financial assets at fair value through profit or loss comprise trading assets and financial instruments designated at fair value. While the latter only increased negligibly compared to the previous year, derivatives in trading assets fell considerably.

Bonds and debt securities remain the largest asset class in financial assets.

In securitised liabilities, issued debt securities rose distinctly to € 3 billion, while money market instruments fell by € 1.4 billion.

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 € 1,632 million (€ 1,618 million) relate to insurance contracts.

As at 31 December 2009, the Group's regulatory capital amounted to € 9.0 billion (€ 9.0 billion), of which € 8.1 billion related to core capital (previous year € 7.2 billion). The own funds ratio (= total ratio) is 9.7 per cent of risk-weighted assets against 10.02 per cent for the previous year.

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

Subsequent Events

The Norwegian finance group DnB Nor ASA, Oslo (DnB Nor) notified NORD/LB at the end of December 2009 that it wants to carry out a fundamental joint evaluation of the joint venture bank DnB NORD. An evaluation phase provided for in the joint venture agreement, therefore started at the end of January 2010.

NORD/LB intends to use the evaluation phase to adjust the contractual basis of the DnB NORD bank to current challenges.

At the start of 2010 Skandifinanz Bank AG, Zurich, a subsidiary of NORD/LB Luxembourg, reported a suspected case of fraud involving a Swiss business partner to the responsible prosecutors' office. Based on the current state of knowledge, Skandifinanz was deceived by the company concerned with falsified documents for export finance. Efforts to fully clear up the fraud case and claim damages are currently being pursued vigorously both internally and externally. The threatened loss was considered in the consolidated financial statements 2009 at around € 130 million.

Summary

The performance of the business is again viewed as satisfactory in view of the difficult conditions.

Development of the Business Segments

Savings Bank Network

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

Overall NORD/LB's savings bank network can look back on a positive business performance in spite of the financial market crisis. This is due to the consistent and structured reinforcement of business relationships with the savings banks since the reorganisation of the savings bank network in the middle of 2004.

The institutional savings bank business was heavily affected by the financial market crisis with the capital markets slowly steadying in 2009. All over the world issuing banks tried to regain the trust of market participants with calculable monetary policies and at the same time ensure sufficient liquidity (one-year tender with full allocation, programme of buying covered bonds). While the risk premiums of various asset classes were still relatively high at the start of the year, they fell noticeably during the course of the year. NORD/LB also benefited in the institutional savings bank business from its excellent reputation in the market and was able to contract high-margin business.

As part of the continued expansion of its custodian bank role, “NORD.report” was introduced and made available to interested customers. NORD.report provides institutional investors round-the-clock access to their portfolio data via the internet.

The main reason for a good financial year in the savings banks' private customer business was in particular an increased need for security with private investors. In addition to the rise in the number of issues in the fixed-securities segment, in particular structured retail products have performed positively, with sales volumes rising considerably against the already very pleasing figures of 2008. 82 issues generated 2.5 times the volume of sales compared to 2008. Interest-bearing products made up the lion's share with ca. 95 per cent as these products have a repayment guarantee.

The savings bank syndicate business also performed very satisfactorily. New business was around the same level as the previous year. This is equivalent to a portfolio increase of ca. 5 per cent. Overall the goals of the financial year 2009 were achieved without having to extend risk provisions.

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 2009 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 2009 with their sales strength.

Association business at Bremer Landesbank saw a successful continuation of all-round services for associated savings banks in the 2009 financial year. 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 classical financing business.

The competitive situation in municipal customer business developed favourably for Bremer Landesbank due to its good standing in the mortgage bond market. The portfolio of loans and advances at municipal-public-sector-budget and special-purpose-association level was extended. In view of the historically low interest level, the growth was primarily with long-term investment loans.

Earnings in NORD/LB's savings bank network rose by ca. 12 per cent compared to the previous year. This was achieved in particular due to the improvement in fair value earnings and the earnings of Landesbausparkasse accounted for using the equity method. Loan loss provisions rose from a low level. With operating costs remaining virtually the same, an improvement in the RoRac and CIR can be seen.

Private and Commercial Customers

As well as business with private, individual, commercial and small-business customers, this business 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 commercial bank operating both nationally and internationally.

In 2009 the goal of becoming a “quality leader” was systematically pursued. The integrated advisory approach based on the savings bank finance concept has become established as a benchmark for providing advice to private customers and won two awards: In January 2009 Braunschweigische Landessparkasse came first for “Best Advice” in a test carried by the editorial team of the television consumer programme WISO. In August this commendation was supported by the first place in private customer advice in the “Bankentest regional” (regional bank test).

In the private customer business the main emphasis of sales was on gaining deposits; at the start of the year the focus was on fixed-interest savings accounts with attractive interest rates and in early summer the focus was on a version of this, the “Wilhelm-Busch“ savings certificate. For World Savings Day a combination product comprising funds and savings deposits was offered.

Another area focused on in 2009 was pension advice. In the spring a joint advertising campaign with ÖVB took place. In the autumn pensions were the subject of another campaign focusing on the “Riester” pension as a strategic entry product for private retirement pensions. As in the previous year good sales performances were rewarded in 2009 in the employee competition “1 VORAUS”.

In private banking Braunschweigische Landessparkasse focused on expanding foundation management. These efforts were rewarded by the 1st place in the nationwide test of foundation assets managers by the “Fuchsbriefe” (a leading reference medium in the area of private banking). Another focal point was the launch of the NORD/LB Horizon Fund in the fourth quarter. The aim was to meet the needs of customers for investment security and value retention. For this reason this fund invests primarily in inflation-linked asset classes. The fund was initiated jointly under the lead of NORD/LB Luxemburg by specialists of NORD/LB and the Bremer Landesbank and is an example of successful Group cooperation.

In the corporate and small business customer segment the Braunschweigische Landessparkasse is distinguished by its regional presence and its proximity to companies and public institutes in the Braunschweig region. The restructured corporate customer division also concentrates on its core middle-market business.

The regional proximity also benefits traditional companies in Braunschweig. Providing experienced advice and practical expertise on a local basis, Braunschweigische Landessparkasse has contributed significantly towards securing the existence of a long-established brewery with finance which is partly guaranteed by the state. Braunschweigische Landessparkasse also participated in the financing of the new bus terminal for a tourism company in Wolfenbüttel with loans and promotional loans.

Particularly in times when a “credit crunch” is being felt in some branches of industry, Braunschweigische Landessparkasse’s investment loan was an important pillar in the business with corporate and small business customers. New-business volume remained relatively high in 2009 and confirms the claim of being the number one provider of finance to middle-market businesses in the region.

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 September 2009 the network organised the third “Braunschweiger Gründungswoche” (Braunschweig start-up week). In addition to providing financial support, Braunschweigische Landessparkasse also made an important contribution in the panel "Gründer fragen – Experten antworten" (founders ask – experts answer) and with specialist presentations.

The private banking division of 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 2009/2010 Elite Report from Munich, therefore maintaining its leading position in the year of the financial market crisis.

However, the financial market crisis has also had an impact on the asset management of Bremer Landesbank. This was reflected by increased expenditure on consultancy and documentation due to the general market uncertainty. Customer interest in securities products fell and was restricted primarily to risk-less or low-risk investments. Despite this development Bremer Landesbank's private customer business recorded an increase in deposits in 2009.

The Private Banking Division at NORD/LB Luxembourg offers customers interested in international investments a comprehensive consulting service. In addition to a traditional consulting service aligned towards the needs of individual customers in terms of type of investment, risk preferences and time frame, agreements may also be concluded for various wealth management concepts. In 2009 its product range was added to by the brokering of insurance contracts as an approved insurance broker in Luxembourg.

Öffentliche Versicherung Braunschweig can look back on a satisfying financial year. In addition to a good result for actuarial business, in particular the positive development in the capital market since the second quarter of 2009 has contributed towards this.

Premiums in the area of property insurance grew at an above average rate for the industry in 2009. At the end of the first quarter of 2009 and in accordance with its investment strategy, Öffentliche Sachversicherung cautiously invested liquid funds anticyclically in international share and pension funds which, due to the positive development in the capital market, showed a significant increase in value from the second quarter.

At Öffentliche Lebensversicherung premiums are as expected slightly below the previous year's level. The reason for this is the effect of high one-off contributions due to tax reasons in 2008. The development of new business in the areas of company pension schemes, private health insurance and accident insurance was particularly pleasing.

The recession in the Baltic states had an impact on the business of DnB NORD. The result was a fall in the margins of lending business due to an increase in refinancing costs, a fall in net interest income and a fall in credit volume. Due to a much greater need for write-downs as a result of the financial market crisis, risk provisions were greater than planned and also greater than those of the previous year. Due to the continuing recession in the Baltic states the majority of write-downs are in Latvia and Lithuania.

At the end of 2009 DnB NORD had around 930,000 customers. Overall the number of customers rose by 60,000 during the course of the year, in particular in Lithuania and Latvia. In 2009 DnB NORD was, measured by its balance sheet total, the third largest bank in Lithuania and number four in Latvia. In Estonia it was the fifth largest bank, measured by the total loans issued.

Overall the result of the private and commercial customers segment in 2009 was dominated by the distinctly negative result of DnB NORD in 2009, which was included using the equity method. With a pleasing rise in interest income and stable commission income, the result using the equity method resulted in distinctly negative earnings. In conjunction with the increase in risk provisions from a low level and administrative expenses remaining virtually the same, this resulted overall in a distinctly negative result for the whole segment with a corresponding impact on the ratios.

Corporate Customers

NORD/LB's corporate customers business segment 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). Despite the difficult market situation in 2009, NORD/LB expanded this business segment and acquired around 120 new customers. As well as extensions, our corporate customers were provided with an additional volume of around € 400 million of classic credit compared to the previous year. NORD/LB offers its customers a diversified portfolio of further top-quality products. Business with corporate customers focuses on individual, innovative solutions in close cooperation with the Corporate Finance product division to ensure long-term benefits for customers.

Many sectors are proving themselves to be robust even in difficult times and are investing anticyclically. NORD/LB has for example participated in the financing of logistics and warehouse capacity in the sanitary sector. The project, costing tens of millions, was completed by NORD/LB with the involvement of LHI Leasing GmbH. The investment was made with a leasing structure off the customer's balance sheet and therefore in a way which optimises capital and liquidity. A particular highlight of the finance was the acquisition of long-term funds via the KfW Entrepreneur Loan Programme.

NORD/LB strengthened its position among municipal companies in 2009. NORD/LB has supported the structural development in the energy market with finance and sustainably strengthened the competitiveness of municipal energy suppliers.

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 are increasingly being required to face the strategic issues concerning the adjustment of housing stocks to urban and demographic changes. NORD/LB offers intelligent solutions here. For example the takeover of a Hamburg residential construction company by a residential company in Hanover was structured and financed solely by NORD/LB. One reason for the allocation of finance to our client was the high social responsibility of the buyer in its core business of property. The strategy was geared towards a long-term portfolio policy for the purchased buildings and not towards short-term maximisation of profit at the expense of tenants. In addition a far-reaching tenant protection agreement and a social charter were agreed.

NORD/LB also reinforced its market position as the most significant special financer in the agricultural segment in 2009. In the year under review one area focused on was the financing of biogas plants near to farms. Not least of all the amendment to the Renewable Energy Sources Act (EEG) resulted, in view of the possibility of using liquid manure in biogas plants, in new investment in the biogas sector. In 2009 NORD/LB financed 40 new biogas plants with a total output of 20 megawatts and a total credit volume of € 60 million. The use of agricultural economists with specific knowledge on the structures, production processes and market parameters in the agricultural sector towards customer support was well-received. The business segment of agricultural banking now stretches far beyond the borders of northern Germany.

Despite the difficult economic environment in 2009, Bremer Landesbank managed to increase its earnings in its corporate customers business. It recorded a strong first half-year with a considerable rise in credit volume. In the second half of the year many companies shelved investment projects in view of the continued uncertain economic outlook. This resulted in a fall in demand for investment credit.

Bremer Landesbank has focused on being a reliable partner for its customers even in difficult times. In particular those customers for whom it performs a house bank function have rewarded this with increased demand for cross-selling products, with a pleasing development in trade profit/loss and commission income being recorded.

The corporate customer segment recorded an increase in interest income of ca. ten per cent and in commission income a very pleasing increase of ca. 25 per cent. With the other earnings components remaining largely stable and administrative expenses at the previous year's level, the CIS has improved accordingly. Due to the much higher loan loss provisions the overall result for this segment was though significantly less than the previous year. As a result the RoRaC fell heavily.

Structured Finance

NORD/LB conducts national and international business with major customers and in real estate and ship and aircraft financing in the structured finance divisions. The segment also includes business conducted by Skandifinanz Bank AG and a share of the business transacted by LHI Leasing GmbH (accounted for using the equity method).

Ship Financing

The globalised markets of the world have experienced a massive slump since the end of 2008. Dry cargo shipments in particular in container ships fell greatly to the middle of 2009. Oil shipments had also collapsed by the middle of 2009.

While shipments of bulk goods have since increased considerably and therefore resulted in improved utilisation of the transport fleet, the container fleets remain to a large extent idle. The earnings of container shippers and the ships used fell in some cases below operating costs in 2009, so that a large number of ships had to be laid up for a period. Additional pressure came from the large number of new ships completed.

The financing of new orders for ships has come to a standstill though due to the lack of orders being placed by shipping companies with the yards. In addition to this a large portion of the ships which have already been ordered is not or is not yet completely financed, so that cancellations of orders can be expected. In the first instance the orderers are agreeing later delivery dates with the yards so that they do not have to take delivery of the ships during the current crisis. As many of the parties involved in shipping are still living off the high earnings generated in recent years, many problems have only just started to become acute.

These developments have also had an effect on the ship financing portfolio of NORD/LB. In a range of financing packages customers are no longer able to meet their obligations as planned. In exceptional cases interest deferrals have been necessary. As a result of this the bank has had to make a significant loans loss provision for the first time in many years. In contrast to this, margins and restructuring charges have risen considerably. The difficulties which occurred in 2009 will also continue in 2010.

Aircraft Finance

The global economic and financial crisis has also been felt in the aviation industry. After a few traditional providers of aircraft finance withdrew from the segment, there was a risk of a funding gap of billions of euros which could only be closed by the increased commitment of export credit agencies.

NORD/LB has kept on course in this difficult environment and strengthened its competitive position by supporting its core customers during this crisis.

While the market for closed aircraft funds only attracted a few activities due to uncertainty among investors, NORD/LB managed together with its partners to acquire and place a few attractive projects. These included the Super-Jumbo Airbus A380 for Air France and Emirates, the Boeing 777 for Cathay Pacific and the Dash Q400 Turboprops for the emerging British regional airline Flybe.

NORD/LB also managed to position itself in the successful engine sector. The highlight here is the financing of a pool of engines leased long term by Rolls Royce to the German airline Lufthansa. As airlines all over the world are relying more and more heavily on the leasing of aircraft, NORD/LB has aligned its business model early on to this growing demand and been able to acquire leading aircraft leasing companies as customers. In the year under review important lead-arranger mandates were acquired whereby modern aircraft for long-term service with among others Singapore Airlines and Air France were financed.

Despite the difficult conditions, the aviation crisis has not yet had an effect on the portfolio of NORD/LB. With contribution margins stable and high, a loan loss provision was not necessary. The business model of NORD/LB has therefore proven itself in this segment.

Structured Finance

In the business segment Structured Finance the focus of activities is on the growth sectors of energy and infrastructure in Germany and abroad. Here NORD/LB structures individual financing solutions for mostly project-related transactions, and usually in the role of arranger. Customers are supported all over the world in their commitments. With the close network of teams at locations in Hanover, New York, London, Singapore and Shanghai, new trends can be followed at an early stage and tried-and-tested financing concepts can be transferred efficiently between the individual locations and branches within the Group in order to enhance customer benefit.

In the renewable energies sector the focus is on financing energy production from wind and solar energy/photovoltaics. The international obligations to reduce greenhouse gases and expand capacity for renewable energy plants provide considerable opportunities due to NORD/LB's expertise. This trend applies to the market for wind turbines, which is more mature in Germany but not yet saturated abroad, as well as to replacing old turbines with new and more powerful ones (repowering).

On an international level NORD/LB sees attractive foreign markets in the area of renewable energies in Poland, Southern Europe, Scandinavia, the Baltics, India and South East Asia. By combining activities in the wind energy market with Bremer Landesbank, NORD/LB is able to serve a wide range of different customer groups (from the small North German wind park developer to globally-operating projects). NORD/LB is currently penetrating the promising market for offshore wind energy, for which investments in the region of € 50 billion have been scheduled for the period up to 2020 in Germany alone. In 2009 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.

The important market position was underlined by the financing of an international wind energy project for a German developer stretching across Germany and France to Ireland. NORD/LB also managed to arrange and finance the first wind energy project in Cyprus which, when completed, will cover up to 10 per cent of the country's energy supply and replace high-emission heavy oil power plants.

Commitment in the area of solar energy was also expanded, for example with the co-financing of the largest solar park in Germany and further financing mandates in Spain and Italy.

In addition to the active structuring and financing of projects in the area of renewable energies, NORD/LB also advises companies in order to improve the financial viability of new technologies and sub-sectors. In 2009 for example NORD/LB acted as an advisor to the Bard Engineering Group in Bremen which is planning large-scale investment in the area of offshore wind energy in the German North Sea. NORD/LB also advises companies intending to realise projects in new markets such as for example wind energy in Poland and Sweden or solar energy in Italy.

In addition to financing projects for the generation of energy, the bank also supports the resettlement of companies in the renewable energies sector. Here NORD/LB offers its customers across the whole value chain (glass manufacture – production of solar modules – generation of solar energy) its know-how and its range of financing options.

In the infrastructure industry, NORD/LB is financing projects in the areas of public-sector building construction and social infrastructure as well as in the waste disposal and recycling sector. In addition to great know-how in structuring, customers benefit from the bank quickly reacting to current market trends, the bank's wide knowledge of the industry and its technical expertise and not least of all its deep understanding of the interests and concerns of the public sector and project sponsors. High customer satisfaction with completed projects confirms and reinforces the advisory philosophy of NORD/LB. 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. In spite of the great challenges following the global financial crisis, NORD/LB was able to profit more than most. In the European market alone eight self-arranged projects were successfully structured in 2009. In Great Britain for example the first financing projects for fire stations were successfully completed. In addition a further project for the financing of school locations in the regional home market of Saxony-Anhalt was structured and financed.

Commercial Real Estate Finance

NORD/LB has decided to concentrate real estate banking in the wholly owned subsidiary Deutsche Hypo in order to realise opportunities for growth across the Group. For this purpose the portfolio business of NORD/LB will be gradually transferred via extensions and asset transfers to Deutsche Hypo; this process started in 2009. Credit commitments which have not yet been transferred, i.e. those still on the risk of NORD/LB, will be processed by Deutsche Hypo within the scope of a mandate.

The current real estate portfolio still with NORD/LB at the end of 2009 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.

The special finance business at Bremer Landesbank comprises ship financing and the refinancing of companies leasing movable assets, community interest properties and renewable energies with the subsegments of wind power, biogas and photovoltaics.

The volume of ship financing in 2009 was the same as the previous year. Since the crisis in the shipping sector worsened Bremer Landesbank has only selectively transacted new business to a limited degree. In 2009 substantial order volumes were cancelled. The risk provision was increased as planned.

With the refinancing of companies leasing movable assets Bremer Landesbank recorded, despite the depressing economic development, increases in market share; it therefore extended its position as a leading financer of middle-market leasing companies in 2009 and strengthened its earnings.

In the area of real estate finance Bremer Landesbank concentrates on financing nursing homes. The demand for finance for community interest properties continues to be high and its credit portfolio was extended during the year.

Bremer Landesbank recorded significant growth in renewable energies 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.

The core activities of Skandifinanz Bank AG lie in international trade financing and private banking. The sales activities focusing on factoring, which have been extremely successful for some years now, were expanded further. A fraud case involving a customer of many years has had a heavy impact on the otherwise very good result and resulted in an unexpected negative balance sheet.

The structured finance business segment's contribution towards earnings before tax fell overall by ca. 70 per cent with a corresponding deterioration in the RoRaC. The reason for this development was the considerable rise in loan loss provisions. The extraordinary risk provision in Skandifinanz Bank AG due to the aforementioned fraud case was of great significance here. With a slight rise in earnings and stable administrative expenses, the CIR was at the same level as the previous year.

Financial Markets

NORD/LB's Financial Markets business segment can look back on a successful financial year 2009. It has managed to generate positive results in a highly volatile market environment. The past year was also used to develop the earnings structure in accordance with the strategy more towards customer-induced business.

Markets

The long-standing customer relationships of the sales divisions supported in particular in the difficult first half of the year the placing of NORD/LB's own issue volume. Throughout the year a share of € 12 billion of the total refinancing requirement of the NORD/LB Group was covered in the capital market.

In the area of third-party issuers, two bond transactions each over € 500 million for the states of Baden-Württemberg and Lower Saxony are highlighted. These were arranged and placed solely by NORD/LB.

In the highly contested custodian bank business for restricted funds NORD/LB recorded a considerable increase in funds. With the technical support of the NORD.report reporting tool, in which both restricted funds and direct mandates of institutional customers can be presented, analysed and evaluated in aggregated form, NORD/LB has developed from a classical custodian bank into a "master custodian bank".

In 2009 a position among the three leading institutes with business relations with the public sector across the whole of Germany was achieved for the first time. The turnover with the federal states alone was around € 7 billion at the end of the year. A municipal bond of € 105 million was arranged with the city of Hanover, the umpteenth time such a transaction had been carried out with the city.

NORD/LB was the only state bank to strengthen its equity base with a hybrid loan in the amount of USD 500 million.

Due to the market environment there was strong demand for simply structured, capital-guaranteed issues. NORD/LB used this demand to expand its investor base in the retail and wholesale business. The high acceptance of NORD/LB products in the retail business was shown by the sale of NORD/LB structures at savings banks not in the network and cooperative banks.

Overall the reputation of the Financial Markets division of NORD/LB with existing customers, many new customers and savings banks in other regions improved substantially in 2009.

Corporate Sales

In the past year of turbulent markets, the professional management of interest and exchange rate risks was essential for Corporate Sales customers. NORD/LB helped its customers to use the attractive market level with historically low interest rates to hedge and optimise interest rates.

The great fluctuation band in currency markets has made for a difficult market situation for both the export business and for importers. Here it was primarily about developing individual, customer-oriented solutions to hedge risks with swap transactions for corporate sales customers. In this way the contribution to income from customer business was expanded in spite of the financial market crisis.

Portfolio Management & Solutions

The Portfolio Management & Solutions division is currently in the operational phase of strategically aligning itself to improve the balance turnover rate. In this connection several transactions relating to the placement of assets are being prepared.

Portfolio Investments

Due to the ongoing credit and liquidity crisis and the incipient ratings migration of our investments, there were during the course of the year, in spite of our conservative risk policy, write-downs relating in particular to our asset backed securities (ABS) investments. The write-downs were though more than compensated by the appreciation in the value of the overall business.

Treasury

The business activities of Treasury focused throughout the whole of 2009 on securing the liquidity position of NORD/LB. Overall using a diversified range of funding a very good liquidity supply was ensured for the long term.

To be highlighted in this connection is the G-MTN programme of NORD/LB, with which a total of € 3.5 billion of refinancing funds was acquired in 2009. NORD/LB is now phasing out the G-MTN programme early and classically refinancing itself again in the capital market as, now that the markets have steadied, there are currently no longer any conditions significantly impairing competition.

However, the liquidity building which took place in the first half of 2009 had a negative effect on Treasury's earnings.

Financial Markets Bremer Landesbank

In the financial markets business segment Bremer Landesbank provides private and institutional customers with access to national and international money and capital markets. The volume of interbank transactions was reduced as planned in the financial year 2009. The long-term credit volume of the 14 associated savings banks was also down due to the lower demand for refinancing. Loans and advances to regional authorities and other municipal customers increased slightly compared to the previous year.

For Bremer Landesbank bearer and registered bonds issued in 2009 were once again the most important source of long-term refinancing. Against the background of the financial market crisis, the strong increase in sales of own issues is particularly notable. At the same time the investor base has been expanded. This diversification has strongly stabilised the refinancing of Bremer Landesbank. As part of the refinancing and liquidity control during the year, Bremer Landesbank used in particular the instruments of the European Central Bank. The European Commercial Paper Programme (ECP Programme) on the other hand was only used selectively in 2009.

Financial Markets NORD/LB Luxembourg

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 lending business and term transformation. 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 uses its EMTN 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 the bank invests mainly in commercial papers, call money and time money transactions, securities and promissory notes from prime issuers. In 2009 the repo business was actively expanded in order to significantly increase its share in secured lending business. In its off-balance-sheet business NORD/LB Luxembourg's Treasury division concentrates on interest rate swaps, forward foreign exchange transactions including foreign exchange swaps and futures. In so doing the bank does not take any significant risks in relation to complex derivative products.

NORD/LB Luxembourg pursues in its Credit Investments & Solutions business segment a conservative stable-value investment strategy. The bank only allows the purchase of securities from OECD countries which have an investment grade rating with the regional focus being on Europe. The investment strategy is reviewed regularly and adapted to changing needs. In 2009 the focus was on reducing the volume. This 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 2009.

The NORD/LB Group possesses a unique selling proposition in NORD/LB Covered Finance Bank S.A. (NORD/LB CFB). It is the first and only landesbank which is able to issue lettres de gage publiques in different maturity bands (up to 30 years) and currencies (EUR, CHF, JPY, NOK, USD) for its long-term refinancing. It therefore accepts loans and advances to municipal companies (public utilities, water utilities, airports and seaports, etc.) and public banks into its cover fund. In this way these customer groups can be offered attractive conditions. 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. In 2009 German investors showed notable interest for the first time in the lettres de gage of NORD/LB CFB. The rating agency Standard & Poor's has assigned the top rating of AAA to these issues. NORD/LB CFB's lending business in the area of short-term maturities is refinanced by security sale and repurchase agreements and money market transactions.

With a significant improvement on the previous year in fair value earnings due to the turnaround, the Financial Markets business segment has achieved a very pleasing positive result. The profit/loss from financial assets, which was impacted in the previous year by Iceland exposures, has also improved, although it is still negative. In 2009 revaluations of in particular ABS securities occurred. The fall in interest income (due among other things to liquidity building), increased loan loss provisions (in particular for the ABS portfolio) and increased administrative expenses reduced the positive effects.

All Other Segments

Staff divisions, Group divisions not included in the above-mentioned segmentation and consolidations are pooled in "all other segments". 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 participating interests 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 and from the amortisation of the portfolio fair value hedge not reported in the revenue of the business segments, and consolidation items.

In particular the non-operational units are assigned to the risk provision for all other segments as uncontrolled portfolio bad debt allowances are itemised here. Ineffective hedge relationships resulted in a very positive "profit/loss from hedge accounting" in 2009. The negative commission income was significantly impacted by consolidation items. The increase in administrative expenses was driven primarily by projects covering the entire bank and provisions for staff expenses.

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.

In 2009 this other income included among others reversals of provisions and disposals of property and equipment.

Risk Report

The risk report of the NORD/LB Group as at 31 December 2009 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 §26a 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 (at Investor Relations/Reports).

Application

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 Group member companies associated with significant risks. As was the case as at 31 December 2008, these include

- the parent company NORD/LB

and the subsidiaries

- Bremer Landesbank,
- NORD/LB Luxembourg and
- Deutsche Hypo.

During the course of the regular review of this area of application

- NORD/LB CFB

was included in this group of companies in the year under review.

Based on the total of the financial instruments in the Group, these four companies ("significant Group companies") account 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. The circle of significant Group companies included in the basis of consolidation according to IFRSs is at present identical with the circle of significant Group 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.

In the qualitative risk reporting, information is also provided on specific risks resulting from Group companies not included with their individual risks in the risk report, irrespective of the results of a materiality test on quantitative risk reporting. Risks resulting from participating interests in ÖVB and the NORD/LB Asset Management Group are of secondary significance in quantitative terms from a general Group point of view; they are nevertheless included in the risk report.

Risk Control

Risk Control – The Fundamentals

The business activities of a bank inevitably involve the 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 and projected results of business activity. Identifying, analysing, measuring, monitoring and the management and reporting of these risks are basic requirements for the sustained success of an enterprise.

Basic conditions for structuring this risk management process are specified for banks and groups of banks in the minimum requirements for risk management (MaRisk) on the basis of §25a of the law on banking (KWG, German Banking Act). 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 14 August 2009 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 had already carried out a preliminary study before the final version was published to identify any need for action and defined the responsibilities for implementation.

Appropriate projects were also initiated in Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB to implement the MaRisk amendment. The areas identified for action are treated in a coordinated manner throughout the group.

Risk Control – Strategies

The risk policy of the NORD/LB Group is characterised by a responsible handling of risks. The Group risk strategy, drafted with this in mind, overrides the risks strategies of the principal companies in the NORD/LB Group and is, taking into account the respective business models, substantiated by the risk strategies of the principal companies in the NORD/LB Group.

The core element of the risk strategy is the risk-bearing capacity model (RBC model), on the basis of which risk willingness is specified and the allocation of risk capital to the material risk types is undertaken. Most of this is associated with credit risk, reflecting the focus of the NORD/LB Group on customer-oriented lending business.

The risk strategies of the principal companies in the Group are in each case defined in accordance with the business model, the business strategy and the Group risk strategy policy and are reviewed at least once a year. They contain information on the principles of risk strategy, the organisation of the risk control process and on sub-strategies for risks relating to the significant bank-related types of risk. Furthermore specifications with regard to the allocation of risk capital to the material risk types are made in the risk strategies.

The Group risk strategy and the risk strategy of the principal companies were revised in 2009 and discussed with the Supervisory Board after being passed by the Managing Board. The revision focused on the implementation of the requirements of the MaRisk amendment. Among other things the group-wide sub-strategies for risks and the group-wide allocation of risk capital were detailed.

The risk strategies aim at achieving an optimal method of controlling and monitoring all of the relevant types of risk and at achieving a transparent presentation of these risks to the management, the supervisory bodies and other third parties with a justified interest. They constitute the basis of risk control and include an overview of the measures and instruments described in more detail in the risk manual.

On the basis of a standard RBC model for the entire Group, the NORD/LB risk strategy, based on the current situation and taking into account scheduled business operations, focuses on securing a forward-looking risk-bearing capacity for the individual companies and the Group.

Based on this, the principal group companies in the Group have a range of instruments at operational level which provide the necessary transparency, limitation and portfolio diversification in a way which can be controlled and monitored. These instruments are described in detail in the risk manual or appropriate documents.

Risk Control – Structure and Organisation

Responsibility for the risk control of the NORD/LB Group lies with the Managing Board of NORD/LB. The Managing Board initially coordinates the higher 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 it is agreed it is then passed by the Managing Board of NORD/LB and discussed in the Supervisory Board.

The responsible Chief Risk Officer (CRO) in the Managing Board 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 quantifiable risks including the risk reporting at group level. At individual institute level responsibility lies with the respective Managing Board member or the risk officer.

Operational risk management and the monitoring of risk are performed decentrally in the principal group companies. In order to ensure the greatest possible comparability with regard to the control, monitoring and reporting of all significant risks, it is essential that there is coordinated use of instruments used for this purpose. This is ensured by the higher-level institute establishing the methods.

In addition to the Erweiterter Konzernvorstand, the control of the NORD/LB Group is supported by a system of Group control divisions implemented in the year under review. From a risk point of view in particular the Risk/Finance group control division, which includes the risk officers of NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo as well as other divisional heads 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 group control division Risk/Finance and comprises the Chief Risk Officer, the heads of the market divisions and the heads of the divisions Generalia, Risk Controlling, Credit 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 types of risk and strengthening Group integration.

The structure and organisation of risk control in the NORD/LB Group complies with the requirements of MaRisk. The process of risk control 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 General Bank 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 system. The aims of Internal Audit also include making a contribution towards securing 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 in December 2009 and came into effect on 1 January 2010.

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 institutes of 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 control 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 Control – Risk-Bearing Capacity Model

The risk-bearing capacity model constitutes the methodical basis for monitoring compliance with 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 aim of the model is to aggregate and duly present the bank's risk-bearing capacity at both institute and group level. The monitoring and reporting process is conducted regularly and guarantees that the responsible bodies are promptly informed about the risk-bearing capacity situation. The continuous development of the model also improves risk-related corporate control.

The NORD/LB Group employs a scenario-based risk-bearing capacity model which also fulfils the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with Basel II and MaRisk requirements. Besides providing the required evidence that an adequate amount of capital is available, the model also serves to verify consistency between risk strategies and specific business activities.

Assessment on the basis of the risk-bearing capacity model compares risks (potential for risk) and the defined risk capital of the individual institutes and the Group in an aggregated form on at least a quarterly basis. In the model, risk capital and risk potential are determined for four different risk scenarios with different, in each case declining probabilities of occurrence. In turn, risk capital and risk potential always grow step by step. The three internally defined scenarios serve as early warning indicators and were specified in compliance with the requirement of a going concern. The fourth step serves the external verification relating to the implementation of the supervisory requirements in accordance with MaRisk.

Risk capital is calculated based on the understanding of capital in accordance with supervisory regulations. When calculating risk potential, a distinction is made between the risk types of credit, investment, market price, liquidity and operational risk, with credit risk being by far the most significant of these risk types.

The RBC model was designed by NORD/LB in close cooperation with the other significant subsidiaries of the NORD/LB Group and is developed jointly with these partners. The identity of the basic methods and their presentation enables aggregation to achieve a Group value, in this case involving the conservative addition of risk potential, while risk capital is fully consolidated.

Quotients resulting from risk capital and risk potential, the levels of risk cover, serve as a yardstick for determining the risk-bearing capacity, which is given from a risk cover level of 100 per cent in the ICAAP. In line with a conservative approach, it was specified at Group level for the ICAAP model that the risk cover level was not to fall below 125 per cent, therefore defining an additional buffer.

At an individual institute level on the other hand, the requirement of a risk cover ratio of at least 125 per cent specified in the respective risk strategy applies not only for ICAAP model, but also for internally defined stages. This specification was intended to ensure that the regulatory requirement of an adequate supply of equity capital was met at all times and that capital distribution is optimised in future with a view to generating target yields.

Taking into account its risk-bearing capacity, the NORD/LB Group and the principal institutes allocate a maximum percentage of risk capital to the five significant types of risk.

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 Managing Board and the supervisory bodies at full bank level.

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

In the year under review the NORD/LB Group undertook a fundamental analysis of its RBC model. The subsequent, ongoing revision is focusing on the further optimisation of the Group-wide bank control system and in particular on the implementation of the requirements of the MaRisk amendment with regard to expanded consideration of stress scenarios covering different types of risk.

The NORD/LB Group's future model will also include several scenarios and serve to verify the economic and regulatory capital adequacy and the consistency of business activities with the risk strategy. In addition a detailed assessment of the risk situation taking into account stress scenarios covering different types of risk will be undertaken.

The implementation of the refined RBC model is planned for 2010 both at group level and at the level of the individual institutes.

Risk Control – Development in 2009

In the first half of 2009 the parameters for calculating the risk potential for market price and liquidity risk were adjusted to take into account the knowledge gained from the financial market crisis and the conditions in the money and capital market. The holding periods for the market risk positions were extended and the used liquidity spreads were increased. At the same time the confidence level used in the RBC model was harmonised.

At the same time the method for quantifying credit risk was developed further. Since 30 September 2009 an internal credit risk model has been used which enables an optimised consideration of correlations and concentrations.

The utilisation of risk capital with risk potential in the ICAAP may be seen for the NORD/LB Group in the following overview of risk-bearing capacity. The comparative values as at 31 December 2008 were adjusted to take into account the change in methodology and to improve comparability. This results in an increased risk potential for market price and liquidity risks, while the credit risk potential falls in the ICAAP scenario due to the diversification of the NORD/LB Group's credit portfolio.

(in € million)[1]	Risk-bearing capacity 31 Dec. 2009		Risk-bearing capacity 31 Dec. 2008[2]	
Risk capital	**8,976**	**100 %**	**8,999**	**100 %**
Credit risk	5,402	60 %	3,121	35 %
Investment risk	109	1 %	162	2 %
Market price risk	217	2 %	367	4 %
Liquidity risk	34	–	1,255	14 %
Operational risk	245	3 %	244	3 %
Total risk potential	**6,006**	**67 %**	**5,150**	**57 %**
Excess coverage	**2,970**	**33 %**	**3,849**	**43 %**
Risk cover level		**149 %**		**175 %**

[1] Total differences are rounding differences
[2] Adjustment of the figures due to changes in methodology

The risk cover level as at 31 December 2009 was 149 per cent, whereby the reduction compared to the previous year is primarily attributable to the strong rise in credit risk. In particular the increased probability of defaults in the shipping, securitisations and real estate segments has had a negative effect here.

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 quota. In addition to risk reduction measures, this also included the inclusion by the NORD/LB Group of further subordinated capital in the fourth quarter of 2009. The effects having a negative impact on capital, in particular the increase in expected losses and write-downs, were almost completely compensated.

Overall the risk cover level is still well above the internally specified target of 125 per cent. The risk-bearing capacity is therefore given and the specifications of the Group's risk strategy are complied with.

Credit Risk

Credit risk is an element of counterparty default risk. It defines the risk of loss involved when a borrower defaults or when the credit rating of such a borrower deteriorates.

Counterparty risk is included under the item of "credit risks" and constitutes the risk which results when the default of a party to a contract means that an unrealised profit from a pending trade transaction can no longer be earned (replacement risk) or if the default of a counterparty within the framework of a step-by-step transaction means that the return service for an advance payment already made will not be received (fulfilment risk).

In addition to borrower-related credit risks, a national risk will occur when cross-border capital transfer services involve the risk that, despite the ability and the willingness of individual borrowers to make repayment, a loss will occur as a result of overriding government hindrances (transfer risk).

Credit Risk – Control

Strategy

For the NORD/LB Group credit business and the management of credit risks are a core competence 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.

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. In a multi-stage reporting system, the division also prepares segment portfolio reports on selected sub-segments at regular intervals.

The Credit and Securities 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.

The processing of non-performing exposures or exposures requiring debt readjustment is the responsibility of the Special Credit Management (SCM) Division at NORD/LB. Credits with a rating of 11 on the DSGV rating master scale (i.e. allocation to the “high risk” category in accordance with the “Initiative Finanzstandort Deutschland” (IFD, initiative for Germany as a financial location) or lower and exposures with a rating of 7 (allocation to the “good/satisfactory” category in accordance with IFD) or lower which exhibit other established risk indicators must all be reported to the SCM division where a decision can be taken on whether the processing of a loan is to be taken over or whether the loan is to remain with the credit risk management division. From a rating 16 (allocation to the IFD “Default (NPL)” category), the SCM division is obliged to take over responsibility for an exposure.

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 the general credit risk management of the NORD/LB 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 national, industrial or borrower-related risks or making recommendations relating to the placement of exposures and sub-portfolios.

As of 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 participating interests is also subject to a Supervisory Board resolution as is approval for loans to executives.

The Credit Risk Control Division is responsible for the methods employed for measuring and controlling credit risk in the area of credit risk control, which comprises the Reporting System/Methods and the Credit Portfolio Management divisions.

The Reporting System/Methods 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 default risk already agreed on with the Risk Control Division lies.

The main task of loan portfolio management is to supervise concentration risks in the loan portfolio. Concentrations in terms of the magnitude of a borrower entity as well as national and industrial concentrations are examined.

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 work-out 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 department bearing the same name. 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 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 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 – Securities

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

The securities are assessed both at the time the loan is granted and during the subsequent ongoing (normally at least half-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 security and the maximum loan (lending limit) which may be lent against the collateral. Sureties, credit securities similar to sureties, assignments of receivables and other rights, chattel mortgages, property, receivables and other rights and collateral assignment of chattel are accepted as credit security. Other securities can be contracted with the borrower, but these do not reduce the unsecured portion of the exposure.

Credit Risk – Management

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 control 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 are shown using 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 individual counterparties. The latter defines an exposure limit for every rating on the basis of which a Group exposure for the categories corporates, financial institutes and special finance is classified as being normal, bearing risk concentration or bearing high risk concentration. The exposure limits are based on the risk-bearing capacity of the NORD/LB Group.

Credit Risk – Securitisation Transactions

Securitisation transactions are a further instrument used to manage 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 are transferred to other market participants (NORD/LB as an originator) or additional credit risks are taken (NORD/LB as an investor). NORD/LB also conducts securitisation activities as an arranger of structured transactions in the interest of customers.

Risk control is carried out in synthetic securitisation transactions using various hedging instruments and in true sale transactions by acquiring asset-backed securities issued through special purpose entities (SPEs). As a sponsor, NORD/LB makes liquidity facilities and credit enhancements available in order to improve the loan quality of the institute's own asset-backed commercial paper (ABCP) conduit programmes.

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 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 in 2004 and retains an insignificant portfolio. 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 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 default 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 a credit risk model for four different confidence levels and a time frame of one year. The NORD/LB Group has performed the calculation in the year under review for the first time on the basis of a new economic credit risk model which includes correlations and concentrations in the risk assessment more than before, therefore representing a significant improvement in the method used.

The credit risk model calculates the unexpected losses at the level of the overall portfolio. This is then apportioned over the individual borrowers. The model is based on CreditRisk+. 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 limitation) 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. The management and control of current risks are carried out 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.

Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB have also received authorisation for the relevant rating systems. Bremer Landesbank has also been granted approval to use methods to reduce credit risk.

Credit Risk – Reporting

NORD/LB's Credit Risk Control Division draws up a quarterly report for the Managing Board which shows and analyses all the significant structural features and parameters required for controlling the loan portfolio. In 2009 the previously established Credit Risk Report was replaced by the Credit Portfolio Report. The Credit Portfolio Report also includes in-depth analyses and stress scenarios relating to the credit portfolio. It complements the Risk-Bearing Capacity Report and is further specified by Industry Portfolio Reports for individual sub-segments.

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.

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 2009

Credit exposure plays a significant role in the context of credit risk control. Calculation of credit exposure is based on credit 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 on consideration of netting). Irrevocable credit commitments and revocable credit commitments are included in the credit exposure, while securities against the NORD/LB Group are ignored.

Credit exposures also contain minor participating interests on the basis of their carrying amount since these are treated similar to lending transactions in terms of measurement (cf. the section on investment risk measurement).

The categories required by IFRS 7.6 for presenting credit risk are hence compliant with those of the report on risk-bearing capacity submitted quarterly to the Managing Board and the supervisory bodies in line with the management approach.

Credit Exposure Analysis

The credit exposure of the NORD/LB Group as at 31 December 2009 amounts to € 255 billion and has therefore fallen by two per cent compared to the end of the previous financial year. The increased volume to the first-time inclusion of NORD/LB CFB in the amount of € 5 billion was more than compensated by a reduced credit exposure at NORD/LB, Bremer Landesbank and NORD/LB Luxembourg. In accordance with the conservative risk policy of the NORD/LB Group, credit exposure continues to focus on the very good to good IFD 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 rating structure for the whole credit exposure in the NORD/LB Group (existing and new business) broken down by product type and compared to the previous year's structure.

Rating structure [1) 2)] (in € million)	Loans [3)] 31 Dec. 2009	Securities [4)] 31 Dec. 2009	Derivatives [5)] 31 Dec. 2009	Other [6)] 31 Dec. 2009	Total exposure 31 Dec. 2009	Total exposure [7)] 31 Dec. 2008
very good to good	110,772	61,999	11,076	12,670	196,516	210,992
good/satisfactory	17,807	1,928	587	1,295	21,617	22,340
reasonable/satisfactory	12,776	326	286	881	14,268	14,993
increased risk	8,365	116	105	366	8,952	6,048
high risk	3,678	87	21	83	3,869	2,795
very high risk	6,000	198	85	130	6,413	2,156
default (=NPL)	3,687	41	15	52	3,795	2,294
Total	**163,085**	**64,694**	**12,175**	**15,477**	**255,431**	**261,618**

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 included at 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
7) Adjustment of the figures due to changes in methodology

In the year under review items in the very good to good rating category fell due rating migrations and reduced credit volumes by seven per cent. The very high share of these best rating categories in the total exposure of 77 per cent (81 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 loans in the rating classes increased risk to very high risk rose in particular due to rating migrations from four per cent to eight per cent. Here in particular the increased probability of defaults in the shipping and real estate segments and with securitisations had an effect. The share of non-performing loans (NPL) also rose from 0.9 to 1.5 per cent.

Industries[1) 2)] (in € million)	Loans[3)] 31 Dec. 2009	Securities[4)] 31 Dec. 2009	Derivatives[5)] 31 Dec. 2009	Other[6)] 31 Dec. 2009	Total exposure 31 Dec. 2009	Total exposure[7)] 31 Dec. 2008
Financing institutes/insurance companies	53,107	42,843	9,611	8,546	114,107	125,274
Service industries/other	60,445	19,277	743	3,472	83,937	81,718
– Of which: Land, housing	18,784	55	263	526	19,629	20,739
– Of which: Public administration	28,067	18,274	352	943	47,636	41,211
Transport/communications	29,026	518	616	174	30,334	31,427
– Of which: Shipping	19,191	–	403	39	19,633	20,842
– Of which: Aviation	6,825	51	77	–	6,953	7,414
Manufacturing industry	6,651	814	611	308	8,384	8,042
Energy, water and mining	5,434	994	424	2,065	8,916	7,267
Trade, maintenance and repairs	3,366	58	82	200	3,706	4,391
Agriculture, forestry and fishing	987	25	7	525	1,544	1,552
Construction	2,789	60	72	107	3,028	772
Other	1,281	106	8	80	1,474	1,175
Total	**163,085**	**64,694**	**12,175**	**15,477**	**255,431**	**261,618**

1) Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria
2) to 7) See the previous chart on the rating structure

The breakdown of total credit exposure by industry group shows that business conducted with financing institutes and with public administrations, which basically remains low risk, accounts for 63 per cent (64 per cent) and still constitutes a considerable share of the total exposure. The credit risk primarily relates to still commercial lending business, comprising special finance and business with other corporate customers.

Regions [1) 2)] (in € million)	Loans [3)] 31 Dec. 2009	Securities [4)] 31 Dec. 2009	Derivatives [5)] 31 Dec. 2009	Other [6)] 31 Dec. 2009	Total exposure 31 Dec. 2009	Total exposure [7)] 31 Dec. 2008
Euro countries	130,489	51,270	8,001	15,121	204,881	206,883
Other Western Europe	8,783	4,121	2,856	209	15,969	17,222
Eastern Europe	3,282	914	51	5	4,252	3,870
North America	12,445	4,911	885	83	18,324	20,506
Latin America	1,669	601	19	35	2,325	2,550
Middle East/Africa	961	271	–	1	1,232	1,314
Asia	3,623	2,133	339	14	6,110	6,749
Other countries	1,832	474	23	8	2,338	2,524
Total	**163,085**	**64,694**	**12,175**	**15,477**	**255,431**	**261,618**

1) Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria
2) to 7) See the previous chart on the rating structure

According to the classification of total credit exposure by region, the country risk for the NORD/LB Group tends to be of minor significance. The eurozone accounts for a high share of 80 per cent (79 per cent) of loans and remains by far the most important business area of the NORD/LB Group.

The difference between the total credit exposures shown in the risk report (€ 255 billion) and the total of the portfolio of financial instruments included in the balance sheet (€ 236 billion) is also the result of presentations relating to individual risks concentrated on the significant Group companies, effects of consolidation which were not included and consideration of off-balance-sheet business.

Non-Performing Loans

In accordance with the impairment policy, specific bad debt allowances are established in the NORD/LB Group in the event of objective indications of acute counterparty default risks or direct write-downs are made. 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. For claims which are not significant flat-rate specific bad debt allowances are made based on historical probabilities of default.

The NORD/LB Group accounts for the latent counterparty default risk in all unprovisioned transactions and off-balance sheet transactions by making portfolio bad debt allowances for impairments which have already occurred but were not known on the balance sheet reporting date.

The total of specific bad debt allowances and loan loss provisions increased in the NORD/LB Group in 2009 due to new provisions at NORD/LB Luxembourg, Bremer Landesbank and Deutsche Hypo (cf. Note 34 in the notes to the consolidated financial statements and the report on the results of operations). The ratio of specific bad debt allowances, flat-rate specific bad debt allowances and provisions to the total exposure rose in the period under review from 0.39 per cent to 0.53 per cent.

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. Before the inclusion of collateral 36 per cent (45 per cent) of these NPLs, and after the inclusion of collateral eligible for evaluation all of the NPLs are secured with specific bad allowances.

The share of total NPLs in the credit exposure rose slightly in the period under review and is as at 31 December 2009 1.5 per cent (0.9 per cent). In addition to the impaired receivables, these NPLs also include overdue receivables, whereby it is conservatively assumed that all of the receivables of rating notes 16 to 18 (IFD risk class default (NPL)), for which no specific bad debt allowances have been made, are overdue.

Industries (in € 000)	Credit exposure of impaired receivables[1] 31 Dec. 2009	Credit exposure of impaired receivables[1] 31 Dec. 2008	Portfolio SLPs/general loan loss provisions[2] 31 Dec. 2009	Portfolio SLPs/general loan loss provisions[2] 31 Dec. 2008	Changes in SLPs/provisions[2] 1 Jan. 2009 – 31 Dec. 2009	Changes in SLPs/provisions[2] 1 Jan. 2008 – 31 Dec. 2008
Financing institutes/insurance companies	217,570	189,272	141,828	47,542	94,285	39,199
Service industries/other	1,435,534	1,139,097	562,854	704,840	– 141,986	93,502
Transport/communications	627,908	121,344	197,927	22,223	175,704	– 10,584
Manufacturing industry	223,876	213,229	258,523	118,412	140,111	13,337
Energy, water and mining	99,861	60,373	18,702	11,512	7,190	4,342
Trade, maintenance and repairs	104,581	116,155	58,723	54,438	4,285	– 6,047
Agriculture, forestry and fishing	28,729	22,883	22,622	15,296	7,325	– 6,707
Construction	147,271	49,534	88,924	46,912	42,012	– 30,285
Other	10,641	15,472	3,047	5,863	– 2,816	4,829
Total	**2,895,971**	**1,927,360**	**1,353,151**	**1,027,040**	**326,111**	**101,586**

1) For information purposes: the gross book value of NPLs requiring allowances is € 2,899 million (€ 2,001 million).

2) The marginal difference between provisions shown here and those from note (34) is mainly allotted to Group companies playing a minor role concerning risk.

Industries (in € 000)	Credit exposure of overdue, unimpaired receivables 31 Dec. 2009	Credit exposure of overdue, unimpaired receivables 31 Dec. 2008	Portfolio bad debt allowances (BDA)[1] 31 Dec. 2009	Portfolio bad debt allowances (BDA)[1] 31 Dec. 2008	Net additions to/reversals of portfolio BDA[1] 1 Jan. 2009–31 Dec. 2009	Net additions to/reversals of portfolio BDA[1] 1 Jan. 2008–31 Dec. 2008
Financing institutes/insurance companies	20,788	27,187	36,558	36,866	– 308	4,615
Service industries/other	322,752	229,704	194,191	123,962	70,228	– 3,176
Transport/communications	301,984	33,596	200,813	47,400	153,414	8,918
Manufacturing industry	138,017	11,862	53,757	14,989	38,768	3,855
Energy, water and mining	14,005	2,462	6,965	5,864	1,102	– 1,173
Trade, maintenance and repairs	45,181	26,070	21,350	10,815	10,535	– 2,799
Agriculture, forestry and fishing	19,819	30,117	6,141	9,751	– 3,610	– 1,958
Construction	28,950	5,540	18,396	2,915	15,482	– 1,564
Other	7,394	–	860	282	578	282
Total	**898,890**	**366,537**	**539,032**	**252,843**	**286,189**	**6,999**

[1] The marginal difference between provisions shown here and those from note (34) is mainly allotted to Group companies playing a minor role concerning risk.

Regions (in € 000)	Credit exposure of impaired receivables 31 Dec. 2009	Credit exposure of impaired receivables 31 Dec. 2008	Portfolio SLPs/general loan loss provisions[1] 31 Dec. 2009	Portfolio SLPs/general loan loss provisions[1] 31 Dec. 2008	Changes in SLPs/provisions[1] 1 Jan. 2009–31 Dec. 2009	Changes in SLPs/provisions[1] 1 Jan. 2008–31 Dec. 2008
Euro countries	1,997,568	1,495,397	963,202	933,276	29,926	40,216
Other Western Europe	382,347	208,639	212,603	51,605	160,999	41,800
Eastern Europe	3,710	4,039	2,731	2,872	– 142	2,487
North America	498,072	197,785	131,127	31,775	99,352	18,945
Latin America	1,288	2,008	40,849	1,613	39,235	75
Middle East/Africa	–	–	–	–	–	–
Asia	12,986	19,492	2,639	5,605	– 2,965	– 805
Other countries	–	–	–	294	– 294	– 1,133
Total	**2,895,971**	**1,927,360**	**1,353,151**	**1,027,040**	**326,111**	**101,586**

[1] The marginal difference between provisions shown here and those from note (34) is mainly allotted to Group companies playing a minor role concerning risk.

Regions (in € 000)	Credit exposure of overdue, unimpaired receivables 31 Dec. 2009	Credit exposure of overdue, unimpaired receivables 31 Dec. 2008	Portfolio bad debt allowances (BDA) [1] 31 Dec. 2009	Portfolio bad debt allowances (BDA) [1] 31 Dec. 2008	Net additions to/reversals of portfolio BDA[1] 1 Jan. 2009 – 31 Dec. 2009	Net additions to/reversals of portfolio BDA[1] 1 Jan. 2008 – 31 Dec. 2008
Euro countries	599,375	296,604	389,068	186,234	202,835	– 20,641
Other Western Europe	101,310	22,441	49,942	20,577	29,366	16,869
Eastern Europe	25,040	1,886	7,320	2,363	4,957	1,458
North America	154,259	45,606	58,794	31,534	27,260	5,947
Latin America	1,726	–	9,892	3,602	6,289	1,582
Middle East/Africa	–	–	7,728	1,182	6,546	– 572
Asia	17,180	–	7,972	4,634	3,337	1,115
Other countries	–	–	8,315	2,716	5,600	1,241
Total	**898,890**	**366,537**	**539,032**	**252,843**	**286,189**	**6,999**

[1] The marginal difference between provisions shown here and those from note (34) is mainly allotted to Group companies playing a minor role concerning risk

Of the unimpaired receivables in the default class, only 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 in line with the Basel II definition.

Days past due (in € 000)	Credit exposure of overdue, unimpaired receivables 31 Dec. 2009	Credit exposure of overdue, unimpaired receivables 31 Dec. 2008
Up to 90 days	680,764	221,940
More than 90 days	218,127	144,597
Total	**898,890**	**366,537**

The NORD/LB Group has in the year under review renegotiated contract conditions for financial assets with a total book value of € 199 million which would otherwise have become overdue or impaired. For the most part changes to the repayment structures were agreed.

Direct write-offs of loans by the significant group companies in the year under review totalled € 66 million (€ 9 million). Additions to receivables written off amounted to € 11 million (€ 17 million). Direct write-offs of securities in the category loans and receivables (LaR) in the NORD/LB Group totalled € 53 million.

The NORD/LB Group did not acquire any assets in the period under review in connection with the realisation of collateral held and other loan enhancements as a result of the default of borrowers.

Credit Risk – Outlook

Credit risk is expected to rise in 2010 due to the continuing economic crisis. Due to the rise in interest and repayment arrears, the NORD/LB Group is expecting a further rise in NPLs in 2010. The NORD/LB Group will continue to monitor developments closely and proceed with the measures which have been implemented to strengthen the risk quotas.

In 2010 measures to further optimise the model for quantifying and controlling credit and investment risk are planned. In addition to the further development of the economic credit risk model, the focus will be on further optimising the exposing of counterparty risk from trading activities. In addition 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 default risk and defines the risk of incurring losses when making equity available to third parties.

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 participating interests 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 participating interests 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.

As part of the further development of the NORD/LB Group's business model, in October 2009 other significant, strategy-supporting participating interests were identified in addition to the significant companies from a risk point of view (NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB). These include among others Öffentliche Versicherungen Braunschweig, Bank DnB NORD A/S, Copenhagen (DnB NORD) and NORD/LB Asset Management Group. These companies are in future to be included in more detail in the risk control.

Structure and Organisation

Risks resulting from participating interests at various levels in the Group are controlled by the Investment Management Organisational Unit of NORD/LB in close cooperation with other divisions, in particular the Finance Division. Domestic and foreign participating interests 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.

Since the beginning of 2010 all significant strategic and strategy-supporting participating interests have been managed directly by the Erweiterter Konzernvorstand and the Konzernsteuerungskreise (Group Control Committees). All smaller participating interests will also in future be concentrated centrally in Investment Management.

Investment Risk – Management, Monitoring and Reporting

Participating interests are regularly monitored by analysing reports drawn up during the year, intermediate 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.

Risk management comprises the identification, analysis, valuation, documentation and communication of any risks. Current income (earnings and depreciation) is regularly evaluated and reported to the NORD/LB Managing Board in the case of significant participating interests.

Investment risk – Measurement

A distinction is made between two categories for measuring investment risk in terms of risk-bearing capacity:

1. Significant participating interests, which make a significant contribution towards general risk at Group level.
2. Insignificant participating interests which only contribute immaterially to general risk at Group level.

Allocation to significant and insignificant investments from a risk point of view is regularly examined by the Risk Control Division on the basis of quantitative criteria. In the period under review, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB were identified as significant participating interests from a risk point of view.

Risks resulting from significant participating interests 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 insignificant participating interests 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 book values of the participating interests and the probability of default assigned to them with the help of a credit risk model for four 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 credit risk model determines contributions made by individual investments towards unexpected loss at portfolio level, which together add up to unexpected loss for the full portfolio. The parameters for the model are set in accordance with the standard parameters of Basel II.

Investment Risk – Development in 2009

In order to enhance earnings potential and reduce capital tied and potential risk relating to participating interests the NORD/LB Group has, on the basis of a critical review of the investment portfolio, disposed of a range of participating interests since 2005. This strategy was continued in 2009.

On the other hand the Group has been strengthened by the takeover of Deutsche Hypo. After the successful takeover in 2008, in the year under review it was necessary to push on with the integration of the mortgage bank in the NORD/LB Group. Particular attention continues to be paid to the gradual transfer of the remaining property credit portfolios remaining in NORD/LB.

The development of the participation in DnB NORD, the joint venture with the Norwegian finance group DnB Nor ASA, Oslo, represented a further challenge. DnB NORD, due to its focus on corporate and private customers in the Baltic states, was particularly affected by the effects of the financial and economic crisis in these countries.

Investment Risk – Outlook

The essential task for 2010 will be to supervise and manage the participating interests in the expected difficult market conditions.

In correspondence dated 30 December 2009 DnB NOR ASA has initiated a re-evaluation of the joint venture DnB NORD. We await the result of the evaluation process at DnB NORD.

In addition the optimisation of the investment portfolio will be continued in 2010. Within the scope of this optimisation NORD/LB will among other things dispose of its 25 per cent interest in Berenberg Bank.

Market Price Risk

Market price risks are potential losses which may be incurred as a result of changes in market parameters. With market price risk the NORD/LB Group makes a distinction between interest-rate risk, credit-spread risk in the investment book, currency risk, share-price and fund-price risk, volatility risk and raw material 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. Prepayment risk and credit spread risk constitute part of interest rate risk in the trading book. Prepayment risk occurs with products where the repayment structure is not specified in the contract (e.g. securitisation where discharge is related to the repayment of the underlying asset) and at the same time are not charged variable interest rates.

Credit spread risk arises in the event of changes to the additional interest rate for respective issuers, borrowers or reference entities which is added to the risk-free interest rate when a market value is determined for an item. Credit-spread risk in the trading book is a component of interest rate risk. A credit-spread risk for items in the investment book exists if this market value has an impact on the income statement or the revaluation reserve.

Currency risks (or exchange rate risks) arise when the value of an item or portfolio reacts sensitively to changes in one or several currency exchange rates and if changes in the exchange rates could result in impairing an item.

Share-price risks always occur when the value of an item or a portfolio reacts to changes in one or several share prices or share indices and if these changes in share prices or share indices could impair the item. Fund-price risks occur when the value of an item or portfolio reacts sensitively to changes in one or several fund prices.

Volatility risks result from option items and refer to potential changes in the value of the derivative portfolios in question as a result of market fluctuations in the volatilities applied for valuing the options.

Risk relating to raw materials have no significant relevance in the NORD/LB Group.

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 within the scope of the remaining market price risk limits.

Trading activities focus on interest rate risk. Here the NORD/LB Group aims, within the scope of set limits, to employ term transformation or interest-spread trading 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 investment book. NORD/LB generally aims to use the credit spread to maturity and achieve maturity-congruent refinancing of investments. The credit investment books which are currently frozen are managed by the central Credit Investments task force.

Structure and Organisation

Divisions handling items bearing market price risks which also account for profits and losses resulting from shifts on markets are all included in the control process for market price risks. At NORD/LB this includes the Treasury, Markets and Portfolio Investments divisions. Within the scope of their Global Head function, the 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.

In the second quarter of the year under review a strategic realignment of NORD/LB's whole Financial Markets division took place. The focus of the division now lies on customer business and supporting control measures for the bank as a whole.

Risks are monitored by the Risk Control Division, which in accordance with MaRisk operates independently of divisions responsible for market price risk management in terms of both function and organisation and performs various monitoring, limiting and reporting activities for NORD/LB AöR and the NORD/LB Group. These activities also include calculating amounts eligible for monthly SolvV reporting for those risk types in market price risk for which regulatory approval of the internal model has been granted. The SolvV report for the German Federal Financial Supervisory Authority (BaFin) is prepared by the Credit Risk Control Division.

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, Finance and Risk Controlling 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 task force the Portfolio Investments Division shows positioning in maturity-congruent refinanced securities and credit derivatives in the investment book and makes proposals for the risk management of the portfolio. The task force 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 almost all serve 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 – Management and Monitoring

Value-at-Risk (VaR) methods are generally employed for all significant portfolios to manage, monitor and limit market price risks.

The Value-at-Risk ratios 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 Value-at-Risk 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 correlation effects between risk factors and sub-portfolios.

Limits derived from loss limits specified by the Managing Board for each trading division are stipulated for Value-at-Risk data. Any trading book and selected investment book losses are immediately added to the loss limits, hence resulting in a reduction in Value-at-Risk limits in accordance with the principle of self-absorption. Correlation effects between the portfolios are included in calculating Value-at-Risk and in the delegation of sub-limits. In some areas specific sensitivity limits are added to the Value-at-Risk limits.

Credit spread risks in the investment book are currently not regulated Group-wide with the help of a Value-at-Risk method; instead they are ascertained in a scenario analysis and separately limited. In order to be able to make a comparison with the market price risks ascertained in the Value-at-Risk model, the following also shows a Value-at-Risk figure for the credit-spread risks of the investment book for the purpose of information.

The prediction quality of the Value-at-Risk model is verified with comprehensive backtesting analyses. This involves a comparison of the daily change in value of the respective portfolio with the Value-at-Risk of the previous day. A backtesting exception exists if a negative change in value observed exceeds the Value-at-Risk. The number of backtesting exceptions fell during the course of the year under review and was as of the reporting date amber for Deutsche Hypo and green for the other significant companies of the NORD/LB Group.

In daily stress-test analyses, in addition to the Value-at-Risk method, the effects of extreme market changes on the risk position of NORD/LB are examined. Various stress scenarios were defined for each of the types of market price risk, namely interest rate, currency, share price, fund price and volatility risk, as well as for credit spread risks in the investment 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 significant 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. 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 recognised by the Federal Financial Supervisory Authority in 2005, NORD/LB has been the only institute to also utilise the Value-at-Risk model for calculating equity capital required for general interest-rate risks and for general and special share-price risks in accordance with SolvV. The standard method is applied for the remaining types of 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 Value-at-Risk scenarios. A weekly report is also provided on the credit spread risks in the investment book. The Managing Board is informed in detail once a month about market price risks and the earnings position.

Market Price Risk – Development in 2009

2009 continued to be affected by turbulent markets in particular in the first two quarters as a result of the financial market crisis. Later on the markets steadied. In the NORD/LB Group much higher Value-at-Risk figures were therefore seen in the first quarters due to the increased volatility; these fell again by the middle of the year as the markets steadied.

By the middle of the year a change in the positioning of interest rate risk resulted in an increase in the Value-at-Risk in the NORD/LB Group, while in the second half of the year reduced risk in the trading books and changes in the correlation effects between the different asset classes resulted in a reduction in the Value-at-Risk.

There is also a special effect with an investment listed on the stock exchange no longer being listed under market price risk but solely under investment risk due to the inactive market and the change in accounting treatment since the third quarter of 2009. This has contributed towards a reduction in the Value-at-Risk in the category share price and fund price risk. Consistent with the trading strategies, interest rate risk dominates with a share of 68 per cent.

Market price risks (in € 000) [1]	Maximum 1 Jan.– 31 Dec. 2009	Maximum 1 Jan. 31 Dec. 2008	Average 1 Jan.– 31 Dec. 2009	Average 1 Jan. 31 Dec. 2008	Minimum 1 Jan.– 31 Dec. 2009	Minimum 1 Jan. 31 Dec. 2008	End-of-year risk 1 Jan.– 31 Dec. 2009	End-of-year risk 1 Jan. 31 Dec. 2008
Interest rate risk (VaR) [2]	18,624	14,814	12,973	11,045	8,776	7,323	9,511	11,129
Currency risk (VaR)	4,831	2,131	2,134	649	929	151	1,823	1,337
Share price and fund price risk (VaR)	7,936	11,111	5,068	9,135	1,207	6,930	1,722	6,942
Volatility risk (VaR)	2,667	3,008	1,157	531	43	196	645	1,652
Other add-ons	164	294	30	70	–	–	265	10
Total	**19,107**	**18,049**	**14,915**	**14,931**	**9,658**	**10,744**	**9,036**	**14,271**

[1] Maximum, average and minimum risks are calculated on the basis of the VaR totals for the significant subsidiaries (in 2009 incl. NORD/LB CFB); end-of-year risks are consolidated figures

The average NORD/LB utilisation of market price risk limits for the year was 27 per cent (23 per cent), with maximum utilisation amounting to 39 per cent and minimum utilisation at 17 per cent. In Bremer Landesbank the average was 15 per cent (42 per cent), in NORD/LB Luxembourg 16 per cent (9 per cent), in Deutsche Hypo 32 per cent (28 per cent) and in NORD/LB CFB 60 per cent. As at the balance sheet date on 31 December 2009, Value-at-Risk for the NORD/LB Group was calculated at 37 per cent below that of the previous year (confidence level of 95 per cent and a holding period of one day) and amounted to € 9 million. The historical simulation method was used throughout the Group. During the course of 2009, the daily total Value-at-Risk for the significant subsidiaries (confidence level of 95 per cent and holding period of one day) fluctuated between € 10 million and € 19 million, with an average VaR of € 15 million. The Value-at-Risk calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 43 million in the NORD/LB Group on 31 December 2009. The figures also include the interest rate and share price risk in the investment book.

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

In the period under review the Financial Markets division of NORD/LB was strategically realigned. The focus of the division now lies more on customer business and supporting control measures for the bank as a whole. Credit investment positions are therefore further reduced by slimming down. The Value-at-Risk for the credit spread risks in the investment book not included in the overview fell considerably in the period under review and was € 43 million in the Group as at 31 December 2009 (confidence level 95 per cent, holding period one day).

The effects of a standardised interest-rate shock in the investment book are also analysed in accordance with SolvV requirements. The result as at 31 December 2009, at three per cent, is far below the regulatory threshold which allows a maximum share of 20 per cent of authorised equity capital.

Market Price Risk – Outlook

The NORD/LB Group will continue to observe all the relevant asset categories closely in 2010 as at least in sub-markets short-term, volatile market fluctuations can be expected. Based on the gradually developed risk models, risk control methods and focused trading strategy, the NORD/LB Group believes though that it is also well prepared for turbulent market phases.

In view of the extension of regulatory approval of the market risk model, the aim in the NORD/LB Group in the medium term is for full approval of the 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 not envisaged though until 2011.

Liquidity Risk

Liquidity risks are risks which may result from malfunctions in the liquidity of individual market segments, unexpected events in lending or investment business or deterioration in the bank's own refinancing conditions. Liquidity risks are defined as classical liquidity risk, refinancing risk and market liquidity risk.

Classical liquidity risk is the risk that the NORD/LB Group is not able to meet its payment obligations due to externally induced market disruptions or unexpected events in its lending or investment business. The focus of the NORD/LB Group's consideration is on the respective coming twelve months.

Refinancing risk constitutes potential declines in earnings resulting for the NORD/LB Group from the worsening of the bank's own refinancing conditions on the money market or capital market. The most significant cause in this case is a change in the estimation 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 by the Group 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 investment books.

Liquidity Risk – Control

Strategy

Securing perpetual liquidity for the NORD/LB Group is strategically essential. While classical 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 refinancing risk. Risks are constrained with suitable limits in both cases. The limit for classical liquidity risk serves to secure the ability to make payment even in a conservative stress scenario, while the limit for the refinancing strategy is derived from the risk strategy and the risk-bearing capacity of the NORD/LB Group and allows term transformation to contribute to earnings.

In order to limit market liquidity risk the NORD/LB Group primarily operates in liquid markets. This applies in particular to all transactions in the trading book. The balances in the trading book primarily consist of securities from prime issuers.

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

Risk concentrations 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 mortgage bond business, which provides the NORD/LB Group with additional access to the funding market.

Structure and Organisation

The global trading divisions Markets, Treasury, Portfolio Investments and Portfolio Management & Solutions and the Risk Control Division are included in the process of liquidity management at NORD/LB.

The trading divisions and Treasury assume the management role for items bearing liquidity risks and produce the profits and losses resulting from changes in the liquidity situation (in general or specific to NORD/LB).

The Treasury also presents the liquidity progress review to the planning committee. It also reports to this committee on the refinancing risk and makes recommendations for activities in terms of the future approach towards strategic planning if necessary.

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 classical liquidity risk and monitors 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 – Management

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. Since the start of the year under review liquidity progress is also considered by currency.

Classical liquidity risk is limited by a dynamic stress test scenario. The scenario describes the most likely crisis situation in each case, hence also describing the spread of the financial market crisis in the current market environment. Analysis is based on liquidity cash flows and covers the coming twelve months on a daily basis. Assumptions are made in accordance with the market situation in terms of scheduled new business and refinancing options.

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 six months on consideration of profitability aspects.

The dynamic stress scenario is supplemented by other statistical 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.

Market liquidity risks are implicitly accounted for by means of classifying securities in the liquidity progress review in accordance with their market liquidity. The NORD/LB Group pursues a best-practice approach: securities are allocated to one of eight categories (e.g. trading book, cover fund, central bank eligibility) on the basis of a detailed liquidity category concept. The presentation of the liquidity progress review 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 progress review 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 one overview. The monthly reporting in the year under review was also supplemented by the presentation of the liquidity progress reviews in the most important foreign currencies.

Liquidity Risk – Measurement

NORD/LB calculates the utilisation of volume structure limits for the various maturity bands on the basis of a liquidity progress review of the entire item, which essentially reflects the standard case. Liquidity risk is quantified in a risk-bearing capacity concept for the entire bank resulting from a present-value consideration of the refinancing risk.

Calculation of dynamic and static stress scenarios for modelling classical liquidity risk is based on current liquidity progress reviews. 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 bank, enabling the bank to plan for the future and to be well-prepared for cases of emergency.

The analysis of stress scenarios takes into consideration the overriding 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 investment book. 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

Coefficients can be calculated daily and submitted to the Treasury Division for the purpose of regulating liquidity risk. The report in accordance with German Liquidity Regulations for the entire bank and for each control unit is submitted to the Bundesbank, the control divisions and to the Managing Board once a month. The liquidity progress review is presented to the planning committee and discussed on a monthly basis.

The responsible divisional heads are informed several times a week, and depending on the amount of the limit used on a daily basis if necessary, of the NORD/LB Group's classical liquidity risk. In addition to this the NORD/LB Group's biggest investors in new business are monitored regularly.

The Managing Board is informed about the liquidity risk situation on a monthly basis in the report on the risk and earnings situation in the trading divisions and in a quarterly report submitted by the Risk Management Division on the risk-bearing capacity of the bank. The supervisory body receives the reports stated on a quarterly basis.

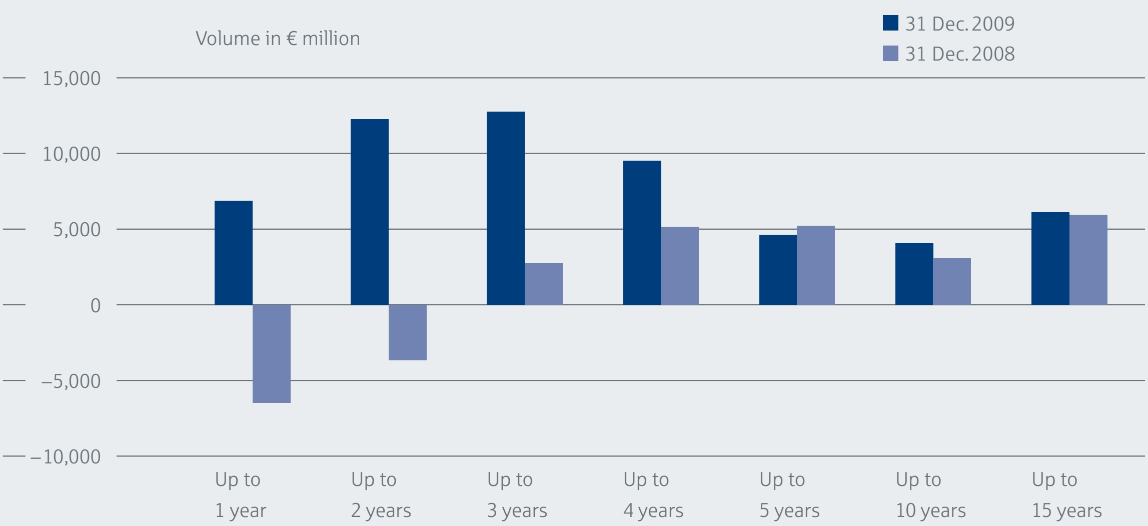
The monthly reporting in the year under review was also supplemented by the presentation of the liquidity progress reviews in the most important foreign currencies. These progress reviews are presented to the planning committee which meets on a monthly basis for consultation.

Liquidity Risk – Development in 2009

The tense situation in the financial markets at the start of the year under review initially resulted in liquidity remaining restricted in many market segments. The situation has though eased considerably during the course of 2009.

The NORD/LB Group had sufficient liquidity at all times and was able to implement various risk-reduction measures, e.g. the issue of a medium-term note programme guaranteed by the states of Lower Saxony and Saxony-Anhalt (G-MTN). The liquidity progress review shows that the liquidity situation of the NORD/LB Group has improved considerably in 2009 in particular in the maturity periods to four years.

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 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, 86 per cent of which are suitable for repo transactions with the European Central Bank or the US Federal Reserve.

The comfortable refinancing situation of the NORD/LB Group allowed the G-MTN programme to be phased out early in December 2009. The unused refinancing limit of € 6 billion is no longer needed in the foreseeable future.

Overall the measurement and control processes were extended in 2009. These include the in-depth analysis of sub-liquidity risks in individual currencies, the implementation of risk-reduction measures and the significant expansion of model validation processes.

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 ratio in accordance with German Liquidity Regulations (LiqV) was always well over the minimum of 1.00 required by regulatory provisions during the year.

Liquidity ratio in accordance with the LiqV [1)]

	31 Dec. 2009	31 Dec. 2008
NORD/LB	1.40	1.16
Bremer Landesbank	1.81	1.40
Deutsche Hypo	1.32	1.76

1) NORD/LB Luxembourg is not required to determine a comparable ratio.

The analysis of contractual due dates for financial liabilities can be found in Note 62.

Liquidity Risk – Outlook

For 2010, due to the stocking of liquidity undertaken in the year under review, no significant increase in liquidity risk is expected. The Group-wide development of liquidity risk control will continue.

An important part of this is the implementation of the much greater requirements for control announced by the international regulatory authorities in reaction to the financial market crisis and the external reporting with regard to liquidity risks. Here in particular the new regulations of the British Financial Services Authority (FSA) which have to be implemented in 2010 and the current Liquidity Buffers and Survival Periods consultation paper of the Committee of European Banking Supervisors (CEBS) are of great importance to NORD/LB.

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. Besides covering legal risks, this definition implicitly covers reputation risks as consequential or secondary risks. Strategic risks and business risks have not been included.

Operational Risk – Control Strategy

The main aim is to avoid operational risks as far as this is economically viable. The NORD/LB Group understands this as meaning that the bank is to protect itself against operational risks provided that the cost of protecting it against such risks does not exceed the cost of risks that may occur.

The prevention of operational risk should be supported in particular by an appropriate operational and organisational structure, regulations set down in writing, the internal control system (ICS), an appropriate personnel level in terms of quality and quantity, security and contingency plans and appropriate insurance cover.

With continual analysis of loss events, risk indicators and scenarios, causes of risk should be identified and concentrations of risk prevented. The ICS is reviewed regularly in relation to its appropriateness and effectiveness with regard to risk (ICS control group). 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 Auditing Division as well as all the other divisions are involved in the process of controlling 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. The internal Auditing Division is in charge of independently examining whether methods and procedures are properly implemented and carried out.

All of the previously independent tasks of security and contingency management have been combined in the newly established Group Security division. The aim is to establish a security strategy for NORD/LB and implement uniform standards in order to efficiently and sustainably protect the bank from harm and at the same time meet legal and supervisory requirements.

The operational risks of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo, NORD/LB CFB and the NORD/LB Asset Management Group are managed decentrally. They have their own risk control units which are responsible for monitoring the risks. The methods and guidelines which apply throughout the Group are defined by the Risk Control Division of NORD/LB.

Operational Risk – Management

Safety concepts and contingency concepts have been put in place for the purpose of protecting persons and tangible assets; among other things they regulate the utilisation of buildings, the procurement of replacement operating and office equipment and supply of energy. Maintaining the health of employees has top priority. For this purpose extensive preventive measures were taken in the year under review to prepare for pandemics.

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.

Criminal actions are countered in close cooperation with the criminal prosecution authorities. NORD/LB has a central office for permanently improving the prevention of internal and external acts of fraud. The responsibilities of this office include making available adequate security measures relating to the prevention of acts of fraud in accordance with § 25 a Paragraph 1 of the German Banking Act and within the framework of a proper business organisation. For this purpose a fraud prevention strategy was implemented, and this has been improved in the year under review by among other things the implementation of a whistle-blowing system and regular training for all employees.

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 controlling operational risks.

The ICS framework introduced for this purpose is based on the COSO framework 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, which enables a detailed analysis, was revised.

The NORD/LB Group's insurance cover is appropriate and is regularly reviewed. 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. A process for assessing service providers in terms of their significance for risk aspects was installed 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 the company 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 verification, completeness and assessment. 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 closing entries of all of the companies included in the consolidation are provided online and consolidated via the SAP module BCS for business consolidation. 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 internal control and risk management system is also the subject of an annual audit by the auditor. The results are reported to the audit committee.

The efficiency of the accounting process is ensured by continual improvements. In 2010 there will be particular focus on continuing to replace manual steps by automatic routines.

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 databank provides the basis for analyses in support of risk management and is an important element of a statistical/mathematical risk model. The significant companies of the NORD/LB Group and the NORD/LB Asset Management Group 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. In addition information contained in the ÖffSchOR database 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 self-assessment method which is carried out annually in NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo, NORD/LB CFB and since 2009 the NORD/LB Asset Management Group, the recording of data concerning past losses is supplemented with future components. Expert appraisals provide a detailed insight into the risk situation of the individual bank divisions so that relevant measures can be derived if necessary. Self-assessment is carried out by means of a list of generic questions concerning both qualitative and quantitative issues and individual scenarios.

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.

NORD/LB has an internal model to measure operational risk. As well as internal data and scenario analyses, external data from the DakOR consortium also goes into this model. Correlation effects are also considered. For this purpose a loss distribution approach is used in which elements of the extreme value theory are considered. Dependencies are modelled with the help of a Gaussian copula. The Value-at-Risk calculated by the model is used as a control variable for operational risks in the RBC model.

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. In addition the further developments based closely on the requirements of SolvV already meet essential conditions for the 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 and risk indicators 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. The self-assessment is carried out once a year and analyses are reported to the Managing Board and the divisions. The quarterly RBC reporting includes information from the loss database, the self-assessment and the internal model for operational risks.

Operational Risk – Development in 2009

In the year under review the project to improve the internal control system started in the previous year was completed. Within this framework the further conceptual development of the ICS as an essential component for bank control took place. The implementation of this concept was started in the year under review and will take place gradually, accompanied by an intensive communication concept at all levels.

As a result of the project to improve the internal control system, the methods for controlling operational risks have become increasingly process-oriented. For this purpose extensive improvements to the methods and procedures already implemented have started.

Significant changes have resulted for the self-assessment method. Here, in view of the planned use of the advanced measurement approached and the amendments to MaRisk, a complete revision of the methods was initiated and piloted. This enables a process-related view of the bank's operational risks.

The new risk assessment consists of 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 company processes concerned. This further improves the analysis of Group-wide scenarios, risk concentrations and the carrying out of stress tests. The results should also flow into the internal model, further improving measurement accuracy.

The allocation of losses to the risk categories in relation to the total loss can be seen in the allocation of total net losses (not including losses linked to credit). There were no significant legal risks as of the reporting date.

Loss event databank percentage net loss in the total loss amount[1)]

Category	1 Jan. – 31 Dec. 2009	1 Jan. – 31 Dec. 2008
External influences	65 %	12 %
Internal procedures	31 %	19 %
Employees	3 %	67 %
Technology	0 %	1 %

1) Total differences are rounding differences

Operational Risk – Outlook
The NORD/LB Group is endeavouring to apply an advanced measurement approach for operational risk. A considerable amount of preparatory work has already been completed here.

Extensive scenario analyses are planned for 2010 together with the refining of controls which can be derived from the model. In addition further developments in the area of stress tests and risk concentrations are planned.

The implementation of all of the methods should be largely completed in 2010, creating the conditions for the application of an AMA. In addition to this the controlling of operational risks should continue to be interlinked with the contingency planning and the ICS.

The ICS concept will continue to be developed in 2010. It is planned here that the ICS framework will be applied to other parts of the NORD/LB Group.

Other Risks

The following risks are relevant to the NORD/LB Group over and above the credit, investment, market price, liquidity and operational risks already described:

Öffentliche Versicherungen Braunschweig
Risks in the Öffentliche Versicherungen Braunschweig Group (ÖVB) are monitored using a mature early warning system, which is an important part of its risk management system. The early warning system is regularly examined by the internal audit department and by auditors.

The ÖVB's risk management 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 ÖVB, 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), published in January 2009. With the implementation of MaRisk VA requirements, the German Federal Financial Supervisory Authority is pioneering the development of solvency guidelines (Solvency II) in Europe.

ÖVB has already implemented core elements of MaRisk VA in 2009 within the scope of an inter-divisional project. In particular the way in which risk bearing capacity is calculated has been redesigned and the methodological and organisational principles for a consistent limit system have been created. Further steps have been planned for 2010, e.g. the further development of risk reporting, the preparation of a risk manual and the validation of the existing contingency plans.

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 significant risks which endanger the Group.

NORD/LB Asset Management Group

In the year under review the NORD/LB Asset Management Group was installed as the NORD/LB Group's central platform for asset management services. The NORD/LB Asset Management Group includes the non-operational NORD/LB Asset Management Holding GmbH (formerly NORDCON Asset Management Holding GmbH), NORD/LB Capital Management GmbH (formerly NORDCON Vermögensmanagement GmbH), which is responsible for portfolio management, and NORD/LB Kapitalanlagegesellschaft AG (formerly NORDCON Investment Management AG).

The basis of risk management in the operational companies are the business and risk strategies specified by the respective management in accordance with MaRisk provisions. In the year under review NORD/LB Kapitalanlagegesellschaft AG and NORD/LB Capital Management GmbH were integrated with regard to operational risk into the NORD/LB Group's system and have carried out a self-assessment in accordance with the relevant Group specifications.

The risk assessment is also updated on a quarterly basis with the responsible employees reviewing the operational risks identified, their assessment and probability of occurrence. The results are then discussed in a meeting of the Risk Committee, in which the management and all executives participate.

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 no significant risks which endanger the Group here either.

Summary and Outlook

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.

Quotients 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 2009. The Group also took due account of the regulations relating to large credits limits in accordance with §§ 13 a and 13 b 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. While the situation in the area of market price and liquidity risks largely steadied during the course of the year, the higher probabilities of occurrence and the increase in the number of non-performing loans had a negative impact throughout the year.

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 will continue to monitor developments closely and if necessary implement further measures to improve the risk situation.

Forecast Report

General Economic Development

The economic recovery, which started at roughly the same time in the most important industrial nations in the middle of the past year, will continue this year. NORD/LB is expecting strong growth of 3.0 per cent for the US economy. NORD/LB is also expecting that the recovery will continue in Germany and Europe, although this will for the time being still depend on government support measures and an expansive monetary policy. The German economy will recover more strongly at 1.8 per cent than the eurozone (around 1 per cent growth). However, growth is at a much lower level than before the financial and economic crisis.

There are also risks relating to the development of the economy. For example a worsening of the financial market crisis could also have a negative effect on the process of economic recovery or result in an abrupt abandonment of the expansive monetary or fiscal policy. It also remains to be seen how the market participants will deal with the consequences of the economic situation. In addition warnings can increasingly be heard of a bubble forming in emerging countries.

The German economy will due to its export orientation be able to benefit from an anticipated strong recovery in global trade. Investment will also recover slightly in 2010, although low capacity utilisation will be an obstacle to dynamic development. Construction investment should benefit from the economic stimulus programmes after a poor start to the year due to the weather. The outlook for private consumption does not look so good. On the one hand development relating to standard salaries and wages will be weak in 2010. On the other hand we are expecting the situation in the job market to deteriorate, although the increase in unemployment will not be as great as was feared in the middle of last year. With the inflation rate returning to positive territory, the situation has normalised. There is no sign of any significant inflationary pressure in the foreseeable future. We are therefore expecting that the European Central Bank will act cautiously and that interest rates will not be raised until the second half of the year at the earliest.

NORD/LB Planning for 2010

The customer-oriented business model of NORD/LB is continuing to prove to be sustainable in the difficult market environment. With the planning for 2010 NORD/LB is preparing for the challenges of the markets taking into consideration the difficult economic conditions. As in the previous year, the increased loan loss provision should act as a buffer for the difficult road ahead. In the medium term, planning has been based on a normalised risk structure.

The budget estimate for 2010 for the NORD/LB Group's earnings before taxes is a positive three-digit figure. On the earnings side, the short-term planning to 2010 for the operational business shows that initial development will be reserved; only in the medium term there will be a clear improvement in the earnings base associated with a diversification of the earnings structure. The focus of new business is on resource-friendly potential business with manageable risk in order to absorb the procyclical effects of the Basel II regulations.

Moderate investment in personnel and material resources are essential to realise growth prospects, comply with regulatory standards and specifications and to complete major projects.

In expectation of an intensified lending risk situation as a result of economic developments, the loan loss provisions for 2010 have been adjusted for the expected development of credit ratings in the loan portfolio, but are above the level of the loan loss provisions for 2009, which were affected by portfolio bad debt allowances in anticipation of further rating migration effects and due to the Skandifinanz case. The planned profit / loss from financial assets for 2010 primarily includes anticipated profits from the investment portfolio.

Business Segment Planning for 2010

Savings Bank Network

In NORD/LB's savings bank network the main focus of business for 2010 will, in addition to the successful institutional savings bank business and public sector customers, be on intensifying the network region expanded in the previous year by assuming a support function in associated business for the savings banks in Schleswig-Holstein and Brandenburg. Sales activities of the member savings banks are to be intensified in order to maintain earnings (including municipal financing and interest derivatives).

Bremer Landesbank is expecting earnings in its savings bank network to be stable. As well as securing the start of its regional savings bank network, the focus will be on extending its lending business in other regions.

After the unexpectedly good income from restricted funds in the previous year, it is anticipated the LBS's contribution to income for the current year will be at the level of previous years.

As a result of all of these measures NORD/LB is expecting contributions to earnings to be higher, in particular in commission business, to compensate for the slight decline in interest-bearing business.

Loan loss provisions are planned to be at the previous year's level due to the economic situation remaining tense in 2010.

Investment relating to the expansion of the business segment and higher costs relating to compliance with legal standards have resulted in an increase in administrative expenses in 2010 for the savings bank network compared to 2009. The NORD/LB Group is therefore expecting, with income falling compared to the previous good year and in view of the tense credit situation, a smaller contribution to its operating result in this business segment.

As a result of the planned development in administrative expenses in relation to income in the savings bank network the CIR will rise in 2010, while the RoRac will be below that of the previous year. Pressure from domestic and foreign competitors may have a negative impact on the achievement of targets set as could unforeseeable consequences of the economic crisis.

Private and Commercial Customers

The private and commercial customer business segment of the NORD/LB Group mainly reports on results for the strategic business units Private and Individual customers, Private Banking and Business, Commercial and Corporate Customers of Braunschweigische Landessparkasse (BLSK) and in Hanover, Bremer Landesbank, Norddeutsche Landesbank Luxembourg, Öffentliche Versicherung Braunschweig and Bank DnB NORD.

NORD/LB positions itself in this business segment as a quality supplier in the market. NORD/LB aims to consolidate its strong position as market leader in the area of private customers with advice on selected products and services with attractive terms. At the same time NORD/LB is aiming to establish itself as the top address in private banking and as a quality leader for commercial and corporate customers.

With systematic use of the S finance concept in customer advice and the extended collaboration with Öffentliche Versicherung Braunschweig, the customer and market potential in private banking and asset management should be better exploited with focused customer groups (potential customers such as new generation customers and freelancers). In the middle-market corporate customers business the Group's product areas are closely integrated, so that NORD/LB can also offer commercial and corporate customers the products of a major international bank in the BLSK. It nevertheless remains to be seen how competitive pressure from other market participants, predominantly from direct banks and large banks pushing business with private customers and middle-market companies, will affect the margins and business volume of BLSK.

The "Private Banking Strategy" group project of the Private Banking divisions of NORD/LB, Bremer Landesbank and NORD/LB Luxemburg was launched last year. With this project mutual use of the various core competences of the three institutes throughout the Group will allow the capabilities of private banking to better exploit customer potential.

Bremer Landesbank's focus is on expanding its market share in particular in private banking, and further improving the quality of its consultancy processes. Its medium-term business performance will be significantly influenced by the changing competitive environment and developments in the capital markets.

The Bremer Landesbank is also expecting positive effects in the area of private customers from its favourable positioning in the private banking sector with wealthy private individuals, freelancers and institutional customers such as small foundations and the associated positive external impact. This business segment intends to further establish itself as a contact for the private side of the entrepreneur and therefore advance the bank's position as an entrepreneur's bank.

In Luxemburg Private Banking is planning to expand its existing Lombard business with the real estate finance business and by further expanding its business as an insurance broker (life insurance), which it started in 2009, and by establishing its own funds (horizon funds and pro-funds).

After the high financial burdens in terms of risk provision in the previous year, Bank DnB NORD is expecting that contributions to consolidated income will improve in 2010. The focus is on consolidating operational activities in the bank's business region with the aim of stabilising its earnings situation and reducing the need for loan loss provisions. Economic development in Eastern Europe and particularly in the Baltic states is still considered to be critical.

The NORD/LB Group expects to see an overall rise in earnings in its private and commercial customers segment in 2010 relating to its lending business, trading profit/loss, profit/loss from financial assets in ÖVB's restricted fund and in particular a clear improvement in the earnings of DnB NORD which will more than compensate for the anticipated drop in earnings in investment and commission business.

In view of the continuing difficult economic situation in parts of the banking industry, the NORD/LB Group's private and commercial customers segment is expecting higher risk provisions in 2010 after the more relaxed risk situation in the previous year.

By optimising the provision of services processes, the increase in administrative expenses due to the necessary investment in the quality of personnel and material resources should be strictly limited in 2010. It is not possible at the present time to predict the effects of the increased clarification, consultancy and documentation costs driven by consumer protection; there will though be an additional cost which should not be underestimated.

In the private and commercial customers segment the NORD/LB Group is expecting contribution to income to be higher in 2010 than in the previous year in particular due to Bank DnB NORD's expected reduced negative impact on earnings, only a slight rise in administrative expenses and a disproportionately lower rise in risk costs than in the previous year.

Based on the expected earnings described in this segment, in particular due to the smaller loss contribution expected from Bank DnB NORD, the RoRaC will rise in 2010. The improved cost/income situation will result in a lower CIR.

Corporate Customers

Activities relating to the "corporate customer campaign" project will continue to be implemented in the corporate customer business segment of NORD/LB in order to sustainably improve earnings for the segment. The strategic aim is to become the leading middle-market bank in northern Germany. In addition to activities conducted with our corporate customers (intensified relationships with existing customers, gaining new customers and reinforcing cross selling), the Corporate Finance Division should be more integrated. This will involve the expansion of working capital management, leasing activities with LHI-Leasing GmbH, Munich, inclusion of funds in the structuring and expansion of the mandate as mandated lead arranger. In addition, both the Agricultural Division (the leading supplier of agricultural banking services in Germany) and the Housing Division will contribute significantly towards this planned result, the Agricultural Division by acquiring new customers and the Housing Division by expanding business throughout Germany.

Sales In Bremer Landesbank's corporate customer business are to be intensified by the acquisition of potential customers, extending customer relationships and by consolidating its position with top customers.

Earnings in the NORD/LB Group's corporate customers business for 2010 should initially stabilise at the level of previous years and grow in the medium term. Growth is planned in particular in commission business and in profit/loss from financial instruments at fair value through profit or loss.

In view of the worsening economic outlook, the NORD/LB Group is again expecting risk provisions in the corporate customer business segment to be high, although they will be below the previous year's level.

Rising administrative expenses reflect investments made in personnel and material resources. The slight increase in staff expenses relates to the filling of vacancies; material costs increased compared to the previous year, reasons for this being increased marketing costs for supporting the activities in the corporate customers business and higher expenses to comply with legal standards.

Against a background of stable earnings, rising administrative expenses and lower risk provisions, the contribution to income from the corporate customers business will be greater in 2010 than in the previous year.

As a result the RoRaC will rise again, while the estimated CIR in this business segment will not quite reach the previous year's level due to the rise in administrative expenses. Risks lie in an unexpectedly high fall in credit ratings in the borrower portfolio caused by the economic crisis with a corresponding impact on expected risk provisions.

Structured Finance

Since last year the real estate business has gradually been moved from the Structured Finance business segment at NORD/LB and transferred via extensions and asset transfers to the subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft). This process will take place for the foreign locations in the next few years. By concentrating real estate activities in Deutsche Hypothekenbank (Actien-Gesellschaft), growth prospects and potential for earnings should be realised and due to the stronger concentration and harmonisation of products and processes synergy effects should be achieved.

In the Structured Finance segment NORD/LB is planning to sustainably extend core customer relationships with the targeted use of available resources. In awareness of risks and cautious with capital, it will maintain its market presence in Germany and abroad at the same high level as before in selected growth segments such as transport (especially ship and aircraft financing), energy (in particular wind and solar energies), infrastructure (in particular social infrastructure in areas such as accommodation, education, blue light and waste/water) and industries (mainly rail transport) in order to make significant contributions to earnings in the long term. NORD/LB expects that it will be able to increase earnings from lending and commission business and trading profit both in Germany and in the international markets in which it is represented with branches.

In order to implement its strategic concepts, the extension and differentiation of the product range (including the financing of engines, cargo aircraft financing, project financing/public private partnerships, market presence as mandated lead arranger and employing financial market products) are to be continued next year too. The focus will lie on the structuring and arranging of individual financing solutions for mostly project-related transactions. The bank plans to issue ship bonds and is also reviewing/using alternative refinancing instruments (such as funding from the KfW and the European Union) through third parties in order to refinance loans.

The Structured Finance segment at Bremer Landesbank comprises ship financing and the refinancing of companies leasing movable assets, community interest properties and renewable energies with the subsegments of wind power, biogas and photovoltaics.

In the area of ship financing deliveries from shipping companies to the customers of Bremer Landesbank are lined up until the middle of 2011, so the credit portfolio will therefore grow. Bremer Landesbank remains 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.

In the area of renewable energies the Bremer Landesbank followed on from the success of the previous financial year. Wind power, biogas and photovoltaics may continue to benefit as core segments from the positive conditions. Customers are also being selectively supported in their European activities. Bremer Landesbank assumes the role of the NORD/LB Group's competence centre for the refinancing of companies leasing movable assets and remains with a wide customer base a reliable partner for bank-related leasing companies. In the area of community interest properties Bremer Landesbank focuses on financing nursing homes. Demographic trends and the growing need for in-patient nursing highlight the strategic importance of this area.

Bremer Landesbank believes it is well positioned in the Structured Finance segment with its focus on the subsegments described above which are dominated by middle-market companies.

Skandifinanz is expecting its contribution to income to be at the level of previous years after the extraordinary difficulties of 2009.

Overall the Structured Finance divisions of the NORD/LB Group are expecting significant increases in earnings from its lending business and services compared to the previous year. In view of the worsening economic outlook, the NORD/LB Group is also expecting risk provisions to be high in this business segment, although they will be below the level of the previous year which was affected considerably by the exceptional charge for Skandfinanz.

Due to investments in personnel resources and in materials relating to the planned market orientation and to comply with regulatory requirements, a corresponding increase in the administrative expenses in the special financing divisions is expected in 2010.

This planned development will result in a significant increase in the Structured Finance segment's contribution to income. As a result it is anticipated that the RoRaC will rise in this business segment in 2010 in particular due to the lower risk provisions and increased earnings. The anticipated CIR will be slightly below the previous year's level.

Risks relating to projected increases in earnings lie mainly in the financial market crisis continuing with the possible consequence of anticipated risk provisions being insufficient.

Financial Markets

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 the bank, NORD/LB's Corporate Sales and Markets divisions aim to pool know-how and increase in earnings with corporate and structured finance customers. The good relationship of this division with institutional customers should stabilise earnings long term. The Treasury Division focuses on liquidity management and the gradual development of its consulting and pricing expertise for the credit areas of the bank. The main aim of the Portfolio Management & Solutions Division is to provide support with the structuring and placing of assets in order to release equity. The portfolios of NORD/LB which are no longer considered to be strategic will be controlled in the Portfolio Investment division.

In Bremer Landesbank's Financial Markets segment, after the previous year's high fair value earnings a much more moderate contribution to income is expected this year as no fair value changes have been considered in the planning.

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 which was characterised by high spreads.

The Financial Markets division of Deutsche Hypo is expecting earnings to rise again in 2010 after the negative impact of the crisis on the previous year. This growth will not though be able to compensate for the expected fall in earnings of the other Group units; the NORD/LB Group is therefore expecting earnings to fall overall in the Financial Markets segment in 2010.

After the risk provisions for the ABS portfolio the previous year, the Financial Markets division has planned additional risk provisions for 2010, although these are below the previous year's level. The expected rise in administrative expenses over those of the previous year relates to investment in IT and additional jobs which will become fully cost-effective in 2010.

Due to the previous year's very good results in NORD/LB, Bremer Landesbank and NORD/LB Luxembourg, a slight fall in earnings is expected in the Financial Markets segment in 2010. Together with lower risk costs and higher administrative expenses, the NORD/LB Group is expecting a lower contribution to income in the Financial Markets segment than in the previous year.

The planned development of the Financial Markets segment will result in particular due to the anticipated fall in earnings in 2010 in a lower RoRaC and a higher CIR.

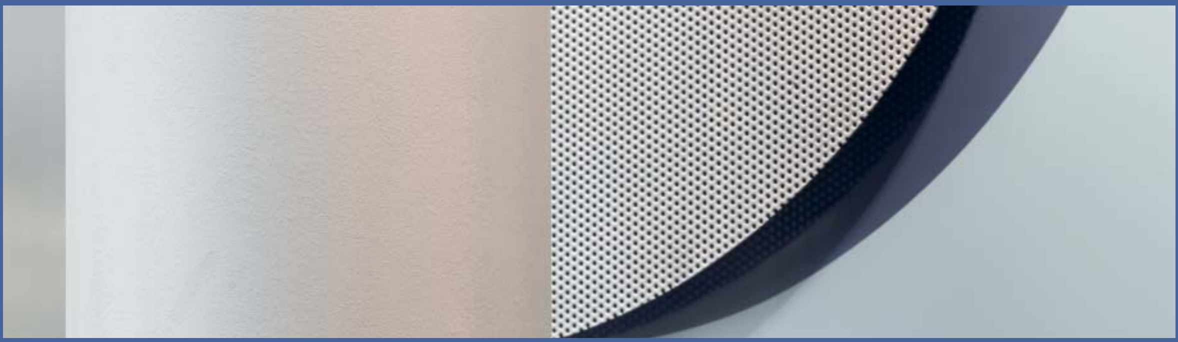
Risks in the planning of financial market divisions lie in unexpected developments in credit spreads and restrained economic development with negative consequences such as the valuation of portfolios being adjusted and a fall in new lending business with the associated opportunities to generate income from cross selling.

Medium-Term Planning for the Period up to 2014

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, the NORD/LB Group assumes that the continued tense economic situation will be overcome and that the economy will return to a sustainable path of growth. The planned increased earnings in the medium term will focus on growth in the most important earnings components and at the same time improving the earnings structure and a gradual return to normal risk provisions. Despite increasing staff expenses (increases in factor prices, strategically motivated investments and compliance with banking regulatory standards and specifications), administrative expenses will only rise slightly in the medium term. Given the overall development of earnings and expenditure, with risk provisions at the level of the required imputed covering, the bank expects earnings before taxes to increase significantly every year in the period up to 2014, accompanied by a corresponding improvement in key figures.

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.



Consolidated Financial Statements

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Income Statement

	Notes	1 Jan. – 31 Dec. 2009 (in € million)	1 Jan. – 31 Dec. 2008 *) (in € million)	Change (in %)
Interest income		16,022	24,959	– 36
Interest expense		14,656	23,497	– 38
Net interest income	**21**	**1,366**	**1,462**	**– 7**
Loan loss provisions	22	– 1,042	– 266	> 100
Commission income		277	284	– 2
Commission expense		100	104	– 4
Net commission income	**23**	**177**	**180**	**– 2**
Trading profit/loss		635	– 443	> 100
Profit/loss from the use of the fair value option		– 207	168	> 100
Profit/loss from financial instruments at fair value through profit or loss	**24**	**428**	**– 275**	**> 100**
Profit/loss from hedge accounting	25	161	– 33	> 100
Profit/loss from financial assets	26	– 140	– 250	44
Profit/loss from investments accounted or using the equity method	27	– 200	6	> 100
Administrative expenses	28	986	898	10
Other operating profit/loss	2, 29	144	96	50
Earnings before taxes		**– 92**	**22**	**> 100**
Income taxes	30	49	– 129	> 100
Consolidated profit for the period		**– 141**	**151**	**> 100**
of which: attributable to the shareholders of NORD/LB		– 152	150	
of which: attributable to insignificant participating interests		11	1	

*) 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 2009 (2008) comprises the income and expense from the income statement and the income and expense recognised directly in equity:

	1 Jan.– 31 Dec. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Consolidated profit	**– 141**	**151**	> **100**
Increase/decrease from available for sale (AfS) financial instruments			
Unrealised profit/losses	416	– 733	> 100
Transfer due to realisation profit/loss	53	– 87	> 100
	469	**– 820**	> **100**
Changes in value investments accounted for using the equity method recognised directly in equity	20	– 1	> 100
Translation differences of foreign business units			
Unrealised profit/losses	–	12	> 100
	–	**12**	> **100**
Actuarial gains and losses for pensions for defined benefit obligations	– 115	143	> 100
Deferred taxes	– 103	78	> 100
Other profit/loss	**271**	**– 588**	> **100**
Comprehensive income for the year under review	**130**	**– 437**	> **100**
of which: attributable to the shareholders of NORD/LB	96	– 413	
of which: attributable to insignificant participating interests	34	– 24	

We refer to page 214 for information on deferred taxes concerning parts of the statement of comprehensive income.

Consolidated Balance Sheet

Assets	Notes	31 Dec. 2009 (in € million)	31 Dec. 2008 *) (in € million)	Change (in %)
Cash reserve	31	1,844	1,110	66
Loans and advances to banks	32	42,356	47,238	– 10
Loans and advances to customers	33	112,083	112,172	–
Loan loss provisions	34	– 1,789	– 1,204	49
Financial assets at fair value through profit or loss	35	14,651	16,995	– 14
Positive fair values from hedge accounting	36	2,874	1,817	58
Financial assets	37	63,078	62,299	1
Investments accounted for using the equity method	38	723	845	– 14
Property and equipment	39	395	377	5
Investment property	40	93	96	– 3
Intangible assets	41	135	123	10
Assets held for sale	42	1	5	– 80
Current income tax assets	43	137	169	– 19
Deferred income taxes	43	310	421	– 26
Other assets	44	1,797	1,866	– 4
Total assets		**238,688**	**244,329**	**– 2**

Liabilities and equity	Notes	31 Dec. 2009 (in € million)	31 Dec. 2008*) (in € million)	Change (in %)
Liabilities to banks	45	62,152	69,862	– 11
Liabilities to customers	46	61,306	61,998	– 1
Securitised liabilities	47	79,151	77,335	2
Adjustment item for financial instruments hedged in the fair value hedge portfolio	48	484	482	–
Financial liabilities at fair value through profit or loss	49	16,166	16,700	– 3
Negative fair values from hedge accounting	50	2,102	2,340	– 10
Provisions	51	3,238	3,058	6
Current income tax liabilities	52	177	194	– 9
Deferred income taxes	52	16	30	– 47
Other liabilities	53	2,114	1,006	> 100
Subordinated capital	54	5,940	5,629	6
Equity				
Issued capital		1,085	1,085	–
Capital reserves		2,597	2,479	5
Retained earnings		2,076	2,390	– 13
Revaluation reserve		29	–276	> 100
Currency translation reserve		–49	– 49	–
Equity capital		**5,738**	**5,629**	**2**
attributable to insignificant participating interest		104	66	58
		5,842	**5,695**	**3**
Total liabilities and equity		**238,688**	**244,329**	**– 2**

*) 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 2008 and 2009 are shown in the following statement of changes in equity:

(in € million)	Issued capital	Capital reserves	Retained earnings	Revaluation reserve	Currency translation reserve	Equity without insignificant participating interest	Equity attr. to insignificant participating interest	Consolidated equity
Equity as at 1 January 2008	**1,085**	**2,479**	**2,370**	**331**	**– 61**	**6,204**	**97**	**6,301**
Adjustments according to IAS 8	–	–	–	62	–	62	2	64
Adjusted equity as at 1 January 2008	**1,085**	**2,479**	**2,370**	**393**	**– 61**	**6,266**	**99**	**6,365**
Distribution	–	–	– 204	–	–	– 204	– 6	– 210
Comprehensive Income for the period	–	–	243	– 668	12	– 413	– 24	– 437
Capital payments	–	–	–	–	–	–	1	1
Changes in the basis of consolidation	–	–	– 7	– 1	–	– 8	– 4	– 12
Consolidation effects and other changes in capital	–	–	– 12	–	–	– 12	–	– 12
Equity as at 31 December 2008	**1,085**	**2,479**	**2,390**	**– 276**	**– 49**	**5,629**	**66**	**5,695**

(in € million)	Issued capital	Capital reserves	Retained earnings	Revaluation reserve	Currency translation reserve	Equity without insignificant participating interest	Equity attr. to insignificant participating interest	Consolidated equity
Equity as at 1 January 2009	**1,085**	**2,479**	**2,390**	**– 276**	**– 49**	**5,629**	**66**	**5,695**
Distribution	–	–	– 117	–	–	– 117	– 5	– 122
Comprehensive Income for the period	–	–	– 209	305	–	96	34	130
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**	**2,076**	**29**	**– 49**	**5,738**	**104**	**5,842**

*) due to structural changes in the statement of changes in equity 2008 some figures may deviate up to + / – one million euros from the correspondent statement in the financial report 2008.

We refer to page 215 for information on the statement of changes in equity.

Cash Flow Statement

	1 Jan.– 31 Dec. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Consolidated profit	**– 141**	**151**	**> 100**
Adjustment for non-cash items			
Depreciation, impairment and write-ups of property and equipment and financial assets	81	931	– 91
Increase / decrease in provisions	40	66	– 39
Gains / losses from the disposal of property and equipment and financial assets	– 14	– 52	73
Increase / decrease in other non-cash items	882	332	> 100
Other adjustments net	– 801	– 1,651	51
Sub-total	**47**	**– 223**	**> 100**
Increase / decrease in assets and liabilities from operating activities after adjustment for non-cash items			
Loans and advances to banks and customers	5,217	– 2,499	> 100
Trading assets	2,011	– 1,482	> 100
Other assets from operating activities	1,855	– 2,051	> 100
Liabilities to customers	– 8,415	1,721	> 100
Securitised liabilities	– 1,477	1,465	> 100
Other liabilities from operating activities	624	2,565	– 76
Interest and dividends received	6,867	12,273	– 44
Interest paid	– 6,001	– 10,402	– 42
Income taxes paid	– 27	– 71	– 62
Cash flow from operating activities	**701**	**1,296**	**– 46**

	1 Jan. – 31 Dec. 2009 (in € million)	1 Jan. – 31 Dec. 2008 (in € million)	Change (in %)
Cash receipts from the disposal of			
financial assets	97	56	73
property and equipment	13	47	– 72
Cash payments for acquisition of			
financial assets	– 22	– 47	– 53
property and equipment	– 100	– 20	> 100
Cash receipts from the disposal of consolidated companies and other business units	299	58	> 100
Cash payments for the acquisition of consolidated companies and other business units	– 98	– 824	– 88
Net increase/decrease in funds from other investing activities	10	4	> 100
Cash flow from investing activities	**199**	**– 726**	**> 100**
Cash receipts from equity contributions	4	6	– 33
Cash payments to shareholders and minority interests	– 2	– 29	– 93
Increase/decrease in funds from other capital	292	– 31	> 100
Interest expense on subordinated capital	– 309	– 389	– 21
Dividends paid	– 122	– 210	– 42
Cash flow from financing activities	**– 137**	**– 653**	**– 79**
Cash and cash equivalents as at 1 January	**1,110**	**1,107**	**–**
Cash flow from operating activities	701	1,296	– 46
Cash flow from investing activities	199	– 726	> 100
Cash flow from financing activities	– 137	– 653	– 79
Total cash flow	**763**	**– 83**	**> 100**
Effects of changes in exchange rates and in the basis of consolidation	– 29	86	> 100
Cash and cash equivalents as at 31 December	**1,844**	**1,110**	**66**

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 2009 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 (cf. note (3) Adopted IFRS). National regulations contained in the German Commercial Code (HGB) under § 315 a 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 2009 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 to the consolidated financial statements. Segment reporting is shown in the notes to the consolidated financial statements (Note (19) Segment reporting by business segment). Risk reporting in accordance with IFRS 7 is provided mainly in a separate report on the opportunities and risks of future development (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 by management required under IFRS accounting 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. If significant estimations were required, the assumptions made are presented. This mainly affects the fair value evaluation of financial assets and liabilities of level 3, loan loss praisions, provisions and deffered taxes. 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 29 April 2010.

(2) Adjustment of figures for the previous year

In the consolidated financial statements as at 31 December 2007 two financial assets classified as AfS (shares in companies) were not reported at fair value. The adjustments to the figures for the previous year are highlighted in the following tables.

1 January 2008 (in € million)	Prior to adjustment	Adjustment	After adjustment
Financial assets*)	50,268	22	50,290
Revaluation reserve*)	331	20	351
Minority interests	97	2	99

31 December 2008 (in € million)	Prior to adjustment	Adjustment	After adjustment
Financial assets*)	62,235	22	62,257
Revaluation reserve*)	– 338	20	– 318
Minority interests	64	2	66

*) Terminal value before change in valuation of investments

The adjustment was also included in note (19) Financial assets. We did not show a three-column chart according to IAS 1 as there were no material changes compared to the corresponding period of the previous year.

As at the balance sheet date 31 December 2009 the current interest, which were reported in the profit/loss from financial instruments at fair value, was reclassified as net interest income. The table below shows the resulting adjustments for the previous year.

31 Dec. 2008 (in € million)	Prior to adjustment	Adjustment	After adjustment
Current income from trading profit/loss	155	– 155	–
Other trading profit/loss	– 3	8	5
Current income from profit/loss from financial instruments at fair value through profit or loss concerning trading portfolio**)	–	11,398	11,398
Interest expense from profit/loss from financial instruments at fair value through profit or loss concerning trading portfolio**)	–	11,251	11,251
Current profit/loss from fair value option	– 185	185	–
Current income from profit/loss from financial instruments at fair value through profit or loss concerning fair value option	–	90	90
Interest expense from profit/loss from financial instruments at fair value through profit or loss concerning fair value option	–	275	275

**) Terminal value before reclassification of interest income from hedge accounting derivatives

In the consolidated financial statements as at 31 December 2009 interest income and expense from hedge accounting derivatives were shown in current interest income and expense from financial instruments at fair value from the trading portfolio. The table below shows the change in classification for the financial year 2008.

31 December 2008 (in € million)	Prior to adjustment	Adjustment	After adjustment
Interest income from hedge accounting derivatives	2,544	– 2,544	–
Current income from profit/loss from financial instruments at fair value through profit or loss concerning trading portfolio***)	11,398	2,544	13,942
Interest expense from hedge accounting derivatives	2,767	– 2,767	–
Interest expense from profit/loss from financial instruments at fair value through profit or loss concerning trading portfolio***)	11,251	2,767	14,018

***) Initial value after current profit/loss transfer from trading profit/loss to net interest income

As of the balance sheet date 31 December 2009 the NORD/LB Group has changed its method for measuring participating interests. The adjustments to the figures for the previous year are highlighted in the following tables.

1 January 2008 (in € million)	Prior to adjustment	Adjustment	After adjustment
Financial assets****)	50,290	42	50,332
Revaluation reserve****)	351	42	393

31 December 2008 (in € million)	Prior to adjustment	Adjustment	After adjustment
Financial assets****)	62,257	42	62,299
Revaluation reserve****)	– 318	42	– 276

****) Initial value after revaluation of financial assets (AfS category)

If the method applied for the first time as at 31 December 2009 had been applied as of the balance sheet date 31 December 2008, the revaluation reserve as of this balance sheet date would have been € 42 million higher than reported.

With the measurement of participating interests, the raw beta represents the historical beta of a company, which is the result of a linear regression of the return of the share against the return of the market portfolio. The adjusted beta represents as an alternative to using the raw beta an estimate of the beta's future development. For 2009 the adjusted beta factor (adjusted beta = raw beta x 0.67 + 0.33) is used for the first time in order to smooth the volatility of the value of the investment over time. The change in method resulted in an overall increase in the revaluation reserve of € 55 million in the Group as of the balance sheet date 31 December 2009.

(3) Adopted IFRSs

NORD/LB only applies IFRSs which have been endorsed by the EU. The NORD/LB consolidated financial statements as at 31 December 2009 are thus based on the IASB framework and the following IFRS:

IFRS 1	First-time adoption of the International Financial Reporting Standards
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 7	Financial instruments: information
IFRS 8	Operating segments
IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 7	Cash flow statements
IAS 8	Accounting policies, changes in accounting, estimates and errors
IAS 10	Events after the balance sheet date
IAS 12	Income taxes
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Earnings
IAS 19	Employee benefits
IAS 20	Accounting for government grants and disclosure of government assistance
IAS 21	The effects of changes in foreign exchange rates
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 31	Interests in joint ventures
IAS 32	Financial instruments: Presentation
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 9	Reassessment of embedded derivatives
SIC-10	Government assistance – no specific relation to operating activities
SIC-12	Consolidation – special purpose entities
SIC-15	Operating leases – incentives
SIC-21	Income taxes – recovery of remeasured non-depreciable assets
SIC-25	Income taxes – changes in the tax status of an entity or its shareholders
SIC-27	Evaluating the substance of transactions involving the legal form of a lease

IFRS 2 and 6, IAS 11, 26, 29, 33, 34 and 41, IFRIC 1, 2, 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 16, 17, 18 and SIC 7, 13, 29, 31 and 32 were not considered as they are not relevant to the Group.

In accordance with the regulations of IAS 39 financial instruments in the HfT 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.

As is allowed, we have not yet applied the following standards which did not need to be implemented prior to 31 December 2009:

- **IFRS 3 (rev. 2008) Business combinations and IAS 27 (rev. 2008) Consolidated and separate financial statements**
  The revised standards were published in January 2008 and are mandatory for financial years starting on or after 1 July 2009. IFRS 3 (rev. 2008) introduces a number of changes to the accounting of business combinations which have an impact on the goodwill value in the balance sheet and on the results of future business combinations at the time of acquisition and beyond. IAS 27 (rev. 2008) requires that changes to the ownership structure in subsidiaries are treated as equity transactions.

- **IFRS 9 Financial instruments**
  IFRS 9 was published in November 2009 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 published first phase contains the regulations for the categorisation and measurement of financial assets. 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.

- **IAS 24 (rev. 2009) Related party disclosures**
  IAS 24 (rev. 2009) was published in November 2009 and will come into force for reporting periods which start on or after 1 January 2011. With the revision companies which are under the control, joint control or significant influence of a government (government-related entities) will be granted a partial exemption with regard to disclosures which have to be published. In addition the definition of related parties has been fundamentally revised.

Furthermore the standards amended by the annual improvements project, which are mandatory for financial years from 1 January 2010, have not been applied early.

No significant impact on the accounting is expected when these regulations are applied for the first time in 2010. These regulations are obligatory as at 1 January 2010.

(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, 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 insignificant participating 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 interim profits and losses are consolidated in the elimination of intercompany interim profits and losses.

Results of subsidiaries included or disposed of during the course of the year are recognised in the income statement as of 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 provided that they are not insignificant for the presentation of the Group's net assets, financial position and results of operations. The cost of acquisition of investments accounted for using the equity method and the differences are determined as of 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 38 (40) 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. 3 (4) joint ventures and 12 (15) associated companies are accounted for using the equity method.

In January 2009 NORD/LB G-MTN S.A., Luxembourg, was established as a 100 per cent subsidiary of NORD/LB. The company serves as an issuing company for the refinancing of the NORD/LB Group and has in this respect set up a medium-term note programme guaranteed by the states of Lower Saxony and Saxony-Anhalt in February 2009. The company was included for the first time in the consolidated financial statements with effect of 8 January 2009.

FORMA Beteiligungs GmbH & Co. Mobilienleasing KG, Munich, which was accounted for using the equity method, ceased operating as a company leasing movable assets and was deconsolidated as at 1 January 2009. In addition as at 1 July 2009 the joint venture SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main, and as at 1 October 2009 the associated company US PF III Beteiligungsgesellschaft mbH & Co KG, Düsseldorf, no longer form part of the basis of consolidation for reasons of materiality.

In addition the funds A-BLB-Aktien-Fonds, NC-Global Assets Fonds and Lux-Cofonds, which were previously fully consolidated, and the NC-SP 100 Poolfonds 1, which was previously accounted using the equity method, were deconsolidated.

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.

Subsidiaries, joint ventures and associated companies included in the consolidated financial statements are shown in Note (78).

(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 2009. 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 were translated at ECB reference exchange rates as at 31 December 2009; 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 specified 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 of the date of trade (trade date accounting) or as of 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 risk of changes in the value of the asset 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 on reacquisition 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. note (8) Provisions and (22) 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 are 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 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.

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 participating interests 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 participating interests 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 permanent 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 other supplementary criteria, 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 can be found in notes (56) and (57).

c) Establishing fair value
As a result of the financial market crisis, the IASB, other standard setters and the professional bodies have been discussing fair value measurement hierarchy since 2007. Since the fourth quarter of 2008, these considerations have been intensified in relation to adequate models for measuring financial instruments on inactive markets and a definition on when a market is to be considered to be inactive.

For the NORD/LB Group, the five-tier fair value hierarchy specified in IAS 39 of an active market (tiers 1–2) and a non-active market (tiers 3–5) proposed by the IDW was implemented in line with US GAAP regulations and with the mark-to-market, mark-to-matrix and mark-to-models methods and terms defined in SFAS 157.

In March 2009 the IASB published an amendment to IFRS 7 which essentially refers to disclosures relating to the fair value measurement of financial instruments. In accordance with the new regulations the NORD/LB Group has applied the three-tier hierarchy with the Level 1, Level 2 and Level 3 terminology provided in IFRS 7 for the first time in this financial year.

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. The terminology previously used by the NORD/LB Group and the terminology implemented in accordance with the specifications of IFRS 7 essentially correspond with each other. Only the mark-to-matrix method established for measurement purposes since the annual report 2008 differs in terms of input parameters in Level 2 and in Level 3.

Under the fair value hierarchy applied in the financial year 2009, 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 in spreads (Level 2). These measurement parameters are important to determine 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 whenever estimations are essential, if needed 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).

During the course of 2008 sections of the money markets and capital markets ceased to be efficient, which resulted in uncertainty among market participants, illiquidity on some of the markets and declining investment activity in secondary market products. This meant that appropriate prices could no longer be determined for some of the financial instruments on the market, quotations in some cases represented defensive conditions and some of the transactions were conducted at fire-sale conditions.

For financial instruments for which there was no active market on 31 December 2009 and for which measurement can no longer be based on market prices, fair value has been determined since the annual report 2008 for measurement purposes in accordance with a mark-to-matrix method that is based on discounted cash flows and was established in 2008.

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 in the IFRS 7 terminology being applied for the first time.

If the method uses the NORD/LB Group's internal ratings based on the Internal Ratings-Based Approach, the financial instruments are allocated to Level 3.

They are allocated to Level 3 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.

This is done against a background where the Level 3 method establishes the fair value of financial instruments for which there is no longer an active market, for which measurement can no longer be based on market prices and for which observable market parameters are no longer fully available.

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 ABS/MBS securities in the Group for which the market has been classified as being inactive. The remaining interest-bearing securities based on an internal-rating approach are also allocated to Level 3.

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).

d) 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 (61) Fair value 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 assigned in the fair value hierarchy in accordance with IFRS 7 to Level 3 (cf. Note (57) 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 participating interest is a forecast of growth in earnings for 2009, a detailed plan for 2010 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 so-called 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 participating interests 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 nationwide index. In brief, the beta factor of the comparison group calculated in this way is a significant multiplier used when calculating the capitalisation interest.

e) 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.

f) 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 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) or note (50) Positive or negative fair values from hedge accounting). 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 under liabilities in the fair values from hedge accounting balance sheet item when interest rates risks are hedged on a portfolio basis. 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).

g) Security 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 loans and receivables (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.

h) Securitisation
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 (virtually) been 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 bad debt allowances, flat-rate specific bad debt allowances and portfolio bad debt allowances.

Recoverability is reviewed for all significant claims at individual transaction level. Loan loss provisions cover all recognisable credit risks in the form of specific bad debt allowances. A bad debt 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 bad debt 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 bad debt allowance is calculated as the difference between the carrying amount and the recoverable amount as the present value of the anticipated future cash flows.

If the criteria for a bad debt 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 bad debt allowance. The calculation is made on the basis of historical probabilities of default and loss rates.

To cover bad debts which have occurred but have not yet been identified, a portfolio bad debt allowance is formed. This is calculated on the basis of historical probabilities of default and loss rates, with the portfolio-specific LIP factor (loss identification period) also being considered.

The parameters employed in the specific flat-rate bad debt allowance and the portfolio bad debt allowance are 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 bad debt allowance are written off immediately. Payments received for written-off loans and advances are recognised in profit or loss.

(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 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	10–50
Operating and office equipment	3–25
Other property and equipment	3–10

(10) Leases

In accordance with IAS 17, leases must be classified as finance or operating leases at the inception of a lease. If significant risks and opportunities 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.

Contracts concluded by the NORD/LB Group as a finance lessor are of minor significance.

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.

Contracts concluded by the NORD/LB Group as an operating lessor are of minor significance.

No operating lease agreements have been concluded with the NORD/LB Group as the lessee.

(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 ten to fifty 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 amortisation and impairments 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 goodwill is allocated to the CGU Commercial Real Estate Finance, a subdivision of the operating segment Structured Finance. 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 the Group's own measurement model which is based on forecasted and discounted annual profits. The annual profits are planned in detail for a period of 5 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 2009 is 9.46 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 available for sale are no longer amortised as of 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 2009 or in 2008.

(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, so no provisions for pensions need to be established.

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 € 429 million (€ 544 million) before taking into account deferred taxes and minority interests. Additions in the reporting period amount to € 115 million.

Pension obligations from defined benefit plans are calculated by independent actuaries as of 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	5.5
Increase in salaries	2–2.38
Increase in pensions (contingent on the occupational pension scheme)	1–3.5
Cost increase rate	4.5
Mortality, invalidity, etc.	Based on Heubeck's 2005G mortality tables
Anticipated plan asset yield	3.69
Abroad (weighted parameters)	
Actuarial interest rate	5.66
Increase in salaries	3.45
Increase in pensions	3.41
Mortality, invalidity, etc.	USA 1994 GAM GB AxC00 and PxCA00 Luxembourg Grand Ducal regulation of 15 January 2001
Anticipated plan asset yield	5.55
Inflation	3.28

(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 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 bad debt 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. Actual income tax assets and liabilities and deferred income tax assets and liabilities for the reporting period are separated in the notes, whereby the carrying amount of deferred tax income is reviewed as of every balance sheet date for its recoverability.

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. 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 to the previous year's figures in the balance sheet and income statement are taken into account based on IAS 8 (cf. Notes (2) 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 of individual customers.

Net interest income generated by the individual segments is calculated on the basis of the market interest rate method. 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, portfolio bad debt allowances, profit/loss from hedge accounting and overhead costs, is not allocated to the operational profit centres of the bank but to the segment "all other segments".

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. 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 participations in reported equity) on long-term equity under commercial law (share capital plus capital reserves, retained earnings and insignificant participating interests less silent participations 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 following segments are reported by business segment in the segment reporting:

Savings Bank Network
This includes transactions with the public sector, institutional business with associated savings banks, syndicated business transacted with associated savings banks and accounted for using the equity method, business conducted by LBS Norddeutsche Landesbausparkasse, Berlin-Hanover, Deutsche Factoring GmbH & Co., Bremen, and KreditServices Nord GmbH, Hanover.

Private and Commercial Customers
This segment comprises lending and deposit business as well as asset management activities conducted with private customers and with middle-market companies (in NORD/LB this is limited to the region of Altes Braunschweiger Land). It also includes the business conducted by Öffentliche Lebensversicherung Braunschweig, Braunschweig, and Öffentliche Sachversicherung Braunschweig, Braunschweig, including restricted funds, and the share of the profit/loss accounted for using the equity method from Bank DnB NORD A/S, Copenhagen.

Corporate Customers
The corporate customer segment includes all of the NORD/LB business conducted with corporate customers in the core regions (excluding the Altes Braunschweiger Land region) and in neighbouring regions in particular agricultural banking and residential housing.

Structured Finance
This segment mainly comprises the divisions of Real Estate Finance, Ship and Aircraft Finance and Structured Finance (including the structured finance activities of the foreign branches), business transacted by Skandifinanz Bank AG, Zurich, and the share in the profit/loss using the equity method of LHI Leasing GmbH, Munich.

Financial Markets
This item 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 Investments, Treasury. The financial markets business segment also includes NORD/LB Covered Finance Bank S.A., Luxembourg, NORD/LB Asset Management Holding GmbH, Hanover, including investments and allocated special funds and public funds.

All Other Segments
This segment covers all other performance data directly related to the business activity, parts of the group otherwise not included, performance elements at group level which are not allocated to the segments 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 2009 (in € million)	Savings Bank Network	Private and Commercial Customers	Corporate Customers	Structured Finance	Financial Markets ***)	All Other Segments	Reconciliations	NORD/LB Group
Net interest income	62	293	208	634	422	– 196	– 57	1,366
Loan loss provisions	9	33	123	464	95	326	– 8	1,042
Net interest income after loan loss provisions	**53**	**260**	**85**	**170**	**327**	**– 522**	**– 49**	**324**
Net commission income	16	43	28	99	33	– 34	– 8	177
Profit/loss from financial instruments at fair value	13	2	6	19	260	180	– 52	428
Profit/loss from hedge accounting	–	–	–	–	– 1	155	7	161
Profit/loss from financial assets	–	– 35	– 6	– 3	– 120	18	6	– 140
Profit/loss from investments accounted for using the equity method	22	– 237	2	–	1	12	–	– 200
Administrative expenses	54	318	69	139	139	258	9	986
Other operating profit/loss	2	77	–	8	32	– 1	26	144
Earnings before taxes (EBT)	**52**	**– 208**	**46**	**154**	**393**	**– 450**	**– 79**	**– 92**
Taxes	–	–	–	–	–	–	49	49
Consolidated profits	**52**	**– 208**	**46**	**154**	**393**	**– 450**	**– 128**	**– 141**
Segment assets	27,818	12,546	14,698	60,384	162,559	– 36,007	– 3,310	238,688
of which investments at equity	204	323	44	24	39	89	–	723
Segment liabilities	8,338	10,122	6,976	20,778	211,348	– 26,766	7,892	238,688
Risk-weighted assets	2,103	5,875	11,233	52,501	24,846	2,485	– 6,468	92,575
Capital employed *)	194	516	562	2,643	1,243	– 206	184	5,136
CIR	47.4 %	177.9 %	28.2 %	18.2 %	18.6 %	–	–	47,5 %
RoRaC/RoE **)	28.6 %	– 40.0 %	8.2 %	5.8 %	31.7 %	–	–	– 2.7 %

31 December 2008 (in € million)	Savings Bank Network	Private and Commercial Customers	Corporate Customers	Structured Finance	Financial Markets ***)	All Other Segments	Reconciliations	NORD/LB Group
Net interest income	53	275	189	630	486	– 75	– 96	1,462
Loan loss provisions	1	2	27	74	42	114	6	266
Net interest income after loan loss provisions	**52**	**273**	**162**	**556**	**444**	**– 189**	**– 102**	**1,196**
Net commission income	18	44	22	91	23	9	– 27	180
Profit/loss from financial instruments at fair value	9	8	8	23	– 566	179	64	– 275
Profit/loss from hedge accounting	–	–	–	–	– 7	– 36	10	– 33
Profit/loss from financial assets	–	– 30	–	– 27	– 171	– 22	–	– 250
Profit/loss from investments accounted for using the equity method	20	– 25	3	4	– 2	6	–	6
Administrative expenses	55	315	67	138	116	207	–	898
Other operating profit/loss	3	69	–	10	32	4	– 22	96
Earnings before taxes (EBT)	**47**	**24**	**128**	**519**	**– 363**	**– 256**	**– 77**	**22**
Taxes	–	–	–	–	–	–	– 129	– 129
Consolidated profit	**47**	**24**	**128**	**519**	**– 363**	**– 256**	**52**	**151**
Segment assets	29,334	12,811	11,674	58,781	158,879	– 30,421	3,271	244,329
of which investments at equity	174	459	41	27	20	124	–	845
Segment liabilities	9,703	11,048	3,545	22,711	212,493	– 20,055	4,884	244,329
Risk-weighted assets	2,233	6,285	9,155	44,393	24,446	6,755	– 3,442	89,825
Capital employed *)	200	592	458	2,236	1,223	– 45	357	5,021
CIR	53.9 %	85.1 %	30.1 %	18.2 %	–351.7 %	–	–	62.5 %
RoRaC/RoE **)	23.2 %	4.0 %	28.1 %	23.2 %	– 29.7 %	–	–	– 0.4 %

*) Reconciliation of long-term equity under commercial law to reported equity:

(in € million)	31 Dec. 2009	31 Dec. 2008
Long-term equity under commercial law	5,136	5,021
Revaluation reserve	28	– 276
Currency translation reserve	– 49	– 50
Accumulated profits	– 91	300
Silent participations in reported equity	818	700
Reported equity	5,842	5,695

**) By business segment RoRaC: earnings before taxes / core capital employed;

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 not related to Financial Markets = € 38.2 million (€ 24.6 million)

(20) Segment reporting by geographical segment

31 December 2009 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolidation	NORD/LB Group
Earnings before taxes (EBT)	–	– 134	25	77	– 60	– 92
Segment assets	226,923	37,119	8,796	7,191	– 41,341	238,688
Segment liabilities	236,923	37,119	8,796	7,191	– 41,341	238,688
Risk-weighted assets	70,745	11,382	6,618	3,343	487	92,575
Capital employed	4,190	778	331	167	– 329	5,136
CIR	56.7 %	54.6 %	18.9 %	13.2 %	–	47.5 %
RoRaC / RoE *)	0.0 %	– 34.4 %	15.0 %	91.7 %	–	– 2.7 %

31 December 2008 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolidation	NORD/LB Group
Earnings before taxes (EBT)	235	– 10	– 95	– 12	– 96	22
Segment assets	233,695	39,201	10,414	8,196	– 47,177	244,329
Segment liabilities	233,695	39,201	10,414	8,196	– 47,177	244,329
Risk-weighted assets	71,530	10,428	4,943	2,900	24	89,825
Capital employed	3,707	786	247	145	136	5,021
CIR	58,0 %	36,9 %	– 44,0 %	130,5 %	–	62,5 %
RoRaC / RoE *)	6,3 %	– 1,3 %	– 38,5 %	– 8,3 %	–	– 0,4 %

*) By business segment RoRaC:
earnings before taxes / core capital employed;

For the Group RoE:
(earnings before taxes – interest expenses for silent participations in reported equity) / longterm equity under commercial law (= share capital + capital reserves + retained earnings + minority interests – silent participations in reported equity)

Notes to the Consolidated 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. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Interest income			
Interest income from lending and money market transactions	5,809	7,779	– 25
Interest income from fixed-income and book entry securities	1,850	3,020	– 39
Interest income from financial instruments at fair value			
from trading profit/loss	7,950	13,942	– 43
from fair value option	101	90	12
Current income			
from shares and other variable-yield securities	16	16	–
from investments	32	59	– 46
Interest income from portfolio fair value hedge amortisation	258	45	> 100
Other interest income and similar income	6	8	– 25
	16,022	**24,959**	**– 36**
Interest expense			
Interest expense from lending and money market transactions	3,507	5,470	– 36
Interest expense from securitised liabilities	2,569	3,294	– 22
Interest expense from financial instruments at fair value			
from trading profit/loss	7,480	14,018	– 47
from fair value option	323	275	17
Interest expense from subordinated capital	309	310	–
Interest expense from portfolio fair value hedge amortisation	386	51	> 100
Interest expense for provisions and liabilities	72	72	–
Other interest expenses and similar expenses	10	7	43
	14,656	**23,497**	**– 38**
Total	**1,366**	**1,462**	**– 7**

The reclassification in the financial year of the interest components in current income relating to financial instruments measured at fair value through profit or loss as interest income had an impact of € 311 million (€ 38 million).

Interest income from lending and money market transactions includes interest income relating to impaired loans (unwinding) of € 30 million (€ 28 million).

The interest income includes € 7,594 million (€ 10,844 million) relating to income from financial instruments which are not measured at fair value through profit or loss. The interest expenses include € 6,448 million (€ 9,125 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. 2009 (in € million)	1 Jan. – 31 Dec. 2008 (in € million)	Change (in %)
Income from loan loss provisions			
Reversal of specific bad debt allowances	228	128	78
Reversal of flat-rate specific bad debt allowances	1	1	–
Reversal of portfolio bad debt allowances	13	40	– 68
Receipts of written-off loans and advances	18	29	– 38
Additions to receivables written off	11	17	– 35
	271	**215**	**26**
Expenses for loan loss provisions			
Allocations to specific bad debt allowances	858	422	> 100
Allocation to flat-rate specific bad debt allowances	42	–	–
Allocation to portfolio bad debt allowances	270	34	> 100
Allocation to provisions for lending business	75	14	> 100
Direct write-offs of bad debts	66	9	> 100
Premium payments for credit insurance	2	2	–
	1,313	**461**	**> 100**
Total	**– 1,042**	**– 266**	**> 100**

(23) Net commission income

	1 Jan.– 31 Dec. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Commission income			
Commission income from banking transactions	264	275	– 4
Commission income from non-banking transactions	13	9	44
	277	**284**	**– 2**
Commission expense			
Commission expenses from banking transactions	101	79	28
Commission expenses from non-banking transactions	– 1	25	> 100
	100	**104**	**– 4**
Total	**177**	**180**	**– 2**

Commission income from banking transactions refers mainly to lending and guarantee business (€ 97 million (€ 90 million)), trust activities (€ 37 million (€ 32 million)), security transactions and custody activities (€ 27 million (€ 39 million)), brokerage business (€ 26 million (€ 28 million)) and account management (€ 22 million (€ 23 million)).

Commission expenses from banking business refer mainly to security transactions and custody activities (€ 28 million (€ 27 million)) and trust activities (€ 22 million (€ 28 million)).

The commission income includes € 166 million (€ 174 million) relating to income from financial instruments which are not measured at fair value through profit or loss. The commission expenses include € 42 million (€ 41 million) relating to expenses from financial instruments which are not measured at fair value through profit or loss.

(24) Profit/loss from financial instruments at fair value through profit or loss

	1 Jan.– 31 Dec. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Trading profit/loss			
Realised gains/losses			
Gains/losses from debt securities and other fixed-interest securities	– 15	100	> 100
Gains/losses shares and other variable-yield securities	5	– 50	> 100
Gains/losses from derivatives	324	376	– 14
Gains/losses from receivables held for trading	31	19	63
	345	**445**	**– 22**
Measurement result			
Gains/losses from debt securities and other fixed-interest securities	55	16	> 100
Gains/losses shares and other variable-yield securities	18	– 115	> 100
Gains/losses from derivatives	228	– 808	> 100
Gains/losses from receivables held for trading	– 19	48	> 100
Gains/losses from other trading transactions	3	– 1	> 100
	285	**– 860**	**> 100**
Foreign exchange gains	–	– 33	– 100
Other income	5	5	–
	635	**– 443**	**> 100**
Profit/loss from the use of fair value option			
Realised gains/losses from			
debt securities and other fixed-interest securities	3	– 16	> 100
shares and other variable-yield securities	–	6	– 100
other activities	– 18	– 12	– 50
	– 15	**– 22**	**32**
Result of measurement of			
debt securities and other fixed-interest securities	– 43	58	> 100
shares and other variable-yield securities	2	129	– 98
other activities	– 151	1	> 100
	– 192	**188**	**> 100**
Other income	–	2	– 100
	– 207	**168**	**> 100**
Total	**428**	**– 275**	**> 100**

Commission income from trading activities in the amount of € – 2 million (€ – 3 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. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Losses/gains from micro fair value hedges			
from hedged underlying transactions	– 485	162	> 100
from derivatives employed as hedging instruments	539	– 184	> 100
	54	**– 22**	**> 100**
Losses/gains from portfolio fair value hedges			
from hedged underlying transactions	– 64	– 312	79
from derivatives employed as hedging instruments	171	301	– 43
	107	**– 11**	**> 100**
Total	**161**	**– 33**	**> 100**

(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. 2009 (in € million)	1 Jan. – 31 Dec. 2008 (in € million)	Change (in %)
Profit/loss from financial assets classified as LaR	**– 51**	**– 26**	**– 96**
Profit/loss from financial assets classified as AfS (excluding participating interests)			
Profit/loss from the disposal of			
debt securities and other fixed-interest securities	– 3	– 39	92
shares and other variable-yield securities	– 30	– 43	30
other financial assetsclassified as AfS	–	– 1	– 100
Profit/loss from allowances for losses on			
debt securities and other fixed-interest securities	– 14	– 159	91
shares and other variable-yield securities	– 28	– 2	> 100
	– 75	**– 244**	**69**
Profit/loss from shares in companies (not consolidated)	**– 14**	**20**	**> 100**
Total	**– 140**	**– 250**	**44**

(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. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Shares in joint ventures			
Income	1	5	– 80
Expenses	228	31	> 100
	– 227	**– 26**	**> 100**
Shares in associated companies			
Income	36	43	– 16
Expenses	9	11	– 18
	27	**32**	**– 16**
Total	**– 200**	**6**	**> 100**

(28) Administrative expenses

Administrative expenses comprise staff expenses, other administrative expenses and amortisation, depreciation and impairments to property and equipment, intangible assets and investment property.

	1 Jan. – 31 Dec. 2009 (in € million)	1 Jan. – 31 Dec. 2008 (in € million)	Change (in %)
Staff expenses			
Wages and salaries	393	376	5
Social insurance contributions	54	47	15
Expenditure on pension schemes and other benefits	28	32	– 13
Other staff expenses	5	5	–
	480	**460**	**4**
Other administrative expenses			
Costs for IT and communications	151	134	13
Building occupancy costs	45	32	41
Expenses for marketing, communications and entertainment	28	28	–
Personnel-related material expenses	52	45	16
Costs for legal, auditing, appraisal and consulting services	65	50	30
Levies and contributions	30	28	7
Expenses for operating and office equipment	5	6	– 17
Other services	20	21	– 5
Other administrative expenses	40	30	33
	436	**374**	**17**
Amortisation, depreciation and impairments			
Amortisation and depreciation			
Property and equipment	32	31	3
Intangible assets	36	31	16
Investment properties	2	2	–
	70	**64**	**9**
Total	**986**	**898**	**10**

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. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Other operating income			
from the reversal of provisions	325	335	– 3
from insurance contracts	410	411	–
from other business	201	163	23
	936	**909**	**3**
Other operating expenses			
from allocation to provisions	345	378	– 9
from insurance contracts	314	305	3
from other business	133	130	2
	792	**813**	**– 3**
Total	**144**	**96**	**50**

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 (337 million € (€ 343 million)) and income from insurance contracts (€ 48 million (€ 39 million)).

Income from other business comprises the redemption of the banks's own issues (€ 54 million (€ 23 million)), reimbursement of costs (€ 21 million (€ 11 million)), rental income from investment property (€ 11 million (€ 11 million)) and income from data processing services for third parties (€ 9 million (€ 10 million)).

Other operating expenses from insurance contracts mainly comprise indemnity expenses (€ 248 million (€ 240 million)) and expenses from reinsurance contracts (€ 56 million (€ 54 million)).

Expenses from other business essentially comprise expenses from the redemption of debt securities (€ 53 million (€ 8 million)) and reductions in loans and advances (€ 41 million (€ 23 million)).

(30) Income taxes

	1 Jan. – 31 Dec. 2009 (in € million)	1 Jan. – 31 Dec. 2008 (in € million)	Change (in %)
Current taxes on income and earnings	57	– 27	> 100
Deferred taxes	– 8	– 102	92
Total	**49**	**– 129**	**> 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. 2009	1 Jan. – 31 Dec. 2008
IFRS earnings before taxes	**– 92**	**22**
Anticipated income tax expenditure	– 29	7
Effects of reconciliation:		
Effects of differing tax rates	– 16	– 18
Taxes from previous years reported in the reporting period	– 32	– 129
Effects of changes in tax rates	– 2	1
Non-creditable income taxes	4	5
Non-deductible operational expenditure	24	63
Effects of tax-free earnings	– 74	– 96
Effect of permanent accounting-related effects	173	– 25
Effects of write-ups / write-downs / recognition adjustments	– 21	36
Other effects	22	27
Reported income tax expense	**49**	**– 129**

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 2009. 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 future tax rate as of 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 Balance Sheet

(31) Cash reserve

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Cash on hand	902	74	> 100
Balances with central banks	942	1,036	– 9
Total	**1,844**	**1,110**	**66**

Of the balances with central banks € 729 million (€ 933 million) are credit balances with Deutsche 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 € 437 million (€ 545 million).

(32) Loans and advances to banks

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
German banks	7,233	4,088	77
Foreign banks	2,649	5,269	– 50
	9,882	**9,357**	**6**
Other loans and advances			
German banks			
Due on demand	745	506	47
With a fixed term or period of notice	24,884	30,635	– 19
Foreign banks			
Due on demand	419	611	– 31
With a fixed term or period of notice	6,426	6,129	5
	32,474	**37,881**	**– 14**
Total	**42,356**	**47,238**	**– 10**

Of the loans and advances to banks in Germany, € 11,824 million (€ 13,661 million) are loans and advances to associated savings banks.

(33) Loans and advances to customers

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
Domestic customers	959	1,142	– 16
Customers abroad	29	120	– 76
	988	**1,262**	**– 22**
Other loans and advances			
Domestic customers			
Due on demand	1,722	1,768	– 3
With a fixed term or period of notice	78,694	77,873	1
Customers abroad			
Due on demand	272	266	2
With a fixed term or period of notice	30,407	31,003	– 2
	111,095	**110,910**	**–**
Total	**112,083**	**112,172**	**–**

(34) Risk provisions

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Specific bad debt allowances			
German banks	3	–	–
Foreign banks	163	36	> 100
Domestic customers	829	892	– 7
Customers abroad	278	55	> 100
	1,273	983	**30**
Flat-rate specific bad debt allowances	**44**	**3**	**> 100**
Portfolio bad debt allowances	**472**	218	**> 100**
Total	**1,789**	**1,204**	**49**

Risk provisions recognised on the asset side and provisions in lending business developed as follows:

	Specific bad debt allowances		Flat-rate specific bad debt allowances		Portfolio bad debt allowances		Provisions in lending business		Total	
(in € million)	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
1 January	**983**	**913**	**3**	–	**218**	**207**	**79**	**93**	**1,283**	**1,213**
Allocations	858	422	42	–	270	34	75	14	1,245	470
Reversals	228	128	1	1	13	40	18	29	260	198
Utilisation	310	242	–	–	–	–	–	5	310	247
Unwinding	–30	–27	–	–	–	–	–	–	–30	–27
Effects from currency translation and other changes	–	2	–	–	–3	–	–1	4	–4	6
Changes from the basis of consolidation	–	43	–	4	–	17	–	2	–	66
31 December	**1,273**	**983**	**44**	**3**	**472**	**218**	**135**	**79**	**1,924**	**1,283**

(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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Trading assets			
Debt securities and other fixed-interest securities			
Money market instruments			
issued by other borrowers	–	8	– 100
	–	**8**	**– 100**
Bonds and debt securities			
issued by public-sector borrowers	337	711	– 53
issued by other borrowers	2,944	2,529	16
	3,281	**3,240**	**1**
Shares and other variable-yield securities			
Shares	88	95	– 7
Investment certificates	33	–	–
	121	**95**	**27**
Positive fair values from derivatives relating to			
Interest rate risks	5,044	6,061	– 17
Currency risks	1,332	2,974	– 55
Share-price and other price risks	196	284	– 31
Credit derivatives	103	264	– 61
	6,675	**9,583**	**– 30**
Trading portfolio claims	1,860	1,189	56
	11,937	**14,115**	**– 15**
Financial assets at fair value through profit or loss			
Loans and advances to banks and customers	517	116	> 100
Debt securities and other fixed-interest securities	2,187	2,757	– 21
Shares and other variable-yield securities	10	7	43
	2,714	**2,880**	**– 6**
Total	**14,651**	**16,995**	**– 14**

(36) Positive fair values from hedge accounting

This item includes positive fair values of hedging instruments in effective micro fair value hedges and portfolio fair value hedges.

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Micro fair value hedge derivatives	1,544	1,301	19
Portfolio fair value hedge derivatives	1,330	516	> 100
Total	**2,874**	**1,817**	**58**

(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 is allocated to the category available for sale (AfS). In addition to the available for sale (AfS) category, some of the silent participations classified as debt are also allocated to the loans and receivables (LaR) category.

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Financial assets classified as LaR	**4,905**	**4,516**	**9**
Financial assets classified as AfS			
Debt securities and other fixed-interest securities			
Money market instruments			
issued by public-sector borrowers	3	71	– 96
issued by other borrowers	143	1,408	– 90
	146	**1,479**	**– 90**
Bonds and debt securities			
issued by public-sector borrowers	16,417	13,148	25
issued by other borrowers	40,341	41,779	– 3
	56,758	**54,927**	**3**
Shares and other variable-yield securities			
Shares	334	275	21
Investment certificates	157	150	5
Participation certificates	24	28	– 14
Other	2	2	–
	517	**455**	**14**
Shares in companies	742	913	– 19
Other AfS financial assets classified as AfS	10	9	11
	58,173	**57,783**	**1**
Total	**63,078**	**62,299**	**1**

(38) Shares in 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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Joint ventures			
Banks	302	436	– 31
Financial institutions	24	–	–
Other entities	1	29	– 97
	327	**465**	**– 30**
Associated companies			
Banks	203	172	18
Other entities	193	208	– 7
	396	**380**	**4**
Total	**723**	**845**	**– 14**

The development of investments accounted for using the equity method is as follows:

(in € million)	Joint ventures	Associated companies	Total
1 January 2008	**382**	**398**	**780**
Additions	129	71	200
Disposals	46	89	135
31 December 2008	**465**	**380**	**845**
Additions	99	60	159
Disposals	237	44	281
31 December 2009	**327**	**396**	**723**

Shares in investments accounted for using the equity method amounted to € 723 million (€ 845 million), a fall of € 122 million compared to the previous year. The development in the financial year 2009 is the result of the share of profits / losses in the amount of € – 200 million (€ 6 million), changes recognised directly in equity in the amount of € 20 million (€ – 1 million) and distributions received in the amount of € – 27 million (€ – 36 million) for joint ventures and associated companies accounted for using the equity method and reported under additions and disposals.

In addition a capital increase in the amount of € 98 million resulted in an increase in the carrying amount for equity. This is seen alongside reductions in the capital of and deconsolidations of investments accounted for using the equity method in the amount of € 13 million.

There was no unscheduled depreciation or write-up on the equity value during the financial year. The table below shows the summarised financial information for joint ventures and associated companies accounted for using the equity method based on the NORD/LB Group's share in the assets, liabilities, earnings, profits and contingent liabilities.

(in € million)	Joint ventures 31 Dec. 2009	Joint ventures 31 Dec. 2008	Associated companies 31 Dec. 2009	Associated companies 31 Dec. 2008
Total assets	4,991	5,879	3,977	4,022
Total liabilities	4,612	5,360	3,605	3,674
Total income	320	420	609	650
Accumulated profits/losses for the year	– 227	– 27	28	29
Contingent liabilities	690	1,427	42	31

(39) Property and equipment

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Land and buildings	308	299	3
Operating and office equipment	70	75	– 7
Other property and equipment	17	3	> 100
Total	**395**	**377**	**5**

(40) Investment property

The carrying amount of investment property is € 93 million (€ 96 million). The fair value of investment property is € 116 million (€ 125 million).

The profit/loss from investment property is summarised as follows:

(in € million)	1 Jan.– 31 Dec. 2009	1 Jan.– 31 Dec. 2008
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	Other property and equipment	Total	Investment property
Cost as at 1 January 2008	**626**	**271**	**14**	**911**	**138**
Additions	2	15	1	18	28
Disposals	30	16	–	46	89
Change from the basis of consolidation	–	2	– 6	– 4	36
Total 31 December 2008	**598**	**272**	**9**	**879**	**113**
Accumulated depreciation as at 1 January 2008	**310**	**193**	**11**	**514**	**41**
Depreciation	12	18	1	31	2
Disposals	14	16	–	30	40
Change from the basis of consolidation	– 9	2	– 6	– 13	14
Total 31 December 2008	**299**	**197**	**6**	**502**	**17**
Closing balance as at 31 December 2008	299	75	3	377	96
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**

(41) Intangible assets

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Software			
Purchased	19	25	– 24
Internally generated	51	64	– 20
	70	**89**	**– 21**
Intangible assets under development	40	7	> 100
Goodwill	11	11	–
Other intangible assets	14	16	– 13
Total	**135**	**123**	**10**

Intangible assets under development refer primarily to internally generated software. Fully amortised software is still in use.

Intangible assets with an indefinite useful life amount to € 16 million (€ 16 million) in the NORD/LB Group. Of this amount, € 11 million (€ 11 million) results from goodwill from the acquisition of Deutsche Hypo and another € 5 million (€ 5 million) relates to the brand names capitalised within the scope of this acquisition. No useful life could be determined for these due to the exceptionally long-term market presence under the brand name of Deutsche Hypo.

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 2008	**90**	**78**	**–**	**2**	**15**	**185**
Additions	14	12	1	–	6	33
Disposals	1	–	–	–	–	1
Transfers	2	14	–	– 2	– 14	–
Change from the basis of consolidation	–	–	10	17	–	27
Total 31 December 2008	**105**	**104**	**11**	**17**	**7**	**244**
Accumulated amortisation as at 1 January 2008	**70**	**21**	**–**	**–**	**–**	**91**
Amortisation	11	19	–	1	–	31
Disposals	1	–	–	–	–	1
Total 31 December 2008	**80**	**40**	**–**	**1**	**–**	**121**
Closing balance as at 31 December 2008	**25**	**64**	**11**	**16**	**7**	**123**
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 amortisation as at 1 January 2009	**80**	**40**	**–**	**1**	**–**	**121**
Amortisation	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**

Goodwill is solely the result of the aquisition of Deutsche Hypothekenbank 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 2009 include solely property and equipment (buildings) in the amount of € 1 million (€ 5 million).

(43) Current income tax assets and deferred income taxes

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Current income tax assets	137	169	– 19
Deferred tax assets	310	421	– 26
Total	**447**	**590**	**– 24**

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 € 102 million (€ 242 million) as at 31 December 2009.

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

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Assets			
Loans and advances to banks	7	13	– 46
Loan loss provisions	112	35	> 100
Financial assets at fair value through profit or loss	54	218	– 75
Financial assets	374	496	– 25
Property and equipment	18	18	–
Other assets	15	18	– 17
Liabilities			
Liabilities to customers	226	235	– 4
Securitised liabilities	89	86	3
Financial liabilities at fair value through profit or loss	1,589	1,991	– 20
Negative fair values from hedge accounting	572	648	– 12
Provisions	309	324	– 5
Other liabilities	128	28	> 100
Tax losses carried forward	139	177	– 21
Total	**3,632**	**4,287**	**– 15**
Net	3,322	3,866	– 14
Total	**310**	**421**	**– 26**

No deferred taxes were recognised on losses carried forward to the amount of € 45 million (corporation tax) and € 1 million (trade tax) due to a limited planning horizon and the resulting insufficient likelihood of their utilisation by 31 December 2009. There is no time limit on the utilisation of existing tax losses carried forward.

(44) Other assets

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Loans and advances on interim accounts	1,357	1,482	– 8
Collection documents	–	10	– 100
Assets from insurance contracts	156	156	–
Rights to reimbursement from defined benefit plans	20	21	– 5
Loans and advances to atypical silent partners	–	136	> 100
Other assets including prepaid expenses	264	61	> 100
Total	**1,797**	**1,866**	**– 4**

Assets relating to insurance contracts are assets from outwards reinsurance in the amount of € 156 million (€ 154 million). 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 participating interests in fully consolidated companies.

The loans and advances on interim accounts relate solely to the trading of securities.

(45) Liabilities to banks

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Deposits from other banks			
German banks	1,331	506	> 100
Foreign banks	718	192	> 100
	2,049	**698**	**> 100**
Liabilities resulting from money market transactions			
German banks	14,161	23,961	– 41
Foreign banks	15,393	16,096	– 4
	29,554	**40,057**	**– 26**
Other liabilities			
German banks			
Due on demand	2,195	1,939	13
With a fixed term or period of notice	23,209	21,861	6
Foreign banks			
Due on demand	162	244	– 34
With a fixed term or period of notice	4,983	5,063	– 2
	30,549	**29,107**	**5**
Total	**62,152**	**69,862**	**– 11**

Of the liabilities to banks in Germany, € 3,674 million (€ 6,120 million) are due to associated savings banks.

(46) Liabilities to customers

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Savings deposits			
With an agreed notice period of three months			
Domestic customers	1,022	857	19
Customers abroad	21	13	62
With an agreed notice period of more than three months			
Domestic customers	433	836	– 48
Customers abroad	4	6	– 33
	1,480	**1,712**	**– 14**
Liabilities resulting from money market transactions			
Domestic customers	11,679	15,619	– 25
Customers abroad	3,333	2,245	48
	15,012	**17,864**	**– 16**
Other liabilities			
Domestic customers			
Due on demand	8,173	6,793	20
With a fixed term or period of notice	34,866	33,430	4
Customers abroad			
Due on demand	350	340	3
With a fixed term or period of notice	1,425	1,859	– 23
	44,814	**42,422**	**6**
Total	**61,306**	**61,998**	**– 1**

(47) Securitised liabilities

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Issued debt securities			
Mortgage bonds	6,985	7,528	– 7
Municipal debentures	27,057	32,949	– 18
Other debt securities	38,536	29,104	32
	72,578	**69,581**	**4**
Money market instruments			
Commercial paper	4,171	4,032	3
Certificates of deposit	861	934	– 8
Other money market instruments	285	1,740	– 84
	5,317	**6,706**	**– 21**
Other securitised liabilities	**1,256**	**1,048**	**20**
Total	**79,151**	**77,335**	**2**

Repurchased debt securities issued by the bank itself have been directly deducted from securitised liabilities to the amount of € 7,796 million (€ 3,947 million).

(48) Adjustment item for financial instruments hedged in the fair value hedge portfolio

This item includes the fair values 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 and securitised liabilities.

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Trading liabilities			
Negative fair values from derivatives relating to			
interest rate risks	5,632	6,708	– 16
currency risks	1,087	1,921	– 43
share-price and other price risks	207	298	– 31
credit derivatives	151	354	– 57
	7,077	**9,281**	**– 24**
Delivery obligations from short sales	232	168	38
	7,309	**9,449**	**– 23**
Financial liabilities designated at fair value			
Liabilities to banks and customers	5,012	4,344	15
Securitised liabilities	3,845	2,907	32
	8,857	**7,251**	**22**
Total	**16,166**	**16,700**	**– 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 € 99 million (€ – 144 million) in the period under review; the cumulative change is € 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 2009 is € 3,571 million less (€ 467 million greater) than the corresponding repayment amount.

(50) Negative fair values from hedge accounting

This item includes negative fair values of hedge instruments in effective micro fair value hedge relationships and portfolio fair value hedges.

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Micro fair value hedge derivatives	1,688	2,077	– 19
Portfolio fair value hedge derivatives	414	263	57
Total	**2,102**	**2,340**	**– 10**

(51) Provisions

Provisions are broken down as follows:

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Provisions for pensions and other obligations	**1,308**	**1,160**	**13**
Other provisions			
Provisions in lending business	135	79	71
Provisions for restructuring measures	48	61	– 21
Provisions for anticipated losses	1	1	–
Provisions for uncertain liabilities	114	139	– 18
Provisions for insurance contracts	1,632	1,618	1
	1,930	**1,898**	**2**
Total	**3,238**	**3,058**	**6**

Provisions for pensions and similar obligations are derived as follows:

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Present value of defined benefit obligations	1,364	1,212	13
Less fair value of plan assets	– 56	– 53	6
Surplus plan assets not recognised as assets	–	1	– 100
Total	**1,308**	**1,160**	**13**

There is also a reimbursement claim against LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover, in the amount of € 20 million (€ 21 million) and this is reported in other assets. The current value of reimbursement claims is € 1 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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Opening balance	**1,212**	**1,304**	**– 7**
Current service cost	20	23	– 13
Interest expense	71	71	–
Actuarial gains / losses from the obligation	119	– 147	> 100
Increase / decrease resulting from currency translation	1	– 3	> 100
Benefits paid	– 60	– 56	7
Increases / decreases resulting from business combinations	–	17	– 100
Effects from settlements / assignments (compensation payments)	1	3	– 67
Closing balance	**1,364**	**1,212**	**13**

In addition to pension commitments, the present value of defined benefit obligations includes allowance payments in the amount of € 101 million (€ 83 million).

The defined benefit obligation is broken down as of the balance sheet date into amounts for defined benefit plans in the amount of € 1,054 million (€ 933 million) which are not financed through a fund and into amounts from defined benefit obligations in the amount of € 310 million (€ 279 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 € – 23 million (€ 18 million) and to the assets of the plan in the amount of € 0 million (€ 1 million).

The fair value of plan assets developed as follows:

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Opening balance	**52**	**58**	**– 10**
Anticipated earnings from plan assets	2	2	–
Actuarial gains / losses from plan assets	4	– 3	> 100
Increases / decreases resulting from currency translation	1	– 3	> 100
Employer contributions	11	12	– 8
Benefits paid	– 14	– 14	–
Closing balance	**56**	**52**	**8**

The fair value of plan assets is broken down as follows:

(in %)	31 Dec. 2009	31 Dec. 2008
Equity instruments	15	8
Debt instruments	66	71
Other assets	19	21

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 € 11 million (€ 11 million) and own equity instruments in the amount of € 8 million (€ 4 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. At the same time the expected long-term yield of the plan assets for each investment 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 € 5 million (€ – 1 million), with the resulting difference to expected income amounting to € 3 million (€ – 4 million) or 150 (– 133) per cent.

The figure for allocations to / withdrawals from plan including the benefit payments made directly by the Group is expected to be € 54 million (€ 51 million) in the next reporting period.

Pension costs comprise the following:

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Current service cost	20	23	– 13
Interest expense	71	71	–
Anticipated earnings from plan assets	– 2	– 2	–
Anticipated earnings from reimbursement claims	– 1	– 1	–
Total	**88**	**91**	**– 3**

Overview of the amounts in the current period under review and previous reporting periods:

(in € million)	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
Defined benefit obligation	1,364	1,212	1,304
Plan assets	– 56	– 52	– 58
Deficit	1,308	1,160	1,246
Actuarial gains/losses	429	544	399
Experience adjustments to			
defined benefit obligation	– 23	18	–
Plan assets	–	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. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Effect on the obligation at the end of the year	20	15	– 15	– 12
Effect on total current service costs and interest expense for the past accounting period	2	2	– 1	– 2

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 anticipated losses	Provisions for uncertain liabilities: Provisions for liabilities to personnel	Provisions for uncertain liabilities: Other provisions for uncertain liabilities	Insurance provisions	Total
Opening balance	**79**	**61**	**1**	**30**	**109**	**1,618**	**1,898**
Utilisation	–	17	–	8	11	31	67
Reversals	18	1	–	1	40	283	343
Allocations	75	5	–	7	28	328	443
Changes resulting from currency translation	– 1	–	–	–	–	–	– 1
Closing balance	**135**	**48**	**1**	**28**	**86**	**1,632**	**1,930**

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 € 15 million (€ 18 million) and provisions for long-service awards account for € 8 million (€ 8 million).

Insurance provisions mainly contain actuarial reserves in the amount of € 1,208 million (€ 1,181 million), provisions for known losses in the amount of € 235 million (€ 240 million) and provisions for the reimbursement of premiums in the amount of € 124 million (€ 133 million).

The remaining provisions are mainly due in the long term.

(52) Current income tax liabilities and deferred income taxes

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Current Income tax liabilities	177	194	– 9
Deferred tax liabilities	16	30	– 47
Total	**193**	**224**	**– 14**

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 € 151 million as at 31 December 2009 (€ 187 million).

Deferred tax liabilities relate to the following balance sheet items:

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Assets			
Loans and advances to banks	28	33	– 15
Loans and advances to customers	120	164	– 27
Financial assets at fair value through profit or loss	1,851	2,249	– 18
Positive fair values from hedge accounting derivatives	644	469	37
Financial assets	283	379	– 25
Intangible assets	33	27	22
Property and equipment	10	16	– 38
Other assets	22	26	– 15
Liabilities			
Securitised liabilities	17	–	–
Financial liabilities at fair value through profit or loss	165	300	– 45
Provisions	137	175	– 22
Other liabilities	28	58	– 52
Total	**3,338**	**3,896**	**– 14**
Net	3,322	3,866	– 14
Total	**16**	**30**	**– 47**

(53) Other liabilities

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Liabilities resulting from unsettled invoices	34	23	48
Liabilities from premiums	3	3	–
Liabilities from short-term employee remuneration	36	43	– 16
Deferred income	52	30	73
Liabilities from payable taxes and social insurance contributions	21	30	– 30
Liabilities from interim accounts	1,412	361	> 100
Liabilities from insurance contracts	45	51	– 12
Contract with minority shareholder	–	65	– 100
Counter-entry relating to cash reserve adjustment	–	332	– 100
Other liabilities	511	68	> 100
Total	**2,114**	**1,006**	**> 100**

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 2010.

Liabilities from insurance contracts mainly relate to reinsurance deposit liabilities.

Liabilities from interim accounts relate solely to the trading of securities.

(54) Subordinated capital

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Subordinated liabilities	2,958	2,624	13
Participatory capital	593	981	– 40
Silent participations	2,389	2,024	18
Total	**5,940**	**5,629**	**6**

Subordinated liabilities are not paid back until the claims of all senior creditors have been satisfied. They meet the requirements of § 10 Paragraph 3a of the German Banking Act (KWG) in the amount of € 38 million (€ 38 million) for inclusion as core capital in accordance with § 10 Paragraph 2a of the German Banking Act and they meet the requirements of § 10 Paragraph 5a of the German Banking Act for attribution to supplementary capital in accordance with § 10 Paragraph 2b of the German Banking Act in the amount of € 2,762 million (€ 2,450 million). Interest expenses for subordinated liabilities amount to € 122 million (€ 134 million).

Participatory capital comprises bearer participating certificates and registered participatory capital. Most of the bearer participatory capital was issued with an unlimited term and has not been terminated. The participatory capital meets the requirements of § 10 Paragraph 5 of the German Banking Act in the amount of € 297 million (€ 822 million) for attribution to supplementary capital in accordance with § 10 Paragraph 2b of the German Banking Act. Interest expenses for participatory capital amount to € 56 million (€ 63 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 € 54 million (€ 51 million) in accordance with § 10 Paragraph 2a Provision 1 No. 5 of the German Banking Act and they meet the requirements for recognition as core capital in accordance with § 10 Paragraph 2a Provision 1 No. 8 of the German Banking Act in the amount of € 2,062 million (€ 1,726 million). Interest expenses relating to silent participations amount to € 131 million (€ 113 million).

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)	2009 Amount before taxes	2009 Income tax effect	2009 Amount after taxes	2008 Amount before taxes	2008 Income tax effect	2008 Amount after taxes
Increase / decrease from available for sale (AfS) financial instruments	469	139	330	– 820	– 124	– 696
Changes in the value investments accounted for using the equity method recognised directly in equity	20	–	20	– 1	–	– 1
Translation differences of foreign business units	–	–	–	12	–	12
Actuarial gains and losses for pensions for defined obligations	– 115	– 36	– 79	143	46	97
Other	**374**	**103**	**271**	**– 666**	**– 78**	**– 588**

Notes to the Statement of Changes in Equity

Capital reserves include amounts contributed in previous years by the guarantors in excess of issued capital in capital increases. The allocation of an additional € 118 million during the financial year is the result of the reorganisation of participatory capital into a silent participation as at 1 June 2009.

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 subsidiaries 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 Saxony-Anhalt), 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 federal state of Lower Saxony's silent participation of € 118 million amounted to € 6 million in 2009. For the financial years 2010 – 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 5.8 per cent.

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 have 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 financial asset participating interest and security portfolios 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:

(in € million)	Level 1 31 Dec. 2009	Level 2 31 Dec. 2009	Level 3 31 Dec. 2009	Total 31 Dec. 2009
Assets held for trading	4,879	6,862	196	11,937
Designated financial assets reported at fair value	1,324	661	729	2,714
Positive fair values from hedge accounting derivatives	–	2,874	–	2,874
Financial assets reported at fair value	42,007	7,974	7,945	57,926
Assets	**48,210**	**18,371**	**8,870**	**75,451**
Liabilities held for trading	196	7,022	91	7,309
Designated financial liabilities reported at fair value	10	8,847	–	8,857
Negative fair values from hedge accounting derivatives	11	2,091	–	2,102
Liabilities	**217**	**17,960**	**91**	**18,268**

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 € 19 million, financial assets designated at fair value by € 17 million and financial assets reported at fair value by € 80 million.

The total values of the changes in the fair value recognised through profit or loss in the income statement using this special measurement method are € 9 million for trading assets, € 87 million for financial assets designated at fair value and € – 1 million for financial assets reported at fair value.

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

(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 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

(56) Carrying amounts by measurement category

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Assets			
Financial assets held for trading	11,937	14,115	– 15
Financial assets designated at fair value through profit or loss	2,714	2,880	– 6
Available for sale assets	58,173	57,720	1
Loans and receivables	158,913	162,731	– 2
Total	**231,737**	**237,446**	**– 2**
Liabilities			
Financial liabilities held for trading	7,309	9,450	– 23
Financial liabilities designated at fair value through profit or loss	8,857	7,250	22
Other liabilities	209,960	214,824	– 2
Total	**226,126**	**231,524**	**– 2**

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) Gains/losses by measurement category

	1 Jan.– 31 Dec. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Financial instruments held for trading	421	– 296	> 100
Financial instruments designated at fair value through profit or loss	– 206	– 17	> 100
Available for sale assets	– 88	– 232	62
Loans and advances	– 1,078	– 278	> 100
Other Liabilities	1	15	– 93
Total	**– 950**	**– 808**	**– 18**

Gains/losses of the measurement categories of financial instruments held for trading (HfT) and financial instruments designated at fair value through profit or loss (dFV) 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/appreciations by measurement category

	1 Jan.– 31 Dec. 2009 (in € million)	1 Jan.– 31 Dec. 2008 (in € million)	Change (in %)
Available for sale assets			
Profit/loss from impairment of AfS financial assets	– 42	– 161	74
Impairment of shares in unconsolidated companies	– 11	6	> 100
	– 53	**– 167**	**68**
Loans and receivables			
Profit/loss from impairment of LaR financial assets	– 53	– 26	> 100
Profit/loss from direct write-offs loans and receivables/ receipts of written-off loans and receivables	– 55	9	> 100
	– 108	**– 17**	**> 100**
Total	**– 161**	**– 184**	**13**

(59) Fair value of financial instruments

Fair values of financial instruments are compared with the carrying amounts in the following table:

	31 Dec. 2009			31 Dec. 2008		
(in € million)	Fair Value	Carrying amount	Difference	Fair Value	Carrying amount	Difference
Assets						
Cash reserve	1,844	1,844	–	1,110	1,110	–
Loans and advances to banks	42,746	42,356	390	47,470	47,238	232
Loans and advances to customers	111,036	112,083	– 1,047	114,470	112,172	2,298
Provisions	–	– 1,789	–	–	– 1,204	–
Sub-total of loans and advances to banks / customers (net after loan loss provisions)	**153,782**	**152,650**	**1,132**	**161,940**	**158,206**	**3,734**
Financial assets reported at fair value through profit or loss	14,651	14,651	–	16,995	16,995	–
Positive fair values from hedge accounting derivatives	2,873	2,873	–	1,817	1,817	–
Financial assets not reported at fair value	4,994	5,152	– 158	2,977	4,444	– 1,467
Financial assets reported fair value	57,926	57,926	–	57,855	57,855	–
Total	**236,070**	**235,096**	**974**	**242,694**	**240,427**	**2,267**

(in € million)	31 Dec. 2009 Fair value	31 Dec. 2009 Carrying amount	31 Dec. 2009 Difference	31 Dec. 2008 Fair value	31 Dec. 2008 Carrying amount	31 Dec. 2008 Difference
Liabilities						
Liabilities to banks	63,099	62,152	947	69,913	69,862	51
Liabilities to customers	62,103	61,306	797	63,153	61,998	1,155
Securitised liabilities	83,080	79,151	3,929	77,442	77,335	107
Adjustment item for financial instruments hedged in the fair value hedge portfolio	*)	484	–	*)	482	–
Financial liabilities reported at fair value through profit or loss	16,166	16,166	–	16,700	16,700	–
Negative fair values from hedge accounting derivatives	2,102	2,102	–	2,340	2,340	–
Subordinated capital	5,701	5,939	– 238	5,535	5,629	– 94
Total	**232,251**	**227,300**	**5,435**	**235,083**	**234,346**	**1,219**

*) 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 € 8 million of financial instruments. These instruments are participating interests, some of which are subject to lock-up agreements and for which there is no active market.

(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 31 Dec. 2009	Nominal values 31 Dec. 2008	Fair values Positive 31 Dec. 2009	Fair values Positive 31 Dec. 2008	Fair values Negative 31 Dec. 2009	Fair values Negative 31 Dec. 2008
Interest rate risk							
Interest rate swaps		288,142	280,752	7,346	7,342	6,559	8,078
FRAs		288	4,563	–	9	1	10
Interest rate options	Call	2,844	6,701	210	242	–	–
	Put	10,131	11,488	–	–	896	1,123
Caps, floors		7,720	7,277	118	96	70	69
Stock exchange contracts		2,080	4,118	1	–	2	1
Other forward interest rate transactions		1,800	594	117	69	49	5
		313,005	**315,493**	**7,792**	**7,758**	**7,577**	**9,286**
Currency risk							
Forward exchange contracts		13,606	27,890	159	1,269	219	969
Currency swaps and interest rate/currency swaps		56,675	38,326	1,279	1,916	1,008	1,303
Currency options	Call	343	1,368	20	56	–	–
	Put	326	763	–	2	17	56
Other currency transactions		38	–	–	–	–	–
		70,988	**68,347**	**1,458**	**3,243**	**1,244**	**2,328**
Share price and other price risks							
Equity swaps		880	655	19	42	33	57
Stock options	Call	693	713	175	241	–	–
	Put	529	509	–	–	173	233
Stock exchange contracts		174	174	2	–	1	4
Other forward transactions		–	–	–	1	–	4
		2,276	**2,051**	**196**	**284**	**207**	**298**
Credit risk							
Assignor		1,795	3,650	11	136	8	8
Assignee		8,399	10,875	92	128	143	356
		10,194	**14,525**	**103**	**264**	**151**	**364**
Total		**396,463**	**400,416**	**9,549**	**11,549**	**9,179**	**12,276**

The residual terms to maturity of the derivative financial instruments are shown below.

	Interest rate risk		Currency risk		Share price and other price risk		Credit risk	
(Nominal values in € million)	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Up to 3 months	31,538	34,036	19,001	26,203	470	170	66	395
More than 3 months up to 1 year	41,921	54,891	10,416	9,396	240	690	503	877
More than 1 year up to 5 years	121,754	104,993	22,496	15,623	764	674	5,712	7,071
More than 5 years	117,792	121,573	19,075	17,125	802	517	3,913	6,182
Total	**313,005**	**315,493**	**70,988**	**68,347**	**2,276**	**2,051**	**10,194**	**14,525**

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. 2009	31 Dec. 2008	Positive 31 Dec. 2009	Positive 31 Dec. 2008	Negative 31 Dec. 2009	Negative 31 Dec. 2008
Banks in the OECD	356,366	358,300	8,154	10,163	8,726	11,690
Banks outside the OECD	926	1,112	6	11	12	31
Public institutions in the OECD	6,450	5,833	151	110	104	59
Other counterparties (including stock exchange contracts)	32,721	35,171	1,238	1,265	337	496
Total	**396,463**	**400,416**	**9,549**	**11,549**	**9,179**	**12,276**

(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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Assets			
Loans and advances to banks	1,760	2,909	– 39
Loans and advances to customers	5,446	5,806	– 6
Financial assets	5,648	4,634	22
Total	**12,854**	**13,349**	**– 4**
Liabilities			
Liabilities to banks	1,242	926	34
Liabilities to customers	9,016	9,612	– 6
Securitised liabilities	15,078	17,336	– 13
Subordinated capital	984	861	14
Total	**26,320**	**28,735**	**– 8**

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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Assets			
Financial assets	10,119	6,497	56
Total	**10,119**	**6,497**	**56**
Liabilities			
Securitised liabilities	20,834	10,562	97
Total	**20,834**	**10,562**	**97**

(62) Residual terms of financial liabilities

31 December 2009 (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	3,599	2,894	14,274	12,634	38,043
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	4,701	6,786
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**	**28,184**	**32,779**	**107,075**	**79,729**	**305,835**

31 December 2008 (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	31,331	13,810	8,993	10,830	12,337	77,301
Liabilities to customers	17,493	7,664	6,555	12,464	24,738	68,914
Securitised liabilities	4,075	6,669	10,832	38,160	21,322	81,058
Financial liabilities at fair value through profit or loss (no derivatives)	191	559	1,128	2,514	5,322	9,714
Other liabilities (financial instruments only)	13	7	1	–	–	21
Subordinated capital	7	11	354	1,850	4,086	6,308
Financial guarantees	2,830	119	132	602	367	4,050
Irrevocable credit commitments	922	217	3,530	15,656	2,393	22,718
Total	**56,862**	**29,056**	**31,525**	**82,076**	**70,565**	**270,084**

The residual term for undiscounted financial liabilities is defined as the period between the balance sheet date and the contractual due date.

(63) The NORD/LB group as assignor and assignee

The following financial assets have been pledged as collateral for liabilities (carrying amounts):

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Loans and advances to banks	1,134	1,371	– 17
Loans and advances to customers	4,179	3,210	30
Financial instruments at fair value through profit or loss	1,122	2,314	– 52
Financial assets	12,796	8,835	45
Total	**19,231**	**15,730**	**22**

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 € 8,160 million (€ 7,595 million).

Assets were assigned as collateral to the amounts shown for the following liabilities:

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Liabilities to banks	13,337	14,624	– 9
Liabilities to customers	2,091	4	> 100
Total	**15,428**	**14,628**	**5**

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 € 5,309 million (€ 2,062 million).

In the financial year 2009 no collateral which may be re-pledged or re-sold even if the assignor does not default was realised. In the previous year the repayment obligation was at current market value € 1,371 million.

(64) Security sale and repurchase agreements and securities lending

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Reverse repurchase transactions as borrower			
Loans and advances to banks	4,755	2,273	> 100
Loans and advances to customers	167	–	–
	4,922	**2,273**	**> 100**
Repurchase transactions as lender			
Liabilities to banks	11,724	12,260	– 4
Liabilities to customers	2,158	4	> 100
	13,882	**12,264**	**13**

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Loaned securities at fair value through profit or loss	**183**	**141**	**30**
Borrowed securities	**794**	**1,538**	**– 48**

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Securities sold under repurchase agreements			
Securities sold under repurchase agreements at fair value through profit or loss	964	1,711	– 44
Securities sold under repurchase agreements from financial assets	12,321	8,943	38
	13,285	**10,654**	**25**
Securities purchased under repurchase agreements	**6,656**	**2,581**	**> 100**

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,
- Capital terms defined by rating agencies, namely adjusted common equity (ACE) and adjusted total equity (ATE),
- 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: 4 per cent, regulatory capital: 8 per cent). The target capital ratios for regulatory core capital and regulatory capital far exceed the regulatory minimum capital ratios. 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 2008 and 2009 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. 2009	31 Dec. 2008
Risk-weighted assets *)	**92,575**	**89,825**
Capital requirements for credit risk	6,934	6,684
Capital requirements for market risk	227	248
Capital requirements for operational risk	245	254
Capital requirements according to the SolvV	**7,406**	**7,186**

*) Calculation at at 31 December 2008 according to Principle I.

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. 2009	31 Dec. 2008
Paid-in capital	1,191	1,176
Contributions from silent partners	2,882	2,428
Other reserves	2,869	2,711
Special item for general banking risks in accordance with § 340g of the German Commercial Code	1,094	888
Other components	15	32
Core capital	**8,051**	**7,235**
Non-current subordinated liabilities	2,762	2,450
Participatory capital liabilities	297	822
Other components	106	53
Supplementary capital	**3,165**	**3,325**
Deductions from core capital and supplementary capital	2,240	1,561
Modified available equity	**8,976**	**8,999**
Eligible capital in accordance with § 10 of the German Banking Act	**8,976**	**8,999**

(in %)	31 Dec. 2009	31 Dec. 2008
Overall ratio according to § 2 Paragraph 6 of the German Solvency Regulation (SolvV)	9.70	10.02
Core capital ratio	8.70	8.10

(67) Foreign currency volume

As at 31 December 2009 the NORD/LB Group had the following assets and liabilities in foreign currency:

(in € million)	USD	GBP	JPY	Other	Total
Assets					
Cash reserve	–	–	–	1	1
Loans and advances to banks	1,216	266	274	771	2,527
Loans and advances to customers	23,067	3,008	1,836	2,259	30,170
Loan loss provisions	– 83	– 26	–	– 30	– 139
Financial assets at fair value through profit or loss	5,111	1,400	– 78	1,041	7,474
Positive fair values from hedge accounting derivatives	161	8	40	56	265
Financial assets	4,660	1,220	314	1,516	7,710
Other assets	–	–	–	1	1
Total	**34,132**	**5,876**	**2,386**	**5,615**	**48,009**
Liabilities					
Liabilities to banks	8,610	2,255	26	2,475	13,366
Liabilities to customers	2,635	308	30	182	3,155
Securitised liabilities	2,909	72	2,061	1,745	6,787
Financial liabilities at fair value through profit or loss	16,161	2,364	– 460	1,451	19,516
Negative fair values from hedge accounting derivatives	328	28	61	55	472
Other liabilities	–	–	–	2	2
Subordinated capital	21	–	14	34	69
Total	**30,664**	**5,027**	**1,732**	**5,944**	**43,367**

(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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Assets			
Loans and advances to banks	22,308	26,888	– 17
Loans and advances to customers	89,833	75,853	18
Assets held for trading	6,518	603	> 100
Loans and advances to banks designated at fair value	16	5	> 100
Loans and advances to customers designated at fair value	215	100	> 100
Positive fair values from hedge accounting derivatives	1,242	865	44
Financial assets classified as LaR	4,553	2,705	68
Financial assets classified as AfS	47,056	42,647	10
Total	**171,741**	**149,666**	**15**
Liabilities			
Liabilities to banks	24,338	24,448	–
Liabilities to customers	32,834	31,574	4
Securitised liabilities	68,669	53,409	29
Liabilities held for trading	1,528	771	98
Liabilities to banks designated at fair value	562	293	92
Liabilities to customers designated at fair value	4,199	691	> 100
Securitised liabilities designated at fair value	3,785	5,505	– 31
Negative fair values from hedge accounting derivatives	1,536	1,979	– 22
Provisions	33	29	14
Subordinated capital	3,453	493	> 100
Total	**140,937**	**119,192**	**18**

(69) Contingent liabilities and other obligations

	31 Dec. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	7,349	8,502	– 14
Other obligations			
Irrevocable credit commitments	16,332	22,718	– 28
Totale	**23,681**	**31,220**	**– 24**

Liabilities from guarantees and other indemnity agreements include credit guarantees, trade-related guarantees and contingent liabilities from other guarantees and indemnity agreements.

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

NORD/LB ensures that the following companies are able to meet their obligations: Norddeutsche Landesbank Luxembourg S.A., Luxembourg; NORD/LB Covered Finance Bank S.A., Luxembourg; Skandifinanz Bank AG, Zürich; NORD/LB Asset Management Holding GmbH, Hanover; Nieba GmbH, Hanover and Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover.

The Group furthermore vouches for the obligations of the Sparkassenverband Niedersachsen (Association of the Savings Banks of Lower Saxony) resulting from its membership in the Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Girobanks) and the DekaBank Deutsche Girozentrale. In addition joint liability has been assumed for DekaBank Deutsche Girozentrale with the other shareholders of this bank 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).

Due to its participating interest in Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig, NORD/LB is liable to the effect that the limited partners have released the general partner from liability.

In a joint participating interest with other limited partners in Immobilien Development und Beteiligungsgesellschaft Niedersachsen mbH IDB & Co. – Objekt Zietenterrassen – KG, one limited partner has indemnified the general partner from liability. 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.

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.

Concerning the joint venture Bank DnB NORD A/S, Copenhagen, the partners have agreed on substantial mutual subscription rights for the assignment of partnership shares at market value. The joint venture is furthermore provided with liquidity from the Group amounting to 49 per cent in proportion to its share in the company.

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 € 25 million (€ 28 million).

The Group is also obliged to make additional contributions up to an amount of € 255 million (€ 291 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 € 269 million (€ 280 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 (€ 2 million). Due to memberships of 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 € 23 million at year-end (€ 37 million).

Securities have been deposited as collateral relating to transactions on the Eurex, Frankfurt, and foreign forward markets in the nominal amount of € 302 million (€ 174 million).

Obligations pertaining to existing rental, lease, guarantee and other similar agreements are within the scope of standard business.

Lease contracts for EDP systems amounted to € 535 million.

The NORD/LB Group has maximum liabilities to customers relating to guarantees in the amount of € 11,981 million and letters of credit in the amount of € 252 million.

(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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Loans and advances to banks and customers	203	320	– 37
Financial assets	48	50	– 4
Other assets	–	100	– 100
Total	**251**	**470**	**– 47**

(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. 2009 (in € million)	31 Dec. 2008 (in € million)	Change (in %)
Assets held in trust			
Loans and advances to banks	–	1	– 100
Loans and advances to customers	272	274	– 1
Financial instruments at fair value through profit or loss	9	7	29
Financial assets	65	47	38
Other assets held in trust	134	185	– 28
Total	**480**	**514**	**– 7**
Liabilities held in trust			
Liabilities to banks	201	207	– 3
Liabilities to customers	80	75	7
Other liabilities held in trust	199	232	– 14
Total	**480**	**514**	**– 7**

Related Parties

(73) Average 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. 2009	1 Jan.– 31 Dec. 2008	1 Jan.– 31 Dec. 2009	1 Jan.– 31 Dec. 2008	1 Jan.– 31 Dec. 2009	1 Jan.– 31 Dec. 2008
NORD/LB	1,826	1,720	1,965	1,958	3,791	3,678
Bremer Landesbank sub-group	516	504	506	477	1,022	981
NORD/LB Luxembourg sub-group	95	91	38	37	133	128
Deutsche Hypothenbank	175	134	136	93	311	227
ÖVB	310	304	324	314	634	618
Other	69	197	40	74	109	271
Group	**2,991**	**2,950**	**3,009**	**2,953**	**6,000**	**5,903**

(74) Related party disclosures

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.

Within the scope of ordinary business activities, business transacted with related parties is concluded at standard market terms and conditions.

The scope of transactions conducted with related parties in 2009 and 2008, excluding those to be eliminated under consolidation, can be seen in the following statements:

31 December 2009 (in € 000)	Shareholders	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Outstanding loans and advances						
to banks	–	–	49,939	946,856	–	–
to customers	3,013,754	33,238	5,339	181,752	2,071	75,327
Other unsettled assets	2,402,444	77	497	18,057	460	1,430
Total assets	**5,416,198**	**33,315**	**55,775**	**1,146,665**	**2,531**	**76,757**
Unsettled liabilities						
to banks	–	–	7	260,500	–	–
to customers	539,339	54,657	1,368	185,985	5,140	4,616
Other unsettled liabilities	50,119	–	–	–	–	–
Total liabilities	**589,458**	**54,657**	**1,375**	**446,485**	**5,140**	**4,616**
Guarantees/sureties received	4,178,747	–	–	4,787	–	–
Guarantees/sureties granted	5,325,060	1,095	160	2,167	–	–

1 January – 31 December 2009 (in € 000)	Shareholders	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest expense	8,816	478	27	9,886	80	23
Interest income	176,934	1,770	22,699	53,909	88	3,553
Commission expense	5	–	–	–	3	23
Commission income	111	114	2	292	5	37
Other income and expenses	41,421	144	106	– 14,770	– 7,187	468
Total contributions to income	**209,645**	**1,550**	**22,780**	**29,545**	**– 7,177**	**4,012**

31 December 2008 (in € 000)	Shareholders	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Outstanding loans and advances						
to banks	–	–	1,304,191	1,303,741	–	130,476
to customers	3,442,040	35,654	46,477	177,347	2,008	83,434
Other unsettled assets	2,290,699	385	15,617	351	460	709
Total assets	**5,732,739**	**36,039**	**1,366,285**	**1,481,439**	**2,468**	**214,619**
Unsettled liabilities						
to banks	–	–	10,195	29,575	–	17,565
to customers	915,155	61,202	43,571	48,023	4,290	31,900
Other unsettled liabilities	29,595	–	113,494	–	74	–
Total liabilities	**944,750**	**61,202**	**167,260**	**77,598**	**4,364**	**49,465**
Guarantees/sureties granted	870	2,977	2,167	185	–	–

1 January – 31 December 2008 (in € 000)	Shareholders	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest expense	19,262	3,098	5,543	3,958	126	1,151
Interest income	233,647	2,189	64,821	65,077	92	10,434
Commission expense	5	–	–	–	–	25
Commission income	108	13	144	2,697	2	119
Other income and expenses	27,140	194	– 190	356	– 5,989	2,326
Total contributions to income	**241,628**	**– 702**	**59,232**	**64,172**	**– 6,021**	**11,703**

In the item guarantees/sureties received from shareholders, guarantees to the amount of € 3,550,000 thousand (€ 0 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 (€ 0 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.

All of the guarantee agreements were concluded at market conditions.

Total remuneration and loans to governing bodies in accordance with commercial law presented in note (76) 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 € 49 thousand (€ 48 thousand).

(75) 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
(since 12 December 2009)

Ralf Dörries
Senior Vice President
NORD/LB Hannover

Dr. Michael Frenzel
Chairman of the Managing Board, TUI AG
(up to 11 December 2009)

Dr. Josef Bernhard Hentschel
Chairman of the Managing Board
Sparkasse Osnabrück

Sabine Hermsdorf
Vice President
NORD/LB Hannover
(up to 11 December 2009)

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
(since 1 February 2009)

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

Werner Schäfer
Chairman of the Managing Board
LBS Ostdeutsche Landesbausparkasse AG
(up to 31 January 2009)

Ilse Thonagel
Bank employee
Landesförderinstitut
Mecklenburg-Western Pomerania

Mirja Viertelhaus-Koschig
Deputy Chairman of the Managing Board
VIEROL AG
(since 14 December 2009)

As at 31 December 2009 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 Continental AG, Hanover (since 23 April 2009) DekaBank Deutsche Girozentrale, Frankfurt Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Joh. Berenberg, Gossler & Co. KG, Hamburg Norddeutsche Landesbank Luxembourg S.A., Luxembourg Skandifinanz Bank AG, Zurich
Christoph Schulz	Joh. Berenberg, Gossler & Co. KG, Hamburg LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Norddeutsche Landesbank Luxembourg S.A., Luxembourg Totto Lotto Niedersachsen GmbH, Hanover DnB Nord Bankas AG, Vilnius (up to 30 March 2009)
Dr. Jürgen Allerkamp	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover INDUS Holding AG, Bergisch-Gladbach Neue Dorint GmbH, Cologne DnB Nord Banka AG, Riga (up to 16 March 2009) DnB Nord Bankas AG, Vilnius (up to 30 March 2009) Bank DnB NORD A/S, Copenhagen (up to 20 April 2009) Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (up to 14 May 2009)
Eckhard Forst	Bank DnB NORD A/S, Copenhagen DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Bank DnB Nord Polska AG, Warsaw (up to 25 February 2009)
Martin Halblaub	Norddeutsche Landesbank Luxembourg S.A., Luxembourg (up to 11 January 2010) NORD/LB Covered Finance Bank, Luxembourg (up to 11 January 2010) NORD/LB Kapitalanlagegesellschaft AG, Hanover (up to 11 January 2010) (formerly NORDCON Investment Management AG, Hanover)
Dr. Johannes-Jörg Riegler	Bank DnB NORD A/S, Copenhagen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Bank DnB Nord Polska AG, Warsaw (up to 25 February 2009)

*) Banks and large corporate entities are on equal terms

(76) Remuneration and loans to governing bodies

(in € 000)	31 Dec. 2009	31 Dec. 2008
Emoluments paid to active members of governing bodies		
Payments due short-term		
Managing Board	6,103	5,261
Supervisory Board	473	396
Emoluments paid to former members of governing bodies and their dependants		
Payments due short-term		
Managing Board	–	277
Supervisory Board	564	7
Payments due short-term		
Managing Board	4,483	3,939
Provisions for pension obligations		
Managing Board	34,928	41,450
Supervisory Board	1,080	–
Advance payments, loans and contingencies		
Managing Board	1,268	1,250
Supervisory Board	157	160

(77) Group auditor's fees

(in € 000)	31 Dec. 2009	31 Dec. 2008
Group auditor's fees for		
the statutory audit	6,477	3,913
other audit-related services	2,036	790
tax services	4	–
other services	667	309

(78) Schedule of companies and investment funds included in the basis of consolidation

Company name and registered office	Shares (%) direct	Shares (%) indirect
Subsidiaries included in the consolidated financial statements		
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 AG, Hanover	–	100.00
Hannover Funding Company LLC, Delaware	–	–
MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Munich	–	77.81
Nieba GmbH, Hanover	–	100.00
Norddeutsche Landesbank Luxembourg S.A., Luxembourg	–	100.00
NORD/FM Norddeutsche Facility Management GmbH, Hanover	–	100.00
NORD/LB Asset Management Holding GmbH, Hanover	–	100.00
NORD/LB Covered Finance Bank S.A., Luxembourg	100.00	–
NORD/LB G-MTN S.A., Luxembourg	–	100.00
NORD/LB Immobilien-Holding GmbH & Co. Objekt Magdeburg KG, Magdeburg	–	–
NORD/LB Informationstechnologie GmbH, Hanover	–	100.00
NORD/LB Kapitalanlagegesellschaft AG, Hanover	100.00	–
Nord-Ostdeutsche Bankbeteiligungsgesellschaft mbH, 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
PANIMA Beteiligungs GmbH & Co. Obj. Braunschweig KG, Pöcking	–	94.00
PANIMA Beteiligungs GmbH & Co. Obj. Hannover KG, Pöcking	–	94.00
Skandifinanz Bank AG, Zurich	100.00	–

Company name and registered office	Shares (%) direct	Shares (%) indirect
Investment funds included in the consolidated financial statements		
NC-118 NLB	–	100.00
NC-Fonds SP 9	100.00	–
NC-Fonds SP 52	–	100.00
NC-Fonds SP 56	–	100.00
NC-Fonds SP 65	–	100.00
NC-Global Challenges Index-Fonds	–	64.44
NC-High-Yield-Fonds	–	89.91
NC-OELB-Fonds	100.00	–
NC-OESB-Fonds	100.00	–
NC-VT Renten Classic Fonds	–	100.00
Companies / investment funds accounted for in the consolidated financial statements using the equity method		
Joint ventures		
Bank DnB NORD A/S, Copenhagen	–	49.00
KreditServices Nord GmbH, Hanover	–	49.00
LHI Leasing GmbH, Munich	43.00	6.00
Associated companies		
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	–
BREBAU GmbH, Bremen	30.00	–
DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen	27.50	–
GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg	22.22	–
LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and 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
Lazard-Sparkassen Rendite-Plus-Fonds	46.54	–
NC-Emerging Market Bond Fonds	–	36.28

A complete list of equity holdings in accordance with § 313 Paragraph 2 of the German Commercial Code is published in the electronic German Federal Register (www.ebundesanzeiger.de).

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, 23 March 2010

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 statement and the 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 2009. 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 § 315a 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 § 315 a (1) of the German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations 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, 24 March 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
[German Public Auditor]

Hultsch
Wirtschaftsprüfer
[German Public Auditor]

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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 2008 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 18 March 2010 and 15 April 2010, 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 of 18 March 2010 the Supervisory Board adopted the management report and the annual financial statements as at 31 December 2009.

On 15 April 2010 the consolidated accounts and the Group management report prepared as at 31 December 2009 in accordance with IFRS were adopted.

The Supervisory Board proposes to the owners' meeting that the acts of the Managing Board be ratified.

The following members retired from the Supervisory Board:
Mr. Werner Schäfer as at 31 January 2009
Mrs. Sabine Hermsdorf as at 11 December 2009
Dr. Michael Frenzel as at 11 December 2009

The following new members were appointed to the Supervisory Board:
Mr. Manfred Köhler, as at 1 February 2009
Mrs. Edda Döpke, as at 12 December 2009
Mrs. Mirja Viertelhaus-Koschig as at 14 December 2009.

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 2009 banking year by the Managing Board and by all of the employees of the bank.

Hanover / Braunschweig / Magdeburg
April 2010

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 2009, the owner's meeting approved significant resolutions to the transfer of participatory capital into silent participations according to IFRS, to the rollover of participatory capital, to the replacement of participatory capital by long-term subordinated liabilities and to the issue of further subordinated capital.

The following members resigned from the Guarantors' meeting:
Dr. Christian Sundermann as at 3 March 2009
Mr. Thomas Schneider as at 13 December 2009.

The following new members were appointed to the Guarantors' meeting:
Dr. Helmut Stegmann as at 12 March 2009
Mr. Thomas Brase as at 14 December 2009

The Guarantors' meeting thanks the Managing Board and the Supervisory Board for work performed.

Hanover / Braunschweig / Magdeburg
April 2010

Thomas Mang
President
Association of Savings Banks in Lower Saxony

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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 since 1 January 2009)

Christoph Schulz
(Deputy Chaiman)

Dr. Jürgen Allerkamp
(up to 31 January 2010)

Eckhard Forst

Dr. Hinrich Holm
(since 1 February 2010)

Martin Halblaub
(up to 11 January 2010)

Dr. Johannes-Jörg Riegler

Executive Vice Presidents

Kurt Gliwitzky

Sven Herlyn

Carsten Hüncken

Jürgen Machalett

Dr. Ulf Meier

Christoph Trestler

Dr. Hans-Joachim Weinberger (up to 31 March 2009)

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

Branch Hanover
Georgsplatz 1
30159 Hanover

Branch Hamburg
Brodschrangen 4
20457 Hamburg

Branch Magdeburg
Landesbank für Sachsen-Anhalt
Breiter Weg 7
39104 Magdeburg

Branch Schwerin
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
37th 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 Offices

NORD/LB New York
1114, Avenue of the Americas
37th Floor
New York, New York 10036

Branch of Deutsche Hypo

62–64 Cannon Street
Cannongate House – 1st Floor
London EC4N 6AE

Offices of Deutsche Hypo

(alphabetical)

Koenigsallee 63–65
40215 Duesseldorf

Goethestraße 18
60313 Frankfurt

Brodschrangen 4
20457 Hamburg

Georgsplatz 8
30159 Hanover

Münchner Straße 16
85774 Munich-Unterfoehring

Representative Offices

Widenmayerstraße 15
80538 Munich

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 Moskau
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 400051
India

Branches of the Braunschweigischen Landessparkasse

Bad Gandersheim
Markt 6–8

Bad Harzburg
Breite Straße 18, Bündheim (SB-Center)
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
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
Donaustraße 46, Weststadt
Elbestraße 21, Weststadt
Feuerbrunnen 1, Waggum
Friedrich-Wilhelm-Platz, (NL Bürgerpark)
Humboldtstraße/Gliesmaroder Straße 1
Große Grubestraße 30b, Broitzem
Hinter den Hainen 9, (SB-Center), Mascherode
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
Westernstraße 19/20

Kreiensen
Steinweg 22, Greene
Wilhelmstraße 13

Langelsheim
Bahnhofstraße 5
Goslarsche Straße 22b, (SB-Center), Astfeld

Lauenförde
Hasenstraße 1

Lehre
Boimsdorfer Straße 2a

Lutter am Barenberge
Gerichtstraße 1b

Salzgitter
Berliner Straße 148, Lebenstedt
Burgbergstraße 48D, Lichtenberg
Fischzug 1 (SB-Center)
Gärtnerstraße 4, Salder
In den Blumentriften 64, Lebenstedt
Kurt-Schumacher-Ring 4, Fredenberg
Maangarten 32, Hallendorf
Schäferwiese 4a, Thiede
Weddemweg 5, Gebhardshagen
Wildkamp 28, Lebenstedt
Wolfenbütteler Straße 5, Thiede

Schöningen
Markt 11–12

Schöppenstedt
Markt 4/5

Seesen
Auf den Steinen 4, Rhüden
Jacobsonstraße 1
Kampstraße 43 (SB-Center)
Thüringer Straße 10, Münchehof
Hauptstraße 9, Wolfshagen

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
Goslarsche/Bahnhofstraße (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

Bank DnB NORD A/S*
Amerikakaj
Dampfaergevej 28
2100 Copenhagen

* *with the subsidiaries*
AS DnB NORD Banka
Smilsu iela 6
LV-1050 Riga/Latvia

AB DnB NORD Bankas
J. Basanaviciaus str. 26
LT-2630 Vilnius/Lithuania

DnB NORD Bank Polska S.A.
ul. Kruczkowskiego 8
PL-00380 Warsaw

Berlin-Hannoversche
Hypothekenbank AG
Landschaftsstraße 8
30159 Hanover
Budapester Straße 1
10787 Berlin

Bremer Landesbank Kreditanstalt
Oldenburg Girozentrale
Domshof 26
28195 Bremen

Bürgschaftsbank Mecklenburg-Vorpommern GmbH
Am Grünen Tal 19
19063 Schwerin

Bürgschaftsbank Sachsen-Anhalt GmbH
Große Diesdorfer Straße 228
39108 Magdeburg

Deutsche Hypothekenbank
(Actien-Gesellschaft)
Georgsplatz 8
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

KreditServices Nord GmbH
Hans-Böckler-Allee 11
30173 Hanover

Niedersächsische Bürgschaftsbank (NBB) GmbH
Schiffgraben 33
30175 Hanover

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 Bank 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*
Deutsche Factoring Bank
Deutsche Factoring GmbH & Co.
Langenstraße 15–21
28195 Bremen

LBS Norddeutsche
Landesbausparkasse
Berlin-Hanover
Kattenbrookstrift 33
30539 Hanover

LHI Leasing GmbH
Emil-Riedl-Weg 6
82049 Pullach i. Isartal

Öffentliche Versicherung
Braunschweig
Theodor-Heuss-Straße 10
38122 Braunschweig

SALEG Sachsen-Anhaltinische
Landesentwicklungsgesellschaft mbH
Turmschanzenstraße 26
39114 Magdeburg

SGK Servicegesellschaft Kreditmanagement mbH
Barckhausstraße 1
60325 Frankfurt am Main

Supervisory Board

(As at 4 March 2010)

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 Managing Board
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

Dr. Josef Bernhard Hentschel
Chairman of the Managing Board
Sparkasse Osnabrück

Frank Hildebrandt
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Dr. Gert Hoffmann
Mayor
City of Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Walter Kleine
Chairman of the Managing Board
Sparkasse Hanover

Manfred Köhler
Chairman of the Managing Board
Salzlandsparkasse

Heinrich von Nathusius
Managing Director
IFA Gruppe

August Nöltker
Union Secretary
United Services Union
(ver.di Vereinte Dienstleistungsgewerkschaft)

Freddy Pedersen
Deputy District Manager
United Services Union
ver.di Vereinte Dienstleistungsgewerkschaft

Ilse Thonagel
Bank employee
Landesförderinstitut Mecklenburg-Vorpommern

Mirja Viertelhaus-Koschig
Deputy Chairman of the Managing Board
VIEROL AG

Guarantors' meeting

(As at 4 March 2010)

Chairman
Thomas Mang
President
Association of Savings Banks in Lower Saxony

First Deputy Chairman
Peter Siebken
Chairman of the Managing Board
Sparkasse Neubrandenburg-Demmin

Second Deputy Chairman
Thomas Webel
Country Officer
Börde District

For the State of Lower Saxony
Thomas Brase
Principal
Ministry of Finance
State of Lower Saxony

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
Ministry of Finance
State of Saxony-Anhalt

Special Purpose Holding Association of Savings Banks Holding in Mecklenburg-Western Pomerania
Dr. Paul Krüger
Mayor
City of Neubrandenburg

For the Association of Savings Banks in Lower Saxony
Klaus Brandes
Chairman of the Managing Board
Kreissparkasse Verden

Glossary

Amortised cost
Amount at which financial assets or liabilities are valued on Initial measurement less repayments, including or less accumulated amortisation of any discount or premium that is an integral part of 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 guarantee instruments in an effective hedging instrument.

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. Amendments to fair value are always reported at equity until such time as they are written off.

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 future or amounts of income tax assets recoverable in 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
Under the equity accounting method, the investment in associated companies and joint ventures is carried in the balance sheet at cost plus post-acquisition when added and adapted in subsequent measurement in accordance with the share of the shareholder in the changing net assets of the associate.

Expected loss
Expected loss is the loss in the loan portfolio of the bank which is expected to occur within a year and is calculated on the basis of historical loss data.

Fair value
Amount at which an asset could be bought or sold or transferred or a liability settled in an arm's length transaction between knowledgeable, willing, independent parties.

Finance lease
Lease in which risks and rewards essentially relating to ownership of the leased item are transferred to a 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 congruities 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 for one entity and at the same time gives rise to a financial obligation or equity instrument for another entity.

Goodwill
Future economic benefit from assets resulting from business combinations which cannot be separately identified and separately recognised.

Hedge accounting
Accounting and balance sheet presentation of hedging relationships between underlying and hedge transactions in order to avoid fluctuation in the income statement and in equity which would results from different measurements of underlying and hedge transactions.

Hedged item
Financial assets or liabilities, fixed liabilities, anticipated future transactions or net investments in foreign sub-units with a high probability of occurrence which subject the enterprise to the risk of a change in fair value or future cash flows and which 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 the changes in the fair value or cash flow of a designated underlying transaction.

Impairment
If the carrying amount of an asset exceeds its attainable 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 and involving fixed or determinable payments and a fixed term which have the ability and are intended to be held until maturity. The held to maturity category is currently not employed in the NORD/LB Group.

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 guarantee instruments in an effective hedging instrument.

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 financial leases.

Other financial Liabilities (OL)
All the financial liabilities which are not held for sale or which are not classified 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.

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 credit 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.

Imprint:

NORD/LB
Norddeutsche Landesbank Girozentrale
Friedrichswall 10
30159 Hannover
Phone: +49 (0) 511/361-0
Fax: +49 (0) 511/361-2502

www.nordlb.de

Concept and composition:
wirDesign Berlin Braunschweig

Print and production management:
types.Fotosatz GmbH, Hannover

Photography:
projekt-zwei (Gasparini/Müller), Peine
gettyimages (page 8)
iStockphoto (page 42)
Christian Richters Photography (page 47)

Artists:
Ben Willikens (page 16)
Aquarell von Per Kirkeby, Buchkunst Kleinheinrich (page 58)

Lithography:
Rolf Neumann, Braunschweig

We would like to thank all our colleagues of NORD/LB Group
providing their photos for this report.

Die norddeutsche Art.

Finanzgruppe