Annual Report 2010

Norddeutsche Landesbank Girozentrale
(Anstalt öffentlichen Rechts)

Finanzgruppe

NORD/LB

Die norddeutsche Art.

Declaration of Norddeutsche Landesbank Girozentrale on the German Corporate Governance Code

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

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

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

Managing Board

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

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

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

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

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

Supervisory Board

The task of the Supervisory Board is to provide the Managing Board with regular advice and to monitor the Managing Board's management of the company. It decides on the appointment and dismissal of members of the Managing Board, the general guidelines governing the business of the bank, the annual schedule as presented by the Managing Board, the rules of procedure for the Managing Board, the appointment and commissioning of the auditors, the adoption of the financial statements and on the entering into of shareholdings. The Supervisory Board may also decide that other transactions and measures that are of particular importance for the bank also require its agreement. It prepares rules of procedure for itself and its committees.

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

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

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

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

Owners' Meeting

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

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

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

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Content

Business Activities and the General Environment

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

Economic Development

Germany

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

Germany benefited particularly from the dynamic global economy due to its traditionally strong exports. Other important industrial nations such as the USA and Japan, as well as in particular numerous emerging economies, also recorded high economic growth in 2010. Driven by this development, global trade grew by a double-figure rate in the past year compared to the previous year and therefore reached the level seen before the crisis. This provided significant impetus for Germany's manufacturing sector, which was reflected among other things by a significant rise in orders from abroad for German companies and in industrial production. Global stabilisation, economic stimulus programmes and very expansive monetary policy played their part in the global economic recovery. During the course of the year the indications of a largely self-supporting recovery grew ever stronger. Against this background it was no surprise that the Ifo Business Climate Index would recover strongly and in December a new record was set.

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

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

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

Lower Saxony

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

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

Bremen

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

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

Saxony-Anhalt

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

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

Mecklenburg-Western Pomerania

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

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

General Economic Development in Foreign Markets

USA

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

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

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

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

North East Europe and Scandinavia

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

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

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

Asia

2010 was a year of recovery for the region of Asia. After the significant slowdown in 2009, most countries recorded above-average growth rates in 2010. The rate and drivers of development varied though by country. In particular China, Singapore and Taiwan experienced high growth rates due to exports and investment.

Japan, which suffered the sharpest decline in growth in Asia in the economic crisis, also recorded significant growth again. The picture is tarnished though by Japan's high and growing national debt.

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

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

Financial Markets

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

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

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

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

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

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

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

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

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

The most important international share markets were able to make up lost ground in the past year and achieve an overall positive performance for the year. After a brief fall to a low of 5,433 points in February, the German leading share index DAX rose steadily in the past year and the top of the DAX listed above 7,000 points in mid-December. The share markets were supported significantly by the persistently low yield level and high liquidity in the markets. Higher-risk assets such as shares also become more attractive again due to the positive performance of and outlook for the economy; the previously high risk aversion reduced accordingly.

NORD/LB Norddeutsche Landesbank Girozentrale

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

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

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

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

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

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

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

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

Control Systems

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

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

Personnel Report

As at 31 December 2010 a total of 4,463 people were employed by NORD/LB. The number of employees therefore rose by 366 compared to the previous year. Although the proportion of female employees fell slightly from 51.4 per cent to 50.7 per cent, proportion of female employees in managerial positions rose from 19.1 per cent to 19.8 per cent.

The fluctuation rate fell from 3.9 per cent to 2.1 per cent. The illness rate rose slightly from 4.1 per cent to 4.4 per cent.

The number of apprentices increased from 197 to 228. A further rise in the number of trainees is planned for the financial year 2011 due to twice the number of pupils completing their "Abitur" (university-entrance diploma) this year.

NORD/LB structural data:

Reporting date	31 December 2010	Of which female	Female (in %)	31 December 2009	Of which female	Female (in %)
Non-tariff employees	1,315	321	24.4	1,210	294	24.3
Tariff employees	2,597	1,678	64.6	2,391	1,557	65.1
Trainees and apprentices	228	117	51.3	197	95	48.2
Abroad	252	110	43.7	233	113	48.5
Other	71	38	53.5	66	45	68.2
Employees total	**4,463**	**2,264**	**50.7**	4,097	2,104	51.4

Employee development

An extensive range of seminars supports the professional and personal development of employees. In 2010 employees made use of a total of 13,556 (10,055) seminar days.

In 2010 the new management principles of NORD/LB were implemented in a structured process in which all of the Bank's employees were involved. In addition to the established manager and expert career paths, the project manager career path has been developed. Particular importance is attached to the systematic training of high-potential employees who are selected within the scope of a structured process; the available training includes a Management course and an Advanced Project Manager training programme.

The processes of change, which NORD/LB like all other companies is subject to, are supported by measures such as individual coaching from managers and workshops for departments.

NORD/LB Earnings

Only limited comparison of the earnings for 2010 with the previous year's earnings is possible as significant changes had to be made in the accounting of many items when the German Accounting Law Modernisation Act (BilMoG) came into effect on 1 January 2010.

The following schedule shows the structure of the profit for the period by operational criteria:

	2010 (in € million)	2009 (in € million)	Change (in %)
Net interest income	1,291	1,271	2
Net commission income	199	147	36
Net income from trading portfolio	21	163	– 87
Administrative expenses	– 700	– 758	– 8
Other operating profit/loss	– 10	53	> 100
Operating result before loan loss provisions and valuation	**801**	**876**	**– 9**
Result of evaluation of receivables, securities and investments	– 389	– 625	– 38
Assumption of investment losses	– 5	– 109	– 95
Allocation to funds for general banking risks	– 30	–	–
Operating result after loan loss provisions and valuation	**377**	**142**	**> 100**
Extraordinary result	– 8	–	–
Partial profit transfer (silent participations)	– 157	– 142	11
Tax income	– 114	18	> 100
Profit for the year before appropriation of earnings	**98**	**18**	**> 100**

In accordance with § 340e of the German Commercial Code an allocation to the fund for general banking risks is mandatory in the event of a profit from trading; an amount of € 100 million was allocated in the year under review and in the above table this amount has been directly offset against net income from trading portfolio. Before this allocation was allowed for, net income from trading portfolio was € 121 million.

The operating result before loan loss provisions and valuation therefore fell compared to the previous year by 9 per cent to € 801 million. The reason for this is in particular the fall in net income from trading portfolio, which is also attributable to the above-mentioned reporting method. The rise in the operating result before loan loss provisions and valuation to € 377 million reflects the much improved risk situation in the year under review. After taking account of the negative extraordinary earnings of € 8 million, the 11 per cent rise compared to the previous year in the partial profit transfer to silent participations to € 157 million and the tax expenditure of € 114 million (€ 9 million tax revenue), a profit for the period before the appropriation of earnings of € 98 million (€ 18 million) remains. The transition effects relating to the initial application of BilMoG are reported net in the extraordinary earnings.

Net interest income rose by 2 per cent and is composed as follows:

	2010 (in € million)	2009 (in € million)	Change (in %)
Interest income from			
Lending and money market transactions	3,346	3,832	– 13
Fixed-income and book entry securities	868	1,117	– 22
Current income from trading portfolio	1,315	–	–
	5,529	**4,949**	**12**
Interest for liabilities to			
banks	760	1,031	– 26
non-banks	1,039	1,282	– 19
Securitised liabilities	1,514	1,834	– 17
Current expense from trading portfolio	1,358	–	–
Remaining interest and similar expenses	– 353	– 207	71
	4,318	**3,940**	**10**
	1,211	**1,009**	**20**
Current income from shares and other variable-yield securities, investments and shares in affiliated companies	70	247	– 72
Income from profit pooling, profit transfer and partial profit transfer agreements	10	15	– 33
Net interest income	**1,291**	**1,271**	**2**

The balance of interest income and interest expense rose by 20 per cent. At the same time income from traditional lending business fell slightly as a result of low interest rates and the lower lending balance compared to the previous year. On the other hand higher interest payments were achieved from trading book derivatives than in the previous period. The remaining interest and similar expenses include in particular the earnings from interest-rate swaps, which improved from € 386 million in 2009 to € 522 million in 2010.

Current income from shares and other variable-yield securities, investments and shares in affiliated companies fell by 72 per cent. The previous year was affected significantly by high income from investments from NORD/LB Luxembourg. In addition to this, the disposal of silent investments and the sale of the shares in Berenberg Bank contributed towards the fall in this item.

Commission income rose compared to the previous year by 36 per cent. Commission income of € 248 million (€ 197 million) was seen alongside a commission expense of € 49 million (€ 50 million). The bank mainly generates commission income from lending business (€ 80 million, previous year € 82 million), from payment transactions (€ 31 million, previous year € 31 million) and from securities transactions (€ 25 million, previous year € 24 million). Commission expense essentially results from securities business (€ 18 million, previous year € 23 million) and lending business (€ 8 million, previous year € 11 million).

Net income from trading portfolio this year now also includes valuation results from the reporting of trading book transactions at fair value. A comparison with the previous year is not possible.

Administrative expenses fell to € 700 million (€ 758 million) with wages and salaries increasing due to the increase in the number of employees by € 30 million to € 270 million. Social contributions fell by € 61 million to € 52 million. The interest portion of the allocation to pension and other personnel provisions in the amount of € 50 million is not shown in the administrative expenses but in the other profit/loss. Other administrative expenses fell by € 26 million to € 357 million, while amortisation and depreciation of intangible assets and property and equipment remained virtually constant at € 20 million.

Other profit/loss fell by € 63 million. The fall is due in particular to the reporting of the interest portion of the allocation to pension and other personnel provisions under this item.

The much improved value includes € 203 million for write-downs of and value adjustments to claims and certain securities and allocations to provisions for lending business and € 186 million for write-downs of and value adjustments to investments, shares in affiliated companies and securities treated as fixed assets. The investment in DnB NORD was sold in 2010, therefore a write-down has been made for the last time for this exposure.

The losses assumed from investments were affected in 2009 by the assumption of obligations towards Skandifinanz AG.

In 2010 the special item was increased in accordance with § 340g of the German Commercial Code by € 30 million to protect against general banking risks. The special item was also allocated a further amount of € 100 million on the basis of the newly created § 340e para. 4 of the German Commercial Code.

Tax expenditure in the past financial year amounted to € 114 million, while tax income of € 18 million was recorded in 2009.

Overall the financial year 2010 closed with a profit of € 98 million.

NORD/LB Assets

The following overview shows the condensed balance sheet items as at 31 December 2010 alongside the figures for the previous year.

	2010 (in € million)	2009 (in € million)	Change (in %)
Assets			
Loans and advances to banks	31,490	37,363	– 16
Loans and advances to customers	65,512	65,691	– 0
Securities	35,898	42,480	– 15
Trading portfolio	7,595	–	–
Investment property and shares in affiliated companies	2,646	2,892	– 8
Other assets	7,651	9,665	– 21
Total assets	**150,792**	**158,091**	**– 5**
Liabilities			
Liabilities to banks	41,214	42,283	– 3
Liabilities to customers	40,737	41,773	– 2
Securitised liabilities	48,584	54,757	– 11
Trading portfolio	1,635	–	–
Provisions	1,172	1,396	– 16
Participatory capital and subordinated liabilities	3,105	2,550	22
Bank's own funds	5,916	5,780	2
Other liabilities	8,429	9,552	– 12
Total liabilities	**150,792**	**158,091**	**– 5**
Balance sheet data			
Contingent liabilities	8,600	9,690	– 11
Other obligations	8,140	11,179	– 27
Business volume	**167,532**	**178,960**	**– 6**

According to this, the balance sheet total fell slightly by 5 per cent to € 151 billion. The assets side is again defined by lending business. Loans and advances to customers, which compared to the previous year have hardly changed, make up 43 per cent (42 per cent) of the balance sheet total. Securities, at 24 per cent (27 per cent) of the balance sheet total, remain the second largest item on the assets side and are characterised by loans and debt securities.

On the liabilities side there was a considerable reduction in securitised liabilities, which at 32 per cent (35 per cent) represent the largest item on the liabilities side of the balance sheet as at the reporting date.

The increase in the bank's own funds is the result of the balance sheet profit in the past financial year and the effects of the initial application of the BilMoG regulations.

The own funds ratio as at the reporting date was 3.9 per cent (3.7 per cent).

Regulatory own funds at 31 December 2010 totalled € 8,363 million (€ 7,816 million), of which € 6,452 million (€ 6,506 million) related to core capital. The own funds ratio (= total ratio) is 14.3 per cent of risk-weighted assets against 11.8 per cent for the previous year.

Financial Position

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

Supplementary Report

There were no events of particular significance after the close of the year under review.

Summary

The performance of the business is viewed as satisfactory.

Development of the Business Segments

(in € million)	Private and Commercial Customers	Savings Bank Network	Financial Markets/ Institutional Customers	Corporate Customers	Energy and Infrastructure Customers	Ship and Aircraft Customers	Real Estate Banking Customers	Investments/ Others	Operating income	Reconciliation of income statement	NORD/LB income statement
Operating result after loan loss provisions and valuation	41	12	273	91	75	219	58	– 392	377	–	377
for the previous year	17	24	172	16	63	92	48	– 290	142	–	142
CIR	79 %	63 %	23 %	23 %	22 %	9 %	21 %	–	47 %	–	47 %
CIR for the previous year	81 %	61 %	23 %	26 %	22 %	12 %	22 %	–	46 %	–	46 %
RoRaC/RoE	21 %	17 %	34 %	23 %	23 %	17 %	12 %	–	6 %	–	6 %
RoE for the previous year	8 %	31 %	19 %	4 %	20 %	9 %	12 %	–	0 %	–	0 %

CIR = administrative expenses/total earnings plus net other earnings/expenses
Business segment RoRaC = operating income after loan loss provisions and valuation/committed capital
Entire bank RoE = operating result after loan loss provisions and valuation less extraordinary earnings plus interest expenses for silent participations/long-term core capital under commercial law

The CIR was virtually unchanged in 2010 at 47 per cent.

Administrative expenses experienced a fall of over 7 per cent, which though was compensated for by the slight fall in income (4 per cent). A major factor for this was the fall in the profit from trading.

A capital securitisation level of 5 per cent of risk-weighted asset values applies for calculating committed capital in the segments.

RoRaC calculations in the segments include the contribution to income after risk provisions and valuation on committed capital (5 per cent of the higher value of the RWA limits and the amount called on). The calculation of the entire bank's return-on-equity (RoE) complies with the standard international definitions of financial ratios.

The RoE for 2010 is over 6 per cent due to the pleasing low negative impact of risk provisions and valuation on earnings.

Private and Commercial Customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In summary the private and commercial customers segment's profit was up € 24 million to € 41 million compared to the previous year. This is attributable to improved earnings (€ 7 million) and much lower loan loss provisions (€ 16 million) with operating costs virtually remaining the same.

The contribution to net interest income was increased by € 5 million with a slight fall in lending and a positive development in borrowing due among other things to low interest rates. The emphasis of sales on gaining deposits also resulted in an increase of around 6 per cent in deposits.

The reduced time spent on sales activities due to resources being used to implement legal requirements had a negative effect on income from services. Other operating profit, on the other hand, improved significantly. The reason for this was in particular the absence of exceptional charges from the previous year (provisions).

The fall in the business segment's loan loss provisions is attributable to reversals of write-downs in particular in the corporate and small business customer segment of Braunschweigische Landessparkasse.

With less equity employed, the RoRaC rose to 21 per cent due to the higher reported earnings. The CIR also improved and is now 79 per cent.

Savings Bank Network

The savings bank network consolidates primarily institutional business with savings banks, the savings bank syndicate business, 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).

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

Syndicate Business

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

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

Municipal Business

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

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

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

Promotional Business

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

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

Institutional Savings Bank Business

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

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

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

Income in NORD/LB's savings bank network totalled € 67 million in 2010 (€ 71 million). Compared to the previous year, income from interest rate transactions fell slightly due among other things to the fall in municipal business, while income from services developed positively. The trading profit of the institutional savings bank business fell significantly in 2010 due to more difficult general conditions (increased legal documentation regulations).

Compared to the previous year operating costs were reduced by around € 1 million to € 42 million. Both staff expenses and cost of materials were reduced. The CIR is 63 per cent.

The solid developments in the savings bank network segment were used to increase loan loss provisions in the savings bank syndicate business in the amount of € 12.6 million. Accordingly the operating result before loan loss provisions in the savings bank network fell to € 12 million, which resulted in the RoRaC falling to 17 per cent.

Financial Markets/ Institutional Customers

The Financial Markets segment can look back on a successful financial year 2010. In a year characterised by historically low interest rates and the EU debt crisis, NORD/LB managed to exceed its own expectations and achieve earnings on a par with the previous year's very good figures. In the process the market position achieved in the previous year in the market segments significant for the bank was extended.

Markets

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

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

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

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

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

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

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

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

Corporate Sales

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

Portfolio Investments

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

Treasury

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

Compared to the previous year, the performance of the Financial Markets division has on the whole been pleasing. The contribution to the operating result after risk provisions increased significantly by € 101 million to € 273 million. This development is primarily attributable to the stable earnings and a significant reduction in risk provisions. Due to the previous year's precautionary increase in risk protection in the area of ABS Investments, far fewer additional write-downs were necessary in the year under review. Risk provisions were therefore reduced from € 146 million to € 42 million.

Income was on the whole on a par with the previous year's high figure. Benefited by low interest rates, very good interest results were achieved in the trading divisions. The extraordinarily positive interest and liquidity control contributed towards unexpectedly good earnings from transformations.

With operating costs almost constant, the CIR was virtually unchanged at 23 per cent. Due to the positive development in earnings and at the same time a reduced equity commitment, the RoRaC improved from 19 per cent to 34 per cent.

Corporate Customers

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

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

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

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

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

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

The contribution to the operating result of € 91 million achieved in 2010 confirms the success of the corporate customer business. Interest income continued to develop positively and improved compared to the previous year by 11 per cent to € 160 million. The above-mentioned measures took effect particularly in lending business and were accompanied by pleasing improvements in margins. At the same time borrowing benefited from an increase in volume.

Commission income (€ 17 million) was 95 per cent of the good figure achieved in the previous year as income from services was below the level of 2009. In addition to the increase in loan processing fees reported in interest income due to changes in legislation, income from the Mergers & Acquisitions business was not included in the year-on-year comparison. The corporate customer business participated in the positive developments in financial markets with an improved profit from trading.

While it was necessary to make high provisions in 2009 due to the state of the economy, the risk situation eased in 2010 and was at the expected level. Compared to the previous year this resulted in a positive effect of € 58 million on the contribution to the operating result.

The stronger income situation and a slight fall in operating costs resulted in an improved cost-income ratio. The RoRaC reached a pleasing 23 per cent in 2010 after the crisis year of 2009.

Energy and Infrastructure Customers

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

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

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

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

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

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

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

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

Overall the segment increased its contribution to the operating result by € 12 million to € 75 million. In addition to the increase in interest income of € 12 million due to rising margins and an increase in the volume of loans, the pleasing development in this area is also reflected in the income from services. This was increased primarily due to the increased advisory service by 35 per cent to € 37 million.

Investment in this business segment resulted in an increase in operating costs. Risk provisions were moderately increased by € 7 million to € 46 million due to the high quality of the credit portfolio.

The overall development of the income items resulted in the RoRac exceeding the previous year's high level at 23 per cent. The CIR was unchanged.

Ship and Aircraft Customers

Ship Financing

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

2010 saw, along with the recovery in the economy and global trade, a recovery in shipping markets. Charter rates rose noticeably in the 2nd and 3rd quarters initially in bulk shipping, which is driven by primary products such as coal and iron ore, then in container shipping, which is more geared towards consumer goods. The latter was sustained in particular by rising volumes of trade to and from Asia, with the shipping lines active or located here initially benefiting.

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

In numerous cases of financing, credit margins and fees were renegotiated to take adequate account of risk, and this was reflected in combination with the development of the US dollar exchange rate in an increase in both interest income and commission income (42 per cent and 119 per cent respectively). At the same time risk provisions fell (30 per cent) in this business segment primarily due to the market recovery taking root.

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

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

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

The success of aircraft financing can be deduced by both the credit volume and the margins achieved having increased. The profit from services and trading is also significantly above the previous year's level. As a result net interest income rose by 19 per cent, while income from services enjoyed a three-figure growth rate. Thanks to the balanced structure of the portfolio there was again no need to make risk provisions.

As a result shipping and aircraft financing was able to increase its operating result by € 127 million to € 219 million. A significant driver of this result was a 34 per cent (€ 65 million) increase in interest income. Here a significant role was played by the favourable development of the US dollar exchange rate on the one hand and the moderate rise in margins on the other.

The impact of the increased number of restructuring cases is reflected in the increase in income from services (€ 33 million) and the slight fall in risk provisions (€ 30 million). The RoRac was improved compared to the previous year from 9 per cent to 17 per cent. Due to this segment's moderate rise in costs (€ 3 million), the CIR was improved once again from 12 per cent to 9 per cent.

Real Estate Banking Customers

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

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

Income in NORD/LB's real estate banking totalled € 117 million in 2010 (€ 125 million). Due to the gradual transfer of assets to Deutsche Hypothekenbank, income from interest rate transactions and guarantee and processing commissions fell compared to the previous year. Thanks to advisory services relating to the processing of Deutsche Hypothekenbank's problem exposures, overall income from services developed positively.

Operating costs fell in 2010 by € 2 million to € 25 million in particular due to the transfer of staff capacity in 2010 from the branch in London to Deutsche Hypothekenbank. Cost of materials also fell due to the transfer of business to Deutsche Hypothekenbank (lower payments within the scope of a mandate). The loan loss provisions made in the amount of € 34 million are largely for domestic real estate banking and much less than the previous year.

The contribution to the operating result after loan loss provisions from the rest of NORD/LB's real estate banking rose by € 10 million to € 58 million compared to 2009. The CIR and RoRaC are on a par with the previous year's figures.

Investments / Others

Under investments/others mainly sources of revenue for the entire bank are shown which are not allocated to the profit centres, such as investment/financing revenue (including revenue from the investment item and from investments of equity resources), reconciliation items from profits/losses from internal accounting and external reporting in the income statement, service centre residual costs (including full bank projects) which were not allocated, consolidation items, requirements for valuation in the liquidity reserve portfolio and changes to provision reserves in accordance with § 340f of the German Commercial Code and the fund for general banking risk in accordance with § 340g of the German Commercial Code.

The fall in earnings under Investments/Others (€ 102 million) was caused in particular by lower income from investments and higher expenses for subordinated capital issued. In addition to this, the fund for general banking risk was increased in accordance with § 340g of the German Commercial Code (€ 30 million).

Risk Report

Risk Management

Risk Management – Fundamentals

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

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

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

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

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

A further change will be required as a result of the third MaRisk amendment published on 15 December 2010. NORD/LB has already analysed the measures required and started to implement these.

Risk Management – Strategies

NORD/LB's business policy is deliberately conservative. Accordingly the responsible handling of risks is the uppermost priority. The risk strategy is accordingly drafted to conform to the business model, the business strategy and the specifications of the risk strategy of the NORD/LB Group and it is reviewed at least once a year. It accordingly contains information on the principles of risk strategy, the organisation of the risk management and on sub-strategies for risks relating to the material risk types.

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

For NORD/LB it was conservatively determined that normally at most 80 per cent of the economic risk coverage potential may be covered with risk potential. The relevant pillar in the RBC model (status quo of economic capital adequacy) should therefore provide a minimum coverage of 125 per cent.

The maximum risk capital is also allocated to the material risk types in the risk strategy. Most of the coverage is associated with credit risk, reflecting the focus of NORD/LB on customer-oriented lending business.

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

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

Risk Management – Structure and Organisation

Responsibility for the NORD/LB's risk management 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), which also includes the Chairmen of the Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. The Group risk strategy and the risk strategy of NORD/LB are then passed by the Managing Board of NORD/LB, before both are submitted to the Supervisory Board of NORD/LB for information and discussion.

The responsible Chief Risk Officer (CRO) in the Managing Board of NORD/LB bears, in concert with the heads of the market departments, responsibility for drawing up and monitoring the risk strategy. This includes the monitoring of material risks including the risk reporting.

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

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

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

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

The treatment of new products, new markets, new sales channels, new services and their variations is regulated in the new product process (NPP). The essential aim of the NPP is to identify, analyse and assess all potential risks for NORD/LB 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.

Risk Management – Risk-Bearing Capacity Model

The risk-bearing capacity model constitutes the methodical basis for monitoring the risk strategies in NORD/LB. This monitoring is performed by NORD/LB's Risk Control Division, which is also responsible for the overall control and development of the model.

The aim of the model is to aggregate and duly present the bank's risk-bearing capacity (RBC) by comparing risk potential resulting from the material risks and risk capital. The monitoring and reporting process is conducted regularly and guarantees that the responsible bodies are promptly informed about NORD/LB's risk-bearing capacity situation.

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

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

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

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

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

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

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

The reports drawn up at least quarterly by the Risk Control Division on risk-bearing capacity (RBC reports) constitute the main instrument for risk reporting to the Managing Board and the supervisory bodies. Compliance with the specifications of the risk strategy on risk appetite and on the allocation of risk capital to the material risk types is therefore reviewed regularly.

In addition to receiving the report on risk-bearing capacity, the Managing Board of NORD/LB is also informed about risks relating to covered bond business on a quarterly basis. The report prepared meets the requirements of § 27 of the German Covered Bond Act.

Risk Management – Development in 2010

The risk coverage ratio in the economic capital adequacy (status quo) improved significantly in the year under review and is 246 per cent as at 31 December 2010. The rise is attributable both to a fall in risk potential and an increase in risk capital.

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

in € million[1]	Risk-bearing capacity 31 Dec. 2010		Risk-bearing capacity 31 Dec. 2009	
Risk capital	**8,319**	**100 %**	**7,816**	**100 %**
Credit risks	2,626	32 %	3,546	45 %
Investment risks	251	3 %	226	3 %
Market price risks	270	3 %	221	3 %
Liquidity risks	67	1 %	71	1 %
Operational risks	172	2 %	168	2 %
Total risk potential	**3,387**	**41 %**	**4,233**	**54 %**
Excess coverage	**4,932**	**59 %**	**3,583**	**46 %**
Risk coverage ratio		**246 %**		**185 %**

[1] Total differences are rounding differences

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

In order to actively counter the effects of the financial and economic crisis, the NORD/LB Group has implemented various measures to strengthen the risk quota. In addition to risk reduction measures, this also comprises the inclusion of subordinated capital by NORD/LB.

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

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

Credit Risk

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

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

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

- Settlement risk is broken down into advance payment risk and clearing risk. Advance payment risk defines the risk when the bank has completed a payment whereas the counter-payment has not been made by the contract partner or, if payments are offset, the balance not being paid. Clearing risk defines the risk of transactions of transactions not being able to be cleared by either party upon or after the expiry of the contractually agreed performance date.

- Issuer risk defines the risk of loss involved when an issuer or reference entity defaults or when the credit rating of such a issuer or reference entity deteriorates.

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

Credit Risk – Management

Strategy

Credit business and the management of credit risks is a core competence for NORD/LB that is to be permanently developed and extended. NORD/LB 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. NORD/LB 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 NORD/LB's credit portfolio takes into account opportunities and risks. This includes the early identification of crisis situations. For this reason a number of processes, systems and instructions are in place, for portfolios and for individual borrowers, which combined form a system for the early recognition and effective management of risks and the initiation of measures to limit these risks.

Structure and Organisation

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

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

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

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

In 2010 Credit Portfolio Management OU was also integrated into the CRM division. The main task of Credit Portfolio Management is to manage the concentration risks in the credit portfolio. Concentrations in terms of the magnitude of an extended borrower entity as well as national and industrial concentrations are examined.

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

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

The Managing Board is responsible for controlling NORD/LB’s credit portfolio. In performing its tasks, the Board consults among other things the Group Risk Committee, 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 concentrations or making recommendations relating to the placement of exposures and sub-portfolios.

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

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

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

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

The collaterals are assessed both at the time the loan is granted and during the subsequent ongoing (normally at least yearly) monitoring as to whether they appear to be disposable at the assumed value based on foreseeable economic developments during the (remaining) term of the loan. They are therefore reviewed on a case-to-case basis as to whether the valuation appears to be justified based on the respective type of collateral 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 NORD/LB specify which fundamental types of collateral and the maximum loan (lending limit) which may be lent against the collateral. Sureties, collaterals similar to sureties, assignments of receivables and other rights, chattle mortgages, property, receivables and other rights and collateral assignment of chattel are accepted as collaterals. Other collaterals can be contracted with the borrower, but these do not reduce the unsecured portion of the exposure.

Credit Risk – Control
In order to assess credit risks at NORD/LB, 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 internally generated by NORD/LB.

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

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

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

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

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

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

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

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

Credit Risk – Measurement

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

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

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

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

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

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

Credit Risk – Reporting

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

Credit Risk – Development in 2010

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 proportionately in the credit exposure, while collaterals provided to NORD/LB are ignored.

Credit exposures also contain minor investments 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).

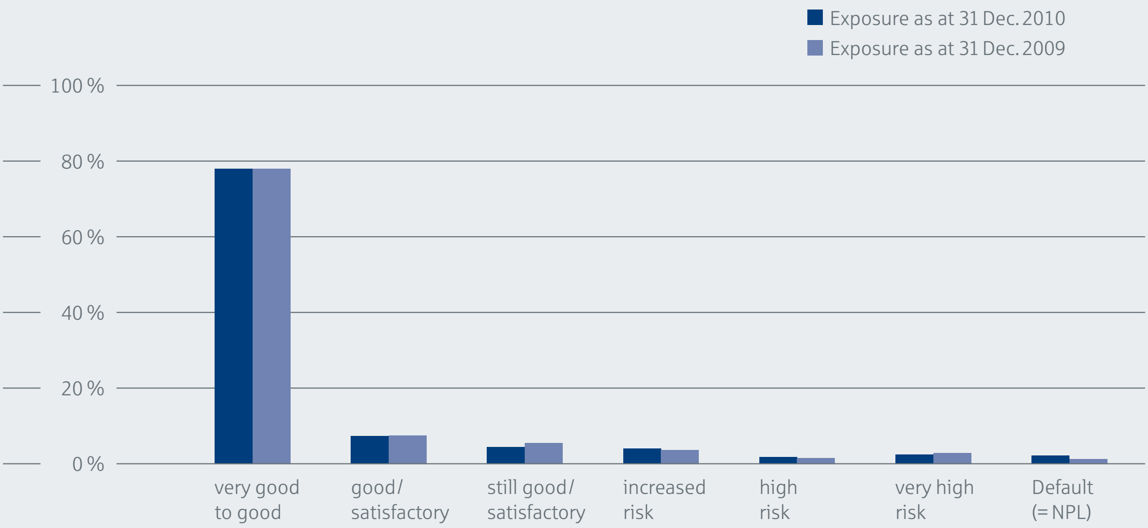
Credit Exposure Analysis

NORD/LB's credit exposure as at 31 December 2010 amounts to € 163 billion and has therefore fallen compared to the previous year's value by 5 per cent. In particular a reduction in exposures in the Financials segment is responsible for this fall. In accordance with the conservative risk policy of NORD/LB, credit exposure continues to focus on the very good to good rating classes.

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

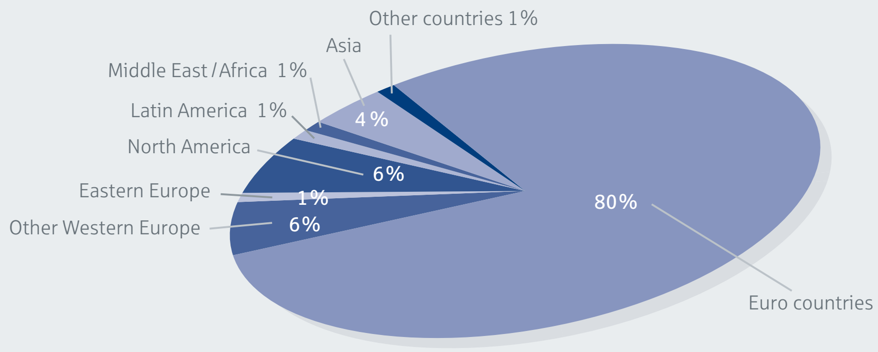
The Rating Structure chart shows the break-down for the whole of NORD/LB's credit exposure (existing and new business) by IFD rating class compared to the previous year's structure.

Rating structure by IFD categories



The high share of exposures in the rating classes very good to good remained constant at 78 per cent (78 per cent) and is explained by the continued great importance of business with public authorities and with financing institutes with a good credit rating. The continued high share of the two highest rating classes is at the same time a reflection of NORD/LB's risk policy. However, NORD/LB felt the effects of the financial and economic crisis in its credit portfolio, with non-performing loans (NPL) rising from 1.1 to 2.2 per cent of the total exposure.

Exposure by groups of countries as at 31 December 2010



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 (81 per cent) of loans and remains by far NORD/LB's most important area of business. With a share of 66 per cent (67 per cent) of total loans, Germany is particularly important.

Overall the share of the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) is only 4 per cent of the total exposure. The share of receivables owed by the respective countries, regional governments and municipalities is 0.4 per cent of the exposure.

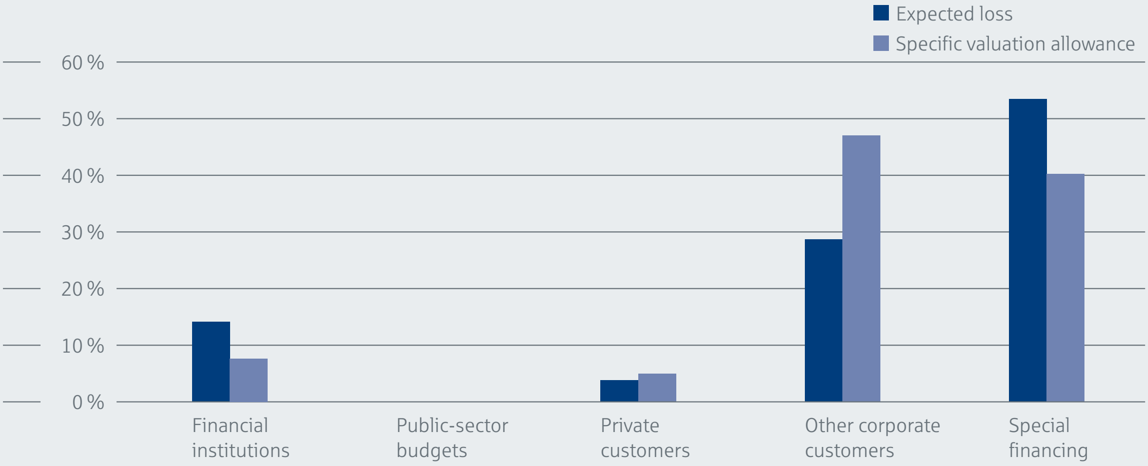
Non-Performing Loans

For acute counterparty risks relating to lending business reported in the balance sheet, NORD/LB makes specific valuation allowances and lumpsum specific loan loss provisions. A need for loan loss provisions is based on a present value consideration of anticipated interest and redemption payments which are still expected as well as on earnings from the realisation of collateral.

NORD/LB takes account of latent borrower default risk relating to transactions with non-banks for which no specific valuation allowances are established by establishing general loan loss provisions. Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision.

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

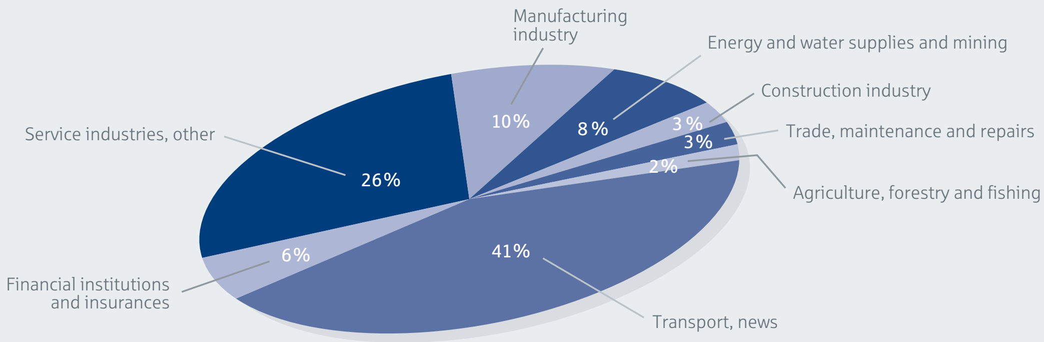
Expected loss and specific valuation allowance by sector as at 31 December 2010



A comparison of expected loss and specific valuation allowances by sub-portfolio shows that both the NORD/LB business conducted with public-sector budgets, private customers and financial institutions continues to be relatively low-risk. The most significant driver of credit risk is still commercial lending business, comprising special financing transactions and business with other corporate customers.

These sub-portfolios have a combined credit exposure of € 53 billion (€ 55 billion) mainly comprising the industry groups of transport and communications (41 per cent), service industries and others (26 per cent) and the manufacturing industry (10 per cent).

Corporate Customers and Special Financing exposure by branch-related groups as at 31 December 2010



The share of total NPLs in the credit exposure rose significantly in the period under review and is as at 31 December 2010 2.2 per cent (1.1 per cent). In particular ship financing is responsible for this rise.

Loan loss provisions 1 January 2010 – 31 December 2010

in € million [1]	Specific valuation allowances (SVA) [2]	National valuation allowances (NLLP)	General loan loss provisions (GLLP)
Opening balance 1 January 2010	820	1	177
+ New provision/increase	428	–	–
– Disposal	– 345	–	– 6
of which: debt losses (consumption)	– 101	–	–
of which: reductions	– 244	–	– 6
+/– Transfer	–	–	–
+/– Currency conversion	14	–	–
= Closing balance 31 December 2010	**915**	**1**	**171**

[1] Total differences are rounding differences
[2] including loan loss provisions

The total risk provision (specific valuation allowances, national valuation allowances and general loan loss provisions) rose in the year under review by € 90 million. In order to cover exposures migrating to default, specific valuation allowances were increased by € 96 million and general loan loss provisions were in turn reduced slightly by € 6 million. The specific valuation allowances rate, the relationship between specific valuation allowances and the sum total of exposures, rose in the year under review from 0.48 per cent to 0.56 per cent.

The balance of non-performing loans is primarily secured by standard bank collateral and other credit enhancements valued on the basis of lending principles. Before the inclusion of collateral 31 per cent (53 per cent) of these NPLs are secured with loan loss provisions.

Credit Risk – Outlook

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

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

Investment Risk

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

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

Investment Risk – Management Strategy

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

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

Structure and Organisation

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

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

Investment Risk – Management, Monitoring and Reporting

Investments 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.

Current income (earnings and depreciation) is regularly evaluated and reported to the NORD/LB Managing Board in the case of significant investments.

Investment Risk – Measurement

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

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

Alternatively investments are dealt with in the capital deduction and directly reduce the risk capital available in the amount of its book value.

Investment Risk – Development in 2010

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

Processes were reviewed on a cross-divisional basis within the scope of the further development of investment management. Upon the implementation of the AMI investment application in the spring of the year under review, structural and procedural adjustments resulted amongst other things in the centralisation of data management in the Finance Division. NORD/LB's Investment Management is still responsible for the active control of investments.

The NORD/LB Group also arranged for a comprehensive evaluation of Skandifinanz Bank AG, Zurich in the year under review after the emergence of the fraud case at the Swiss subsidiary of NORD/LB Luxembourg. The investigation resulted in completely new processes with the strong involvement of NORD/LB Luxembourg.

Investment Risk – Outlook

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

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

Market Price Risk

Market price risk is defined as the potential losses which may be incurred as a result of changes in market parameters. With market price risk a distinction is made between interest-rate risk, currency risk, share-price risk, fund-price risk, volatility risk 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. This also includes the credit-spread risk of the trading book.

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

- Other partial risks relevant for NORD/LB include the risk that the value of an item reacts to changes in one or more currency exchange rates (currency risk), share prices or share indexes (share price risk), fund prices (fund price risk) or volatilities applied for valuing options (volatility risk) and the changes result in a reduction in the item's value.

Market Price Risk – Management

Strategy

The activities of NORD/LB 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 bank and is primarily geared towards the needs of customers and supporting the control measures of the bank as a whole. Positions are also taken opportunistically.

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

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

Structure and Organisation

The control of market price risks involves all divisions handling items bearing market price risks which also account for profits and losses resulting from changes in market parameters. At NORD/LB this includes the Treasury, Markets and Portfolio Investments divisions. Within the scope of their Global Head function, the trading divisions are also responsible for trading activities conducted at the foreign branches in London, New York, Singapore and Shanghai.

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

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

The Treasury Division presents the current maturity profile for strategic planning and, if necessary, makes proposals to the planning committee concerning the method of strategic planning in future. This committee, which convenes monthly, is an advisory body of the Financial Markets director and its members include representatives from the Treasury, Markets, Research/Economy, Controlling/Taxes and Risk 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 banking 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 served to reduce risk relating to the portfolio. Members of the Credit Investment task force include the Financial Market and Risk Control Directors and representatives from the divisions of Portfolio Investments, Risk Control, Credit Risk Management and Finance. The Portfolio Investments Division implements measures agreed by the Managing Board.

Market Price Risk – Control and Monitoring

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

The VaR ratios are calculated daily using the historical simulation method. In the process a unilateral confidence level of 95 per cent and a holding period of one trading day are used. At the end of each quarter the bank also prepares a VaR calculation when calculating the risk-bearing capacity.

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

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

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

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

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

In daily stress-test analyses, in addition to the VaR 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 market price risk types relevant for NORD/LB, namely interest rate risk, currency risk, share price risk, fund price risk, volatility risk and credit-spread risk in the banking book, and these approximately reflect the most considerable changes in the respective risk factors which were observed in the past for a period of ten trading days. The risk factors observed were selected in such a manner that 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. Further general stress tests for all risk types are conducted on a quarterly basis within the context of reporting on risk-bearing capacity. The stress test parameters are reviewed on at least an annual basis and adjusted to changes in the market situation as and when required.

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

Market Price Risk – Reporting

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

Market Price Risk – Development in 2010

At the start of 2010 low and falling volatilities were seen in the markets relevant for NORD/LB. Primarily this development resulted to a reduction in the VaR ratio for NORD/LB.

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

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

Overall the reduction in VaR recorded in the year under review was based on the fall in interest rate risk. In the year under review comparatively low positions were recorded.

Market price risks (in € 000) [1) 2)]	Maximum 1 Jan.– 31 Dec. 2010	Maximum 1 Jan. 31 Dec. 2009	Average 1 Jan.– 31 Dec. 2010	Average 1 Jan. 31 Dec. 2009	Minimum 1 Jan.– 31 Dec. 2010	Minimum 1 Jan. 31 Dec. 2009	End-of-year risk 1 Jan.– 31 Dec. 2010	End-of-year risk 1 Jan. 31 Dec. 2009
Interest rate risk (VaR)	7 814	12 342	3 591	8 819	1 771	4 523	7 499	10 516
Currency risk (VaR)	2 253	3 952	432	1 188	177	78	748	237
Share price and fund price risk (VaR)	2 422	7 150	1 178	4 882	620	1 092	1 678	1 510
Volatility risk (VaR)	488	2 667	290	1 157	188	43	253	476
Other add-ons	202	164	46	30	3	–	54	45
Total	**11 911**	**13 834**	**6 217**	**10 490**	**2 370**	**6 194**	**7 126**	**9 759**

1) Maximum, average and minimum risks are calculated on the basis of the VaR totals for the significant subsidiaries end-of-year risks are consolidated figures

2) The credit spread risks of the liquidity reserve are excluded.

The average NORD/LB utilisation of market price risk limits for the year was 10 per cent (27 per cent), with maximum utilisation amounting to 23 per cent (39 per cent) and minimum utilisation at 5 per cent (19 per cent).

During the course of 2010, the daily VaR (confidence level of 95 per cent and holding period of one day, without credit-spread risks for the liquidity reserve) fluctuated between € 2 million and € 12 million, with an average value of € 6 million. As at 31 December 2010, a VaR of € 7 million was calculated for NORD/LB, representing a fall of 27 per cent compared to the previous year (confidence level of 95 per cent and a holding period of one day, not including credit-spread risks for the liquidity reserve).

In order to improve the RBC model, the credit-spread risks for the liquidity reserved were integrated into the reported VaR. The VaR calculated as at 31 December 2010 (confidence level 95 percent, holding period one day) including these risks is € 8 million. The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 54 million on 31 December 2010. The figures also include the interest rate, share price and currency risks in the banking book.

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

The effects of a standardised interest-rate shock in the banking book are also analysed in accordance with SolvV requirements. The result for NORD/LB as at 31 December 2010 is at 2 per cent (3 per cent) well below the regulatory threshold which provides for a maximum share of 20 per cent of authorised equity capital.

Market Price Risk – Outlook

NORD/LB will continue to closely monitor all of the relevant asset categories in 2011 as at least short-term, volatile market fluctuations can be expected. Based on the gradual developments of the risk models, the risk control process and focused trading strategy, NORD/LB 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 in the medium term is for full approval of the model. After receiving approval from the Federal Financial Supervisory Authority (BaFin) in 2010, from 2011 the trading books of the New York branch will also be included in the regulatory capital requirements using the internal model. Due to the extensive reform of the requirements of SolvV for the particular interest rate risk, the implementation and regulatory approval of this model extension is not envisaged though until 2012.

Liquidity Risk

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

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

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

- Market liquidity risk defines potential losses to be borne if transactions need to be concluded at conditions which are not in line with the fair market value due to a lack of liquidity in individual market segments. Market liquidity risks may primarily result from security items in the trading and banking books.

Liquidity Risk – Management

Strategy

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

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

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

The Global Liquidity Policy (GLP) describes 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 the GLP contingency plan.

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

Structure and Organisation

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

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

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

Liquidity Risk – Control

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

Traditional liquidity risk is limited by a dynamic stress test scenario. The scenario describes the most likely crisis situation in each case, hence also describing the spread of the credit 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 at least six months on consideration of profitability aspects.

Furthermore the dynamic stress scenario is supplemented by other statical stress tests every month. These tests cover a scenario specific to NORD/LB and also the alternative scenario of a comprehensive liquidity crisis as well as a short-term scenario for a market-wide liquidity problem.

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

For control at group level a Group liquidity maturity balance sheet is prepared. For this purpose all of the cash flows in euro and the translated foreign currency cash flows of the significant Group companies are compiled in one overview. The liquidity maturity balance sheets are also prepared 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 maturity balance sheet of the entire item, which essentially reflects the standard case. Liquidity risk is quantified in the risk-bearing capacity concept for the entire bank resulting from a present-value consideration of the funding risk.

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

The analysis of stress scenarios takes into consideration the 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 banking 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

Liquidity figures 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 maturity balance sheet 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 NORD/LB's traditional liquidity risk. In addition to this the NORD/LB's major 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 market and liquidity risks and in a quarterly report submitted by the Risk Control Division on the risk-bearing capacity of the bank. The supervisory body receives the reports stated on a quarterly basis.

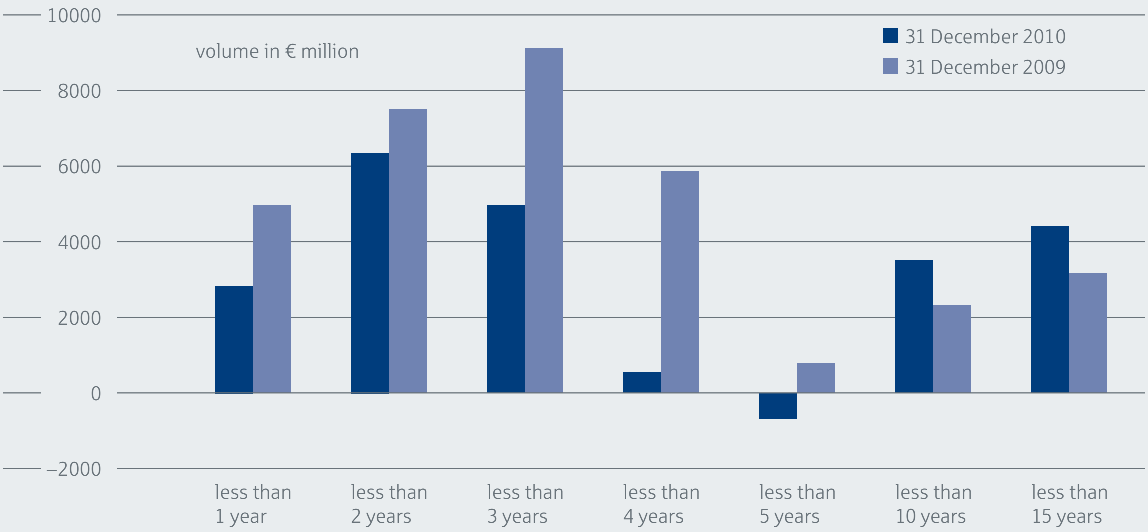
The monthly liquidity maturity balance sheets are prepared in euro and in the most important foreign currencies. These maturity balance sheets are presented to the planning committee which meets on a monthly basis for consultation.

Liquidity Risk – Development in 2010

The largely calm situation in the financial markets at the start of the year under review became tense as a result of the crises in Greece and Ireland. Despite both countries being bailed out by European Unions' rescue package, the risk of further countries failing and a prolonged loss of confidence in financial markets cannot be averted.

The NORD/LB had sufficient liquidity at all times. The liquidity maturity balance sheet report shows that liquidity surpluses in the in the maturity periods to five years have been reduced. The longer terms show an increase in liquidity surpluses.

Accumulated liquidity maturities in € million



The forward-looking liquidity control in the market phases affected by the financial market crisis produced a liquidity supply which again resulted in low utilisation of the limits in virtually all maturity periods. NORD/LB also operates in markets with the highest possible level of liquidity and maintains a portfolio of high-quality securities. As at the reporting date NORD/LB possesses securities in the amount of € 36 billion, € 31 billion of which are eligible for repo transactions with the European Central Bank or the US Federal Reserve.

Overall the measurement and control processes were extended in 2010. This included among other things the integration of liquidity risks from foreign currency transactions in the consideration of risk-bearing capacity, the development of the limiting procession and the implementation of specific liquidity stress tests for selected currency areas.

Due to the attentive monitoring of markets and active liquidity control, it was ensured at all times in the year under review that NORD/LB had sufficient liquidity. The liquidity ratio in accordance with the liquidity regulation (LiqV) was always well over the minimum of 1.00 required by regulatory provisions during the year. At the end of 2010 the ratio was 1.39 (1.40).

Liquidity Risk – Outlook

Liquidity risk is not expected to increase significantly in 2011 due to the liquidity supply available. Liquidity risk control in the NORD/LB Group will continue to be developed.

An important part of this is the implementation of the much greater requirements for the management and external reporting of liquidity risks announced by the international regulatory authorities in reaction to the financial market crisis of great importance to NORD/LB are here in particular the new regulations of the British

Financial Services Authority (FSA) which already have to be implemented from 2010 on, the third MaRisk amendment and Basell III are of great importance to NORD/LB.

To meet the requirements in line with the revised version of the MaRisk, NORD/LB prepared a report concerning the liquidity buffer. The weekly resp. monthly minimum buffer rate was complied with.

Operational Risk

Operational risk is defined as the risk of incurring losses as a result of the inadequacy or failure of internal procedures, employees and technology or losses which occur as a result of external influences. This definition includes legal risks and reputation risks as consequential risks. NORD/LB understands compliance risk and outsourcing risk to be components of operational risk as well.

- Legal risk defines the risk of losses occurring due to the non- or insufficient consideration of the legal framework specified by legal regulations and case law. Legal risk only exists in the bank's external relations.

- Reputation risk defines the risk of a loss occurring due to a loss of confidence among customers, business partners or guarantors.

- Compliance risk defines the risks of penalties being handed out by courts, authorities or disciplinary bodies as a result of improper procedures, processes etc. due to non-compliance with laws, regulations, codes of conduct and standards in the bank's internal relations.

- Outsourcing risk defines the risks resulting from the outsourcing of activities and processes.

Operational Risk – Management

Strategy

The main aim is to avoid operational risks as far as this is economically viable. NORD/LB protects itself against operational risks if the costs for the protection are not greater than the costs directly incurred as a result of the risk or if its reputation could be significantly affected.

NORD/LB creates suitable framework conditions in the form of technical and organisational measures, contractual regulations and working instructions in order to prevent operational risks from occurring as far as possible. This includes contingency planning and appropriate insurance cover. The raising of risk awareness among all employees plays a key role in preventing operational risks in day-to-day business (risk culture).

The management of operational risks is supported by a methodical framework for risk assessment. Escalation processes are defined in order to implement targeted measures promptly.

With continual analysis of loss events, risk indicators and scenarios, causes of risk should be identified and concentrations of risk prevented. The internal control system (ICS) is reviewed regularly in relation to its appropriateness and effectiveness with regard to risk (ICS control cycle). Appropriate countermeasures are taken as and when required. Contingency plans serve to limit damage in the case of extreme unexpected events.

Structure and Organisation

The Managing Board, the Risk Control Division and the internal Audit Division as well as all the other divisions are involved in the process of managing operational risks. The Managing Board stipulates the basic method of handling operational risk, taking into account the risk situation at general bank level. Responsibility for the control of operational risk within the general environment specified is decentralised and lies with the individual divisions.

The Risk Control Division is responsible for the central monitoring of operational risks and the independent reporting of these risks. The division is also responsible for specifying methods to be applied, for properly implementing centralised methods and for coordinating the implementation of decentralised methods. Internal Audit is responsible for the process-independent audit whether methods and procedures are properly implemented and carried out.

All of strategic and conceptual responsibilities relating to security and contingency management are combined in the Group Security division. NORD/LB has a security strategy and uniform standards in order to efficiently and sustainably protect the bank from harm and at the same time meet legal and supervisory requirements. The security and contingency concepts focus on the availability of the core resources of personnel, IT, information, infrastructure, external service providers and special equipment. Contingency measures ensure appropriate operation in the event of an emergency and a return to normal operations as quickly as possible with consistent business continuation and recovery planning which focus on time-critical activities and processes.

Operational Risk – Control

Personnel risk is countered by an appropriate personnel level in terms of quality and quantity. The bank pays particular attention to employee qualifications and the qualification status is reviewed with the help of a system of job specifications and employee assessments. Personnel development measures can therefore be initiated in a targeted manner. The remuneration system comprises a performance-related component which provides incentives and at the same time supports sustainability and risk awareness in work practices. The requirements of the Institute Remuneration Act (Institutsvergütungsverordnung) are considered.

Criminal actions are countered in close cooperation with the criminal prosecution authorities. It is the responsibility of the Fraud Prevention Management as a part of the Compliance department. To continually improve the bank's protection against internal and external acts of fraud and to prevent these as far as possible. An important element of the preventive measures is the generation of staff awareness. As elements of a comprehensive awareness concept, online learning programmes for all staff combined with classroom events, a regular newsletter and information as required with relevant warnings are used. The established whistle-blowing system and online fraud training were also used in the subsidiaries in the year under review.

In the IT Division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security concepts and contingency plans supplement pre-emptive measures in order to prevent loss or damage resulting from the failure or the manipulation of systems and information.

Process-related and structural organisational risks are countered with well-organised structures and procedures. If weaknesses in the organisation are identified, appropriate countermeasures are initiated immediately. The structures in the internal control system which have been further improved in the year under review should support this and permanently guarantee regulated cooperation between all of the divisions involved in the process of managing operational risks.

The ICS framework implemented for this purpose is based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for internal controls and includes a specific operational and organisational structure. With the use of standardised methods and procedures, an appropriate and effective ICS should be ensured throughout the bank and a lasting improvement sought.

The operational structure of NORD/LB's ICS is geared towards a recurrent control cycle. The overriding goal is the bank-wide assessment of the ICS based on the consideration of the appropriateness and effectiveness of the controls implemented. The control cycle will be supported by an organisational structure optimised for this purpose. This includes roles related specifically to the ICS, the tasks, competencies and responsibilities of which are defined and distinguished from one another. The current reporting to different groups of recipients is part of this control cycle.

The NORD/LB Group has a standard process map. Based on this processes involving particular risk are identified with the help of a scoring model and a detailed analysis with regard to the appropriateness and effectiveness of the ICS is undertaken. In the year under review the scoring model, which enables a detailed analysis, was revised.

NORD/LB's insurance cover is appropriate. NORD/LB's insurance cover was subjected in the year under review to a full analysis with regard to its scope and effectiveness. The resulting optimisation measures will be implemented in 2011.

The Legal Department is to be consulted in terms of securing legal risks, for example when legal steps are to be initiated and when contracts which are not based on approved sample contracts are concluded.

The quality of external suppliers and service companies is ensured by concluding service level agreements or detailed specifications and subsequently controlling respective key figures. NORD/LB has a process for assessing service providers in terms of their significance for risk aspects in order to implement MaRisk requirements concerning outsourcing. For each significant service outsourced a position is nominated which is responsible for managing services and risk relating to the business relationship. An individual contingency concept is also drawn up for each significant service outsourced.

Natural disasters and terrorist attacks are defined as force majeure. These risks are countered in contingency concepts.

Operational Risk – Accounting-Related ICS

The ICS of NORD/LB also covers in relation to the accounting process all of the principles, processes and measures implemented by management which are aimed at the organisational implementation of decisions by management relating to

- the correctness and reliability of internal and external accounting,
- compliance with legal regulations which are relevant to 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.

NORD/LB's accounting process is structured decentrally. The Finance Division is responsible for preparing the annual accounts and the management report in compliance with legal regulations. Many accountable facts are already recorded in the market and back-office divisions in NORD/LB's upstream systems and are already subjected there to controls with regard to existence, completeness and valuation. There are also controls here with regard to the correct recording of data which control the reporting of facts and the preparation of the disclosures in the notes.

The accounting processes of NORD/LB and its foreign branches are basically structured independently and they have their own accounting-related control processes.

The accounts of the German head office and the foreign branches are consolidated via a SAP module into the accounts of NORD/LB. 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 in relation to their respective completion dates and their processing status, so that in the event of delays immediate action can be taken.

NORD/LB's Internal Audit ensures as a process-independent unit compliance with the ICS with systematic audits. The ICS and risk management system are also subject to an annual audit by the auditor. The results are reported to the audit committee.

The efficiency of the accounting process will be prospectively ensured by continual improvements.

Operational Risk – Measurement

NORD/LB has been collecting data on loss events resulting from operational risk since the beginning of 2003 and has classified these events by process, cause, and effect. There is no "insignificant" level; however there is a simplified reporting process for gross losses of less than € 2,500. Data in the loss event database provides the basis for analyses in support of risk management and is an important element of a statistical/mathematical risk model developed by the bank.

The 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 NORD/LB receives the loss events collected by the consortium as a data basis, which is used for the internal model. In addition information contained in a public loss event operational risk database (ÖffSchOR) is available in which press releases on major losses resulting from operational risk are collected, structured and processed. The two sources of data are used for scenario analyses and for regular benchmarking.

A record of data concerning past loss events is supplemented with future components with the help of the self-assessment method. Expert appraisals on the impact of specific scenarios provide a detailed insight into the risk situation of the individual bank divisions so that relevant measures can be derived if necessary. The method was completely revised in the year under review and replaces the previous self-assessment method.

At the start of 2009 a method for collecting risk indicators was implemented in NORD/LB. The selection of indicators takes place on a risk-oriented basis and is regularly reviewed for its appropriateness. NORD/LB aims to identify potential risks early on and to take countermeasures. Likewise with continual analysis of loss events, risk indicators and scenarios, causes of risk should be identified and concentrations of risk prevented.

The NORD/LB Group has an internal model to measure operational risk. For this purpose a loss distribution approach is used in which elements of the extreme value theory are considered. The distribution parameters are calculated based on internal data, scenario analyses and external data from the DakOR consortium. Correlation effects are modelled with the help of a Gaussian copula. Risk indicators in the warning area affect the models by mark-up. The Value-at-Risk calculated by the model is used as a control variable for operational risks in the RBC model.

An allocation process which combines size indicators with risk-sensitive elements is used to distribute the model results to the individual institutes. The model's parameters are regularly subjected to comprehensive validation and stress tests.

The methods and procedures implemented in NORD/LB meet the requirements of § 272 SolvV concerning the use of the standard approach for operational risk. The amount allowable for operational risk was calculated in the year under review using the standard approach in accordance with SolvV. The further developments based closely on the requirements of SolvV also enable the prompt implementation of an advanced measurement approach (AMA).

Operational Risk – Reporting

Within the framework of a continuous risk management process, results from the collection of loss events, risk assessment, risk indicators and internal model are analysed and communicated to the Managing Board on a quarterly basis and the responsible divisions as and when required and at least once a year. All of the results are included in the quarterly RBC reporting.

Operational Risk – Development in 2010

In the year under review the self-assessment method was replaced by the further-developed risk-assessment method, which consists of the three components, risk map, self-assessment and in-depth scenario analyses. Based on objective information and a greatly simplified qualitative self-assessment, a risk map is produced based upon which risk-oriented scenarios are assessed by experts of the parts of the company concerned. This further improved the analysis of Group-wide scenarios, risk concentrations and the carrying out of stress tests. The results are included in the internal model, further improving measurement accuracy and enabling a process-related view of the bank's operational risks.

As at 31 December 2010 the internal model was applied Group-wide for the first time. For this purpose the former model was extended and subjected to a detailed revalidation, with an allocation process being added. With the extension of the model, a further requirement for the Group-wide application of an AMA was met. The standard implementation of all methods across the Group was largely completed. This achieved a standard process for risk control and refined the controls which can be derived from the model.

In addition to this the controlling of operational risks was further interlinked with fraud prevention, contingency planning and the ICS. Within the scope of a business continuation planning project, the contingency planning for all time-critical processes was completely reviewed and updated. The effectiveness of selected processes was reviewed with contingency tests.

The ICS concept continued to be implemented in the year under review. Within the scope of a control inventory all of the key controls were tested for suitability and effectiveness. Required measures were implemented on a case-by-case basis.

The Value-at-Risk as at 31 December 2010 for the operational risk based on the internal model is, with a confidence level of 99.9 per cent and a holding period of one year, € 172 million. The total of all losses from operational risks in the year under review (not including credit losses) was € 2 million and therefore well below the previous year's value. There is no apparent concentration of losses in respect of the distribution of losses across the loss categories.

There were no significant legal risks as at the reporting date.

Operational Risk – Outlook

In 2011 it is planned that the controls will be further refined at individual institute level. The results of the internal model should be considered when calculating the contribution margin for all divisions.

The ICS concept will continue to be developed in 2011. A process for controlling measures for operational risks which covers all methods should also be developed.

At the start of 2011 the new OU Regulatory Compliance commenced operations. It should ensure that NORD/LB complies with all applicable banking regulatory requirements. The security level of the companies in the NORD/LB Group should also be further harmonised in 2011. For the business continuation and recovery planning a bank-wide control process should be established.

NORD/LB is endeavouring to apply an advanced measurement approach for operational risk. The preliminary work for this has been largely completed.

Summary

NORD/LB has taken account of all the risks known to the bank by employing precautionary measures. Suitable instruments have been implemented for the purpose of recognising risks early.

Ratios determined in the RBC-model show that risks were covered at all times during the period under review. NORD/LB does not believe that there are any risks at present that would put the existence of the bank at risk.

NORD/LB complied with the applicable regulatory provisions concerning equity capital and liquidity throughout 2010. NORD/LB also took due account of the regulations relating to large credits limits in accordance with § 13a of the German Banking Act (KWG) in the year under review.

The consequences of the financial and economic crisis were noticeable for the NORD/LB Group in the year under review. In particular increased probabilities of default and an increase in non-performing loans had a negative impact. In order to actively counter the effects of the financial and economic crisis, NORD/LB has implemented various measures both to reduce risk and strengthen capital.

NORD/LB is expecting general conditions to improve in 2011. It will continue to monitor developments closely and if necessary implement further measures to improve the risk situation.

In addition to the risk report, the following forecast report presents the opportunities and risks relating to the future development of NORD/LB.

Forecast Report

General Economic Development

In 2011 lower growth is expected in the global economy due to the monetary environment no longer being so expansive and more restrictive fiscal policies. However, global GDP (in purchasing power parities) should increase again in real terms by more than 4 per cent in 2011. Some voices are expecting slow growth in the US economy to be subdued due to the current tense situation in the US job market and the possible associated negative repercussions for private consumption. Though the growth trend in the United States is still intact and has even gathered pace recently, and NORD/LB is expecting real gross domestic product to rise by 3.2 per cent in 2011. The Federal Reserve has indicated many times that it intends to stick to its very expansive monetary policy for a long time. In particular the weak condition of the job market and moderate price developments are currently providing the Federal Reserve with arguments for this. Against this background NORD/LB is not expecting the Federal Reserve to raise the prime rate until the forth quarter of 2011.

Germany will again be at the forefront of economic development in the eurozone with economic growth of 2.8 per cent. Although the rate of growth might also slow down in Germany, there remain great differences as regards general economic development, particularly because there is much greater need for consolidation in public finance in many euro member states and because these states also often face further structural adjustments.

In the eurozone the moderate economic recovery will continue despite the recent turbulence in the markets for government bonds and enable GDP growth of 1.6 per cent. Above all the precarious situation of public budgets in a number of member states provide hardly any scope for government investment or other expansive measures. In this respect it is expected that development in the southern member states will subdue growth in the eurozone. High unemployment remains a problem in many states. NORD/LB is not expecting any significant improvement in 2011. The average annual unemployment rate is only expected to fall slightly from 10 per cent in 2010 to 9.8 per cent in 2011.

The expected rise in the eurozone's debt ratio to around 90 per cent of GDP by 2012 may be worrying and require a change in policy. However, in view of the severe crisis in 2009 and compared to other important industrial countries, this fundamentally provides no cause for doom and gloom in the eurozone. In the public debate it is not only, particularly from a German point of view, the enormous benefits of the common economic and currency area that are neglected. On the one hand all of the states in the currency area are jointly responsible for the insufficient constitutional arrangement of the currency union when it was founded and for the at best slack monitoring of the criteria of the Stability and Growth Pact. On the other hand the share of the five largest economics of Germany, France, Italy, Spain and the Netherlands in the overall debt of the eurozone in 2009 totalled 83.5 per cent. These states contributed almost the same amount (83.4 per cent) to GDP in the same year. However, the level of debt rose considerably in some small states during the crisis.

The ECB will stick to the current low interest rates for the rest of this year. The surprisingly sharp rise in inflation in December to 2.2 per cent compared to the previous year should change nothing here. The jump in prices is largely attributable to temporary rises in the costs of energy, crude oil and food. After the sharp rise in prices in the first quarter, it is expected that pricing pressure will reduce slightly during the course of the year and that average annual inflation will not be above 2 per cent in Germany and the eurozone. The recent development concerning the issuing of loans in the eurozone and the aggregated money supply do not provide any indication of the possible threat of inflation. In view of the ongoing difficult situation in the financial markets against the background of the debt crisis, the ECB will cut back cautiously and gradually on the unconventional measures in 2011 and then initiate a cycle of interest rate rises.

NORD/LB believes that the potential for new tensions due to the debt crisis might result in government bonds again benefiting from a safe-haven effect in 2011, although to a lesser degree. Inflation is not expected to rise significantly in 2011 and the rise in returns from government bonds should therefore be moderate. However, a completely different picture would emerge if the euro crisis is managed with high (risk) transfers (e.g. with eurobonds, guarantee extensions etc.) or the massive purchase of government bonds by the ECB, and this cannot be ruled out. However, NORD/LB believes the latter to be a rather unlikely scenario.

NORD/LB Planning for 2011

NORD/LB is planning for 2011, based on the operational successes of the previous year, to continue to develop the solid result of 2010 qualitatively and quantitatively. The strong economic recovery in recent months will gradually slow down in 2011, but will remain on a restrained path of growth. NORD/LB is only expecting a significant rise in earnings in the medium term after the national debt crisis in the eurozone has been overcome and opportunities for growth are capitalised upon.

On the income side the bank has budgeted for a restrained development in net interest income for 2011 as a result of lower earnings due to interest rates and the transfer of business to Deutsche Hypo. The contributions to income from net commission income and profit from trading are expected to be on a par with the previous year's figures. The corrections to the valuation result of DnB NORD which needed to be made in the past are no longer required in the planning period.

In administrative expenses a slight increase in staff expenses is expected as a result of new jobs to comply with regulatory standards and rises in pay scales. Material costs will remain relatively stable, while write-downs will increase as a result of the capitalisation of project costs.

The situation with regard to loan loss provisions is easing. All the same, NORD/LB remains cautious and has provided a sufficient risk buffer for 2011.

NORD/LB's planned operating result after loan loss provisions and valuation for 2011 does not quite reach the previous year's level considering the corresponding development of CIR and RoRaC. The reasons for this lie in particular in the ongoing transfer of business to Deutsche Hypo, the loan loss provisions and the negative impact of the planned bank levy considered in other operating profit/loss.

Business Segment Planning for 2011

Private and Commercial Customers

The Private and Commercial Customers segment mainly reports on results for the strategic business units Private and Individual customers, Private Banking and Business, Commercial and Corporate Customers of the Braunschweigische Landessparkasse (BLSK) in Hanover.

In this business segment NORD/LB is continuing its strategy of positioning itself in the market as a quality supplier. It aims to consolidate its strong position as market leader in the area of private customers by using the S finance concept and providing advice on selected products and services with attractive terms. At the same time NORD/LB is aiming to establish itself as the top address in its business region in private banking and as a quality leader for commercial and corporate customers.

NORD/LB is planning to increase earnings in particular by increasing the volume of new lending business and increasing commission income. This should compensate for the expected fall in earnings on the deposits side due to interest rates.

Administrative expenses will rise due to new jobs to implement the strategy and temporary jobs to implement projects. As a precautionary measure the segment has included standard risk costs in its planning and is therefore above the previous year's level, in which loan loss provisions were almost zero.

Due to the cautious planning of risk costs, the segment's planned earnings in 2011 are below the previous year's level with the key figures changing accordingly.

Competitive pressure from other market participants, predominantly from direct banks and large banks pushing business with private customers and middle-market companies, remains high and the impact on the margins and business volume of BLSK remains to be seen.

Savings Bank Network

In 2011 the savings bank network will focus on intensifying its market presence, expanding its sales activities in the associated business region of Schleswig-Holstein, its successful institutional savings bank business and public sector customers. The sale and issue of commission and trading products should be intensified and sales with savings banks in North Brandenburg increased. NORD/LB is planning its first business activity in South Brandenburg.

While earnings from interest-bearing business (increased volumes in lending business cannot compensate for interest-rate-induced falls in deposit business) will fall, there should be a strong rise in earnings from commission business with institutional customers and trading profit with structured products; so that there will be an increase in planned earnings in the savings bank network.

Investment on intensifying the savings bank network's market presence and the higher costs relating to compliance with legal standards have resulted in an increase in administrative expenses for the savings bank network compared to 2010. Due to the gradual easing of the risk situation in the market, the segment expects that it can get by with loan loss provisions at the level of the long-term average.

This development should result overall in the contribution to income being above the previous year's level and, as a result, an improvement in the RoRaC for the savings bank network is expected. The CIR will remain around the same level as 2010.

Pressure from domestic and foreign competitors may have a negative impact on the achievement of targets.

Financial Markets/Institutional Customers

The Financial Markets business segment provides the investors and customers of NORD/LB with efficient access to the financial markets and in doing so relies on a combination of relationship management and specialist knowledge.

With a systematic alignment to the customer segments of the bank, the Corporate Sales and Markets divisions aim to pool know-how and increase in earnings with corporate and structured finance customers.

In addition to advising other business segments of NORD/LB, the Markets department in the Trading/Structured Products profit centre is planning to launch various inflation-linked financial products and to actively manage sales with institutional customers with relationship management across the entire product range.

The Treasury division focuses on liquidity management and the gradual development of its consulting and pricing expertise for the credit areas at the bank. The division is also responsible for NORD/LB's earnings from transformations. Treasury is also responsible for the "Liquidity Management" project to optimise the bank's liquidity control.

The portfolios of NORD/LB which are no longer considered to be strategic are phased out in the Portfolio Investment division. It has no new business; the existing portfolios are optimised within the phasing-out process in terms of equity commitment, risk and earnings. It also aims to reduce the negative effects from rating migrations in ABS portfolios.

After the previous year's very good development particularly in the Markets and Treasury divisions, a fall in interest income is expected in 2011 in particular in the Financial Markets segment due to the forecasted rise in interest rates and the continued phasing out of portfolios which are no longer considered to be strategic. Commission income on the other hand should be improved on the basis of the planned measures.

The expected rise in administrative expenses compared to the previous year relates to investment in IT and the filling of vacant positions, the full cost impact of which will first be felt in 2011. After the loan loss provisions for the ABS portfolio the previous year, the division has planned additional loan loss provisions for 2011. Due to the expected fall in earnings compared to the previous year, the Financial Markets division's contribution to the operating result, CIR and RoRaC will also fall in 2011.

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

Corporate Customers

The strategy of focusing on growth which has been pursued with success in recent years will also define the next year. In the process the earnings base should be broadened by extending the involvement of the Corporate Finance division and extended cross-selling.

NORD/LB is planning to increase its earnings from corporate customers in 2011 in particular on the deposits side on the basis of volume increases and in commission income. In addition, both the Agricultural Division and the Housing Division will contribute towards the planned result.

An important condition for this is the quantitative and qualitative development of back-office capacity, which will result in a rise in secondary costs, and the implementation of the planned IT projects (e.g. the development of the FoCs customer platform into a corporate customer management system FoCs II). Due to the planned increase in the bank's own staff capacity, administrative expenses will be higher in 2011 than in 2010.

The Corporate Customers segment's planned loan loss provisions are at the same level as the expected loss and are therefore slightly above the previous year's level. Due to the expected development in loan loss provisions and expenses for 2011, the RoRaC and CIR will not at all reach the level of 2010 in spite of the planned increase in earnings.

The rediscovery of middle-market corporate business by some commercial banks will result in further competitive pressure with a corresponding risk for margins and commissions planned for 2011.

Energy and Infrastructure Customers

This segment's strategy should be implemented with the long-term development of core customer relationships in the target sectors of renewable energies and infrastructure with the targeted use of limited resources. This focus is on RWA-friendly transactions and extending the mandated-lead-arranger position. Due to the global control of this segment, NORD/LB is also planning to extend the global transfer of know-how and achieve standard processes and structures with workshops covering all of the locations. The intended intensified collaboration with Sales serves the development of origination activities (including cross-selling). Non-strategic divisions in this segment (e.g. Corporates and Financial Engineering) on the other hand should be reduced in the coming year.

With these measures new lending business should be further developed with stable margins. This will compensate for the disappearance of one-time effects from liquidations in the previous year. It is also planned, in collaboration with the Financial Markets division, to increase the trading profit. Overall NORD/LB is expecting the Energy and Infrastructure Customers segment to continue to achieve income at the same level of the past and to sustained significant contributions to earnings.

For these earnings to be achieved additional RWAs will be required and jobs will need to be filled, which will be reflected in higher operating costs. During the course of the planned business expansion secondary costs will also increase. The loan loss provisions are at the level of the expected loss and are well below the previous year's level.

Overall the business segment is expecting, particularly due to the fall in loan loss provisions, increased contributions to the operating result and the RoRac to remain at a high level. The CIR will rise slightly due to the investment in this business segment.

NORD/LB has achieved, as a pioneer in the area of financing renewable energies (such as wind energy plants, bioenergy and solar energy) an important market position in Europe. With the entry of competitors into this area, possible risks to the future development of margins and commission can be seen.

Ship and Aircraft Customers

In the ship lending business, which came through the crisis in the shipping sector comparatively well in 2010, NORD/LB intends to achieve close to the previous year's pleasing earnings in 2011. NORD/LB considers with all due caution the positive development seen since the middle of last year to be the start of a sustained market recovery. In most segments rising charter rates and the return of new orders for merchant and passenger ships are viewed as positive signs of a return to normal.

In the area of aircraft financing NORD/LB is relying on qualitative growth, which should be enabled above all by active portfolio management, detailed identification of customer needs and based upon this individual support for customers. NORD/LB would like to continue to diversify the product range in the coming year. In addition to negative rating migrations, risk-weighted assets (RWA) should also be reduced by the aircraft rating tool which has now been approved by the Federal Financial Supervisory Authority. Furthermore the issue of an aircraft mortgage covered bond is planned.

In order for the above-mentioned measures to be implemented, NORD/LB is creating new jobs while at the same time reducing temporary staff, while expenditure on projects (special finance platform) and marketing is also required. The risk situation will ease and NORD/LB is counting on much lower loan loss provisions for 2011 than in the previous year. In the medium term it may be possible to reverse specific valuation allowances.

This segment's contribution to earnings is much higher in 2011 than in the previous year. There will be a slight rise in the CIR in 2011, which will be attributable to a rise in operating costs with income remaining roughly the same, but it will remain at a very low level. The RoRaC will rise in 2011 due to the expected lower loan loss provisions compared to 2010.

Risks to earnings lie in a later recovery of the market for shipping loans than expected and a continuation of the crisis.

Real Estate Banking Customers

The planning premise for NORD/LB is to transfer its real estate banking to Deutsche Hypo. With a stronger concentration and harmonisation of products and processes, synergy effects can be used and additional income can therefore be generated. The business segment will be transferred gradually.

The transfer of business activities will result in a fall in income and costs for NORD/LB, and the reverse development is planned in Deutsche Hypo.

Medium-Term Planning for the Period up to 2015

NORD/LB will continue to resolutely pursue its strategy of operating its customer-oriented business model which has proved itself in the crisis and its risk-conscious business policy. In its estimation of its medium-term development, NORD/LB assumes that there will be a positive economic climate and that the economy will continue on a sustainable path of growth. The planned increase in earnings in the medium term will focus on growth in all earnings components and at the same time improving the earnings structure and a return to normal risk provisions.

Despite increasing staff expenses (increases in factor prices, strategically motivated investments and for compliance with banking regulatory standards and specifications), administrative expenses will only rise slightly in the medium term. In order to counter a further upward trend in administrative expenses, the efficiency of the processes relating to the provision of services will be constantly reviewed and improved.

On the basis of far-advanced considerations by the legislator to set up a restructuring fund for banks, NORD/LB is expecting to be called upon to help finance it in the next few years. The draft regulation relating to the contributions to the restructuring fund, which is expected to be finalised shortly, provides for a levy which is proportionate on the one hand to the balance sheet total and to the annual profit on the other. NORD/LB assumes that the levy will have a significant impact on earnings in the next few years.

Given the overall development of earnings and expenditure, with loan loss provisions at the level of the required imputed covering, the bank expects a noticeable increase in the operating result after loan loss provisions and valuation in the period up to 2015, 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.

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Content

Assets

Norddeutsche Landesbank Girozentrale

		€	€	€	31 Dec. 2009 € 000
1. Cash reserve					
a) Cash on hand			63,041,323.04		74,431
b) Balances with central banks			538,515,264.06		546,297
of which: with the "Deutsche Bundesbank"	€ 525,609,522.95				(541,062)
				601,556,587.10	620,728
2. Claims on banks					
a) municipal loans			19,807,026,651.70		20,325,087
b) Other claims			11,683,099,598.55		17,037,442
				31,490,126,250.25	37,362,529
of which: Due on demand	€ 1,750,872,897.45				(3,206,418)
against securities lending	€ 0.00				(0)
3. Claims on customers					
a) mortgage loans			5,858,932,183.19		6,601,887
b) municipal loans			21,222,522,406.02		21,456,714
c) Other claims			38,430,522,265.77		37,632,722
of which: against securities lending	€ 0.00			**65,511,976,854.98**	65,691,323 (0)
4. Debt securities and other fixed-interest securities					
a) Money-market instruments					
aa) Issued by public sector borrowers		33,244,863.41			0
of which: eligible as collateral for "Deutsche Bundesbank" advances	€ 0.00				(0)
ab) Issued by other borrowers		222,609,342.72			504,275
			255,854,206.13		504,275
of which: eligible as collateral for "Deutsche Bundesbank" advances	€ 200,155,649.43				(24,905)
b) Bonds and debt securities					
ba) Issued by public sector borrowers		9,561,810,189.10			9,881,411
of which: eligible as collateral for "Deutsche Bundesbank" advances	€ 9,481,867,517.39				(9,836,366)
bb) Issued by other borrowers		24,227,842,703.00			29,390,751
			33,789,652,892.10		39,272,162
of which: eligible as collateral for "Deutsche Bundesbank" advances	€ 17,593,620,525.99				(0)
c) Debt securities, issued by the institution itself			635,911,052.61		1,214,877
Nominal amount	€ 630,757,000.00				(1,195,026)
				34,681,418,150.84	40,991,314
Amount carried forward				**132,285,077,843.17**	144,665,894

Balance sheet NORD/LB Bank as at 31 December 2010

Assets

		€	€	€	31 Dec. 2009 € 000
Amount carried forward				**132,285,077,843.17**	144,665,894
5. Shares and other variable-yield securities				**1,216,360,496.45**	1,488,976
5a. Trading portfolio				**7,594.562.376.40**	–
6. Participating interests				**265,234,693.58**	690,361
of which: in banks	€	4,197,340.81			(426,768)
in financial institutions	€	1,983,523.31			(1,984)
7. Shares in affiliated companies				**2,380,987,110.34**	2,201,500
of which: in banks	€	1,594,608,226.95			(1,414,721)
in financial institutions	€	0.00			(0)
8. Assets held in trust				**4,288,704,611.23**	4,131,792
of which: loans on a trust basis	€	4,288,704,611.23			(4,131,792)
9. Intangible assets					
a) internally generated industrial property rights and similar rights and values			44,314,579.43		–
b) Concessions, industrial property rights and similar rights and values including its licences against payment			8,553,542.82		10,972
c) Advance payments made			118,557.96		–
				52,986,680.21	10,792
10. Tangible assets				**88,751,966.38**	90,456
11. Other assets				**1,886,727,054.72**	4,033,235
12. Prepaid expenses					
a) from new issue and lending business			292,174,872.82		306,844
b) other			440,428,774.31		471,118
				732,603,647.13	777,962
Total assets				**150,791,996,479.61**	158,090,968

Liabilities

Norddeutsche Landesbank Girozentrale

	€	€	€	31 Dec. 2009 € 000
1. Liabilities to banks				
a) issued registered mortgage covered bonds		295,184,829.45		558,061
b) issued registered public sector covered bonds		2,550,425,570.20		3,056,937
c) other liabilities		38,368,015,274.68		38,668,149
			41,213,625,674.33	42,283,147
of which: Due on demand € 3,790,923,224.53				(6,811,604)
ensuring loans taken up				
registered mortgage covered bonds transferred to lender € 0.00				(0)
and registered public sector covered bonds € 1,294,657,221.26				(1,432,102)
2. Liabilities to customers				
a) issued registered mortgage covered bonds		448,689,992.85		517,857
b) issued registered public sector covered bonds		12,671,157,732.30		13,377,390
c) Savings deposits				
ca) with an agreed notice period of three months	810,086,056.21			828,802
cb) with an agreed notice period more than three months	443,673,652.13	1,253,759,708.34		425,979
d) Other liabilities		26,363,308,257,12		26,622,953
			40,736,915,690.61	41,772,981
of which: Due on demand € 10,055,389,275.28				(9,819,928)
ensuring loans taken up				
registered mortgage covered bonds transferred to lender € 0.00				(0)
and registered public sector covered bonds € 5,392,848.27				(7,491)
3. Securitised liabilities				
a) Issued debt securities				
aa) mortgage covered bonds	1,988,627,156.04			2,556,120
ab) public sector covered bonds	14,082,726,371.10			17,911,343
ac) other debentures	30,663,999,423.91	46,735,352,951.05		31,877,669
b) Other securitised liabilities		1,848,348,630.91		2,411,821
			48,583,701,581.96	54,756,953
of which: money-market instruments € 1,559,225,416.04				(2,116,517)
3a. Trading portfolio			**1,635,477,891.01**	–
4. Liabilities held in trust			**4,288,704,611.23**	4,131,792
of which: loans on a trust basis € 4,288,704,611.23				(4,131,792)
5. Other liabilities			**2,614,981,438.78**	4,026,335
Amount carried forward			**139,073,406,887.92**	146,971,208

Balance sheet NORD/LB Bank as at 31 December 2010 Liabilities

	€	€	€	31 Dec. 2009 € 000
Amount carried forward			**139,073,406,887.92**	146,971,208
6. Deferred income				
a) from new issue and lending business		401,077,851.41		466,163
b) other		272,054,622.05		204,377
			673,132,473.46	670,540
7. Provisions				
a) Provisions for pensions and similar obligations		621,275,607.37		583,924
b) Tax provisions		161,542,552.30		182,418
c) Other provisions		389,244,392.41		630,827
			1,172,062,552.08	1,397,169
8. Subordinated liabilities			**2,703,874,780.00**	2,102,975
9. Participatory capital			**401,238,949.70**	446,895
of which: thereof falling due in less than two years € 198,738,949.70				(248,156)
10. Funds for general banking risks			**852,300,000.00**	722,300
of which: special item for general banking risks in accordance with § 340e, para. 4 of the German Commercial Code € 100,000,000.00				(–)
11. Equity				
a) Subscribed capital				
aa) Share capital	1,085,483,130.00			1,085,483
ab) Capital contribution as per § 15 para. 1 State treaty	51,129,188.12			51,129
ac) Other Capital contributions	2,307,056,101.82	3,443,668,419.94		2,307,056
b) Capital reserves				
ba) Contribution as per § 15 para. 2 State treaty	37,579,953.27			37,580
bb) Other reserves	1,778,877,562.69	1,816,457,515.96		1,778,878
c) Retained earnings		557,769,636.17		501,702
d) Profit shown on the balance sheet after appropriation to or transfer from reserves		98,085,264.38		18,053
			5,915,980,836.45	5,779,881
Total liabilities			**150,791,996,479.61**	158,090,968
1. Contingent liabilities				
a) Contingent liabilities under rediscounted bills of exchange		0.00		0
b) Liabilities from guarantees and other indemnity agreements		8,600,240,957.75		9,689,696
c) Liabilities from assets pledged as collateral for third-party liabilities		0.00		0
			8,600,240,957,75	9,689,696
2. Other obligations				
a) Repurchase obligations from non-genuine partial repurchase agreements		0.00		0
b) Placement and underwriting obligations		0.00		0
c) Irrevocable credit commitments		8,139,860,044,25		11,179,289
			8,139,860,044.25	11,179,289

Norddeutsche Landesbank Girozentrale

Income Statement

	€	€	€	2009 € 000
1. Interest income from				
a) Lending and money market transactions	3,346,226,802.61			3,831,840
b) Fixed-income and book entry securities	867,890,627.30			1,116,765
c) current income from trading portfolio	1,315,241,615.56	5,529,359,045.47		
2. Interest expense		4,317,988,805.40		3,939,877
			1,211,370,240.07	1,008,728
3. Current income from				
a) Shares and other variable-yield securities		14,943,198.17		60,658
b) Participating interests		18,335,342.05		27,513
c) Shares in affiliated companies		37,020,061.33		158,419
			70,298,601.55	246,590
4. Income from profit pooling, profit transfer and partial profit transfer agreements			**9,972,226.97**	15,388
5. Commission income		248,176,211.46		197,277
6. Commission expense		48,881,178.65		50,233
			199,295,032.81	147,044
7. Net income/net expense deriving from trading business			**120,827,653.00**	162,507
8. Other operating income			**71,726,477.02**	84,032
9. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	270,244,248.09			240,239
ab) Social security contributions and expenses for pension provision and other employee benefits	52,355,121.74	322,599,369.83		113,243
of which: for pensions € 9,673,650.68				(59,670)
b) Other administrative expenses		357,357,357.49		383,015
			679,956,727.32	736,497
10. Amortisation and write-downs of intangible assets			**20,471,932.62**	21,626
11. Other operating expenses			**81,734,333.71**	30,555
12. Write-downs of and value adjustments to claims and certain securities and allocations to provisions for lending business			**203,595,852.90**	311,484
13. Write-downs of and value adjustments to investments, shares in affiliated companies and securities treated as fixed assets			**185,642,206.47**	313,168
Amount carried forward			**512,089,178.40**	250,959

for the reporting period from 1 January 2010 to 31 December 2010

	€	€	€	2009 € 000
Amount carried forward			**512,089,178.40**	250,959
14. Expenses on assumption of losses			**5,060,883.93**	108,540
15. Transfer to the funds for general banking risks			**130,000,000.00**	0
of which: Allocation to special item acc.to § 340e, para. 4 German Commercial Code ________ € 100,000,000.00				(–)
16. Profit on ordinary activities			**377,028,294.47**	142,419
17. Extraordinary income		1,640,802,857.50		0
18. Extraordinary expense		1,648,708,468.81		0
19. Extraordinary result			**– 7,905,611.31**	0
20. Refund from income taxes (Previous year: other taxes)		110,525,708.71		7,428
21. Refund from other taxes not show under item 11 (Previous year: other taxes)		3,805,826.19		10,026
			114,331,534.90	17,454
22. Income from profit pooling, profit transfer and partial profit transfer agreements			**156,705,883.88**	141,830
23. Profit for the year			**98,085,264.38**	18,043
24. Earnings brought forward from the previous yea			**0.00**	10
25. Profit shown on the balance sheet after appropriation to or transfer from reserves			**98,085,264.38**	18,053

Notes to the company accounts › Pages 71–116

Content

I. Information on the accounting policies and principles for currency translation

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

Principles for the preparation of the annual financial statements

The annual financial statements of Norddeutsche Landesbank Girozentrale Hannover, Braunschweig, Magdeburg, (NORD/LB) as at 31 December 2010 were prepared in accordance with the regulations of the German Commercial Code (HGB) as amended by the German Accounting Law Modernisation Act (BilMoG) and the directive concerning the accounting of banks and financial services institutions (RechKredV).

The layout of the balance sheet and the income statement is based on the RechKredV.

The balance sheet has been prepared in accordance with § 268 para. 1 HGB taking into account partial appropriation of the annual profit.

Due to the implementation of the BilMoG, there may be changes in the valuation and reporting of the previous year's balance sheet items in the opening BilMoG balance sheet as at 1 January 2010. The previous year's figures have not been adjusted for the initial application of the BilMoG in accordance with art. 67 para. 8. clause 2 of the Introductory Act to the German Commercial Code (EGHGB). Furthermore, the special reporting regulations of the RechKredV previously applicable to mortgage banks have been amended by the BilMoG insofar as they now apply to all covered bond banks. The regulations of § 1 para. 1 of the German Covered Bond Act also apply to NORD/LB. For this reason the previous year's figures have been adjusted in line with the balance sheet layout according to the RechKredV.

Accounting policies – Trading portfolio

Financial instruments in the trading portfolio are valued in accordance with § 340e para. 3 clause 1 HGB at fair value less a risk premium. The change in fair value compared to the previous balance sheet date or compared to the cost of acquisition, the valuation result, is recorded under the item net income or net expenses of the trading portfolio. Expenses relating to the allocation to the special item in accordance with § 340e para. 4 HGB are not reported under net income or net expenses of the trading portfolio, but under the item "expenses relating to the allocation to the funds for general banking risks". As regards the calculation of the fair values, the chapter "Calculation of fair values" is referred to.

The current interest income and expenses relating to trading transactions are shown under interest income.

As there is currently no difference in terms of balance between the trading portfolio reported in the balance sheet and the regulatory trading book, NORD/LB has used the Value-at-Risk (VaR) calculated for regulatory purposes directly as a risk premium in terms of § 340e para. 3 clause 1 HGB, i.e. it has deducted the VAR value calculated for regulatory purposes from trading assets. The method used to calculate the VAR is the historical simulation method.

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

- Use of an uncorrelated VaR, i.e. addition of VaR for the following risk types:
  - General interest rate risk
  - Specific interest rate risk (issuer-specific risk)
  - Currency risk
  - Share price risk
  - Option price risk
- Confidence level: 99 %
- Holding period: 10 days
- Monitoring period: 1 year

Accounting policies – Asset portfolio

Loans and advances to customers and banks are reported at nominal value. If there are differences between the nominal values and the amounts paid out for mortgage loans and other loans and advances which are of an interest nature, the items are reported at nominal value in accordance with §340e para. 2 HGB. The differences are reported under prepaid expenses and are liquidated in a scheduled write-back.

Sufficient consideration is given to identifiable risks in lending business by making specific valuation allowances and provisions. The provisions for country risks were calculated based on principles which have not changed. Appropriate general loan loss provisions have been made for other general credit risks. The general loan loss provision is still calculated in accordance with the communiqués of the BFA 1/1990 and the BMF of 10 January 1994. The reference period relevant for calculating the default rate is eight years.

Securities in the liquidity reserve are valued in accordance with the strict lower-of-cost-or-market principle. If accounting valuation units have been formed between certain securities in the liquidity reserve and interest rate swaps, they are valued based on the lower-of-cost-or-market principle at the net fair value of the security and interest rate swap. Securities in fixed assets are valued at acquisition cost provided that they are not the subject of a permanent loss in value.

Option premiums and future-margin payments relating to transactions not yet due and pro-rata interest relating to interest rate swap transactions are reported under other assets or other liabilities; amounts relating to interest rate caps which have not yet been amortised and up-front amounts relating to interest rate swap transactions are included under prepaid expenses.

Credit default swaps (CDS) where the bank is the provider of security are treated in the balance sheet using the same procedure as for contingent assets and liabilities relating to sureties and guarantees. If it is expected that a CDS will be used, a provision is made. Earnings components relating to CDS where the bank is the provider of security are reported under commission income. If CDS were transacted to hedge securities (the bank is the provider of security), the hedge effect of the CDS is considered when assessing the write-down requirement for the security. The risk of a doubtful credit rating for the provider of security (the counterparty in the CDS contract) is to be considered separately; this is done using the same procedure as for a guarantee. Earnings components relating to CDS where the bank is the recipient of security are reported under interest income.

Investments and shares in affiliated companies are reported at acquisition cost or at lower fair value in the event of a permanent loss of value, whereby the fair value is calculated based on the present value of the shareholders' future net earnings associated with the ownership of the company.

Fixed assets, the use of which is restricted in terms of time, are subject to the maximum approved depreciation under tax law. There was no unscheduled depreciation in accordance with § 253 para. 2 clause 3 HGB in the year under review (€ 0.5 million). Fixed assets with an acquisition cost of between € 150 and € 1,000 are capitalised under a collective item and depreciated at a flat rate of 20 per cent per annum over 5 years. Low-value fixed assets with an acquisition cost of up to € 150 are written off completely in the year of acquisition.

NORD/LB has made use of the option in accordance with §248 para. 2 HGB and for the first time reported self-made intangible fixed assets.

Low or non-interest bearing loans are valued at present value, and where applicable adjusted by specific valuation allowances or genereal loan loss provisions.

Liabilities to customers and banks are reported at their settlement values. The differences between borrowing and repayment amounts of an interest nature are reported under prepaid expenses and are liquidated according to schedule.

Zero bonds are reported at their market price when issued plus a mark-up for interest in line with the yield on newly issued bonds.

Provisions for uncertain liabilities and anticipated losses on pending transactions have been made in accordance with the principle of prudence.

The bank has reported one-time income from the issuing of a ship loan under commission income.

Both write-downs of and value adjustments to claims and certain securities and allocations to provisions for lending business and write-downs of and value adjustments to investments, shares in affiliated companies and securities treated as fixed assets are offset against their associated income.

For the aggregate of all interest-bearing assets, interest-bearing liabilities and interest derivatives in the asset portfolio, the principle of prudence in accordance with commercial law is also considered by a provision for anticipated loss being made if

- on balance a negative interest margin is expected from the portfolio of transactions or
- losses are anticipated due to different fixed-interest periods for assets and liabilities (including the transformation effect of interest derivatives).

The calculations required for this provision test are made at NORD/LB using the net present value method, i.e. the bank establishes whether the margin-free net present value of the transactions included in the area being balanced is positive or negative. If the margin-free net present value is negative a provision is made, unless the losses have been considered elsewhere in the balance sheet (e.g. in the form of a write-down). Standard risk and administrative expenses are considered when calculating the present value by the contractual cash flows from customer business included in the calculation having all margin elements removed. The payments without the margin elements are discounted for the swap curve. As at 31 December 2010 there was no requirement for a provision.

Accounting policies – Internal transactions

NORD/LB uses internal transactions to transfer market price risks from the asset portfolio to the trading portfolio, from where they are controlled centrally by trading limits. As these internal transactions meet all of the conditions on the trading book side for regulatory inclusion in the trading book in accordance with § 1a para. 7 of the German Banking Act (KWG), they are as a result of the fundamental consistency in terms of balance between the trading book and the trading portfolio reported in the balance sheet also part of the trading portfolio reported in the balance sheet. Accordingly the internal trading transactions are valued in accordance with commercial law as external trading transactions at fair value (less a risk premium) through profit or loss.

On the asset portfolio side the same accounting rules apply for internal transactions as for the respective external transactions in the asset portfolio. For example internal interest derivatives in the asset portfolio are included in the area being balanced by the provision for interest rate risks in the banking book. For further information concerning the accounting of derivative transactions on the asset portfolio side we refer to the information in the chapter “Accounting policies – Asset portfolio”.

In order to prevent the reporting of internal derivatives at fair value on the trading portfolio side from having a one-sided impact on the asset situation, NORD/LB offsets the trading assets or liabilities resulting from the reporting of internal transactions at fair value against the trading assets or liabilities resulting from the reporting of external transactions at fair value. As at 31 December 2010 trading assets resulting from internal transactions were deducted in the amount of € 3,392.8 million from external trading liabilities and trading liabilities resulting from internal transactions were deducted in the amount of € 3,187.6 million from external trading assets in this way.

For each risk type NORD/LB provides evidence relating to the total portfolio that the risk positions from the internal transactions have been transferred to the market, i.e. that they have been externalised.

Calculation of fair values

Fair values have to be calculated on the one hand for accounting purposes (valuation of derivative and non-derivative financial instruments in the trading portfolio at fair value) and on the other hand for disclosure purposes (disclosure of the fair value for derivative financial instruments in the asset portfolio). For both purposes the fair values are calculated in the same way as follows:

For financial instruments traded on an active market the fair value corresponds directly to the stock-exchange or market price, i.e. in this case no adjustments or present value calculations are made to calculate the fair value. If publicly-listed stock-exchange prices are available, these are used; otherwise other price sources are used (e.g. prices quoted by market makers). Examples of financial instruments traded on an active market at NORD/LB are securities, options and futures traded on the stock exchange.

In all other cases the fair value is calculated using generally accepted valuation methods. The generally accepted valuation methods used by NORD/LB include in the area of derivative and non-derivative trading transactions the following methods:

Valuation method	Scope	Significant input parameters	Data sources
Discounted Cash Flow Method	Illiquid interest-bearing securities	Swap curves, Credit rating information	Murex, KRC/KRM
	Credit default swaps	Swap curves, credit spreads and where applicable credit rating information	Murex, MarkIT, KRM
	Interest rate swaps, FRAs	Swap curves	Murex
	Securities forward contracts	Contract data, specific securities forward prices, swap curves	Gattungsdaten, Börsenwerte
	Interest rate currency swaps, forward exchange contracts	Swap curves in the currencies exchanged; basic swap spreads; exchange rate	Murex
Hull & White Model for Options	Bermudan swaptions	Volatility of the underlying market price, Risk-free interest rate	Murex
Black-Scholes Model	Fix options	Exchange rates Volatility of the underlying market price, Risk-free interest rate	Murex
	OTC share options	Volatility of the underlying market price	Front Arena
Black-76 Model	Caps and floors Swaptions Bond options	Exchange rates Volatility of the underlying market price, Risk-free interest rate	Murex

The significant input parameters were reliably established for all of the trading transactions valued using the above-mentioned valuation methods; there were no cases at NORD/LB where it was not possible to calculate the fair value.

Accounting of securities lending

As a result of the amendment of §246 para. 1 HGB subsequent to the German Accounting Law Modernisation Act, the assignment of the beneficial ownership of securities lending has been revised and NORD/LB assigns the beneficial ownership in securities lending to the lender. The consequence of this is that lent securities remain in the balance sheet of NORD/LB and are valued in accordance with the valuation rules of the respective security category (they often concern securities in the trading portfolio). If NORD/LB borrows securities, the securities are not reported by NORD/LB as the economic benefit has not been assigned to it. In accordance with this principle, in the opening balance as at 1 January 2010 lent securities with a nominal value of € 183 million and a book value of € 181.631 million were credited to the portfolio and borrowed securities with a nominal value of € 761.450 million and a book value of € 792.333 million were debited.

Pension obligations

NORD/LB's pension obligations have been valued in accordance with the projected unit credit method since the German Accounting Law Modernisation Act came into effect. Using this method current pensions as at the balance sheet date and the part apportioned to the period of employment served to date, the defined benefit obligation, are valued. Increases which are expected in the future due to increases in salary or pension adjustments which are apportionable here are also considered. The defined benefit obligation is calculated by the expected future benefit (the settlement value in terms of §253 para. 1 clause 2 HGB) being discounted in accordance with §253 para. 2 HGB with the average market interest rate for the previous seven years. In the process the simplification rule in accordance with §253 para. 2 clause 2 HGB is used and the interest rate is set at a flat rate for a remaining term of 15 years. Up to and including 2009 the calculation was made on the basis of the taxable portion.

As at 1 January 2010 the present value of pension obligations in accordance with the BilMoG was € 885.858 million. The changeover in accordance with the BilMoG in the year under review resulted in an allocation of € 301.921 million compared to the previous year's value. Using the simplification rule in accordance with art. 67 para. 1 clause 1 EGHGB, the allocation will be spread over 15 years. The value in 2010, after taking into account repayments, was € 18.633 million and was shown under extraordinary expenses.

The provision as at 31 December 2010 was € 621.276 million, whereby an obligation of € 280.175 million is not shown in the balance sheet.

The previous year's values were calculated in accordance with the previously applicable HGB and not adjusted with the changeover to the BilMoG. Therefore the value of the obligation as at the end of 2009 does not agree with the value of the obligation at the start of 2010.

When calculating the pension obligations the following assumptions were used for the bank in Germany:

	31 Dec. 2010	1 Jan. 2010**	31 Dec. 2009
Interest rate	5.15 %*	5.25 %	6.00 %
Salary increases	2.00 % p.a.	2.00 % p.a.	0.00 %
Pension increases	2.75 %/2.87 %/1.00 %	2.75 %/2.87 %/1.00 %	0.00 %/1.00 %
Fluctuation	3.00 %	3.00%	Flat rate with start of finance in accordance with §6a of the Income Tax Act

*) A portion in the amount of € 50.560 million was calculated with an interest rate of 5.17 per cent.
**) BilMoG opening value

NORD/LB's pension obligation was valued based on the "Richttafeln 2005 G" mortality tables published by Dr. Klaus Heubeck.

Currency translation

The currency translation takes place in the non-trading portfolio in accordance with the principles of § 256a in conjunction with § 340h HGB (“special cover”), as it controls currency risk via separate currency positions and carries the individual currency items in the currency positions. The special cover comprises all assets, liabilities and pending transactions which are not allocated to the trading portfolio, are financial instruments and are in a foreign currency.

The assets and liabilities are translated at the ECB reference exchange rate or at exchange rates from other reliable sources as at the balance sheet date. Spot exchange transactions and forward foreign exchange transactions which have not been completed are also valued based on the ECB reference exchange rate.

For futures transactions in fixed assets, the pro-rata, not yet amortised swap mark-ups/mark-downs are valued at the current swap rates for the remaining term of the transactions.

The results from the valuation of the remaining positions are added by currency; losses are deducted. Any remaining positive results such as unrealised profits from open items are not considered.

For financial instruments in the trading portfolio the currency translation takes place in accordance with the relevant accounting policies. The results of the currency translations are reported under the item net income or net expenses of the trading portfolio.

Overall the value of NORD/LB’s assets and liabilities in foreign currency total € 32,992.529 million (€ 29,764.498 million) and € 13,872.298 million (€ 16,347.147 million) respectively.

Formation and accounting of valuation units

At NORD/LB in the following cases economic hedging relationships are shown in the balance sheet by forming valuation units:

- Individual-transaction-specific interest hedges of fixed-interest securities in the liquidity reserve with interest rate swaps (none as at 31 December 2010);
- Individual-transaction-specific hedges of the underlying share price or currency exchange rate risks of certain structured issues with share-price or currency-exchange-rate-specific derivatives;
- Individual-transaction-specific hedges of the currency risk from the highly likely repayment of a hybrid capital bond issued in US dollars with a currency swap.

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

- Currency hedges in the banking book. The economic hedging relationship is presented in the balance sheet by the translation of the foreign-currency assets, foreign-currency liabilities and pending currency transactions in accordance with § 256a in conjunction with § 340h HGB.
- Hedging of general interest rate risk in the banking book within the scope of asset/liability management (Overall Bank Management). The economic hedging relationship is shown by including all of the interest-bearing banking book assets and liabilities and all interest derivatives in the banking book in the calculation of the provision requirement for the loss-free valuation of interest rate risks in the banking book.
- Hedging of the default risk relating to banking book assets with CDS contracts. The economic hedging relationship is presented in the balance sheet by the hedge effect of the CDS contracts being considered in the calculation of the revaluation requirement for the hedged assets like a loan security.

Where valuation units are formed, at NORD/LB the so-called freezing method is used, i. e. where changes in the value of underlying and hedge transactions relating to the hedged risk balance, the changes in value are not posted.

II. Disclosures and notes to the balance sheet and income statement

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

Notes to the balance sheet

Assets

(in € 000)	31 Dec. 2010	31 Dec. 2009
2. Claims on banks		
a) with a residual term of		
Due on demand	4,322,749	3,206,419
less than 3 months	6,664,764	9,630,156
more than 3 months but less than 1 year	3,292,495	5,306,288
more than 1 year less than 5 years	9,695,422	9,150,799
more than 5 years	7,514,696	10,068,867
Balance sheet value	**31,490,126**	**37,362,529**
of which Claims on affiliated companies	6,570,438	6,740,350
Claims on companies in which an equity investment exists	1,719,893	1,474,003
Subordinated receivables	250,905	264,037
Used to cover old stock	4,061,556	4,785,991
The full amount of receivables from banks includes:		
Claims on affiliated savings banks	8,388,595	8,366,544

Assets

(in € 000)	31 Dec. 2010	31 Dec. 2009
3. Claims on customers		
a) With a residual term of		
less than 3 months	5,159,854	4,584,561
more than 3 months but less than 1 year	3,891,616	4,851,243
more than 1 year but less than 5 years	19,383,598	18,881,318
more than 5 years	37,076,909	37,374,201
Balance sheet value	**65,511,977**	**65,691,323**
of which Claims on affiliated companies	81,471	81,744
Claims on companies in which an equity investment exists	126,688	102,146
Subordinated receivables	1,874	7,289
Used to cover old stock	7,926,118	9,881,748
With an indefinite term	1,387,492	1,033,749
4. Debt securities and other fixed-interest securities		
a) Money-market instruments		
aa) Issued by public sector borrowers		
Balance sheet value	**33,245**	**–**
of which due in the following year	33,245	–
marketable and listed money-market instruments	33,245	–
ab) Issued by other borrowers		
Balance sheet value	**222,609**	**504,275**
of which due in the following year	222,609	504,275
marketable and listed money-market instruments	200,156	–
marketable and unlisted money-market instruments	22,453	24,905
b) Bonds and debt securities		
ba) Issued by public sector borrowers		
Balance sheet value	**9,561,810**	**9,881,411**
of which due in the following year	2,765,715	2,949,282
marketable and listed money-market instruments	9,420,227	9,688,559
marketable and unlisted money-market instruments	141,583	192,851
Used to cover old stock	674,336	983,280

Assets

(in € 000)	31 Dec. 2010	31 Dec. 2009
bb) Issued by other borrowers		
Balance sheet value	**24,227,843**	**29,390,751**
of which due in the following year	4,293,252	6,399,069
marketable and listed money-market instruments	23,042,869	26,980,124
marketable and unlisted money-market instruments	1,184,974	2,410,627
Affiliated company securities	2,837,722	1,847,064
Securities of companies in which an equity investment exists	–	621,339
Subordinated debt securities	56,111	56,105
c) Debt securities, issued by the institution itself		
Balance sheet value	**635,911**	**1,214,877**
of which due in the following year	475,327	497,036
marketable and listed money-market instruments	628,566	1,204,032
marketable and unlisted money-market instruments	7,345	10,846
5. Shares and other variable-yield securities		
Balance sheet value	**1,216,360**	**1,488,976**
of which marketable and listed shares and other variable-yield securities	25,423	282,773
marketable and unlisted shares and other variable-yield securities	132,691	138,439
5a. Trading portfolio		
Balance sheet value	**7,594,562**	**–**
of which Derivative financial instruments	2,067,604	–
Claims	2,530,123	–
Debt securities and other fixed-interest securities	2,768,119	–
Shares and other variable-yield securities	245,427	–
Risk discount	16,711	–
6. Participating interests		
Balance sheet value	**265,235**	**690,361**
of which Marketable unlisted shares	13,994	356,993
The equity holding is shown in III. Paragraph 10.		

Assets

(in € 000)	31 Dec. 2010	31 Dec. 2009
7. Shares in affiliated companies		
Balance sheet value	**2,380,987**	**2,201,500**
of which Marketable unlisted shares	1,108,035	1,053,947
The equity holding is shown in III. Paragraph 10.		
8. Assets held in trust		
Balance sheet value	**4,288,705**	**4,131,792**
of which Claims on banks	467,615	461,577
Claims on customers	3,821,090	3,670,215
9. Intangible assets		
Balance sheet value	**52,987**	**10,792**
of which internally generated software	44,315	–
10. Tangible assets		
Balance sheet value	**88,752**	**90,456**
of which for own activities	27,518	29,502
Operating and office equipment	61,234	60,929
11. Other assets		
Balance sheet value *)	**1,886,727**	**4,033,235**
of which The following are reported as significant items:		
Interest and interest due from interest rate swaps	1,054,153	1,660,763
Premiums paid for options, swaps and caps	515,900	686,670
Balancing item resulting from currency evaluation	–	154,515
Tax refunds	19,594	69,222
Valuation adjustments	–	39,348
Outstanding items on interim accounts, not classified	202,287	1,352,891
Other LTS assets	52,181	–
12. Deferred expenses and accrued income		
Balance sheet value	**732,604**	**777,962**
of which deferred premiums in accordance with § 340e Paragraph 2 HGB	187,421	169,987
discounts and maturing premiums	104,753	136,857

*) This item includes unlisted shares not intended for investment purposes to the amount of € 0.1 million (€ 1.2 million).

Assets

The table below shows the changes to fixed assets:

(in € 000)	Aquisition/ manufacturing cost	Additions	Disposals	Accumulative depreciation	Balance sheet value 31 Dec. 2010	Balance sheet value 31 Dec. 2009	Depreciation for the accounting-period
Participating interests					265,235	690,361	
Shares in affiliated companies					2,380,987	2,201,500	
Investment securities					21,129,129	26,474,047	
Intangible assets *)	55,605	47,025	24	49,619	52,987	10,792	4,712
Tangible assets	295,723	14,259	3,983	217,247	88,752	90,456	15,760

*) The total amount of research and development expenses in the reporting year equals € 54.3 million, of which € 44.3 million represent internally generated intangible assets.

Liabilities

(in € 000)	31 Dec. 2010	31 Dec. 2009
1. Liabilities to banks		
a) Due on demand		
Balance sheet value	**3,790,923**	**6,811,604**
of which Liabilities to affiliated companies	12,134	32,615
Liabilities to companies in which an equity investment exists	42,191	24,404
b) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	16,781,086	13,756,558
more than 3 months but less than 1 year	3,669,729	4,451,178
more than 1 year but less than 5 years	6,843,944	6,583,268
more than 5 years	10,127,944	10,680,539
Balance sheet value	**37,422,703**	**35,471,543**
of which Liabilities to affiliated companies	942,284	1,181,687
Liabilities to companies in which an equity investment exists	947,304	909,008
Assets pledged as collateral	3,702,275	3,218,163
The full amount of bank loans and overdrafts includes:		
Liabilities to affiliated savings banks	3,066,387	4,241,701

Liabilities

(in € 000)	31 Dec. 2010	31 Dec. 2009
2. Liabilities to customers		
a) Savings deposits		
aa) with an agreed notice period of three months		
Balance sheet value	**810,086**	**828,802**
ab) Savings deposits with an agreed notice period of more than three months		
of which with a residual term of		
less than 3 months	62,272	36,135
more than 3 months but less than 1 year	60,454	54,637
more than 1 year but less than 5 years	319,916	334,390
more than 5 years	1,032	817
Balance sheet value	**443,674**	**425,979**
b) Other liabilities		
ba) Due on demand		
Balance sheet value	**10,055,389**	**9,819,928**
of which Liabilities to affiliated companies	52,454	52,535
Liabilities to companies in which an equity investment exists	114,657	122,867
bb) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	7,350,597	7,234,946
more than 3 months but less than 1 year	1,914,667	2,080,791
more than 1 year but less than 5 years	6,500,394	5,357,405
more than 5 years	13,662,109	16,025,130
Balance sheet value	**29,427,767**	**30,698,272**
of which Liabilities to affiliated companies	110,653	115,709
Liabilities to companies in which an equity investment exists	178,152	169,835
Assets pledged as collateral	–	120,241

Liabilities

(in € 000)	31 Dec. 2010	31 Dec. 2009
3. Securitised liabilities		
a) Issued debt securities		
Balance sheet value	**46,735,353**	**52,345,132**
of which Due in the following year	9,561,052	11,426,793
Liabilities to affiliated companies	4,586,413	4,271,927
Liabilities to companies in which an equity investment exists	–	1,397,665
b) Other securitised liabilities		
of which with a residual term of		
less than 3 months	1,217,486	1,630,914
more than 3 months but less than 1 year	346,165	513,249
more than 1 year but less than 5 years	13,207	17,812
more than 5 years	271,491	269,846
Balance sheet value	**1,848,349**	**2,411,821**
3a. Trading portfolio		
Balance sheet value	**1,635,478**	–
of which Derivative financial instruments	1,401,007	–
Liabilities (for short-term securities)	234,471	–
4. Liabilities held in trust		
Balance sheet value	**4,288,705**	**4,131,792**
of which Liabilities to banks *)	1,374,815	1,237,665
Liabilities to customers	2,913,890	2,894,127

*) Investitionsbank Sachsen-Anhalt equity to the amount of € 123.8 million is included in the figures and for the Group.

Liabilities

(in € 000)	31 Dec. 2010	31 Dec. 2009
5. Other liabilities		
Balance sheet value	**2,614,981**	**4,026,335**
of which reported as significant items:		
Interest payable and accrued interest from swaps	457,695	1,399,714
Countervalues for outstanding securities purchases	521,795	713,917
Interest payable from profit participation rights, subordinated liabilities and capital contributions	192,602	192,601
Outstanding items on interim accounts, not classified	220,016	1,411,705
Current values for short-term securities	–	165,013
Temporal posting differences relating to German Central Bank items	–	66,807
Adjustment item from currency valuation	1,147,810	–
6. Deferred income		
Balance sheet value	**673,132**	**670,540**
of which deferred discounts in accordance with § 340e Paragraph 2 HGB	54,934	68,804

8. Subordinated liabilities

NORD/LB spent € 119,319 thousands (€ 86,839 thousands) on the liabilities reported.
Borrowings which exceed 10 % of the total amount respectively are defined as follows:

Currency amount	Interest rate	Due on
580 million €	5.75 % p. a.	1 Dec. 2015
550 million €	6.00 % p. a.	29 Jun. 2020

Obligation to make premature repayment could only arise if a change in taxation results in additional payments to a purchaser.
Subordination of these funds is in compliance with the Banking Act.
Conversion of these funds into capital or into any other form of debt has neither been agreed on nor provided for.

Liabilities

1. Contingent liabilities

Within the contingent liabilities there are nine significant liabilities from guarantees and other indemnity agreements. Single amounts are within a range of € 70 million to € 324 million.

Furthermore NORD/LB has signed letters of comfort for liabilities from guarantees and other indemnity agreements with:
Norddeutsche Landesbank Luxembourg S.A., Luxembourg
NORD/LB COVERED FINANCE BANK S.A., Luxembourg
Skandifinanz AG, Zurich (former Skandifinanz Bank AG, Zurich)
NORD/LB Asset Management Holding GmbH, Hanover
Nieba GmbH, Hanover
Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover

From the bank's perspective the risk of any usage is considered to below.

2. Other obligations

The irrevocable credit commitments in the reporting period 2010 are broken down as follows:

Commercial enterprises	7,888
Private customers	209
Banks	43

Notes to the income statement

The total balance of items 1., 3., 5., 7. and 8. is spread across the following regions:

(in € 000)	2010	2009
Federal Republic of Germany	5,364,977	4,868,005
Europe (excl. of Federal Republic of Germany)	180,008	251,535
North America	218,831	227,531
Asia	176,570	191,940
	5,940,386	**5,539,011**

(in € 000)	2010	2009
7. Net profit/loss of trading portfolio		
The following are reported as material items:		
realised profit/loss from trading portfolio	189,177	–
valuation profit/loss from trading portfolio	118,611	–
profit from change in value at risk-discount	2,829	–
8. Other operating income		
The following are reported as material items:		
Reversal of accruals	7,939	40,779
Offsetting of services with promotion institutes	2,686	2,086
Income from rents	4,766	4,945
Income from the resale of hardware and software and services	19,653	6,787
IT services for third parties	4,401	3,740
Book profits from disposals of property and equipment	164	6,326
Interest income from tax refunds	9,816	6,313
11. Other operating expenses		
The following are reported as material items:		
Interest expenses for payment of tax arrears	5,173	2,507
Expenses for losses resulting from operational risks	408	8,172
Expenses for the resale of hardware, software and services purchased	15,246	7,394
Interest expense from valuation of provisions	50,437	–
Allocation to provision for recourse risks	5,926	–
15. Expense deriving from allocation to fund for general banking risks		
The following are reported as material items:		
Allocation to special item acc. to § 340e, para. 4 German Commercial Code	100,000	–

Other financial obligations

a) in accordance with § 285 no. 3 HGB
With regard to the security reserve for landesbanks, NORD/LB's maximum obligation relating to additional contributions is € 215.1 million (€ 219.4 million). 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 a case of debt readjustment among the affiliated institutes, in an obligation to make a maximum additional payment of € 258.8 million (previous year € 269.2 million) if funds available in the savings banks' support fund are insufficient.

NORD/LB has further obligations to make additional contributions to the amount of € 30.5 million (previous year € 30.5 million) in addition to extra joint liabilities for other partners on the part of Liquiditätskonsortialbank GmbH.

Lease agreements entered into by NORD/LB totalled € 764.9 million for IT systems.

With regard to customers there are maximum obligations relating to guarantees to the amount of € 4,757.6 million and letters of credit to the amount of € 315.4 million.

b) in accordance with § 285 no. 3 a HGB
NORD/LB furthermore vouches for the obligations of the Sparkassenverband Niedersachsen (Association of the Savings Banks of Lower Saxony) resulting from its membership in the Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Girobanks) and the DekaBank Deutsche Girozentrale. In addition joint liability has been assumed for DekaBank Deutsche Girozentrale with the other shareholders of this bank within the scope of the guarantor function.

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

NORD/LB has a 100 per cent holding in Deutsche Hypothekenbank (Actien-Gesellschaft). It is obliged to reimburse Deutscher Sparkassen- and 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.

NORD/LB had undertaken to release the Bundesverband deutscher Banken e.V. (Association of German Banks) from all losses which were a result of the measures in accordance with § 2 paragraph 2 of the statute of the "Einlagensicherungsfond" (deposit protection fund) for the Deutsche Hypothekenbank (Actien-Gesellschaft). The participation of Deutsche Hypothekenbank (Actien-Gesellschaft) in the German banks' deposit protection fund was terminated as at 31 December 2008. In accordance with § 6 no. 8 of the statute of the deposit protection fund NORD/LB may still be liable for commitments previously entered into by Deutsche Hypothekenbank (Actien-Gesellschaft).

With regard to NORD KB Beteiligungsgesellschaft mbH and NORD KB Dachfonds II Beteiligungsgesellschaft mbH (previous year one company) NORD/LB has an obligation to grant partnerships loans totalling approximately € 21.4 million (€ 25.2 million).

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

NORD/LB has released the personally liable partners of a real estate investment fund from their statutory liability.

Furthermore NORD/LB indemnifies a director of a limited company from all costs, and claims for liability and damages which arise in relation to his activities as a director.

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

In connection with the sale of companies in the NILEG sub-group, NORD/LB guarantees 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 € 0.5 million.

With regard to the inclusion of the shares in FinanzIT GmbH, the withdrawing partners NORD/LB, Bremer Landesbank and Landesbank Saar have committed, together with the remaining partners of FinanzIT, to bear the risks of the company from the time up to their withdrawal, provided they have actually occurred and are not already covered by provisions which have already been made.

NORD/LB is jointly liable to the investment in AKA concerning finance in the amount of € 0.1 million.

Concerning the disposal of the shareholding in LHI Leasing GmbH, Munich, NORD/LB guarantees the purchaser that any taxes and 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.

Call-in obligations for shares and other interests amounted to € 14.5 million at year-end (€ 17.5 million).

NORD/LB has deposited securities as collateral relating to transactions on the EUREX, Frankfurt, and foreign forward markets in the nominal amount of € 213.5 million (€ 245.0 million).

NORD/LB has obligations from long-term rental and lease agreements to 2024 in the nominal amount of € 561.4 million, € 500 million of which towards affiliated companies.

Obligations relating to existing rental, lease, guarantee and other similar agreements are within the scope of standard business.

III. Other disclosures

1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman)

Christoph Schulz
(Deputy Chairman)

Dr. Jürgen Allerkamp
(until 31 January 2010)

Martin Halblaub
(until 11 January 2010)

Dr. Hinrich Holm
(since 1 February 2010)

Eckhard Forst

Dr. Johannes-Jörg Riegler

2. Members of the Supervisory Board

Hartmut Möllring
(Chairman)
Minister of Finance, State of Lower Saxony

Thomas Mang
(First Deputy Chairman)
President, Association of
Savings Bank in Lower Saxony

Jens Bullerjahn
(Second Deputy Chairman)
Minister of Finance, State of Saxony-Anhalt

Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Hermann Bröring
County Officer
Emsland District

Edda Döpke
Bank employee
NORD/LB Hannover

Ralf Dörries
Senior Vice President
NORD/LB Hannover

Dr. Josef Bernhard Hentschel
Chairman of the Managing Board
Sparkasse Osnabrück

Frank Hildebrandt
Bank employee
NORD/LB Braunschweig

Dr. Gert Hoffmann
Mayor, City of Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH&Co. KG

Walter Kleine
Chairman of the Managing Board
Sparkasse Hannover

Manfred Köhler
Chairman of the Managing Board
Salzlandsparkasse Staßfurt

Heinrich v. Nathusius
Managing Director
IFA Group

August Nöltker
Union Secretary
ver.di Vereinte Dienstleistungsgewerkschaft
District administration

Freddy Pedersen
Deputy District Manager
United Services Union
ver.di Vereinte Dienstleistungsgewerkschaft

Ilse Thonagel
Bank employee
Landesförderinstitut
Mecklenburg-Western Pomerania

Mirja Viertelhaus-Koschig
Deputy Chairman of the Managing Board
VIEROL AG

3. Disclosures concerning mandates

As at 31 December 2010 the following mandates where held in accordance with § 340a para. 4 no. 1 HGB by members of NORD/LB:

Members of the Managing Board of NORD/LB

Name	Company*)
Dr. Gunter Dunkel	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Continental AG, Hanover DekaBank Deutsche Girozentrale, Frankfurt Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Norddeutsche Landesbank Luxembourg S. A., Luxembourg Skandifinanz AG, Zurich (former: Skandifinanz Bank AG, Zurich) Johannes Berenberg, Gossler & Co. KG, Hamburg (until 2 August 2010)
Christoph Schulz	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Norddeutsche Landesbank Luxembourg S. A., Luxembourg Totto Lotto Niedersachsen GmbH, Hanover Johannes Berenberg, Gossler & Co. KG, Hamburg (until 2 August 2010)
Eckhard Forst	Bank DnB NORD A/S, Copenhagen (until 23 December 2010) DEUTSCHE FACTORING BANK GmbH & Co. KG, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover NORD/LB Capital Management GmbH, Hanover (since 22 February until 22 November 2010) NORD/LB Kapitalanlagegesellschaft AG, Hanover (since 22 February until 22 November 2010)
Dr. Hinrich Holm	Bank DnB NORD A/S, Copenhagen (since 1 February until 23 December 2010) Investitionsbank Sachsen-Anhalt, Magdeburg (since 25. February 2010) LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover (since 1 February 2010)
Dr. Johannes-Jörg Riegler	Bank DnB NORD A/S, Copenhagen (since 23 December 2010) Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Johannes Berenberg, Gossler & Co. KG, Hamburg Norddeutsche Landesbank Luxembourg S. A., Luxembourg (since 1 January 2011)

*) Banks and large corporate entities are on equal terms

Other employees

Name	Company*)
Ulrike Brouzi	NORD/LB Kapitalanlagegesellschaft AG, Hanover (since 22 November 2010) NORD/LB Luxembourg S. A., Luxembourg (since 1 September 2010) NORD/LB COVERED FINANCE BANK S. A., Luxembourg (since 1 September 2010) NORD/LB Asset Management Holding GmbH, Hanover (since 1 August 2010) NORD/LB Capital Management GmbH, Hanover (since 24 November 2010)
Jürgen Dolle	NORD/LB Kapitalanlagegesellschaft AG, Hanover
Jörg Dresen	NORD/LB Kapitalanlagegesellschaft AG, Hanover
Heinz-Werner Frings	SWAN Malaysia Sdn. Bhd., Johore Bahru, Malaysia
Dr. Rüdiger Fuhrmann	Niedersächsische Landgesellschaft mbH, Hanover Deutsche Saatveredelung AG (DSV), Lippstadt
Kurt Gliwitzky	NORD/LB Kapitalanlagegesellschaft AG, Hanover
Wolfgang Göhlich	NORD/LB COVERED FINANCE BANK S. A., Luxembourg
Klaus Hillenhagen	Toto-Lotto Niedersachsen GmbH, Hanover
Dietmar Köhne	NORD/LB Project Holding Ltd., London
Jürgen Machalett	NORD/LB COVERED FINANCE BANK S. A., Luxembourg AS DnB NORD Bankas, Lithuania (until 17 February 2010)
Cord Meyer	AS DnB NORD Banka, Latvia (until 22 December 2010) AS DnB NORD Bankas, Lithuania (until 22 December 2010) DnB NORD Polska S. A., Poland (until 22 December 2010) Bank DnB Nord A/S, Copenhagen (until 22 December 2010)
Christoph Trestler	NORD/LB Project Holding Ltd., London
Torsten Windels	NORD/LB Kapitalanlagegesellschaft AG, Hanover
Andreas Hähndel	DnB NORD Polska S. A., Poland (until 22 January 2010)
Christoph Dieng	AS DnB NORD Banka, Latvia (until 22 February 2010)
Michael Kiesewetter	AS DnB NORD Banka, Latvia (until 22 February 2010)
Andreas Fichelscher	AS DnB NORD Bankas, Lithuania (until 17 February 2010)

*) Banks and large corporate entities are on equal terms

4. Remuneration and loans to governing bodies

(in € 000)	2010	2009
Emoluments paid to active members of executive bodies		
Board of Management	2,551	4,137
Supervisory Board	369	349
	2,920	**4,486**
Emoluments paid to former members of the executive bodies and their dependants		
Vorstand	4,163	4,483
Advances payments, loans and contingencies		
Board of Management	848	808
Supervisory Board	157	157

€ 49,733 thousands (€ 36,008 thousands) were put back for pension obligations towards former members of governing bodies and their surving dependents, whereby one obligation of € 11,843 thousands was not drawn up the balance sheet.

5. Auditors' fees

(in € 000)	2010	2009
Audit	3,394	4,236
Other confirmatory/consulting services	1,221	1,172
Tax consulting services	26	4
Other services	322	491

6. Average number of employees

	Male		Female		Total	
	2010	2009	2010	2009	2010	2009
Employees (converted into full-time staff)	1,976	1,826	2,065	1,965	4,041	3,791

Investitionsbank Sachsen-Anhalt and Landesförderinstitut Mecklenburg-Vorpommern account for an additional 613 employees (583 employees).

7. Further disclosures

Services performed for third parties

Significant services performed to third parties concern:

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

No write-down to lower fair value

The items "dept securities and other fixed-interest securities" and "shares and other variable-yield securities" include securities valued like fixed assets which have not been written down to the their lower fair value. These concern the following securities (all book values and fair values disclosed do not include accumulated interest):

(in € 000)	31 Dec. 2010 Book values	31 Dec. 2010 Fair values	31 Dec. 2009 Book values	31 Dec. 2009 Fair values
Bonds and debt securities	10,668,064	10,353,645	13,496,993	13,183,508
Shares	560,057	515,120	665,075	595,512

NORD/LB assumes with all bonds and debt securities that the loss of value ist not permanent as the securities are held to final maturity and the issuers are all issuers with first-class credit ratings. If as at the balance sheet date there are valuation units consisting of interest-bearing securities and interest rate swaps, the net fair value of the security and interest rate swap are entered in the above table as the fair value of the security.

The following securities in fixed assets include hidden reserves, i. e. the fair value is above the book value (all book values and fair values disclosed do not include accumulated interest):

(in € 000)	31 Dec. 2010 Book values	31 Dec. 2010 Fair values	31 Dec. 2009 Book values	31 Dec. 2009 Fair values
Bonds and debt securities	8,421,132	8,815,189	10,750,802	11,113,369
Shares	15,000	15,401	15,000	15,126

Marketable securities not valued at lower of cost or market

The items "dept securities and other fixed-interest securities" and "shares and other variable-yield securities" include marketable securities not valued at lower of cost or market, i. e. they are treated as fixed assets (book values do not include accumulated interest):

(in € 000)	31 Dec. 2010	31 Dec. 2009
Debt securities and other fixed-interest securities	20,266,042	24,731,600
Shares and other variable-yield securities	82,707	187,750 *

*) The previous year's value was adjusted to the new requirements of the RechKred.

The marketable securities not valued at lower of cost or market were separated from the marketable securities valued at lower of cost market on the basis of the asset category deposited in the portfolio and the valuation method chosen.

Derivatives not valued at fair value (derivatives in the asset portfolio)

(in € million)	Nominal values 31 Dec. 2010	Positive fair values 31 Dec. 2010	Negative fair values 31 Dec. 2010	Carrying amounts 31 Dec. 2010	Recorded in balance sheet item 31 Dec. 2010
Interest rate risks					
Interest rate swaps	9,207	981	– 219	168	Assets 12. / Assets 11. / Liabilities 5.
FRAs	–	–	–	–	–
Interest rate options					
purchases	7,033	853	–	414	Assets 11.
sales	2,967	–	– 558	– 233	Liabilities 5.
Caps, Floors	2,996	23	– 36	– 14	Assets 12.
Stock-exchange contracts	–	–	–	–	–
Other forward interest rate transactions	2,296	19	– 89	–	–
Interest rate risks – total –	24,499	1,876	– 902	335	–
Currency risks					
Forward foreign exchange transactions	2,813	25	– 45	– 29	Liabilities 5.
Currency swaps / interest rate currency swaps	880	137	– 30	90	Assets 12. / Assets 11. / Liabilities 5.
Currency options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Currency risks – total –	3,693	162	– 75	61	–

(in € million)	Nominal values 31 Dec. 2010	Positive fair values 31 Dec. 2010	Negative fair values 31 Dec. 2010	Carrying amounts 31 Dec. 2010	Recorded in balance sheet item 31 Dec. 2010
Shares and other price risks					
Share futures contracts	–	–	–	–	–
Share swaps	1,006	23	– 23	– 6	Assets 12.
Share options					
purchases	1,397	103	–	107	Assets 11.
sales	1,355	–	– 103	– 108	Liabilities 5.
Stock-exchange contracts	4	–	–	–	Assets 11.
Shares and other price risks – total –	3,762	126	– 126	– 7	–
Credit derivatives – total –	4,717	12	– 102	–	Assets 12.
Derivatives not valued at fair value – total	36,670	2,175	– 1,204	389	–

The above table also includes those derivatives which were placed in valuation units in terms of § 254 HGB. The derivatives which were not placed in valuation units primarily concern transactions which were completed to cover interest rate, exchange rate and other market price risk positions in the asset portfolio.

Nominal values constitute the gross volume of all purchases and sales and long and short positions. Concerning stock options the nominal value is calculated by multiplying the quantity with the current market price of the underlying assets. For all contracts, fair values and book values excluding accrued interest are shown. Positive and negative fair values of contracts with the same counterparty were not offset against each other.

All of the fair values included in the above table were calculated reliably. Concerning the valuation methods used, the section "Calculation of fair values" is referred to.

Derivatives valued at fair value (derivatives in the trading portfolio)

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

(in € million)	Nominal values 31 Dec. 2010
Interest rate risks	
Interest rate swaps	187,418
FRAs	17,259
Interest rate options	
purchases	2,443
sales	6,605
Caps, Floors	5,421
Stock-exchange contracts	–
Other forward interest rate transactions	308
Interest rate risks – total –	219,454
Currency risks	
Forward foreign exchange transactions	12,167
Currency swaps / interest rate currency swaps	36,024
Currency options	
purchases	270
sales	256
Currency risks – total –	48,717
Shares and other price risks	
Share futures contracts	–
Share swaps	–
Share option	
purchases	39
sales	4
Stock-exchange contracts	30
Shares and other price risks – total –	73
Credit derivatives – total –	337
Derivatives valued at fair value – total	268,581

Nominal values constitute the gross volume of all purchases and sales and long and short positions.
To calculate the nominal value of equity options the underlying closing rate is multipled by quantity.

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

(in € million)	Nominal values 31 Dec. 2010
Interest rate risks	
Residual terms to maturity	
up to 3 months	33,248
up to 1 year	28,726
up to 5 years	87,975
more than 5 years	69,505
	219,454
Currency risks	
Residual terms to maturity	
up to 3 months	8,560
up to 1 year	5,864
up to 5 years	17,294
more than 5 years	16,999
	48,717
Shares and other price risks	
Residual terms to maturity	
up to 3 months	19
up to 1 year	35
up to 5 years	19
more than 5 years	–
	73
Credit derivates	
Residual terms to maturity	
up to 3 months	6
up to 1 year	38
up to 5 years	253
more than 5 years	40
	337

The maturity breakdown is based on residual terms to maturity. With interest rate risk contracts, the term of the underlying interest-bearing transaction is used and with the remaining risks the contract term is used.

Derivatives valued at fair value – broken down by counterparty

(in € million)	Nominal values 31 Dec. 2010
Banks in the OECD	237,356
Banks outside the OECD	257
Public institutions in the OECD	8,060
Other counterparties*)	22,908
Total	**268,581**

*) including stock exchange contracts

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

	31 Dec. 2010 Underlying transaction hedged against		
(in € 000)	Interest rate risk	Share price risk	Currency risk
Assets			
Fixed-interest securities for the liquidity reserve	–	–	–
Assets – total	**–**	**–**	**–**
Pending transactions			
Derivatives separated from structured issues			
share-price-related derivatives	–	998,790	–
exchange-rate-related derivatives	–	–	5,000
Pending transactions – total	**–**	**998,790**	**5,000**
Transactions expected with a high probability*)			
Repayment of an issued USD hybrid capital bond	–	–	335,255
Transactions expected with a high probability – total	**–**	**–**	**335,255**
Valuation units – total	**–**	**998,790**	**340,255**

*) This transaction which is highly likely expected is a redemption of a NORD/LB USD hybrid capital bond. The bond's redemption is highly likely to be executed at the earliest possible date (30 June 2020). Otherwise the interest coupon will increase (so called Step Up).

The total of all underlying transactions included in valuation units is therefore € 1,339,045 thousands.

All of NORD/LB's valuation units are perfect micro hedges, which NORD/LB understands as those hedging relationships where the cash-flow-determining parameters of the underlying and hedge transactions agree exactly. For example the derivatives embedded in structured issues (e.g. embedded share derivatives) are hedged by hedging transactions which correspond exactly with the structure of the embedded derivatives. For valuation units consisting of fixed-interest securities in the liquidity reserve and interest rate swaps (there were none as at 31 December 2010) only the fixed side of the interest rate swap is included in the valuation unit in terms of § 254 HGB, so that changes in value on the variable side of the interest rate swap are shown outside of the valuation unit and therefore do not impair the effectiveness of the valuation unit. Agreement between the cash-flow-determining parameters of the underlying and hegde transactions is controlled when forming the valuation unit and during its term by a position which is independent of trading. Due to the above-mentioned reasons, the changes in the value of the underlying and hedge transactions which occur between the formation of valuation units and the balance sheet date balance out completely, providing they are the subject of the valuation units. The ineffectiveness of all valuation units to date is calculated retrospectively at NORD/LB by the Critical Terms Match method. NORD/LB also expects due to the above-mentioned reasons that future changes in value (insofar as changes in value relate to the valuation units) will balance out completely over the whole term of a valuation unit, i.e. the Critical Terms Match method is also used for the prospective assessment of the effectiveness of the hedging relationships.

The transaction expected with high probability concerns the repayment of a hybrid capital bond issued by NORD/LB in US dollars. The repayment of the bond will with high probability be made at the earliest possible time (30 June 2020), as otherwise the interest coupon to be paid would increase (so-called step-up).

Deferred taxes
The deferred taxes of NORD/LB in Germany are measured using the tax rate which is applicable as at the balance sheet date and also in the future of 31.5 per cent. Different tax rates apply for the foreign branches.

The following temporary differences deductible as at 31 December 2010 result in deferred tax assets:

(in € million)	31 Dec. 2010
Assets	
Loans and advances to customers	120
Debt securities and other fixed-interest securities	30
Shares and other variable-yield securities	18
Trading portfolio	11
Investments	11
Shares in affiliated companies	69
Other assets	–
Liabilities	
Pension provision	39
Other provisions	112
Other liabilities	56
Others	29
Sub-total	**495**
Offset with deferred tax liabilities	– 495
Total	**0**

Deferred tax liabilities result from the following taxable temporary differences:

(in € million)	31 Dec. 2010
Assets	
Debt securities and other fixed-interest securities	224
Investments	78
Intangible assets	44
Other assets	28
Liabilities	
Other liabilities	93
Others	28
Sub-total	**495**
Offset with deferred tax assets	– 495
Total	**0**

Values subject to dividend payout restrictions
In 2010 self-made intangible fixed assets in the amount of € 44.3 million were capitalised. The dividend payout restriction for such values enshrined in § 268 para. 8 HGB does not affect the profit for the financial year 2010 as the disposable reserves plus the profit carried forward are greater than the intangible fixed assets.

Repos
Securities and other assets with a book value totalling € 9,440 million (€ 7,240 million) were committed by NORD/LB within the scope of genuine repos.

Special investment assets

Name of the special asset	NORD/LB AM 52	NORD/LB AM 56	NORD/LB AM 65	NORD/LB AM 118 NLB
Former	NORDCON Fonds SP 52	NORDCON Fonds SP 56	NORDCON Fonds 65	NORDCON Fonds SP 118 NLB
Type of special asset	Special asset	Special asset	Special asset	Special asset
Investment objective	The investment objective of the fund is to participate in market returns in North American bond and share markets.	The fund serves as at sub-portfolio for strategic interest management.	The objective of the fund is diversified investment in asset-backed securities.	The objective of the fund is diversified investment in asset-backed securities and in corporate bonds.
Reporting date	30. Dec. 2010	30. Dec. 2010	30. Dec. 2010	30. Dec. 2010
Special assets (in € 000)	173,645	258,163	452,106	143,292
Shares – total	2,305	2,500	5,000	1,506
Shares of NORD/LB as at the reporting date	2,305	2,500	5,000	1,506
Values of the shares according to § 26 of the German Investment Act (InvG) as at reporting date	75	103	90	95
Carrying amount (in € 000)	172,608	250,000	492,350	143,288
Difference between fair value and carrying amount (in € 000)	1,022	8,150	– 40,250	–
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	11,539	136	3,910	1,256
Reporting year of NORD/LB	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.
Reporting year of the special asset	1 Dez. – 30 Nov.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Dec. – 30 Nov.
Restrictions in the possibility of daily return	None	None	None	None
Reasons for no write-down § 253 para. 3 clause 4 of the German Commercial Code	–	–	Loss of value is not likely to be permanent	–
Pointers for the loss of value not being permanent	–	–	Assets held in the fund are likely to cover the carrying amount upon repayment	–

Name of the special asset	NORD/LB AM High Yield-Fonds	NORD/LB AM Emerging Markets Bond-Fonds	NORD/LB AM Global Challends Index-Fonds	NORD/LB AM VT Renten Classic-Fonds
Former	NORDCON High Yield-Fonds	NORDCON Emerging Markets Bond-Fonds	NORDCON Global Challends Index-Fonds	NORDCON VT Renten Classic-Fonds
Type of special asset	Public fund	Public fund	Public fund	Public fund
Investment objective	The investment object of the NORD/LB AM High Yield Fund is to generate an attractive return with diversified investment in high-interest bonds.	The investment objective of the fund is to generate and above-average increase in value by exploiting opportunities in international bond markets.	The investment object of NORD/LB AM Global Challenges Index Fund is to copy the Global Challenges Index® as closely as possible while maintaining an appropriate risk spread.	The investment object of the NORD/LB AM VT Renten Classic Fund is to achieve long-term increases in value by investing in interest-bearing securities.
Reporting date	30. Dec. 2010	30. Dec. 2010	30. Dec. 2010	30. Dec. 2010
Special assets (in € 000)	52,199	32,753	34,337	77,251
Shares – total (in € 000)	553	319	415	742
Shares of NORD/LB as at the reporting date	494	150	198	501
Values of the shares according to § 26 of the German Investment Act (InvG) as at reporting date	94	103	83	104
Carrying amount (in € 000)	49,148	15,000	18,558	49,985
Difference between fair value and carrying amount (in € 000)	– 2,482	400	– 2,204	2,204
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	2,952	1,224	175	1,021
Reporting year of NORD/LB	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec..
Reporting year of the special asset	1 Apr. – 31 Mar.	1 May – 30 Apr.	1 Sep. – 31 Aug.	1 Okt. – 30 Sep.
Restrictions in the possibility of daily return	None	None	None	None
Reasons for no write-down § 253 para. 3 clause 4 of the German Commercial Code	–	–	–	–
Pointers for the loss of value not being permanent	–	–	–	–

8. Cover statement

(Old portfolio / issues before 19 July 2005)

(in € 000)	31 Dec. 2010	31 Dec. 2009
Mortgage bond coverage		
Liabilities requiring cover		
Mortgage bonds	1,538,142	2,026,692
discharged and cancelled items	–	3
Registered debentures (as security on loans taken up)	–	–
	1,538,142	**2,026,695**
Covering assets		
Loans to customers secured by mortgages	1,955,062	2,487,817
Public issuer securities	–	–
Substitute credit institution cover	69,000	100,000
	2,024,062	**2,587,817**
Surplus cover	**485,920**	**561,122**
Municipal cover		
Liabilities requiring cover		
Municipal debentures	8,002,182	11,307,481
discharged and cancelled items	–	–
Registered municipal debentures (to secure loans taken up)	1,225,442	1,356,043
	9,227,624	**12,663,524**
Covering assets		
Municipal loans		
to financial institutions	3,376,709	4,335,723
to customers	5,971,056	7,393,931
Public issuer securities	674,336	983,280
Fixed deposits from public-sector banks	2,497	268
Substitute credit institution cover	613,350	350,000
	10,637,948	**13,063,202**
Surplus cover	**1,410,324**	**399,678**

This old portfolio (cover and in circulation) was encapsulated in accordance with § 51 of the Covered Bond Act and is held separately from the new cover in accordance with the regulations applicable up until the Covered Bond Act came into effect.

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

Covered bonds in circulation and cover pools:

(in € million)	Nominal	Cash value	Risk cash asset		
			+ 250 bp	– 250 bp	of currency
Mortgage bonds					
Total circulation	1,033 (1,139)	1,091 (1,194)	1,015 (1,104)	1,174 (1,291)	1,015 (1,104)
Guarantee fund total	2,347 (2,469)	2,483 (2,604)	2,340 (2,453)	2,637 (2,766)	2,340 (2,450)
Excess coverage	**1,314** (1,330)	**1,392** (1,410)	**1,325** (1,349)	**1,463** (1,475)	**1,325** (1,346)
Excess coverage in %	127 (117)	128 (118)	131 (122)	125 (114)	131 (122)
Public mortgage bonds					
Total circulation	20,702 (22,251)	22,286 (23,762)	20,159 (21,622)	24,899 (26,318)	20,432 (22,033)
Guarantee fund total	24,564 (25,822)	26,054 (27,197)	23,689 (24,716)	29,035 (30,287)	23,696 (24,716)
Excess coverage	**3,862** (3,571)	**3,768** (3,435)	**3,530** (3,094)	**4,136** (3,969)	**3,264** (2,683)
Excess coverage in %	19 (16)	17 (14)	18 (14)	17 (15)	16 (12)
Shipping covered bonds					
Total circulation	110 (400)	109 (401)	106 (394)	111 (405)	106 (394)
Guarantee fund total	707 (1,046)	721 (1,057)	667 (985)	762 (1,122)	559 (864)
Excess coverage	**597** (646)	**612** (656)	**561** (591)	**651** (717)	**453** (470)
Excess coverage in %	543 (162)	562 (164)	529 (150)	587 (177)	427 (119)

No derivatives are included in the cover pools.

Maturity structure of the covered bonds in circulation, fixed interest periods and cover pools:

(in € million)	less than 1 year	more than 1 year but less than 5 years	more than 5 years but less than 10 years	more than 10 years
Mortgage bonds	372 (152)	261 (569)	350 (368)	50 (50)
Guarantee fund total	469 (426)	972 (1,120)	805 (886)	101 (37)
Public mortgage bonds	3,294 (4,653)	8,714 (8,837)	5,111 (5,477)	3,583 (3,284)
Guarantee fund total	2,611 (3,143)	11,612 (7,930)	6,315 (10,805)	4,026 (3,944)
Shipping covered bonds	100 (300)	10 (100)	– (–)	– (–)
Guarantee fund total	144 (168)	380 (625)	163 (215)	20 (38)

Receivables used to cover covered bonds by size:

	Covering assets	
(in € million)	31 Dec. 2010	31 Dec. 2009
Mortgage bonds		
Less than € 0.3 million	832	808
More than € 0.3 million and less than € 5 million	434	428
More than € 5 million	915	1,051
	2,181	**2,287**
Shipping covered bonds (ocean-going vessels only)		
Less than € 0.5 million	1	–
More than € 0.5 million and less than € 5 million	133	191
More than € 5 million	534	588
	668	**779**

Receivables used to cover mortgage covered bonds by country in which the land securities are located and by type of use:

	Covering assets					
(in € million)	commercial 31 Dec. 2010	commercial 31 Dec. 2009	residential 31 Dec. 2010	residential 31 Dec. 2009	other 31 Dec. 2010	other 31 Dec. 2009
Germany						
Apartments	–	–	160	160	–	–
One-Family-Houses	–	–	496	487	–	–
Apartment Buildings	–	–	413	372	–	–
Office Buildings	448	587	–	–	–	–
Nonresidential Building	62	102	–	–	–	–
Industrial Building	3	5	–	–	–	–
Other commercial real estate	324	344	–	–	–	–
Unfinished and Non-Productive New Buildings	–	19	1	–	–	–
Building sites	–	–	1	–	–	–
Real Estate	2	2	–	–	–	–
Luxembourg						
Office Buildings	121	12	–	–	–	–
France						
Office Buildings	–	25	–	–	–	–
The Netherlands						
Office Buildings	40	40	–	–	–	–
Austria						
Office Buildings	9	9	–	–	–	–
Poland						
Office Buildings	90	90	–	–	–	–
Spain						
Office Buildings	11	11	–	–	–	–
USA (inck. Puerto Rico)						
Office Buildings	–	21	–	–	–	–

The value of receivables used to cover mortgage covered bonds which were outstanding by at least 90 days was € 28 thousands (€ 414 thousands) for land security in Germany.

There were no cases of forced sale, forced receivership or takeovers of land to prevent losses. Arrears on interest to be paid amounted to € 458 thousands (€ 997 thousands).

Receivables used to cover public sector covered bonds by type of debtor or granting authority and their location:

(in € million)	County	Regional local authorities	Public local authorities	Other debtors
Germany	187 (115)	5,971 (4,809)	4,404 (3,662)	13,466 (16,015)
Ireland	– (19)	– (–)	– (–)	– (–)
Greece	– (–)	– (–)	– (–)	– (80)
Spain	– (–)	– (89)	– (10)	– (–)
Italy	50 (50)	– (–)	– (–)	– (–)
Latvia	– (–)	– (–)	45 (44)	– (–)
Hungary	20 (20)	– (–)	– (–)	– (–)
Luxembourg	– (–)	– (–)	– (–)	30 (443)
Austria	38 (88)	– (–)	– (–)	353 (353)
Sweden	– (25)	– (–)	– (–)	– (–)

Receivables used to cover ship mortgage covered bonds by country in which the ships and shipbuilding yards lent against are registered, broken down by ship type:

	Covering assets					
(in € million)	Maritime navigation 31 Dec. 2010	Maritime navigation 31 Dec. 2009	Inland shipping navigation 31 Dec. 2010	Inland shipping navigation 31 Dec. 2009	Other 31 Dec. 2010	Other 31 Dec. 2009
Germany	513	601	–	–	–	–
Cyprus	155	178	–	–	–	–
Excess Coverage	–	–	–	–	15	20

There were no cases of forced sale, forced receivership or takeovers of ships or shipbuilding to prevent losses. Arrears on interest to be paid amounted to € 6,442 thousands (€ 2,646 thousands).

Notes
Reports

10. List of equity holdings

The list below contains the equity holdings in accordance with § 285 no. 11 and 11a HGB and investments in terms of § 340a para. 4 no. 2 HGB. Included are all companies in which there is an equity holding of 20 per cent or more, unless they are not of minor significance for the presentation of the assets, financial and earnings position, and investments in large corporations which exceed 5 per cent of the voting rights.

No.	Name/registered office	Share of capital held (in %)	Equity [15] (in € 000)	Profit/Loss (in € 000)
Affiliated companies				
1	BGG Bremen GmbH & Co. KG, Bremen [1) 10)]	100.00	1,918	165
2	BGG Oldenburg GmbH & Co. KG, Bremen [1) 10)]	100.00	7,715	919
3	BLB Immobilien GmbH, Bremen [1) 3b) 10)]	100.00	44,695	–
4	BLB Leasing GmbH, Oldenburg [1) 3b) 10)]	100.00	511	–
5	BLBI Beteiligungs-GmbH, Bremen [1) 10)]	100.00	43	21
6	Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [3a) 9)]	100.00	30,626	–
7	Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig [2) 9)]	100.00	537	– 191
8	Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig [1) 9)]	100.00	26	3
9	Braunschweig Grundstücksvertriebsgesellschaft mbH, Braunschweig [1) 9)]	100.00	26	– 1
10	Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [1) 3b) 9)]	100.00	8,597	–
11	Braunschweig-Informationstechnologie-GmbH, Braunschweig [1) 3b) 10)]	100.00	3,160	–
12	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – , Bremen [10) 12)]	92.50	1,298,677	48,000
13	Bremische Grundstücks-GmbH, Bremen [1) 10)]	100.00	57,433	7,761
14	Bremische Grundstücks-GmbH & Co. KG, Präsident-Kennedy-Platz, Bremen [1) 10)]	100.00	4,200	820
15	Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen [1) 10)]	100.00	100	85
16	City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover [9)]	100.00	42	– 1
17	Combined Operations Inc., Monrovia, Liberia [1) 5)]	100.00	0	0
18	Deutsche Hypo Delaware Blocker Inc., Wilmington, USA [1) 10) 11)]	100.00	10,685	– 120
19	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover / Berlin [10) 12)]	100.00	930,949	31,177
20	FL FINANZ-LEASING GmbH, Wiesbaden [2) 9)]	58.00	561	– 100
21	HALOR GmbH, Pöcking [9)]	100.00	1,863	14
22	HERMA Verwaltungs- und Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [1) 9)]	100.00	2,146	69
23	Interhansa Gesellschaft für Beteiligungen und Warenhandel mit beschränkter Haftung i. L., Hanover [9)]	100.00	554	– 5
24	LBT Holding Corporation, Wilmington, USA [16)]	100.00	–	–
25	LHI Leasing GmbH & Co. Immobilien KG, Pullach i. Isartal [2) 9)]	90.00	953	17
26	MALIBO GmbH & Co. Unternehmensbeteiligungs-KG, Pullach i. Isartal [10)]	77.81	13,637	1,090
27	Medicis Nexus GmbH & Co. KG, Icking [9)]	66.01	9,762	– 37

No.	Name/registered office	Share of capital held (in %)	Equity [15] (in € 000)	Profit/Loss (in € 000)
28	NBN Grundstücks- und Verwaltungs-GmbH, Hanover [1) 9)]	100.00	1,148	– 1,063
29	NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [2) 9)]	90.00	1,894	– 1,653
30	Nieba GmbH, Hanover [3a) 10)]	100.00	382,200	–
31	NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover [9)]	100.00	34	10
32	NORD/FM Norddeutsche Facility Management GmbH, Hanover [3a) 10)]	100.00	636	–
33	NORD/LB Asset Management Holding GmbH, Hanover [10)]	100.00	6,721	– 12
34	NORD/LB Beteiligungsgesellschaft in Mecklenburg-Vorpommern und Sachsen-Anhalt mbH, Hanover [3a) 9)]	100.00	513	–
35	NORD/LB Capital Management GmbH, Hanover [1) 10)]	100.00	1,304	241
36	NORD/LB COVERED FINANCE BANK S.A., Luxembourg, Luxembourg [1) 10) 11) 12)]	100.00	67,708	7,197
37	NORD/LB Financial Services LLC, New York, USA [9)]	100.00	417	404
38	NORD/LB G-MTN S. A., Luxembourg, Luxembourg [10)]	100.00	31	0
39	NORD/LB Informationstechnologie GmbH, Hanover [3a) 9)]	100.00	25	–
40	NORD/LB Kapitalanlagegesellschaft AG, Hanover [1) 10) 12)]	100.00	4,634	– 654
41	NORD/LB Project Holding Ltd., London, Great Britain [9)]	100.00	346	– 8
42	NORD/LB RP Investments LLC, Wilmington, USA [9)]	100.00	1,771	– 7,019
43	NORDBAU Hamburger Wohnungs- und Baubetreuungsgesellschaft mbH i. L., Bremen [1) 7)]	100.00	48	– 1
44	Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [9)]	100.00	15,160	89
45	Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Luxembourg [10) 11) 12)]	100.00	671,357	69,316
46	NORDIG Norddeutsche Investitionsgesellschaft mbH, Hanover [9)]	100.00	201	– 1
47	Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover [3a) 10)]	100.00	289,520	–
48	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen [1) 10)]	100.00	7,835	4,179
49	Öffentliche Facility Management GmbH, Braunschweig [1) 3b) 10)]	100.00	25	–
50	Öffentliche Facility Management Leben GmbH & Co. KG, Braunschweig [1) 10)]	100.00	19,011	505
51	Öffentliche Facility Management Sach GmbH & Co. KG, Braunschweig [1) 10)]	100.00	15,647	281
52	Öffentliche Lebensversicherung Braunschweig, Braunschweig [10)]	75.00	30,372	2,318
53	Öffentliche Sachversicherung Braunschweig, Braunschweig [10)]	75.00	262,846	14,979
54	PANIMA GmbH & Co. Objekt Hannover KG, Pullach i. Isartal [10) 13)]	94.00	– 14,723	3,155
55	PANIMA GmbH & Co. Objekte Braunschweig KG, Pullach i. Isartal [10)]	94.00	8,076	928
56	PLM Grundstücksverwaltung GmbH, Hanover [9)]	100.00	34	1
57	Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [1) 3b) 9)]	98.00	3,088	–
58	Ricklinger Kreisel Beteiligungs GmbH, Hanover [1) 5)]	100.00	45	1
59	Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen [1) 9)]	100.00	1,070	11
60	SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [9)]	100.00	1,192	– 1,410

No.	Name/registered office	Share of capital held (in %)	Equity [15] (in € 000)	Profit/Loss (in € 000)
61	Skandifinanz AG, Zurich, Schweiz (former: Skandifinanz Bank AG, Zurich) [1) 10) 11) 12)]	100.00	31,715	0
62	TANGENS Grundstücksverwaltung GmbH & Co. Vermietungs-KG, Pullach i. Isartal [9)]	100.00	23	– 2
63	Terra Grundbesitzgesellschaft am Aegi mbH, Hanover [1) 10)]	100.00	256	– 934
64	Themis 1 LLC, Wilmington, USA	100.00	0	k.A.
65	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [1) 9)]	100.00	37,485	1,849
66	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Grundschulen-Vermietungs-KG, Hanover [9)]	79.80	17	– 2
67	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [9) 13)]	72.70	– 4,638	410
68	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Tiefgarage Stade Vermietungs KG, Hanover [9) 13)]	90.00	– 2,876	23
69	Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [1) 3b) 9)]	100.00	1,278	–
Other companies of min. 20 per cent share				
1	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede [1) 9)]	32.26	27,493	1,117
2	BHS Berliner Hannoversche Software GmbH, Hanover [9)]	50.00	1,144	13
3	BREBAU GmbH, Bremen [1) 9)]	48.84	63,392	4,563
4	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [1) 9) 14)]	49.00	–	–
5	Bremer Toto und Lotto GmbH, Bremen [1) 9)]	33.33	4,283	181
6	Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [9)]	50.00	5,200	393
7	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [9)]	20.89	14,539	662
8	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [9)]	20.44	9,599	250
9	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen [1) 9)]	27.50	55,879	8,600
10	Gewobau Gesellschaft für Wohnungsbau Vechta GmbH, Vechta [1) 9)]	20.46	9,111	515
11	GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg [1) 9)]	22.22	60,132	3,307
12	Herrenhausen Verwaltungs GmbH Gastronomie & Co. KG, Hanover [1) 9)]	25.00	1,696	– 176
13	Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. Objekt Zietenterrassen KG, Göttingen [2) 9)]	52.56	1,763	– 769
14	INI International Neuroscience Institute Hannover GmbH, Hanover [1) 9) 13)]	22.67	– 11,131	– 1,066
15	KreditServices Nord GmbH, Hanover [9)]	49.00	4,609	11
16	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover [1) 9)]	44.00	312,670	15,500
17	LHI Leasing GmbH, Pullach i. Isartal [2) 4) 10)]	49.00	46,598	4,007
18	LINOVO Productions GmbH & Co. KG, Pöcking [9) 13)]	45.17	– 44,598	3,415
19	Medical Park Hannover GmbH, Hanover [1) 9)]	50.00	1,513	127
20	Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [9)]	26.00	8,511	746

No.	Name/registered office	Share of capital held (in %)	Equity [15] (in € 000)	Profit/Loss (in € 000)
21	Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [9]	39.82	5,982	740
22	NBV Beteiligungs-GmbH, Hamburg [2) 9]	28.57	19,396	1,746
23	NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover [9]	40.00	90,142	10,232
24	NORD KB Beteiligungsgesellschaft mbH, Hanover [9]	28.66	8,376	950
25	Öffentliche Versicherung Bremen, Bremen [1) 9]	20.00	5,710	360
26	SALEG Sachsen-Anhaltinische Landesentwicklungsgesellschaft mbH, Magdeburg [9]	56.61	11,874	467
27	Toto-Lotto Niedersachsen GmbH, Hanover [9) 12]	49.85	37,779	27,554
28	USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [1) 8]	42.86	6,624	– 797
29	Wohnungsbaugesellschaft Wesermarsch mbH, Brake [1) 9]	21.71	22,704	198
NORD/LB is a partner with unlimited liability in the following company (§ 285 no. 11 a HGB)				
1	GLB GmbH & Co. OHG, Frankfurt am Main			
Investments in terms of § 340a para. 4 no. 2 of the German Commercial Code, unless reported as an affiliated company or other shareholding				
1	CeWe Color Holding AG, Oldenburg			
2	HCI HAMMONIA SHIPPING AG, Hamburg			
3	Niedersächsische Bürgschaftsbank (NBB) Gesellschaft mit beschränkter Haftung, Hanover			

1) Held indirectly.
2) Including shares held indirectly
3a) letter of comfort exists
4a) There is a profit transfer agreement with the company.
4b) There is a profit transfer agreement with another company.
5) Proportionally consolidated
6) Data as at 31 Dec. 2008 is available.
7) Data as at 30 June 2009 is available (different financial year)
8) Data as at 15 September 2009 is available (final liquidation balance sheet).
9) Data as at 30 June 2009 is available (different financial year)
10) Data as at 31 Dec. 2009 is available.
11) The information relates to the most recent annual financial statements for 2010 which have not yet been adopted.
12) Values in the financial statements in accordance with IAS/IFRS
13) Disclosure also in accordance with § 340a para. 4 no. 2 of the German Commercial Code (banks are interpreted as large corporate entities).
14) The company is not actually overindebted.
15) No disclosure in accordance with § 286 para. 3 clause 2 of the German Commercial Code
16) Definition of equity in accordance with §§ 266 and 272 of the German Commercial Code less subscribed capital unpaid

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Content

Declaration by legal representatives

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

Hanover / Braunschweig / Magdeburg
28 February 2011

Norddeutsche Landesbank Girozentrale

The Managing Board

Dr. Dunkel Schulz

Forst Dr. Holm Dr. Riegler

Audit Opinion

The following is an English translation of the audit opinion, which has been prepared on the basis of the German language version of the Financial Statements and the Management Report. The translation of the Financial Statements, the Management Report, and the audit opinion, are provided for convenience; the respective German versions shall be exclusively valid for all purposes.

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Norddeutsche Landesbank Girozentrale, Hannover, Braunschweig and Magdeburg, for the fiscal year from 1 January to 31 December 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary articles of bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary articles of bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Hanover, 1 March 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
[German Public Auditor]

Hultsch
Wirtschaftsprüfer
[German Public Auditor]

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 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 2009 accounting period were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft who issued joint and unqualified auditors' certification. The auditors also took part in the meeting of the Supervisory Board to discuss the annual financial statements, which was held on 28 March 2011, and 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 28 March 2011 the Supervisory Board approved of the management report and the annual financial statements as at 31 December 2010; these have hence been adopted.

The Supervisory Board proposes to the Guarantors' meeting that the profit of NORD/LB for the 2010 accounting period be appropriated as follows:

Dividend payment of € 76 million to the guarantors.
Allocation to retained earnings of € 20 million
€ – 2 million carry-forward to new account.

Hanover / Braunschweig / Magdeburg
March 2011

Hartmut Möllring
Minister of Finance
State of Lower Saxony

Report of the Guarantors' meeting

In the year under report the Guarantors' meeting performed the duties assigned to it by the state treaty and by the statues. The Guarantors' meeting resolved on the appropriation of the profit for the year as proposed by the Supervisory Board.

In its meetings in 2009, the owner's meeting approved significant resolutions to the issue of long-term subordinated capital.

The following members resigned from the Guarantors' meeting:
Mr Franz Halbritter as at 28 February 2010
Mr Klaus Brandes as at 30 September 2010

The following new members were appointed to the Guarantors' meeting:
Mr Jürgen Kiehne as at 22 March 2010
Mr Hans-Heinrich Hahne as at 10 October 2010

Hanover / Braunschweig / Magdeburg
March 2011

Thomas Mang
President
Association of Savings Banks in Lower Saxony

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