

# Annual Report 2010

Dexia Kommunalbank Deutschland AG

**DEXIA**





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DEXIA KOMMUNALBANK DEUTSCHLAND AG

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## AT A GLANCE

### KEY BALANCE SHEET FIGURES (IN EUR MILLION)

	Dec. 31, 2009	Dec. 31, 2010
<b>Assets</b>		
Loans to the public sector	23,233.9	23,561.2
Other receivables due from banks and customers	5,095.9	6,625.4
Securities	18,342.7	17,929.2
<b>Liabilities</b>		
Public Pfandbriefe	35,165.4	34,919.0
Other liabilities due to banks and customers	11,165.7	12,056.7
Equity	331.1	531.9

### KEY INCOME STATEMENT FIGURES (IN EUR THOUSAND)

	Dec. 31, 2009	Dec. 31, 2010
<b>Interest and commission income</b>	43,793.5	39,337.0
<b>Administrative expenses (incl. depreciation)</b>	-19,006.5	-18,244.2
<b>Risk provisioning</b>	-20,265.7	-18,483.7
<b>Net income for the fiscal year</b>	585.2	793.8

<b>OTHER DISCLOSURES</b>	Dec. 31, 2009	Dec. 31, 2010
Employees (average)	94	84
Cost-income-ratio	43.4 %	46.4 %

<b>DEVELOPMENT OF THE BANK OVER A FOUR-YEAR PERIOD (IN EUR THOUSAND)</b>	2007	2008	2009	2010
Interest and commission income	65,438	79,971	43,794	39,337
Partial operating profit	47,437	57,890	24,787	21,093
Operating result	16,968	3,024	5,420	4,609
Net income for the fiscal year	10,200	440	585	794
<b>BALANCE SHEET TOTAL (IN EUR MILLION)</b>	<b>45,693</b>	<b>48,969</b>	<b>47,291</b>	<b>48,695</b>

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# PROFILE OF THE DEXIA GROUP

Dexia is a European banking group, with 35.200 members of staff and core shareholders' equity of 19.2 billion EUR as at December 31st 2010. The Group carries out its activities principally in Belgium, Luxembourg, France and Turkey.

The Dexia share is listed on Euronext Brussels and Paris and the Luxembourg Stock Exchange, and is included in the BEL20, reference index of the Brussels Stock Exchange, and the Dow Jones EuroStoxx Banks.

## DEXIA 2014: a retail bank serving 10 million customers

The Dexia Group has posted clear strategic ambitions for 2014 and fixed as objectives:

- to complete its financial restructuring, giving precedence to income from its commercial franchises;
- to consolidate and to develop its strong commercial franchises, refocusing its business line portfolio on retail and commercial banking, and tapping growth opportunities offered by the retail market in Turkey;
- to adopt an optimised operational model, supported by the search for synergies and efficiency gains.

This return to the essence resulting from the Group's strategic repositioning is reflected in Dexia's values, whereby members of staff share three aims: respect, excellence and agility.

## Business Lines

### Retail and Commercial Banking

Dexia offers a wide range of retail, commercial and private banking services to over 8 million customers.

Dexia ranks among the three largest banks in Belgium and Luxembourg. In Belgium, Dexia serves its 4 million customers through a network of approximately 850 branches. The Luxembourg operation is the international wealth management centre within the Group; it also covers the country with a nationwide network of branches. Dexia also holds a strong position in Turkey, through DenizBank, which currently stands in sixth position among privately-held banks and serves its customers through a nationwide network of some 500 branches. Besides the retail and commercial banking activities, DenizBank is a fully-

fledged bank, with a significant corporate activity and offering its clients asset management services and insurance products.

The Group aims to continue developing its commercial franchises in Belgium and Luxembourg and to capture the significant growth potential of Turkey. The objective is to increase the proportion of income from its retail and commercial banking activities (approximately 60% of the Group's total income, including 29% from Turkey) and to achieve a client base of 10 million (4 million in Belgium and Luxembourg, 6 million in Turkey) by 2014.

### Public and Wholesale Banking

Dexia plays a major role in the financing of local facilities and infrastructures, the health and social housing sectors and the social economy, principally in Belgium and France.

Dexia is also active

- in the field of project finance, adopting a selective approach and in sectors such as infrastructures and renewable energies, both in Europe and North America;
- in the field of corporate banking in Belgium, where Dexia focuses on medium-sized corporates, whilst maintaining an opportunist presence with large corporates.

In addition, the Group has with Dexia Kommunalbank Deutschland an active player in the Pfandbriefe market.

Close to its clients and fully in tune with their requirements, Dexia is constantly developing and widening its range of products and services. The aim is to go well beyond the role of specialist lender, offering clients of the business line integrated solutions (treasury management, budget optimisation, IT solutions and so on) most suited to their needs.

### Asset Management and Services

This business line consists of three activities (asset management, investor services and insurance), characterised by attractive growth outlook based on a diversified clientele and strong collaboration with the Group's other commercial franchises.

**KEY FIGURES OF THE DEXIA GROUP AS OF DEC. 31, 2010**

Total assets in liabilities	EUR 566,735 million
Net income	EUR 723 million
Earnings per share	EUR 0.39
Tier 1 (ratio)	13.1 %

With 86.4 billion EUR of assets under management as at December 31st 2010, Dexia Asset Management is the Group's asset management centre. Its four management centres (in Belgium, France, Luxembourg and Australia) serve a broad client base.

The investor services business is conducted by RBC Dexia Investor Services, a joint venture with Royal Bank of Canada, which offers its expertise in global custody, fund and pension administration and shareholder services to institutions all around the world. Total assets under administration amounted to 2,101 billion EUR as at December 31st 2010.

Dexia's insurance activities are mainly concentrated on the Belgian and Luxembourg markets. The Group offers a complete range of life and non-life insurance products to retail, commercial and private banking clients as well as to Dexia's public and semi-public clients, through a banking-insurance approach and through a network of connected agents.

**Ratings**

The Group's main operating entities operating on the long-term capital markets, Dexia Bank Belgium, Dexia Crédit Local and Dexia Banque Internationale à Luxembourg, are rated A+ by Fitch, A1 by Moody's and A by Standard & Poor's. Three of Dexia's European subsidiaries (Dexia Municipal Agency, Dexia Kommunalbank Deutschland and Dexia LDG Banque) issue Triple-A rated secured bonds.

# EXECUTIVE BODIES OF THE BANK

## Supervisory Board

### **Stéphane Vermeire**

*Head of Public & Wholesale Banking – International  
Member of the Management Board Dexia Crédit Local  
Chairman*

### **Marc Buckens**

*(since 21.10.2010)  
Head of Dexia Crédit Local Group Financial Markets  
Member of the Management Board Dexia Crédit Local  
Deputy Chairman*

### **Claude Schon**

*(until 07.10.2010)  
Head of Treasury & Portfolio Solutions  
Member of the Management Board Dexia Banque  
Internationale à Luxembourg SA  
Deputy Chairman*

### **Nikola Bilandzija**

*(since 21.01.2010)  
Bank employee*

### **Hans Handschuh**

*(until 08.09.2010)  
Bank employee*

### **François Laugier**

*Chief Financial Officer  
Member of the Management Board  
of Dexia Crédit Local*

### **Nico Picard**

*Managing Director, Head of Controlling and Financial Planning  
Dexia Banque Internationale à Luxembourg SA*

## Management Board

### **Friedrich Munsberg**

*(since 09.12.2010)  
Banker  
Chairman*

### **Giselbert Behr**

*(until 30.11.2010)  
Banker  
Chairman*

### **Laurent Fritsch**

*(since 01.04.2010)  
Banker*

### **Wilfried Wouters**

*Banker*

### **Dr. Wolfgang Eickhoff**

*(until 31.03.2010)  
Attorney*

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board fulfilled its duties according to statutory law, the articles of incorporation and the bylaws of the Supervisory Board and monitored the Management Board of the bank on an ongoing basis. It obtained regular information from the Management Board on business policy, fundamental management questions, the situation of the bank and business incidences of significance and discussed these with the Management Board. Business transactions requiring the consent of the Supervisory Board were reviewed and discussed with the Management Board and finally approved by the Supervisory Board. There were frequent discussions as well as five meetings with wide-ranging reports presented in both verbal and written form.

## Financial Statements

The annual financial statements and the Status Report for the 2010 financial year were audited, on the basis of the bookkeeping system, by Deloitte&Touche GmbH Wirtschaftsprüfungsgesellschaft. They had been appointed by the General Shareholder's Meeting to act as auditors. They stated in their unqualified audit certificate that the bookkeeping records and the annual financial statements give a true and fair view of the net assets, financial position and results of operations and that the Status Report is consistent with the annual financial statements. The Supervisory Board approved the result of the audit.

Based on the result of its final examination of the annual financial statements, the Status Report and the proposal for the appropriation of the net income, the Supervisory Board concluded that there were no objections to be raised. The Status Report and the annual financial statements as of December 31st 2010 submitted by the Management Board were approved by the Supervisory Board. Hence, the annual financial statements have been established. The Supervisory Board approves the proposal of the Management Board for the appropriation of the net income.

The Management Board has submitted the report on relations to affiliated companies to the Supervisory Board pursuant to Section 312 of the German Stock Corporation Act (Aktiengesetz). The Supervisory Board approved the report of the Management Board and the result of the audit without any reservations.

Within the context of an Investor Day organised in Brussels on October 12th 2010, Dexia Group presented its financial and commercial targets going forward to 2014. In line with the Group's Transformation Plan, highly rated eligible assets have been purchased by Dexia Kommunalbank Deutschland from Dexia

Group and were long-term funded by the issuance of Public Pfandbriefe. In particular, this underscores Dexia Kommunalbank Deutschland's position as strategic core entity of the Dexia Group.

Irrespective of the difficult market environment following the sub-prime crisis, Dexia Kommunalbank Deutschland continued in 2010 to essentially refinance itself on a long-term basis via Public Pfandbriefe.

Dexia Kommunalbank Deutschland has at no time been either directly or indirectly committed in the sub-prime market through special purpose vehicles or structured investment vehicles.

## Personnel Issues

The former vice president, Claude Schon, left the Supervisory Board on October 7th 2010. His tasks and functional responsibilities were assumed by Marc Buckens who was appointed by the Shareholder's Meeting as Member of the Supervisory Board with effect from October 21st 2010. Hans Handschuh, representative of the employees, left the Supervisory Board with effect from September 8th 2010. We thank Claude Schon and Hans Handschuh for their consistently constructive cooperation.

The following changes took place in the Board of Management: Dr. Wolfgang Eickhoff left the Management Board of the Bank as of March 31st 2010. Giselbert Behr left the Management Board with effect as of November 30th 2010.

Effective April 1st 2010, the Supervisory Board appointed Laurent Fritsch as a full member of the Management Board. As of December 9th 2010, the Supervisory Board of Dexia Kommunalbank Deutschland approved Friedrich Munsberg as new CEO. The Supervisory Board thank Giselbert Behr and Dr. Wolfgang Eickhoff for their successful work on behalf of the Bank and their consistently constructive cooperation.

The Supervisory Board expresses its gratitude and appreciation to all members of staff and to the Management Board for their engaged work in 2010.

For the Supervisory Board  
*Paris, March 2011*

Stéphane Vermeire  
*Chairman of the Supervisory Board*



# REPORT OF THE MANAGEMENT BOARD

## 2010 MANAGEMENT REPORT

### ■ ECONOMIC CONDITIONS 2010

Financial and capital market developments played a greater role in terms of economic interests during the 2010 financial year than the general recovery of the global economy in the wake of the financial crisis.

While the G20 states joined forces to coordinate efforts in recovering from the crisis in the previous year, this level of cooperation gradually decreased in the course of 2010. The difference in the speed at which national economies recovered from the most severe economic crisis since the Great Depression triggered a period of increasing volatility on the currency markets. While the USA worked towards a weaker US dollar with the simultaneous appreciation of the Chinese Yen, these efforts were met with little support from the Chinese Central Bank which continued to pursue the increase of its already high currency reserves. Nonetheless, the German export business benefited from a weaker Euro exchange rate as a result of the ongoing European debt crisis. In fact, the dynamic development of exports made a significant contribution towards the growth in Germany's economic output of 3.6% (2009: -4.7%). The countries in the Eurozone achieved an overall increase in their gross domestic product of 1.8% (2009: -4.2%). In view of extensive fiscal stimulus, the recovery of the US economy with an increase in the gross domestic product of less than 3% (2009: -2.6%) failed to meet expectations. Differences in the economic development of Germany and the USA mainly became apparent in the job market: while unemployment in Germany fell to 7.2%, it stagnated at just under 10% in the USA.

The global recovery trend was overshadowed by the European debt crisis, which began back in December of 2009 after Greece raised estimates for its current budget deficit to 12.7% of its gross domestic product and Fitch responded by downgrading the rating for Greece from A- to BBB+. Accelerated increases in the premiums for credit default swaps (CDS) on Greek government bonds started at the beginning of the year under review. The CDS premiums of other European countries wrestling with budget problems increased in parallel. When the yield on 10-year Greek government securities exceeded 8.5% in April, the Greek government officially asked for assistance out of the emergency bailout package of EUR 30 billion that had been es-

tablished previously. In order to avoid a loss of confidence in the Euro, the countries of the Eurozone and the IMF agreed at the beginning of May to establish an emergency fund totalling EUR 750 billion in order to guarantee the solvency of affected European countries without involving private creditors. These measures were initially limited until the year 2013.

The subsequent consolidation in the capital markets came to an abrupt end in September, when Ireland's budget problems with an expected deficit of more than 30% in 2010 came to the attention of investors. These difficulties were caused by record amounts of financial aid the country was forced to come up with in order to bail out its banking sector, which was in dire straits after the real estate bubble burst. Brian Cowen, Prime Minister of Ireland, officially asked the EU and the IMF for support on November 25th and the country received an aid package totalling EUR 67.5 billion.

At the end of November, the countries in the Eurozone and the EU Commission reached a fundamental agreement on a permanent future European stabilisation mechanism which – in addition to measures to boost the stability and growth package – is to replace the European emergency fund which expires in mid-2013. Under the new concept, support will only be offered following a detailed analysis of the capacity to service debt and subject to strict consolidation requirements. When a liquidity crisis is determined to be merely temporary, the participation of private creditors in the restructuring measures is only planned on a voluntary basis. But in case of pending insolvency, the mandatory inclusion of private creditors is being pursued.

The Euro, which traded at USD 1.432 at the start of the year, fell to its annual low of USD 1.197 in the course of the crisis but was able to recover to USD 1.338 by the end of the year. Insecure investors sought refuge with particularly low-risk investments, especially German government bonds. The yield on 10-year federal securities reached a record low of 2.116% on July 31st but then climbed quickly, closing just under the 3% mark (2.963%) at the end of the year.

## Monetary policy

After the very strong, globally coordinated intervention by the central banks in order to battle the financial crisis in 2009, their control mechanisms became more differentiated in the past year.

Confronted with high unemployment, ongoing weak real estate markets and a slump in private consumer demand, the US Federal Reserve decided on a second round of quantitative easing (QE2) in autumn 2010 in order to give unsatisfactory economic growth a push. The Fed had already decided to buy government bonds and securities valued at a total of more than USD 1 trillion in the previous year (QE1). Sustained lower long-term interest rates and an additional growth impulse of +1.5% were expected from the second purchase programme for USD 600 billion, this time only for treasuries, which was announced in November.

In the debt-ridden peripheral states of the Eurozone, most banks continued to be cut off from funding via the capital markets, which reinforced their dependence on the credit facilities of the ECB. This naturally made it more difficult to move away from the measures implemented by the ECB in order to manage the crisis. ECB plans to discontinue the fixed-rate tender transactions with full allotment introduced in October 2008 had to be postponed. In May, the ECB presented its widely criticised “Securities Markets Programme” to purchase government bonds from the deeply indebted European countries. The ECB acquired securities with a total volume of EUR 73.5 billion under this programme by the end of the year. But neither this nor the establishment of the European stabilisation mechanism with a volume of EUR 750 billion resulted in long-term stable risk premiums for the government bonds of the peripheral European states. By executing a capital increase approved in December, the ECB made it clear that its ability to continue this type of market intervention – aside from regulatory concerns – is by no means unlimited.

In China, the Chinese Central Bank increased the minimum reserve several times to mitigate its rapidly rising inflation and raised the prime interest rate twice, most recently to 5.69%. The inflation rate reached 5.1% in November – the highest level in 28 months – which is significantly above the 4% limit established by the government. In January the inflation rate was merely 1.5%.

## Development of the covered bond and Pfandbrief markets

After the ECB purchase programme of more than EUR 60 billion for the purchase of covered bonds expired in June, many market participants expected a noticeable decline in activity for this class of securities. This applied in particular to the covered bonds of the peripheral European states, where yield spreads widened significantly in parallel with the risk premiums of their home countries. While some countries stopped issuing covered bonds for some time, the established covered bond markets in France, Scandinavia and Germany continued to achieve good placement results.

The year 2010 also brought a number of new developments that were not always positive for covered bond issuers:

The weighting of strategic investors – asset managers, insurance firms and pension funds – in the acquisition of covered bonds in the primary market declined to 44% (2009: 52%). Some of these investors likely switched to higher-risk investments with higher interest rates in view of historically low yields, while other more risk-averse investors apparently focused more on sovereign and agency bonds with high credit ratings.

As a new format in addition to the jumbo standard with minimum size of EUR 1 billion or more, EUR 500 million issues increasingly came to market and became known under the term “jumbolino”. The lower issue size makes it easier to meet the congruency requirement of maturities on the asset and liability side in cover pools, as demanded by regulators and rating agencies. But sometimes issuers also had to settle for jumbolinos because the planned jumbo issues could not be realised due to a lack of investor interest.

For investors the sovereign risk – the risk premium for the home country of the covered bond issuer – developed into the key quality characteristic. 37% of respondents in a survey by one of the rating agencies identified this sovereign risk as the most important criterion in their buying decisions, followed by the quality of the cover pool (21%), the stability of the respective banking sector (15%), secondary market liquidity (15%), regulatory treatment (8%) and other criteria (4%). This development mainly benefited the German Pfandbrief, which was able to further strengthen its premium position within the diversified covered bond universe, as well as issuers from Scandinavian countries.

The already exemplary quality standard of the German Pfandbrief was further enhanced with an amendment to the German Pfandbrief Act (PfandBG) that came into force on January 1st 2011. The key point of the amendment is the provision that, in case of the insolvency of a Pfandbrief bank, a cover pool can be carried on as a licensed financial institution with limited business activity with the objective of satisfying the claims of Pfandbrief creditors fully and on time. A court-appointed trustee would be responsible for business management.

Competition for the covered bond markets increased with the market entry of newly created supranational agencies such as the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF), also known as the European emergency fund. As triple-A-rated issuers with a solvability risk weighting of zero, their offering is aimed at the traditional customers of covered bond issuers. The covered bond markets face significant substitution risk in view of the ambitious volumes the EFSM and EFSF intend to bring to market in order to meet their issue targets.

## ■ EXECUTIVE BODIES

### Tasks and responsibilities

The tasks and responsibilities of the Supervisory Board, consisting of four representatives of the Dexia Group and two representatives of Dexia Kommunalbank Deutschland's employees, as well as the tasks and responsibilities of the Management Board, are described and documented in full within the organisational rules and regulations (Articles of Incorporation, rules of procedure of the Supervisory Board, organisation instructions). There is no overlapping of responsibilities.

### Management Board

The Management Board of Dexia Kommunalbank Deutschland develops the strategy of the Bank and is responsible for the organisation of business operations as well as due and proper steering and monitoring of risks. The framework required for this is defined by targets, strategies and standards as well as by the authorisation of limit structures and individual limits. The Management Board reports regularly and fully to the Supervisory Board to enable it to assess and monitor the Bank.

### Supervisory Board

The Supervisory Board usually meets on a quarterly basis and analyses the strategy and development of the Bank. The Audit Committee, the Human Resources Committee and the Credit Committee have specific areas of responsibility.

## ■ BUSINESS STRATEGY OF THE DEXIA GROUP IN THE PWB SECTOR

In October 2010, Dexia Group detailed its medium-term business strategy until the year 2014 in the course of an investor information day (also see page 6 "Profile of the Dexia Group"). For the "Public and Wholesale Banking" segment, which includes Dexia Kommunalbank Deutschland as a wholly-owned subsidiary of Dexia Crédit Local S.A., the stated objective is to mainly refocus on the traditional markets of France and Belgium while adhering to strict profitability standards. The Group has a broad, historically developed customer base in both countries. Another focal point is the expansion of the project financing business; here the Group has been successfully concentrating on the infrastructure, energy and environment sectors for many years. The realignment of Public and Wholesale Banking goes hand in hand with a major reduction in the volume of new lending, risk weighted assets and costs.

Public and Wholesale Banking is expected to contribute approximately 18% to the total earnings of the Group by 2014, which underscores that this business segment will continue to play an important role within Dexia Group in the future.

To strengthen its financing structure, the Group is striving to decrease its total assets by 35% (compared to the end of 2008) to less than EUR 430 billion by the end of 2014. The proportion of short-term funding instruments out of the balance sheet total is to be reduced to 11% at the same time (approximately EUR 50 billion). Significant progress has already been made in this area: In October 2008, the Group's short-term funding requirements still totalled EUR 260 billion. Two years later, this amount was cut to less than half at EUR 121 billion.

## ■ NEW LENDING AND FUNDING

### New lending

Dexia Kommunalbank Deutschland once again made an important contribution to the restructuring and consolidation of Dexia Group in the 2010 financial year, with the primary ob-

jective of reducing the dependency of the Group on short-term funding sources. As it did in the previous year, the Bank focused on the acquisition of selected public finance transactions from other Group companies and on their long-term funding with public Pfandbrief issues. This was done both by direct purchase and indirectly by concluding reverse repo transactions. In case of reverse repo transactions, customary collateral agreements were concluded to further reduce the already low level of credit risk.

Given the commitment made to the EU Commission by Dexia Group to significantly reduce its total assets, Dexia Kommunalbank Deutschland - like in the previous year - refrained from concluding new primary lending transactions outside the Group.

From the pool of assets offered for acquisition by Group companies, Dexia Kommunalbank Deutschland selected a portfolio of loans and securities with a total volume of EUR 2,633.9 million (2009: EUR 3,446.1 million). All of the receivables that were acquired went through the regular credit verification and analysis process:

- Only receivables that meet the strict requirements of the German Pfandbrief Act (PfandBG) for the eligibility to cover public Pfandbrief issues were selected.
- Additional qualitative and quantitative criteria also have to be met (structure limits by rating classes, limits for receivables with a non-investment grade rating, limits for concentration risks, limits for foreign currency risks etc.), which the Bank has established for the management of its cover pool and some of which go significantly further than the restrictions imposed by the German Pfandbrief Act (PfandBG).

The total acquired volume of EUR 2,633.9 million is broadly

diversified. It is distributed across a total of more than 66 individual creditors. The average receivable per individual creditor is approximately EUR 40 million. All transactions were concluded at current market prices.

Dexia Kommunalbank Deutschland continued to actively support the debt management activities of its German customers. A loan volume of EUR 425.7 million (2009: EUR 115.5 million) was optimised in the course of these activities.

Dexia Kommunalbank Deutschland terminated the primary municipal lending business and its lending business to finance semi-public enterprises in the course of the transformation process of the Dexia Group during the past year. The project financing business launched in 2007 has been continued in cooperation with and on account of Dexia Crédit Local.

#### Pfandbriefe and other funding

For the purpose of long-term funding of the lending business, the Bank issued a total volume of EUR 6,459.7 million (2009: EUR 4,539.9 million) in 2010. Public Pfandbrief issues account for 98.2% of this volume. The Bank took advantage of the favourable market environment in the first six months of 2010, successfully placing two new jumbo issues with a total volume of EUR 2,250 million. Another public jumbo Pfandbrief issue of EUR 1,000.0 million was readily accepted in the second half of the year, even though the market environment became more challenging in view of the debt crisis faced by some countries.

#### EVOLUTION OF NEW BUSINESS (IN EUR MILLION)

	2009	2010
Belgian regions and communes	330.3	1,277.9
Italian communes and municipalities	1,480.6	421.5
Italian government obligations	954.7	–
Japanese cities and prefectures	–	176.2
Spanish communes	545.5	212.7
Spanish public covered bonds	135.0	545.6
<b>TOTAL</b>	<b>3,446.1</b>	<b>2,633.9</b>

In addition to the jumbo issues, several smaller Pfandbrief transactions were issued as well as numerous registered Pfandbriefe – usually in tranches of up to EUR 50.0 million – as private placements, meeting investor demand for individually tailored and secure investments.

All in all, the amount of outstanding public Pfandbriefe plus senior unsecured bonds and debt certificates decreased slightly to EUR 36,216.0 million as of the end of the year (2009: EUR 36,607.6 million). Dexia Kommunalbank Deutschland's own debt securities acquired in the course of market regulating activities had a nominal value of EUR 8.0 million as of December 31st 2010 (2009: EUR 12.9 million).

A total of 21 issues (2009: 47) of Dexia Kommunalbank Deutschland with an overall volume of EUR 4,828.5 million (2009: EUR 2,603.5 million) were placed through the Berlin Stock Exchange in the past calendar year.

Standard & Poor's AAA rating for the public Pfandbrief issues of Dexia Kommunalbank Deutschland, which was first awarded in January 1998, was confirmed in April 2010 with a stable outlook.

For the further diversification of its funding sources, the Bank started offering time deposits with flexible maturities for its municipal and institutional customers in the 2010 financial year. Thanks to flexible products that were well received by the market, the portfolio totalled EUR 743.5 million by the end of the year. The new product "Treasury Plus" made a major contribution to this increase.

## DEVELOPMENT OF ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

### Assets

Total assets of EUR 48.7 billion increased slightly by EUR 1.4 billion or 3.0% compared to the end of the previous year.

The purchase of cover pool-eligible assets in the form of reverse repo transactions led to an increase in other receivables from banks by about EUR 0.7 billion. This item also includes cash collaterals granted on derivatives, which increased by EUR 0.8 billion compared to the end of the previous year – mainly as a result of interest rate developments.

The acquisition of cover pool-eligible loans in the past financial year with a volume of approximately EUR 1.3 billion exceeded maturities by around EUR 0.6 billion, and therefore led to an increase in municipal loans to customers by the same amount. Bonds and debt securities on the other hand fell by approximately EUR 0.4 billion compared to the previous year, since bond purchases did not fully compensate for maturities and sales.

On the funding side, there was a shift from repo transactions to time deposits within the other liabilities to banks in the past financial year.

Thanks to the successful placement of registered Pfandbrief issues with institutional investors, the corresponding balance sheet item increased by approximately EUR 0.7 billion to around EUR 17.7 billion. Time deposits collected from municipal and institutional customers in the 2010 financial year led to an increase in other liabilities to customers reported on the balance sheet of approximately EUR 0.5 billion.

DEVELOPMENT OF INITIAL PLACEMENT (BEARER AND REGISTERED INSTRUMENTS, IN EUR MILLION)	2008	2009	2010
Public Pfandbriefe	8,238.1	4,466.8	6,347.7
Other bonds*	0.0	0.0	10.0
Borrowing*	69.0	73.1	102.0
<b>TOTAL</b>	<b>8,307.1</b>	<b>4,539.9</b>	<b>6,459.7</b>

\*including subordination agreements

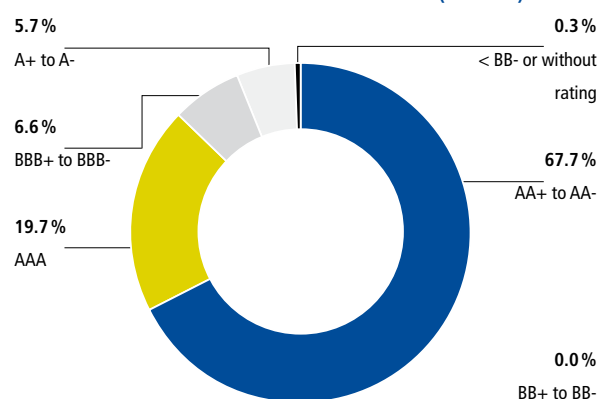
The bearer Pfandbrief total decreased by about EUR 0.6 billion to EUR 16.0 billion in comparison to the last period since the placement of new issues did not fully compensate for maturities.

Other liabilities increased by EUR 0.4 billion due to unrealised valuation losses on particular covered foreign currency transactions, which were offset by unrealised positive valuation gains of the same amount on the underlying transactions.

The capital increase realised on June 25th 2010 led to a significant rise in reported equity of EUR 0.2 billion to EUR 0.5 billion. (See the table below.)

The internal ratings of the municipal loans, public bonds and notes with a nominal amount of EUR 30.5 billion, which are held in the Bank's portfolio as of December 31st 2010, are as follows:

#### INTERNAL RATING ACCORDING TO BASEL II (AIRBA\*)



\* Advanced internal rating based approach

#### DEVELOPMENT OF KEY BALANCE SHEET ITEMS (IN EUR MILLION)

	Dec. 31, 2009	Dec. 31, 2010
<b>Due from banks</b>		
Loans to the public sector	2,934.6	2,668.4
Other receivables	4,689.8	6,224.6
<b>Due from customers</b>		
Loans to the public sector	20,299.3	20,892.9
Other receivables	406.1	400.8
<b>Bonds and notes</b>		
Public-sector issuers	9,614.0	10,012.5
Other issuers	8,715.6	7,916.7
<b>Due to banks</b>		
Registered public Pfandbriefe	1,501.6	1,252.2
Other liabilities	9,265.2	9,633.3
<b>Due to customers</b>		
Registered public Pfandbriefe	17,014.4	17,674.5
Other liabilities	1,900.4	2,423.4
<b>Securitized liabilities</b>		
Public Pfandbriefe	16,649.4	15,992.3
Equity	331.1	531.9
<b>BALANCE SHEET TOTAL</b>	<b>47,291.2</b>	<b>48,694.6</b>

This means 99.7% of the loan portfolio to public sector borrowers was rated as investment grade as of the balance sheet date. Only 0.3% had a lower or no rating.

From a risk standpoint, we continue to consider this rating structure to be balanced. This also applies to our other assets (State supported loans to banks and bonds issued by banks).

The Bank adjusted its earnings forecast for the past 2010 financial year in line with the difficult market conditions and successfully met this target, generating a profit before taxes.

## Results of operations

### Net interest income and commission income

Net interest income totalled EUR 41.5 million in 2010. This figure is approximately equal to the previous year. Derivatives with a negative present value were selected for early termination in order to eliminate their burdening effect on net interest income. The immediate effect of these closings on net interest income for the period is comparable to that of the previous year. This allows the interest expense for future years to once again be reduced, increasing the net asset value of the Company.

Since the public Pfandbrief spreads remained at an overall stable level, the cover pool-eligible loans and securities purchased from other Group entities were refinanced at sufficient margins.

Support for borrowers by the respective local Group entities, which was established in direct connection with the acquisition of foreign cover pool-eligible loans, led to an increase in commission expenses of EUR 0.4 million compared to the previous year.

### Administrative expenses

Administrative costs fell by another 4% or EUR 0.8 million to a total of EUR 18.2 million in the 2010 financial year compared to the previous year.

Savings that were realised as planned consisted almost entirely of other administrative expenses, which fell by EUR 0.8 million. In addition to the restructuring measures that were implemented, the consistent management of expenditures, especially for projects and consulting services, also had an impact.

In the 2009 financial year, the Bank had implemented restructuring measures in the former primary municipal lending, municipal corporation, lending as well as project financing business segments, which led to cost reductions of EUR 3.1 million in 2009 as planned. By sustaining the successfully implemented restructuring measures, costs were therefore reduced by nearly 20% over the entire period compared to 2008.

### Level and development of risk provisions

Risk provisioning comprises all recognisable and latent risks in the lending business and the securities held as current assets, as well as the gains and losses from netting in accordance with Section 340f (3) of the German Commercial Code (HGB). Net risk provisioning of EUR 18.5 million for the past financial year is slightly below the level for the previous year (2009: EUR 20.3 million).

While risk provisioning in the previous year consisted almost exclusively of write-downs to the lower of cost or market in the securities business, which were recognised in response to widening credit spreads, significant losses were also incurred in the past financial year from the early redemption of the Bank's own debt securities. This accounted for around half of the total risk provisioning, but will have *ceteris paribus* a positive impact on the net interest income of the Bank in the future.

To a minor extent, risk provisioning also includes proceeds from the reversal of write-downs in the conventional mortgage loan business (EUR 1.4 million), since the remaining portfolio was fully eliminated in the year under review through the realisation of collateral. (*See table "Development of key income statement items" on the following page.*)

DEVELOPMENT OF KEY INCOME STATEMENT ITEMS (IN EUR MILLION)	Dec. 31, 2009	Dec. 31, 2010
Interest income	2,961.3	3,240.2
Interest expenses	-2,916.2	-3,198.6
Net interest income	45.2	41.5
Net commission income	-1.4	-2.2
Interest and commission income	43.8	39.3
Personnel expenses	-7.3	-7.2
Other administrative expenses (incl. depreciation of tangible and intangible assets)	-11.7	-11.0
Partial operating profit	24.8	21.1
Total other operating income and expenses	0.1	2.0
Risk provisioning	-20.3	-18.5
Result on financial investments	0.8	0.0
Operating result	5.4	4.6
Extraordinary expenses	-4.5	-3.6
Tax expense	-0.4	-0.2
<b>NET INCOME</b>	<b>0.6</b>	<b>0.8</b>

### Result of financial investments

The result of financial investments includes losses on the sale of long-term securities in the amount of EUR 2.7 million, offset by a gain on sales in the same amount. No write-downs for the permanent impairment of long-term securities are included since they were not required.

### Operating result before tax

The operating result decreased to EUR 4.6 million due to the slight reduction of interest and commission income.

### Extraordinary expenses

Extraordinary expenses of EUR 3.6 million include adjustments due to the initial application of the Balance Sheet Modernisation Act (BilMoG). This relates to the ineffectiveness of micro-hedges accumulated prior to the implementation of BilMoG, which were so far not included in the income statement.

### Net income for the fiscal year

At EUR 0.8 million, net income for 2010 is slightly higher than the previous year figure (2009: EUR 0.6 million).

## Equity

The Bank's equity increased by a total of EUR 175.7 million in the year under review. It totalled EUR 733.2 million as of December 31st 2010 (2009: EUR 557.5 million). A capital increase of EUR 100.0 million was implemented in the first half of 2010 at a 200% issue rate. Additionally, the 2009 net income of EUR 0.6 million was transferred to retained earnings. The item to be deducted in accordance with Section 10 (2a) of the German Banking Act (KWG) decreased by EUR 1.7 million. The maturity of participation capital and subordinated liabilities and the partial loss of eligibility of subordinated liabilities due to residual terms having fallen below two years decreased the Bank's equity by EUR 26.6 million. The non-core capital was not replaced in 2010.

In 2010, the Bank's core equity was substantially above legal requirements. As of the balance sheet date, the Bank's equity capital backing of risk-weighted assets amounted to 22.8% and was again significantly above the minimum requirement of 8.0% set forth under Section 10 (1) sentence 9 of the German Banking Act (KWG) and defined in the German Solvability Regulation (SolvV).

Dexia Kommunalbank Deutschland is well prepared for meeting the Basel III requirements regarding the quality and amount of

equity coverage as well as the ability to cover liquidity risks (e.g. liquidity coverage ratio, net stable funding ratio) with the capital increase of EUR 200 million (core capital) completed in 2010 and the close integration into the liquidity management system of Dexia Group.

Another important component of the Basel III rules is the planned implementation of a leverage ratio. This requires the Tier 1 equity of a bank to total at least 3% of the non risk-weighted assets on the balance sheet (plus off balance sheet items). Prior to the proposed binding introduction of a leverage ratio in 2018, a multi-year monitoring phase (2013 to 2017) combined with disclosure requirements (from 2015) as well as a possible recalibration (2017) are planned. It also remains to be seen in what form such a key figure will be implemented in EU banking supervisory regulations.

The high-volume, low-risk Pfandbrief bank business faces a particular restriction from the proposed leverage ratio, since this key figure limits the ability to issue loans regardless of their risk level. Nevertheless, Dexia Kommunalbank Deutschland has started adequate preparations for the introduction of a leverage ratio. The first step was taken with the capital increase of EUR 200 million mentioned above.

<b>DEVELOPMENT OF THE BANK'S EQUITY (IN EUR MILLION)</b>	2006	2007	2008	2009	2010
Subscribed capital	162.5	162.5	162.5	182.5	282.5
Reserves	114.8	122.4	127.6	148.0	248.6
Deduction item acc. to section 10 (2a) KWG	-2.6	-5.3	-8.1	-6.8	-5.1
Profit participation capital	125.5	140.6	140.6	126.3	122.9
Subordinated liabilities	136.0	126.7	115.4	107.5	84.3
<b>TOTAL</b>	<b>536.2</b>	<b>546.9</b>	<b>538.0</b>	<b>557.5</b>	<b>733.2</b>

## Financial positions

### Liquidity

The liquidity ratio was calculated based on the German Liquidity Regulation (LiqV) in accordance with Section 10 (1) sentence 9 of the German Banking Act (KWG). This regulation states that the ratio of the cash available in the first maturity range (from daily up to one month) to the callable payment obligations during the same period the ratio may not fall below 1. In its liquidity planning, Dexia Kommunalbank Deutschland factors in both, the extent of the expected cash inflows and outflows and an adequate liquidity supply in the form of highly liquid assets.

(See table "Liquidity".)

### Relations to affiliated companies

The Management Board's report on relations to affiliated companies in accordance with Section 312 of the German Stock Corporation Act (AktG) ends with the following statement:

"In each of the legal transactions listed in the Board's report on relations to affiliated companies, our Company received appropriate consideration and was not placed at any disadvantage by the measures listed in the report taken or omitted. This assessment is based on the conditions known to us at the time of the events subject to a reporting requirement."

### Derivatives

The Bank uses derivatives to hedge against interest rate and foreign exchange risks.

At the end of the year, the volume of interest rate and cross-currency swaps as well as options was as follows compared to the previous year:

The credit equivalent amounts of the interest rate and cross-currency swaps in accordance with the market valuation method in accordance with Section 13 of the German Banking Act (KWG) was EUR 657.2 million as of the balance sheet date (2009: EUR 613.0 million).

### Employees

Dedicated and competent employees are the most valuable asset of Dexia Kommunalbank Deutschland.

Changes to the business model with the accompanying adjustments to workflows, combined with the sometimes difficult market conditions, posed significant challenges for the workforce. These were overcome with great commitment and a high level of motivation.

We would like to take this opportunity to express our thanks and appreciation to all employees for their performance.

As of December 31st 2010, the Bank employed a total of 83 people (2009: 83).

#### LIQUIDITY

	Minimum	Maximum	Average
Liquidity ratio	1.03	1.20	1.10

#### DERIVATIVES (IN EUR MILLION)

	Dec. 31, 2009	Dec. 31, 2010
Interest rate and currency swaps	105,365.3	89,436.1
of which EONIA	17,950.0	4,350.0
Options	393.0	290.0
	<b>105,758.3</b>	<b>89,726.1</b>

## ■ RISK REPORT

### Risk environment

The sub-prime crisis and the ensuing financial market turmoil have again shown us the importance of the professional limitation and steering of bank risks. Effective risk management means identifying all material risks, independently measuring and assessing such risks against a framework of shifting macroeconomic and portfolio-specific conditions, and steering these risks in line with a risk strategy set forth by the Bank that appropriately weighs risk versus return based on its findings and estimates.

For this purpose, the Management Board defines the Bank's risk policy on the basis of legal and regulatory provisions, with business policy objectives building on the risk policy. The latter is quantified in an annual budgeting process.

Responsibility for setting the risk strategy, which is derived from the business strategy, for due and proper organisation and monitoring of the risk elements of all business associated with risk lies with the Management Board. Risk limiting systems have been put in place for the individual risk categories (counterparty risks, market risks, liquidity risks and operational risks) in close cooperation with the parent company, Dexia Crédit Local.

The risk guidelines and structures are set out in the Risk Handbook, which is available to all employees via the Bank's intranet. It forms the basis of uniform handling of and internal communication on all significant types of risks, enabling goal-oriented handling of risks by Dexia Kommunalbank Deutschland.

The Bank has analysed the possible implications of the new Ma-Risk guidelines published in December 2010. As a capital market oriented institution, it has begun implementing the new liquidity requirements – in addition to the expanded requirements with regard to risk-bearing capacity, strategies and stress tests – in close co-operation with Dexia Group.

### Risk-bearing capacity

In order to take into account changing market constraints on the one hand and regulatory requirements on the other hand, Dexia Kommunalbank Deutschland introduced a new risk-bearing capacity concept in 2010.

The ECAP model used in Dexia Group represents the basis for the proper coverage of all relevant types of risk. The economic measurement of risk capital requirements is conducted using a portfolio approach which – assuming a time horizon of one year and a confidence level of 99.97% – takes into account correlation and diversification effects between the individual risk categories.

Measuring the economic capital (ECAP) according to the logic of Dexia Group is complemented by the specifics of Dexia Kommunalbank Deutschland and accounting aspects according to the German Commercial Code (HGB) as well as a second ratio, the earnings at risk (EaR), which also takes accounting aspects into consideration.

On a quarterly basis both ratios – the modified ECAP and the EaR – are compared to the available financial resources (AFR) and the AFR local, the risk coverage measures according to the differing perspectives of ECAP and AFR. Ratios (ECAP / AFR and EaR / AFR local) that are limited are calculated. Falling below the limits by currently 80% results in the immediate notification of the Management Board and Supervisory Board. All of the limits were consistently met during the reporting period.

This risk measurement system is supplemented by stress tests that investigate the impact of economic scenarios on the balance sheet, risk-weighted assets and capital coefficients. Both, the ECAP / EaR and the stress tests are presented to the Management Board immediately after they are calculated. The risk-bearing capacity was assured for all scenarios that were examined.

## Management System

Dexia Kommunalbank Deutschland has an extensive risk control and risk management system (identifying, recording, measuring, analysing and assessing risks and ensuring constant risk monitoring) that is constantly being improved. It provides decision-makers with the information they need to actively manage risks. All matters relating to the regulatory requirements (MaRisk, Basel II) are managed, organised and coordinated for all risk categories.

Centralisation of the core risk management and risk controlling functions ensures an overview of the Dexia Kommunalbank Deutschland risk exposure and a uniform appraisal of risks and their quantification. Risk management has the responsibility for the individual methods of measuring, including the further development of suitable models, and for reporting to the Management Board, the Supervisory Board and the Group parent company. The Internal Audit Department provides support for the review of the business processes, as well as the effectiveness and appropriateness of the risk management and control systems as defined by MaRisk. Process and risk audits are planned on the basis of a risk matrix. The value at risk (VaR) calculated serves as a basis for setting the audit intervals. The risk matrix is updated regularly.

A clear organisational and functional separation is ensured between risk identification, capturing, analysis and assessment on the one hand and active risk management on the part of balance sheet management on the other hand.

At the same time, the risks specific to the Pfandbrief business and its cover pool in accordance with Paragraph 27 of the German Pfandbrief Act (PfandBG) are presented separately. The Bank recognises accruals on a monthly basis for both the cover pool and the bonds outstanding in order to quantify interest rate, counterparty, currency and liquidity risks.

During the annual review of the risk management system (Paragraph 27 (1) (3) of the German Pfandbrief Act (PfandBG)), the limit systems for counterparty and foreign currency risks were tightened based on changes to market conditions.

The limit system was optimised to minimise counterparty risk. Maximum values were also introduced to limit concentration risks. As it has been in the past, the focus of the cover pool is on high-quality cover assets with rating categories from AAA to A+ with a minimum proportion of 85% (= target value).

## Market risks

In terms of market risks, Dexia Kommunalbank Deutschland is mainly exposed to interest rate risks. Foreign currency risks are automatically eliminated by hedging.

Management uses two risk ratios based on market values – basis point value (BPV or PV01) and value at risk (VaR) – as a central benchmark for managing interest rate risks. The BPV describes the potential loss of the net present value of the overall portfolio given a parallel shift in interest rates at all maturities by 100 basis points, while the PV01 describes the potential loss given a shift of one basis point per defined maturity range.

The value-at-risk method (VaR) provides the maximum anticipated loss which may occur in normal market conditions during a pre-defined holding period, based on a given probability. The Bank calculates the VaR on a daily basis, in particular based on a 99% confidence level and a 10-day holding period.

Dexia Kommunalbank Deutschland has set up various sub-portfolios, depending on whether longer-term trends are being followed with regard to the interest rate strategy or whether the goal is to take advantage of short-term market conditions.

In March of 2010, the “Cash and Liquidity Management” (CLM) portfolio was segmented into the sub-portfolios “Cash and Liquidity Management” (CLM) and “Local Balance Sheet Management” (Local BSM).

CLM is currently limited with EUR 15.0 million in +/-100 BPV and EUR 2.0 million in VaR (99%, 10 days). Local BSM has a current limit of EUR 5.0 million in reference to +/-100 BPV. Specified maturities for interest rate risk (PV01) are also limited for the portfolios. The interest rate sensitivity of the credit spreads is measured daily as well. No separate limiting takes place.

Based on the above assumptions, the position was as follows:  
(See table on the following page.)

The Asset and Liability Management Committee of Dexia Kommunalbank Deutschland is responsible for strategic interest rate risk management. The members of the committee set the tactical asset allocation (utilisation, maturities, etc.) at their monthly meetings.

Using back testing, Dexia Kommunalbank Deutschland performed a review of the forecast quality of the VaR models for all

sub-portfolios in the year under review. The changes in NPV that actually occurred were compared with the results of calculations based on the VaR model.

The two outliers identified for the overall portfolio (= 0.8% of all cases) are just below the expected value, constituting a good result.

In addition to risk measurement, stress tests are necessary in order to analyse the impacts of extraordinary market situations. The Bank uses the following scenarios to carry out the stress tests:

- a. Parallel shift by +/- 250 bp
- b. (September 11th 2001): Change in the interest rate curve by the percentage change in the interest level from September 11th to September 12th 2001
- c. (reversal): Rotation of the market interest curve by -5.4 basis points around the 5-year point

The Bank uses derivative financial instruments to actively hedge risks. Interest rate swaps are used for both micro and macro hedge relationships. Options serve exclusively to hedge underlying transactions.

The portfolio present value (PPV) is calculated and reported to the management on a daily basis as another important ratio. This calculation bundles the present values of all interest-bearing balance sheet and off-balance sheet items, supplemented by other assets and balance sheet items in connection thereto (such as expenses incurred in connection with recognising a position). The PPV offers an indication of the portfolio value trend based on the going concern assumption. Insofar as the ratio of core capital to PPV falls below a defined limit, the Management Board and Supervisory Board are notified immediately. The PPV is supplemented by the portfolio market value (PMV), which also factors in credit spreads on the assets and liabilities side and is therefore a liquidation scenario. It is also supplemented by the scenario PPV, which involves the assumption of increased costs to close funding gaps.

Management receives a daily risk report on developments relating to market risk, limit utilisation and the Bank's overall performance.

Valuation effects resulting from changes in credit spreads are measured monthly by the Bank and presented to the Management Board as part of regular reporting.

The valuation and market risk systems appropriately factor in the impacts of the changing market environment. The systems were continuously improved upon in order to ensure that they provide an adequate risk picture at all times.

### Counterparty risks

In order to limit counterparty risks, the Management Board sets clear credit lines and credit delegations for all contracting parties in close cooperation with Dexia Group.

The detailed credit line utilisation calculations are provided daily by Credit Risk Management and are monitored by the Back Office department. The Management Board is notified immediately if any credit line is exceeded, and a decision on the appropriate actions is made.

Adequate organisation and procedures established to manage credit risks comply qualitatively and quantitatively with the credit analysis as well as the credit processing requirements of Dexia Kommunalbank Deutschland's business segments. The documentation requirements set forth in MaRisk are complied with.

For semi-public companies portfolios being discontinued and for project finance, the Bank applies the simplified procedures under MaRisk 1.2.5 relating to the preparation of credit votes independent of the front office. A corresponding reduction concept has been prepared.

Based on changing constraints resulting from the European debt crisis, Dexia Kommunalbank Deutschland is following the market development of bonds in its portfolio that were issued by debtors in the peripheral European states in particular with special care and attention. A special, detailed report is prepared for this purpose regularly or on an ad-hoc basis, and is discussed with the Management Board as part of Credit Committee activities. Purchasing receivables from debtors in the countries of Greece, Ireland, Italy, Portugal and Spain is not planned for 2011.

New lending by acquiring cover pool-eligible receivables from companies within Dexia Group is subject to the usual analysis for specific credit risks. Close cooperation with the credit risk competence centres of Dexia Group ensures the proper assessment of counterparty risks. The Management Board reaches purchase decisions based on this credit analysis.

<b>UTILIZATION OF OVERALL LIMIT</b>	Limit +/- 100 BPV (EUR million)	Limit VaR 99/10 (EUR million)
Cash and liquidity management	15	2
Local BSM	5	-

In addition, interest rate risks are limited by using maturity ranges (PV01).

<b>VALUE-AT-RISK/BPV</b>	VaR (99%, 10 days)	CLM until Mar. 8th, 2010 +100 BPV (EUR million)	-100 BPV (EUR million)
Avg. 2010	0.3	2.1	-2.2
Min. 2010	0.2	-1.6	-6.9
Max. 2010	0.6	6.8	1.5

<b>VALUE-AT-RISK/BPV</b>	VaR (99%, 10 days)	CLM since Mar. 8th, 2010 +100 BPV (EUR million)	-100 BPV (EUR million)
Avg. 2010	0.2	0.0	0.0
Min. 2010	0.0	-9.2	-9.2
Max. 2010	0.5	9.2	9.2
December 31st, 2010	0.2	-5.3	5.3

<b>VALUE-AT-RISK/BPV</b>	VaR (99%, 10 days)	Local BSM since Mar. 8th, 2010 +100 BPV (EUR million)	-100 BPV (EUR million)
Avg. 2010	0.4	-0.4	0.5
Min. 2010	0.1	-5.0	-2.3
Max. 2010	1.8	2.1	6.1
December 31st, 2010	0.4	-1.6	2.0

CREDIT SPREAD SENSITIVITIES TO INTEREST RATE MOVEMENTS	+100 BPV (EUR million)	-100 BPV (EUR million)
Avg. 2010	-20.8	24.0
Min. 2010	-23.7	22.1
Max. 2010	-19.1	27.5
December 31st, 2010	-21.8	25.1

### Liquidity risks

Liquidity risk is understood as the danger that the Bank will be unable to fulfil its current and future payment obligations in full or on time.

Dexia Kommunalbank Deutschland is fully integrated into the internal liquidity management system of Dexia Group. This integration in combination with the very good asset quality of the Bank and predominantly ECB-eligible securities means that no liquidity shortages have been experienced at any time. In this context, the legally binding commitment of Dexia Crédit Local in the form of a letter of support to fully cover possible liquidity shortages of Dexia Kommunalbank Deutschland is also important.

A liquidity forecast is prepared as an important liquidity management tool, providing an overview of maximum cash outflows over the next 90 days. Risk Management also determines the daily cumulative liquidity gaps for a day, week and month and compares these to the available central bank-eligible securities. The Management Board receives daily updates on the utilisation of this liquidity limit in a risk report. In addition, funding matrices provide a medium and long-term view of the Bank's liquidity. A short term (90-day) and long term (10-year) forecast of the liquidity position (liquidity gaps plus reserve of available securities) is also prepared monthly and provided to the regulatory authorities. Furthermore, a liquidity ID card in accordance with the guidelines of the Committee of European Banking Supervisors (CEBS) has been prepared at the end of each quarter since June 30th 2010.

### Operational risks

On the basis of the definition of Dexia Group, the Bank defines operational risk as the risk of direct or indirect losses that are incurred as the result of the inadequacy or failure of internal procedures and systems or people, or as a result of external events, and have financial or non-financial consequences. This definition also includes reputation and legal risks, but excludes strategic risk.

Identifying operational risks early is among the objectives of the Bank along with recording and evaluation as well as monitoring and minimisation of this risk type. Each department within the Bank is responsible for managing its own operational risks; the department heads are responsible for reporting risk events to Operational Risk Management.

The Bank uses a Group-wide software system to record, evaluate and monitor operational risks and to maintain historical records. Based on the definition of Dexia Group, operational risks that arise must be reported to decision makers if these risks cause a gain or loss greater than EUR 2,500. Risk events with material non-financial implications are also included in this definition. Where losses have occurred, the parties involved are asked to analyse the procedures in question, to quantify the loss and to develop proposals for avoiding such losses in future.

Department heads are required to notify Operational Risk Management, the responsible Management Board member and the Internal Audit department of the Bank immediately in case of any suspicion or the actual occurrence of a risk event resulting in a loss or gain of more than EUR 50,000 or greater non-financial implications. Operational Risk Management records the reported risk events for the Bank. One case was reported in 2010. The risk events and risks that have occurred, as well as the conclusions to be drawn, are discussed with the Management Board

and Internal Audit department at quarterly meetings of the Operational Incidents Committee.

Inventories of possible risks are produced annually to identify and assess operational risks as part of the Group-wide Risk & Control Self-Assessment Programme (RCSA). The objective is to identify and analyse operational risks in the various processes annually and to examine the controls to limit risks in order to implement suitable hedging and risk avoidance measures where applicable. The results of the risk inventories by the departments are reported to the Management Board after the RCSA process is concluded.

Controls are also in place at various levels to limit operational risks. In particular, a permanent control plan based on the requirements of the Commission Bancaire de France (CRBF 97-02) has been developed since 2007, with the objective of implementing systematic control over business processes in the following areas:

- Risk management and limits
- Quality and availability of financial data
- Data integrity and information system security
- Contingency plan
- Outsourcing

Contingency and action plans have been drawn up to mitigate and prevent risks affecting the Bank's IT infrastructure and organisational procedures.

As part of contingency planning, the Bank has also set up a recovery centre so that business operations can still be carried out in crisis situations. This contingency planning primarily concentrates on areas that are not directly within the Bank's influence and contains scenarios and possible solutions in which the Bank's premises at Charlottenstrasse 82, Berlin, either cannot be used at all or only to a very limited extent. The aim of the contingency plan is to ensure that the Bank's core operations can still be carried out in case of disruptions. The priority of individual emergency procedures depends on the relevant risk situation. A comprehensive internal analysis was conducted in 2010 to optimise business processes in crisis situations. Maintaining payment processing services and therefore the liquidity of the Bank is the first priority. The results of the annual emergency exercise confirmed that the contingency concept is adequate.

Operational risks subject to the application of the standard approach according to Basel II are taken into account in the Bank's risk-bearing capacity concept.

## Information management

All risk-related information is recorded centrally by Risk Management, processed systematically as part of regular reporting and made available to the relevant decision makers once a day (if necessary more than once a day). Employees requiring such information also have access to the results of the analyses through the IT System. The functional flow of information to relevant recipients in keeping with the objectives results in a high level of risk awareness amongst employees.

## Basel II

Since March 31st 2008, Dexia Kommunalbank Deutschland has used advanced internal ratings-based approach (AIRBA) to file SolvV reports. German regional authorities constitute an exception to this; permanent partial use is applied here in the standardised approach. In order to receive the full degree of cover under AIRBA, internal rating systems were developed within the Group for so-called public satellites (public institutions and corporations) and other satellites (semi-public enterprises). The tool for public satellites has already been tested successfully; implementation by the end of 2011 is planned.

The Basel III requirements were published in the discussion papers of the Basel Banking Supervision Committee (Resilience Paper) in December 2010. They are to be brought into European law by means of the Capital Requirement Directive IV (CRD IV). Implementation is planned for the years 2013 to 2019.

The Basel III regulations focus on revising the requirements for the various components of equity, the requirement for setting up counter-cyclical risk provisioning, the prescribed inclusion of additional risks (counterparty risk) and the introduction of a leverage ratio as well as other liquidity ratios. As was the case in the Basel II project, Dexia Kommunalbank Deutschland will once again be fully integrated into the "Basel III" project group of the Dexia Group.

## Accounting-related internal control and risk management system

The objective of the accounting-related internal control and risk management system is to ensure compliance with accounting standards and requirements and to guarantee the correctness of the accounting system, including accurate year-end financial statement information.

Dexia Kommunalbank Deutschland prepares its financial statements in accordance with the regulations of the German Commercial Code (HGB), the supplementary provisions of the German Stock Corporation Act (AktG), the German Pfandbrief Act (PfandBG) and the German Bank Accounting Directive (RechKredV) in line with German Generally Accepted Accounting Principles. German accounting standards are also observed.

The accounting department is responsible for the general ledger and regularly monitors and adjusts the accounting system to adapt to statutory and regulatory changes. Portfolio management and maintaining Bank transactions in the subledgers as well as technical processing are the responsibility of the Back Office. Financial instruments are evaluated by Market Risk Management while Credit Risk Management is responsible for the assessment of credit risks. This information is processed further following the financial statement preparation process. Responsibilities are documented in the organisation manual. Job descriptions are on file for all employees involved in the accounting process. They are assigned to operative functions. The documentation of the accounting process is structured in a manner such that it is understandable to professional third parties.

The control system of Dexia Kommunalbank Deutschland consists of organisational rules and controls integrated into the data processing systems. Additional, regular and individual controls are also implemented outside the data processing system controls.

Dexia Kommunalbank Deutschland uses the SAP R/3 software and / or SAP-compatible modules as an integrated solution for the entire Bank. This ensures the uninterrupted flow of data, and the transfer to other data processing applications as well as that manual interventions are largely avoided. An access and user rights concept based on attributed responsibilities prevents unauthorised intervention in the accounting process. Functions for recording transactions with regard to the departments involved in the accounting process are also clearly separated from each other. The transactions are recorded in the subledger by the front office and subsequently verified and approved by the Back Office according to the principle of dual control (deal certainty policy). Other interim and final results of data processing are analysed by means of reconciliations including time series analyses and target-actual comparisons, checked for plausibility and examined on a case-by-case basis where required.

The accounting department is integrated into the new product process. This ensures that new, non-routine transactions are recorded properly and in accordance with the applicable rules.

The proper functioning of the accounting-related internal control and risk management system is monitored through regular, process-independent audits by the Internal Audit department, with various audit focal points. In the course of the annual financial statement audit, the organisational processes and controls related to accounting are also examined by the external auditors.

The management information system assures prompt, reliable and relevant reporting to the management. The Supervisory Board and its committees receive regular reports from the Management Board. In addition, extraordinary events trigger a prompt reporting mechanism.

## ■ TRADING BOOK

The Bank has been a trading book institution since January 1st 2004 and meets the full requirements for trading book institutions.

## ■ SUPPLEMENTARY REPORT

Dexia Crédit Local issued a letter of support on February 28th 2011 in which it contracts itself to ensure that Dexia Kommunalbank Deutschland is able to meet its obligations and comply with the requirements of the German banking supervisory authorities at all times.

## ■ FORECAST

The economic challenges in 2010 continued at the start of the 2011 financial year. Ongoing public discussions about possible ways to solve the European debt crisis – including joint bond issues by the countries in the Eurozone (“Euro Bonds”), expanding the EFSF mandate while simultaneously increasing EFSF funding, restructuring government debt or implementing a regulated government insolvency process – have led to uncertainty in the European capital markets. Speculation was also rampant at the start of the year that Portugal might be unable to place pending bond issues on the capital market, forcing it to seek refuge under the European stabilisation mechanism as the third country in the Eurozone – following Greece in May 2010 and Ireland in November 2010. The premium for five-year credit default swaps (5Y-CDS) on Portuguese government bonds, which was still below 100 basis points at the start of the previous year, jumped to record values over 550 basis points. Other countries with budget problems also saw their 5Y-CDS premiums affected, for example Spain (peak value 348 basis points) and Italy (256

basis points). The CDS index SovX-Western Europe, which mirrors the credit risk of 15 Western European countries, also reached a historical high of 222 basis points.

Just a few weeks later, market conditions had once again relaxed noticeably in response to increasing indications that the European Council was planning to present a package of measures to avoid contagion of the European debt crisis at the EU Summit at the end of March. The “Pact for Competitiveness” presented by Federal Chancellor Angela Merkel and Nicolas Sarkozy, President of France, at the beginning of February included key steps on the way to joint financial and economic policies, such as anchoring upper debt limits in the national constitutions, harmonising corporation taxes and the retirement age, and discontinuing the indexing of wages to the inflation rate. Should the attempt to present and implement a convincing concept for a sustainable fiscal consolidation of countries in the Eurozone fail to be realised in a single push, disappointment in the European capital markets and greater spread volatilities can be expected.

The apparent ongoing recovery of the global economy, which should increasingly develop into a self-sustaining upswing, is expected to support the stabilisation of conditions in Europe. The closely monitored global economic barometer, the Global PMI Index, advanced to a value of 58.65 in January and the key component for incoming orders reached a one-year high.

However, a shift to the detriment of the developing countries and in favour of the established industrialised nations can be expected in the course of the recovery process. Severe unrest in the Middle East and rising oil prices above USD 100 per barrel have suddenly revealed the significant political risks that can be associated with investments in the emerging markets. Investors are also uncertain in view of the risk of economic overheating in China, India, Brazil and other major developing countries. Investors have invested a total of approximately USD 95 billion in these countries over the past year. In contrast, significant capital has already been withdrawn from the developing countries in the first few weeks of the current year. For example, the stock indexes of India and Brazil fell by 14% and 6% respectively by mid-February 2011 compared to the start of the year, while the Eurostoxx50, for instance, increased by 7% in the same period.

In the USA the Dow Jones jumped to a level which hasn't been seen since 2006 with more than 12,000 points. The latest economic data also indicates that the monetary measures of the Fed are gradually taking effect. In January, the ISM manufacturing index climbed to 60.8 points (12/2009: 56.4 points) and unemployment fell to 9.0%.

Sustained moderate economic growth is expected for the Eurozone overall. Germany remains the economic driving force, albeit at a reduced rate compared to 2010, while a shrinking GDP is expected for Greece and Portugal.

These developments are accompanied by fears of rising inflation. In its February bulletin, the ECB indicated signs of upwards pressure on price trends, mainly as a result of rising prices for energy, food and commodities. While a few months ago it was generally assumed that the ECB would refrain from raising the rate for its main refinancing operations before 2012, at the beginning of February forward rates on the money market had already priced in the first ECB rate hike for June 2011. In mid-February the 3-month Euribor, which traded at 1.00% at the start of the year, was quoted at 2.15% on a forward basis for year-end 2011. At the same time, the long end of the capital market was also put under pressure. 10-year EUR swap rates increased to more than 3.5% (low 2010: 2.33%) while 10-year government bonds rose to over 3.3%.

The market for covered bonds opened the new year with a flood of new issues: EUR 42 billion of benchmark issues were placed in January alone – a new historical record. Obligations Foncières and structured covered bonds from France accounted for 34% of this amount, while German Pfandbriefe made up 21%. Apparently many issuers were striving to cover a significant portion of their annual funding requirements already at the start of the year.

Should the development of subsequent issuing activities of German Pfandbrief banks prove similar to the previous year, a decreasing supply of public Pfandbriefe can be expected. Dexia Kommunalbank Deutschland intends to continue offering triple-A-rated public Pfandbriefe in the jumbo format to the large investor base of this product regularly in the future, and also sees favourable opportunities to realise its funding targets at fair market terms this year.

## Outlook

The forecast and other parts of the Annual Report contain future-oriented expectations and predictions. These are based on planning assumptions and estimates, especially with regard to the business development and profitability of Dexia Kommunalbank Deutschland, and are subject to risks and uncertainty. Actual results may therefore deviate significantly from the currently expected values.

Numerous factors beyond the control of the Bank also affect the business development and profitability of Dexia Kommunalbank Deutschland. Examples include changes in the general economic situation and developments in the national and international money, securities and refinancing markets.

Dexia Group once again made significant progress last year in the transformation process that commenced in 2008:

- Streamlining the Group structure and focusing on core competencies continues, with significant investments in the core markets of Belgium, France, Luxembourg and Turkey.
- The Group decided to forego government guarantees for new issues in the past year, which was earlier than expected.
- Dependency on short-term funding sources was further reduced.
- The solvability of the Group was effectively improved in the course of ongoing de-leveraging.
- With savings of EUR 360 million, more than half of the planned cost reductions of EUR 600 million have already been realised.
- The Group remains committed to achieving its clear and ambitious objectives for the year 2014.

Dexia Kommunalbank Deutschland as a strategic core institution of the Group naturally benefits from the progress being made. Increasing the Bank's core capital by EUR 200 million in June 2010 once again proved the solidarity principle maintained within the Group, and represented an important step in preparing the Bank for stricter regulatory capital requirements over the coming years.

An ongoing economic recovery in Europe would favour the development of Dexia Group and Dexia Kommunalbank Deutschland. Conversely, a negative impact would be expected if the economic situation worsens.

Whether politicians will be able to develop and successfully implement a convincing concept to effectively overcome the European debt crisis will be of great significance. If this goal is reached, risk premiums can be expected to gradually decrease – especially for liabilities of the peripheral European states. In case of failure, the Bank may face the negative impact of a further increase in risk premiums, which could also impair the ability to successfully issue public Pfandbriefe.

Accordingly, our forecast for results in the 2011 financial year and subsequent years is subject to greater uncertainty than usual.

## Forecast for the 2011 Financial Year and Subsequent Years

Dexia Kommunalbank Deutschland will once again make an important contribution to the restructuring and consolidation of the Dexia Group in the current financial year, with the primary objective of reducing the dependency of the Group on short-term funding sources. As in the previous year, the Bank focused on the purchase of selected high-quality public finance transactions from other Group companies and their long-term funding with public Pfandbrief issues.

As usual, the Bank will only select receivables from the pool of assets offered for acquisition by Group companies that meet the strict requirements of the German Pfandbrief Act (Pfand-BG) with regard to the ability to cover public Pfandbriefe, and also comply with additional qualitative and quantitative criteria implemented by the Bank to manage its cover pool – some of which go significantly beyond the restrictions of the German Pfandbrief Act (PfandBG).

According to current plans, the receivables being selected will consist of loans and securities from debtors in Belgium, France and, to a lesser extent, countries in Scandinavia. Buying receivables from debtors in the peripheral European states of Greece, Ireland, Italy, Portugal and Spain is not planned for 2011.

In view of the commitment made to the EU Commission by Dexia Group to significantly reduce its total assets, Dexia Kommunalbank Deutschland - like in the previous year - will refrain from concluding new lending transactions outside the Group.

We expect stable expenditures and personnel expenses approximately equivalent to developments in the 2010 financial year. The greatest uncertainty revolves around the forecast for risk provisioning. At present, there are no apparent additional impairments in relation to special factors resulting from the default of borrowers from public banking sectors. Nor do we anticipate any impairments on the remaining project finance and semi-public enterprise portfolios. As a result of rising government debt levels in many European countries, some countries may receive a rating downgrade, which could also reduce the average rating of Dexia Kommunalbank Deutschland's cover pool-eligible assets as a consequence.

Doubts have increasingly been raised in recent times whether all European countries will continue to be able to service their debts fully and in a timely manner in the future. These doubts focus on Greece and, to a lesser extent, also on Ireland and Portugal.

The Bank does not have receivables from Ireland or other Irish debtors in its portfolio. In the case of Portugal, the Bank believes that the country's credit rating will gradually improve after the introduction of reforms so there is no concern of delayed payments or default.

In the case of Greece, solvency is assured until the end of 2012 thanks to the EU bailout package, even though some doubts remain as to whether the country will be able to actually sustain its tough spending cuts. In buying Greek government bonds and accepting them as security for open market transactions, notwithstanding the downgrading of the ratings to non-investment-grade, the ECB is underscoring its confidence that the Greek budget can get back on track.

The Bank currently sees no indications that receivables from Greece would have to be permanently written down. Nevertheless, planning of measures to handle possible future changes in the situation has already commenced.

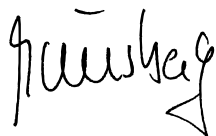
We currently expect to generate net profits for the 2011 financial year and subsequent years in roughly the same amount as in the 2010 financial year. We also expect the Bank's income and expense structure to remain basically the same.

Thanks to the high quality of the Dexia Kommunalbank Deutschland cover pool and ECB-eligible assets, its liquidity position will again remain stable this year. The Bank benefits from the expansion of its deposit business with municipal and institutional customers. A key aspect in this context is the full integration of Dexia Kommunalbank Deutschland in the Group-wide equity capital allocation (ECAP) and its membership in the deposit guarantee fund of the Bundesverband Deutscher Banken (BDB). The close integration of Dexia Kommunalbank Deutschland into the cash and liquidity management system of Dexia Group as well as the letter of support issued by Dexia Crédit Local on February 28th 2011, legally obligating it to cover possible liquidity shortages of Dexia Kommunalbank Deutschland, are also favourable for the liquidity situation.

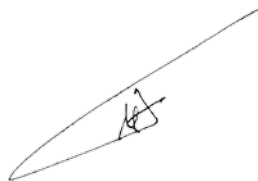
Berlin, March 07th 2011

**Dexia Kommunalbank Deutschland AG**

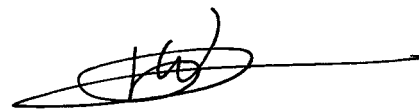
*The Management Board*



**Munsberg**



**Fritsch**



**Wouters**





# ANNUAL FINANCIAL STATEMENTS

## 2010

### BALANCE SHEET

*as of December 31st 2010*

BALANCE SHEET AS OF DECEMBER 31ST, 2010   ASSETS		EUR	EUR	EUR	PREVIOUS YEAR EUR thousand
<b>Cash reserve</b>					
a)	Cash on hand		1,097.64		1
b)	Balances with Central Banks		25,481,213.29		91,998
	including: with Deutsche Bundesbank	25,481,213.29			(91,998)
c)	Postal bank balances		0.00	25,482,310.93	0
<b>Public debt issue and bills eligible for refinancing with central banks</b>					
a)	Treasury bills and non-interest-bearing treasury notes and similar public-sector debt instruments		0.00		0
	including: refinancable with Deutsche Bundesbank	0.00			(0)
b)	Bills of exchange		0.00	0.00	0
	including: refinancable with Deutsche Bundesbank	0.00			(0)
<b>Due from banks</b>					
a)	Mortgage loans		0.00		0
b)	Loans to the public sector		2,668,375,364.22		2,934,553
c)	Other claims		6,224,649,409.40	8,893,024,773.62	4,689,816
	including: payable on demand	2,482,900,899.28			(1,641,514)
	collateralized by securities	0.00			(0)
<b>Due from customers</b>					
a)	Mortgage loans		100,100,908.71		149,616
b)	Loans to the public sector		20,892,869,653.89		20,299,318
c)	Other claims		400,769,812.93	21,393,740,375.53	406,060
	including: collateralized by securities	0.00			(0)
<b>Bonds and other fixed interest securities</b>					
a)	Money market instruments				0
aa)	public-sector issuers	0.00			(0)
	including: refinancable with Deutsche Bundesbank	0.00			(0)
ab)	other issuers	0.00			0
	including: refinancable with Deutsche Bundesbank	0.00	0.00		(0)
b)	Bonds and notes				
ba)	public-sector issuers	10,012,505,222.31			9,614,019
	including: refinancable with Deutsche Bundesbank	7,831,181,566.29			(7,993,484)
bb)	other issuers	7,916,705,382.48	17,929,210,604.79		8,715,647
	including: refinancable with Deutsche Bundesbank	7,181,243,729.61			(8,235,423)
c)	Own bonds		8,111,907.34	17,937,322,512.13	13,046
	Nominal amount	7,963,000.00			(12,907)
<b>Shares and other variable interest-bearing securities</b>				5,894,478.45	4,006
<b>Trading portfolio</b>			0	0.00	0
<b>Investments</b>				0.00	0
	including: investments in banks	0.00			(0)
	thereof: to credit institutions				(0)
<b>Investments in affiliates</b>				0.00	0
	including: investments in banks	0.00			(0)
	thereof: to credit institutions				
<b>Trust assets</b>				0.00	0
	including: trustee loans	0.00			(0)
<b>Compensation receivables from public bodies including bonds arising from their exchange</b>				0.00	0
<b>Intangible assets</b>					
a)	Internally generated industrial property rights and similar rights and values		0		
b)	Acquired concessions, industrial property rights and similar rights and values and licences in such rights and assets		2,970,362.30		4,820
c)	Goodwill		0		
d)	Payments in advance		0	2,970,362.30	
<b>Tangible assets</b>				5,520,148.80	5,961
<b>Subscribed capital unpaid</b>				0.00	0
	including: called-up	0.00			(0)
<b>Other assets</b>				460,434.02	13,220
<b>Accruals and deferrals</b>					
a)	From new issues and lendings		303,404,140.81		212,559
b)	Other		126,742,124.49	430,146,265.30	136,447
<b>Deferred tax assets</b>				0.00	117
<b>Surplus arising from offsetting</b>				0.00	0
<b>Deficit not covered by equity</b>				0.00	0
<b>TOTAL ASSETS</b>				48,694,561,661.08	47,291,204

**BALANCE SHEET AS OF DECEMBER 31ST, 2010**

<b>LIABILITIES AND EQUITY</b>	EUR	EUR	EUR	PREVIOUS YEAR EUR thousand
<b>Due to banks</b>				
a) Registered mortgage Pfandbriefe		0.00		0
b) Registered public Pfandbriefe	1,252,220,438.58			1,501,557
c) Other liabilities	9,633,304,127.20		10,885,524,565.78	9,265,227
including: payable on demand	362,006,621.72			(260,611)
registered mortgage Pfandbriefe pledged to lenders for the collateralization of loans	0.00			(0)
and registered public Pfandbriefe pledged to lenders for the collateralization of loans	0.00			(0)
<b>Due to customers</b>				
a) Registered mortgage Pfandbriefe		0.00		0
b) Registered public Pfandbriefe	17,674,501,744.12			17,014,444
c) Savings deposits				
ca) terminable within three months	0.00			(0)
cb) not terminable within three months	0.00	0.00		(0)
d) Other liabilities		2,423,445,528.95	20,097,947,273.07	1,900,446
including: payable on demand	379,846,157.68			(841)
registered mortgage Pfandbriefe pledged to lenders for the collateralization of loans	0.00			(0)
registered public Pfandbriefe pledged to lenders for the collateralization of loans	28,887,991.28			(28,888)
<b>Securitized liabilities</b>				
a) Issued bonds				
aa) Mortgage Pfandbriefe	0.00			0
ab) Public Pfandbriefe	15,992,299,457.32			16,649,440
ac) other notes	30,465,901.35	16,022,765,358.67		50,368
b) Other securitized liabilities		0.00	16,022,765,358.67	0
including: money market instruments	0.00			(0)
<b>Trading portfolio</b>			0.00	0
<b>Trust liabilities</b>			0.00	0
including: trustee loans	0.00			(0)
Other liabilities			439,552,294.94	12,069
<b>Accruals and deferrals</b>				
a) From new issues and lendings	27,968,286.63			26,789
b) Other	432,572,410.44		460,540,697.07	263,539
<b>Deferred tax liabilities</b>			0.00	0
<b>Provisions for liabilities</b>				
a) Provisions for pensions and similar commitments	0.00			485
b) Tax Provisions	1,189,274.52			1,418
c) Other provisions	6,871,015.00		8,060,289.52	5,545
<b>Subordinated liabilities</b>			105,999,999.97	126,500
<b>Profit participation capital</b>			142,284,000.01	142,284
including: maturing within two years	18,500,000.00			(15,000)
<b>Fund for general banking risks</b>			0.00	0
<b>Equity</b>				
a) Subscribed capital	282,500,000.00			182,500
b) Capital reserve	198,684,911.98			98,685
c) Retained earnings				
ca) Statutory reserve	0.00			0
cb) Reserve for own shares in a controlled entity due to holding the shares' majority	0.00			0
cc) Reserves required by the Articles of Incorporation	0.00			0
cd) Other retained earnings	49,908,425.33	49,908,425.33		49,323
d) Net income		793,844.74	531,887,182.05	585
<b>TOTAL LIABILITIES</b>			<b>48,694,561,661.08</b>	<b>47,291,204</b>
<b>Contingent liabilities</b>				
a) Contingent liabilities from discounted bills of exchange		0.00		0
b) Liabilities from guarantees and indemnity agreements	103,331,037.79			93,687
c) Liability from assets pledged as collateral for third-party obligations	0.00		103,331,037.79	0
<b>Other commitments</b>				
a) Repurchase obligations from reverse repurchase agreements		0.00		0
b) Placement and underwriting commitments		0.00		0
c) Irreversible loan commitments	95,253,009.90		95,253,009.90	275,773



# INCOME STATEMENT

*for the period from January 1st to December 31st 2010*

INCOME STATEMENT FOR THE PERIOD FROM JAN. 1-DEC. 31, 2010   EXPENSES		EUR	EUR	EUR	PREVIOUS YEAR EUR thousand
Interest expenses				3,198,634,558.03	2,916,150
Commission expenses				3,906,798.60	3,245
Net expenses from financial operations				0.00	0
<b>General administrative expenses</b>					
a) Personnel expenses					
aa) Wages and salaries	6,241,915.45				6,303
ab) Social security and other employee benefits costs including: pensions	983,148.16 171,135.70	7,225,063.61			1,019 (159)
b) Other administrative expenses		8,363,578.53		15,588,642.14	9,106
Depreciation, amortization and write-downs of intangible and tangible assets				2,655,536.31	2,578
Other operating expenses				106,282.80	120
Depreciation and write-downs of claims and certain securities, allocation to provisions for possible loan losses				18,483,664.15	20,266
Depreciation and write-downs of participations, interests in affiliates and securities treated as fixed assets				8,709.28	0
Expenses from underwriting losses				0.00	0
Extraordinary expenses				3,601,452.00	4,463
Income taxes				198,015.92	362
Other taxes not reported under 'Other operating expenses'				15,522.05	16
Profits transferred on the basis of profit pooling, under a profit and loss transfer agreement or an agreement to transfer a portion of the profit/loss				0.00	0
Net income				793,844.74	585
<b>SUMME DER AUFWENDUNGEN</b>				<b>3,243,993,026.02</b>	<b>2,964,213</b>

INCOME STATEMENT FOR THE PERIOD FROM JAN. 1-DEC. 31, 2010   INCOME		EUR	EUR	PREVIOUS YEAR EUR thousand
<b>Interest income from</b>				
a) Lending and money market transactions	2,707,186,108.33			2,524,109
b) Fixed-interest securities and debt register claims	532,988,334.66	3,240,174,442.99		437,225
<b>Current income from</b>				
a) Shares and other non-fixed income securities	0.00			0
b) Participations	0.00			0
c) Investmens in affiliated companies	0.00	0.00		0
<b>Profits transferred on the basis of profit pooling, under a profit and loss transfer agreement or an agreement to transfer a portion of the profit/loss</b>				
			0.00	0
<b>Commission income</b>				
		1,703,871.31		1,855
<b>Net income from financial operations</b>				
			0.00	6
<b>Income from write-ups of claims and certain securities, reversal of provisions for possible loan losses</b>				
			0.00	0
<b>Income from write-ups to participations, investments in affiliates and securities treated as fixed assets</b>				
			0.00	847
<b>Other operating income</b>				
		2,114,711.72		171
<b>Extraordinary income</b>				
			0.00	0
<b>Income from underwriting of losses</b>				
			0.00	0
<b>Net loss for the year</b>				
			0.00	0
<b>TOTAL EXPENSES</b>		<b>3,243,993,026.02</b>		<b>2,964,213</b>
<b>Net income for the fiscal year</b>				
			793,844.74	585
<b>Profit carried forward from the previous year</b>				
		585,169.37		440
		1,379,014.11		1,025
<b>Withdrawals from capital reserves</b>				
			0.00	0
		1,379,014.11		1,025
<b>Withdrawals from retained earnings</b>				
a) in legal reserve	0.00			
b) Reserve for own shares in a controlled entity due to holding the shares' majority	0.00			
c) in statutory reserve	0.00			
d) in other retained earnings	0.00	0.00		
		1,379,014.11		1,025
<b>Withdrawals from profit participation capital</b>				
			0.00	0
		1,379,014.11		1,025
<b>Transfers to retained earnings</b>				
a) to the statutory reserve	0.00			0
b) to the reserve for own shares in a controlled entity due to holding the shares' majority	0.00			0
c) to the reserves required by the Articles of Incorporation	0.00			0
d) to other retained earnings	585,169.37	585,169.37		440
		793,844.74		585
<b>Replenishment of profit-participation certificates</b>				
			0.00	0
<b>NET INCOME</b>		<b>793,844.74</b>		<b>585</b>

## ■ STATEMENT OF CHANGES IN EQUITY

<b>CHANGE IN EQUITY (IN EUR MILLION)</b>	<b>Subscribed capital</b>	<b>Capital reserve</b>	<b>Retained earnings</b>	<b>Earned capital</b>	<b>Equity</b>
<b>AS OF DEC. 31, 2008</b>	<b>162.5</b>	<b>78.7</b>	<b>48.9</b>	<b>0.4</b>	<b>290.5</b>
Shares issued	20.0	20.0	0.0	0.0	40.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.4	-0.4	0.0
Net profit/loss	0.0	0.0	0.0	0.6	0.6
<b>AS OF DEC. 31, 2009</b>	<b>182.5</b>	<b>98.7</b>	<b>49.3</b>	<b>0.6</b>	<b>331.1</b>
Shares issued	100.0	100.0	0.0	0.0	200.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.6	-0.6	0.0
Net profit/loss	0.0	0.0	0.0	0.8	0.8
<b>AS OF DEC. 31, 2010</b>	<b>282.5</b>	<b>198.7</b>	<b>49.9</b>	<b>0.8</b>	<b>531.9</b>

## CASH FLOW STATEMENT

CASH FLOW STATEMENT (IN EUR MILLION)	Dec. 31, 2009	Dec. 31, 2010
<b>NET INCOME</b>	<b>0.6</b>	<b>0.8</b>
<b>Non-cash items in net profit by operating activities</b>		
Depreciation / write-ups / write-downs to claims, investment and marketable securities, tangible and intangible assets	19.3	6.0
Changes in provisions	-2.3	1.3
Changes in other non-cash items	-0.1	0.1
Result from the sale of investment securities and tangible assets	-0.8	0.0
Other adjustments	-44.8	-41.3
<b>SUBTOTAL</b>	<b>-28.1</b>	<b>-33.2</b>
<b>Changes in receivables and liabilities</b>		
Due from customers	124.2	-645.9
Due from banks	73.1	-1,331.3
Securities	1,028.0	515.8
Other assets	-85.2	420.9
Due to customers	738.3	1,183.1
Due to banks	813.3	156.7
Securitized liabilities	-2,888.2	-674.0
Other liabilities	107.3	325.4
Interest received	3,423.4	3,131.1
Interest paid	-3,250.7	-3,163.4
Income tax payments	6.8	0.1
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>62.2</b>	<b>-114.7</b>
Investments in tangible/intangible assets	-0.3	-0.4
Changes in cash and cash equivalents from investment securities	-55.7	-130.9
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-55.9</b>	<b>-131.3</b>
Proceeds from capital increase	40.0	200.0
Changes in cash and cash equivalents from other capital	-32.8	-20.5
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>7.2</b>	<b>179.5</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PREVIOUS PERIOD</b>	<b>78.6</b>	<b>92.0</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD</b>	<b>92.0</b>	<b>25.5</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## ■ PRINCIPLES

### Principles of accounting, valuation and conversion

The annual financial statements have been prepared in accordance with the pertinent provisions of the German Commercial Code (Handelsgesetzbuch, "HGB"), the German Stock Corporation Act (Aktiengesetz, "AktG") and the German Pfandbrief Act (Pfandbriefgesetz, "PfandBG") as well as the German Bank Accounting Regulations for Credit Institutions (RechKredV). The applicable DRSC accounting standards were observed. Recognition and measurement principles introduced to the German Commercial Code (HGB) based on the Accounting Law Modernisation Act (BilMoG) were applied for the first time when preparing the annual financial statements as of December 31st 2010. Adjustments due to the initial application of BilMoG are generally reported under extraordinary results on the income statement in accordance with Section 67 (7) of the Introductory Act to the German Commercial Code (HGB). The figures for the previous year were not adjusted for the new recognition and measurement principles based on BilMoG.

Receivables and other assets have been reported at their nominal amount including accrued interest. The differences between book value and nominal amounts are recognised as accruals and deferrals. All identifiable individual risks in the lending business have been accounted for through the recognition of specific valuation allowances.

The securities allocated to the fixed assets are valued in accordance with the moderate lower of cost or market value principle. Premiums and discounts are amortised over the maturity of the securities and offset against the interest income.

Taking the hedging instruments into consideration, the securities of the liquidity reserve are measured according to the strict principle of lower of cost or market value at the average value calculated continually or, if applicable, the lower of current market price on the balance sheet date, under consideration of the requirement to reverse write-downs where the reasons for them no longer exist. If no liquid prices for securities were available from external suppliers of market data as of the balance sheet date, the fair values of the securities were calculated using the

Bank's internal measurement models. These valuation models are standard market discounted cash flow models, and issuer and asset class-specific interest curves and risk premiums (credit spreads) are explicitly factored in.

When derivative financial instruments are qualified in a micro-hedge relationship against interest rate and foreign currency risks, the effectiveness of the hedging relationship is determined both prospectively and retrospectively. This is done for non-structured hedging relationships in the form of a sensitivity analysis (prospective) respectively regression analysis (retrospective), and by means of the critical terms match for structured hedging relationships. Opposing changes in the values of underlying and hedging transactions are disregarded in accordance with Section 254 of the German Commercial Code (HGB). Additional changes in value are subject to the imparity principle for the buildings of provisions under consideration of the requirement to reverse write-downs.

Interest income and expenses of the hedging swap transactions are offset against the interest income and expenses of the underlying transactions, so that the net interest income of the hedge relationship is reported under the relevant item on the income statement as interest income or expense.

Intangible and tangible assets are recognised at cost on a straight-line basis over their standard useful lives. In addition to depreciation and amortisation, the Bank applied the simplification rule to low value assets in accordance with Section 6 (2) of the German Income Tax Act (EStG).

Deferred taxes are recognised in accordance with Section 274 of the German Commercial Code (HGB) according to the balance sheet item-oriented temporary concept based on the difference between measurement for the financial statements and the tax accounts, insofar as this difference is not permanent.

Securities transferred in connection with repurchase agreements, together with their financial return, are recognised in the balance sheet under the item to which the securities originally belonged since the economic risk remains with the repo seller.

At the same time, a liability is recognised in the amount of the agreed-upon repurchase amount. The difference between the repurchase amount and the amount received is reported under deferred income and included in interest income on a pro-rata basis. Securities pertaining to reverse repos are not reported in the balance sheet. The amount paid for the securities received is recognised as a claim from the repo seller. The premiums on repo transactions are recognised as prepaid expenses on a pro rata basis over the term of the transaction.

Liabilities are reported at the redemption amount plus accrued interest. The difference between the principal and issue amounts is deferred. Provisions for taxes, uncertain obligations and expected losses from pending transactions are recognised in the amounts for which claims were expected according to prudent commercial practice and / or in the amount of the difference between service and return.

Pension provisions are recognised according to actuarial principles in accordance with Section 253 (2) of the German Commercial Code (HGB) in conjunction with the provision discounting regulations. The calculations are based on the 2005 G mortality tables published by Prof. Klaus Heubeck using a discount rate of 5.15% p.a. Pension commitments are covered by reinsurance coverage of the equivalent amount. Offsetting was implemented according to Section 246 (2) sentence 2 of the German Commercial Code (HGB).

Premiums received from commitments from options sales for swaptions are reported as other liabilities and recognised upon the end of the term of the option. Premiums received and paid out in relation to swaps and interest limitation agreements are reported as prepaid expenses or deferred income, respectively, and are recognised on a pro rata basis in interest income and expense.

Assets and liabilities denominated in foreign currencies are measured according to the applicable regulations under commercial law. With regards to currency risk, the assets and liabilities denominated in foreign currencies are either part of a micro-hedge relationship in accordance with Section 254 of the German Commercial Code (HGB), or they are hedged in terms of amount, interest payments and maturities so that they are not subject to exchange rate risks (particular coverage). Conversion takes place at the average spot exchange rate on the balance sheet date. Conversion results are disregarded in the micro-hedges within the opposing changes in value. Otherwise they are recorded in keeping with the imparity principle. Within the scope of particular coverage, currency exchange gains and losses are taken into account in accordance with Section 340h of the German Commercial Code (HGB) and reported net under other operating results.

## ■ NOTES TO THE BALANCE SHEET

### Maturity breakdown by remaining terms

<b>BREAKDOWN ACCORDING TO RESIDUAL MATURITIES (IN EUR MILLION)</b>	Receivables from banks	Receivables from customer	Liabilities to banks	Liabilities to customer	Other securitized liabilities
Up to three months	2,750.0	368.6	6,538.8	750.1	–
Between 3 months and 1 year	665.0	1,002.5	1,824.5	861.1	–
Between 1 year and 5 years	3,685.4	4,083.8	722.3	1,884.6	–
Over 5 years	788.0	15,623.4	887.6	16,178.7	–
Interest	1,004.6	315.5	912.3	423.4	–
<b>TOTAL</b>	<b>8,893.0</b>	<b>21,393.8</b>	<b>10,885.5</b>	<b>20,097.9</b>	<b>–</b>

	Notes and other fixed interest securities (in EUR million)	Notes issued (in EUR million)
Due in the following year	717.0	3,169.1

### Assets pledged as collateral

Liabilities due to banks are collateralised by securities with a value of EUR 3,667.2 million in open market transactions and repurchase agreements, and by cash collaterals of EUR 14.4 million. In addition, derivatives are collateralised by cash collaterals of EUR 2,465.5 million and securities of EUR 428.9 million.

### Transferable securities

Securities allocated to fixed assets, which were recorded at an outstanding amount of EUR 7,816.0 million and a fair value of EUR 6,808.7 million, were not written down to the lower amount. No lasting decrease in value has occurred, since these are price fluctuations which are expected to balance out by the time the securities reach maturity. EUR 4,086.8 million of the carrying amount applies to bonds from issuers in the peripheral European states of Greece, Italy, Portugal and Spain (bonds of Irish issuers are not in the bank's portfolio). Thanks to the EU stabilisation mechanism for indebted European countries, we do not believe that these bonds need to be written down. Confidence in full redemption is underpinned by the fact that all debt securities issued by the peripheral states mentioned above are accepted by way of security for open market operations by the European Central Bank. Dexia Kommunalbank Deutschland is able to sustain its intent to hold these securities, which is expressed by their classification as fixed assets, even from a liquidity perspective, since it has sufficient liquid funds to refinance these securities. The Bank is also integrated into the cash and liquidity management system of Dexia Group, and Dexia Cr dit Local has made a legally binding commitment to cover

any liquidity shortages that would occur at Dexia Kommunalbank Deutschland.

### Subordinated assets

Shares and other variable-interest securities contain subordinated assets amounting to EUR 5.9 million.

### Development of fixed assets

Tangible assets consist of land and buildings used in the context of our own activities with a value of EUR 4.6 million and fixtures, operating and office equipment amounting to EUR 0.9 million.

### Other assets

Other assets primarily relate to refund claims from Group companies (EUR 0.3 million) and the Tax Office for Incorporated Bodies (Finanzamt f r K rperschaften) (EUR 0.1 million).

### Deferred tax assets

No deferred tax assets and liabilities were offset in the year under review and the amounts reported in the previous year were fully realised. A tax loss carry-forward of EUR 1.5 million mainly resulted from the release and use of provisions that are not deductible for tax purposes. At a standard tax rate for corporate

NEGOTIABLE SECURITIES, EQUITIES (IN EUR MILLION)	Total	Negotiable	Listed	Not listed	Volume negotiable securities not measured
					at the lower of cost or market
Bonds and other fixed interest securities	17,937.3	17,937.3	16,076.3	1,861.0	7,816.0
Shares and other variable interest-bearing securities	5.9	5.9	5.9	–	–

<b>DUE FROM/ TO AFFILIATED COMPANIES/ PARTICIPATIONS INTERESTS (IN EUR MILLION)</b>	Total	Including from/to affiliated companies	Including from/to other long-term investees and investors
Due from banks	8,893.0	3,466.4	–
Due from customers	21,393.7	-	–
Bonds and other fixed interest securities	17,937.3	412.3	–
Other assets	0.5	0.3	–
Due to banks	10,885.5	7,037.5	–
Due to customers	20,097.9	–	–
Securitized liabilities	16,022.8	185.5	–
Subordinated liabilities	106.0	73.0	–

<b>STATEMENT OF CHANGES IN FIXED ASSETS (IN EUR MILLION)</b>	Intangible assets	Tangible assets	Investment securities
Costs brought forward to Jan. 1, 2010	22.4	15.7	14,031.5
Additions during the fiscal year	0.3	0.1	948.6
Disposals during the fiscal year	0.0	0.0	972.4
Depreciation and amortization, cumulative	19.8	10.2	46.1
Residual book value as of Dec. 31, 2010	3.0	5.6	13,961.6
Residual book value as of Dec. 31, 2009	4.8	6.0	13,971.8
Balance of deprecation and amortization during the fiscal year	2.1	0.5	-13.6

tax and commercial tax of 30% applicable for the financial year, notional tax relief of EUR 0.5 million was not recorded. The accounting policy option in accordance with Section 274 of the German Commercial Code (HGB) was exercised.

#### Receivables/liabilities in foreign currencies

Assets include foreign currency items with an equivalent amount of EUR 2,559.3 million and liabilities of EUR 388.7 million.

#### Micro-hedge relationships

Micro-hedges were qualified as hedging for interest and foreign currency risks and have been included in the following items and transactions. These underlying transactions are converted into variable transactions denominated in Euros through conclusion of interest rate swaps or currency interest rate swaps. The market value of hedged risks on the balance sheet date was EUR 1,156.8 million.

ACCRUALS AND DEFERRALS (ASSETS)	Dec. 31, 2009	Dec. 31, 2010
Issue discount from bonds	66.0	53.0
Premium on receivables	146.6	250.4
<b>ISSUING AND LENDING BUSINESS TOTAL</b>	<b>212.6</b>	<b>303.4</b>

ACCRUALS AND DEFERRALS (LIABILITIES)	Dec. 31, 2009	Dec. 31, 2010
Discount from receivables	7.2	6.9
Issue premium on bonds	19.6	21.1
<b>ISSUING AND LENDING BUSINESS TOTAL</b>	<b>26.8</b>	<b>28.0</b>

The following table illustrates to what extent and for which period opposing changes in value are expected to offset each other. The micro-hedge relationship was qualified by matching the parameters of the underlying asset/liability and the hedging transaction. Since changes in the values of the corresponding transactions largely offset each other for the period, a provision only has to be built for the amount that is not hedged insofar as the present value is not negative on the balance sheet date. Sensitivity and regression analyses that compare changes in the values of the underlying and hedging transactions are used to monitor the effectiveness of the micro-hedge relationships that were formed for non-structured interest rate products. The critical terms match is used to verify effectiveness for structured interest rate products. The congruence of certain parameters between the underlying and hedging transactions is investigated without measuring the effectiveness, which is the case for non-structured interest rate products.

#### Other liabilities

Other liabilities primarily consist of unrealised losses on specially covered forward exchange transactions (EUR 428.3 million) as well as accrued interest from subordinated liabilities (EUR 2.1 million) and from profit participation capital (EUR 8.1 million).

#### Pension provisions

Pension provisions of EUR 0.5 million related to former Staff members were offset against reinsurance coverage claims of EUR 0.5 million in accordance with Section 246 (2) sentence 2 of the German Commercial Code (HGB). The Bank exercised the accounting policy choice in accordance with Article 67 (2) of the

UNDERLYING TRANSACTION	Considered amount (in EUR million)	Form of hedge relationship	Hedged risk	Amount of hedged risk (in EUR million)
Assets	14,237.8	Micro-hedge	Interest rate risk	1,506.1
	667.2	Micro-hedge	Interest rate and foreign exchange risk	58.2
Liabilities	8,109.7	Micro-hedge	Interest rate risk	-406.6
	17.1	Micro-hedge	Interest rate and foreign exchange risk	-0.9
<b>TOTAL</b>	<b>23,031.7</b>			<b>1,156.8</b>

Risk	Risk Type	Type of Underlying Transaction (in EUR million)	Amount	Type of Hedging Transaction	Amount (in EUR million)	Form of Hedge Relationship	Prospective Effectiveness
Interest	Interest rate risk	Fixed interest loans	10,085.8	Interest rate-swap	10,085.8	Micro-hedge	Congruent maturity and volume
Interest and currency	Interest rate and currency risk	Fixed interest foreign currency loans	0.0	Interest-rate and currency-swap	0.0	Micro-hedge	Congruent maturity and volume
Interest	Interest rate risk	Fixed interest bonds	4,151.9	Interest rate-swap	4,151.9	Micro-hedge	Congruent maturity and volume
Interest and currency	Interest rate and currency risk	Fixed interest foreign currency bonds	667.2	Interest-rate and currency-swap	667.2	Micro-hedge	Congruent maturity and volume
Interest	Interest rate risk	Fixed interest issuance	8,109.7	Interest rate-swap	8,109.7	Micro-hedge	Congruent maturity and volume
Interest and currency	Interest rate and currency risk	Fixed interest foreign currency issuance	17.1	Interest-rate and currency-Swap	17.1	Micro-hedge	Congruent maturity and volume
<b>TOTAL</b>			<b>23,031.7</b>		<b>23,031.7</b>		

Introductory Act to the German Commercial Code (EGHGB) and did not release an amount of EUR 0.0 million.

### Subordinated Liabilities

In the event of the bankruptcy or liquidation of the Bank, subordinated liabilities are only repaid after the claims of all senior creditors have been met. Premature repayment is excluded. Interest expenses for all subordinated liabilities amount to EUR 5.4 million.

With principal amounts of EUR 40.0 million and EUR 13.0 million, respectively, two issues exceeded 10% of the total amount of the subordinated liabilities (EUR 106.0 million). Their coupons are 4.96% and 4.255%, respectively; the issues will mature in 2016 and 2012, respectively.

Out of the portfolio of EUR 106.0 million, EUR 84.3 million are recognised as liable equity capital in accordance with Section 10 (5a) of the German Banking Act (KWG).

### Profit participation capital

EUR 122.9 million of the profit participation capital totalling EUR 142.3 million is recognised as liable equity capital in accordance with Section 10 (5) of the German Banking Act (KWG). Subscribers of profit participation certificates receive an annual preferential dividend, which is based on the respective agreed interest rate. EUR 8.8 million was distributed as profit participation

capital. No new profit participation capital was issued in the year under review.

### Subscribed capital

Following a EUR 100.0 million capital increase, subscribed capital now amounts to EUR 282.5 million. It is divided into 282,500,000 registered shares of EUR 1.00 each with restricted transferability.

### Capital reserve and retained earnings

The capital reserve amounted to EUR 198.7 million as of December 31st 2010 following the capital increase. Retained earnings were EUR 49.9 million at year end after the transfer of previous year's net income of EUR 0.6 million based on a resolution of the General Meeting.

### Unrestricted reserves

Net income as of December 31st 2010 was EUR 0.8 million, which is available for distribution to the shareholders. There were no legal, statutory or contractual restrictions on distribution in the year under review.

PROFIT PARTICIPATION CAPITAL	Principal amount (in EUR million)	Interest rate in %	Interest rate in %
Issue year 2001	3.5	6.97	2012
Issue year 2001	15.0	6.40	2011
Issue year 2002	1.0	6.60	2013
Issue year 2002	5.0	variable	2013
Issue year 2003	10.0	6.45	2014
Issue year 2003	10.0	6.52	2014
Issue year 2003	20.0	6.25	2014
Issue year 2006	10.0	5.08	2017
Issue year 2006	4.0	5.08	2017
Issue year 2006	22.0	4.88	2017
Issue year 2007	10.0	5.57	2018
Issue year 2007	10.0	5.57	2018
Issue year 2007	21.8	5.63	2018

### Repurchase transactions

The assets sold on the basis of a repurchase agreement had a outstanding amount of EUR 2,095.3 million.

## NOTES TO THE INCOME STATEMENT

### Personnel expenses

Personnel expenses for the year under review amounted to EUR 7.2 million. This includes the full salaries of the members of the Management Board amounting to EUR 1.0 million. The members of the Supervisory Board were not remunerated.

### Auditor fees

Other administrative expenses includes the following auditor's fees: (See table on the following page.)

### Other income/expenses

Other operating income mainly consisted from the reversal of provisions (EUR 2.0 million).

### Risk provisioning

The full compensation option in accordance with Section 340f (3) of the German Commercial Code (HGB) was used for risk provisioning. The balance reported is the result of offsetting the expense items "Amortisation and write-downs of claims and certain securities, allocation to provisions for possible loan losses" against the income items "Income from write-ups on claims and certain securities as well as from the reversal of provisions for possible loan losses".

### Extraordinary expenses

Extraordinary expenses of EUR 3.6 million include adjustments due to the initial application of the Accounting Law Modernisation Act (BilMoG). This relates to the ineffectiveness of micro-hedge relationships accumulated prior to the implementation of the Accounting Law Modernisation Act (BilMoG), which were not included in the income statement to date.

### Income Taxes

Income taxes relate in their entirety to ordinary business activities.

**AUDITOR FEES (IN EUR MILLION)**

Audit services	0.3
Other audit services	0.0
Tax advisory	0.0
Other services	0.1
<b>TOTAL</b>	<b>0.4</b>

**Net income for the financial year**

Net income for the year totalled EUR 0.8 million.

**OTHER DISCLOSURES****Transactions not included in the balance sheet**

Securities borrowing were concluded in the financial year which do not appear in the balance sheet. They are not material for the evaluation of the financial position.

**Supplementary disclosures to the cash flow statement**

The cash flow statement classifies changes in cash and cash equivalents into payment flows from operating, investment and financing activities. Payment flows are classified under operating activities based on the composition of the operating result. Payment streams from investment activities mainly include cash flows related to financial investments while financing activities mainly include cash flows from transactions with the shareholder.

Liquid funds include cash on hand and balances with central banks. No changes were made to the definition.

**Other commitments**

The contingent liabilities apply in sub-item 1b) in full other guarantees, mainly from project financing, and in sub-item 2c) irreversible loan commitments to municipal lending amounting to EUR 37.6 million and to municipal corporations amounting to EUR 57.7 million.

There are currently no identifiable default risks that would require passivating liabilities.

**Interest-driven forward transactions**

The following interest-driven forward transactions had yet to be settled as of the balance sheet date: forward transactions with borrower's note loans, interest rate swaps, currency interest rate swaps, commitments from option sales of interest rate swaptions, calls, interest rate cap agreements, borrower's note loans with call options, Pfandbrief issues with call options. All of these cases involve OTC products. (*See table below.*)

The Bank's swap counterparties consist exclusively of first-class banking groups from OECD member states who are hence also suitable credit institutions within the meaning of Section 5 (3) No. 1 of the German Pfandbrief Act (PfandBG). Counterparty risk for the interest rate swaps is calculated on the basis of the market valuation method.

The net negative market value of the derivatives in the amount of EUR -3.3 billion (excluding accrued interest) is offset by interest and foreign currency valuation reserves of more than EUR 3.3 billion in the outstanding amounts of the hedged balance sheet items.

The present value of the derivatives is calculated on the basis of zero bond discount factors and the future cash flows on the basis of the fair value method. The arbitrage-free zero bond discount factors are calculated each business day using the current mid swap interest curve. Highly structured derivatives for which no measurement model existed as of December 31st 2010 were measured using the floating leg. There was no trading activity in derivatives.

Other receivables from banks contained EUR 954.8 million and other liabilities to banks EUR 876.3 million of accrued interest from derivatives transactions. Upfront payments made were reported under accruals and deferrals assets at EUR 121.5 million and equalisation payments received under accruals and deferrals liabilities at EUR 420.5 million. Other liabilities included a translation adjustment from the foreign currency valuation of swaps in the amount of EUR 428.3 million.

#### Loans to members of the Management Board or the Supervisory Board

No loans or advances were granted to any member of the Management Board or the Supervisory Board as of balance sheet date.

#### Number of employees

The Bank employed an annual average of 84 people. Of these, 41 fell under the collective wage agreement and 43 received separately negotiated salaries.

#### Group affiliation

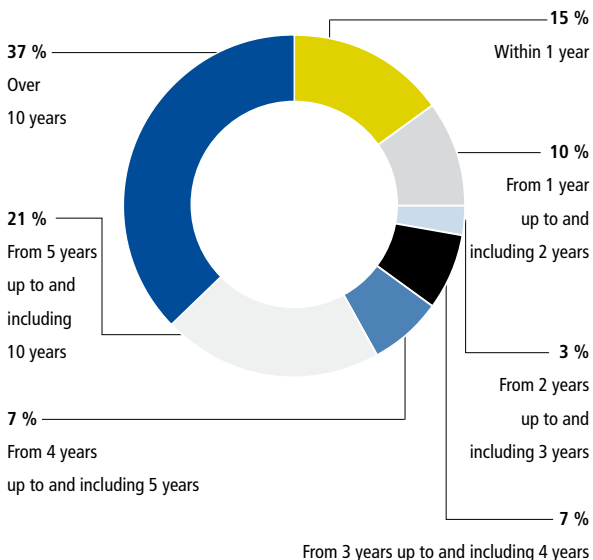
Dexia Kommunalbank Deutschland AG is affiliated with Dexia Crédit Local SA, Paris, (parent company that set up consolidated accounts for least scope of consolidation) and Dexia SA, Brussels, (parent company that set up consolidated accounts for largest scope of consolidation); the annual financial statements of the Bank are included in the consolidated financial statements of these two companies. These are filed with the commercial register in Paris and Brussels, respectively.

VOLUME IN THE DERIVATIVES BUSINESS BY RESIDUAL MATURITY (IN EUR MILLION)	Nominal volumes				Market values		
	Within 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Total
Interest rate swaps	11,546.8	19,966.6	55,545.7	87,059.1	2,424.8	-5,035.2	-2,610.4
Interest rate and currency swaps	141.2	375.5	1,860.4	2,377.1	88.9	-763.0	-674.1
Options	103.0	157.0	30.0	290.0	0.0	-1.0	-1.0
<b>TOTAL</b>	<b>11,791.0</b>	<b>20,499.0</b>	<b>57,436.1</b>	<b>89,726.1</b>	<b>2,513.7</b>	<b>-5,799.2</b>	<b>-3,285.4</b>

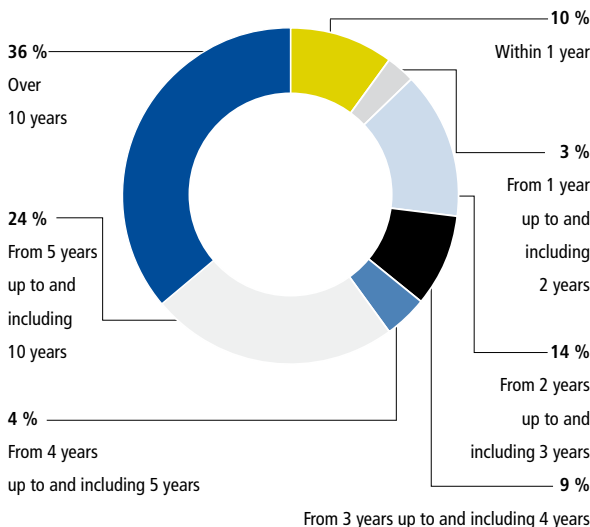
## COVER CALCULATION

TOTAL VOLUME OF PFANDBRIEFE IN CIRCULATION (IN EUR MILLION)	Principal amount Dec. 31, 2009	Principal amount Dec. 31, 2010	Present value Dec. 31, 2009	Present value Dec. 31, 2010	Risk adjusted present value Dec. 31, 2009	Risk adjusted present value Dec. 31, 2010
Public Pfandbriefe	34,570.5	34,337.3	36,253.8	36,599.2	33,962.6	33,425.5
Cover pool	36,335.7	37,795.4	39,518.9	42,141.5	36,903.3	38,923.7
including: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
<b>SURPLUS COVER</b>	<b>1,765.2</b>	<b>3,458.1</b>	<b>3,265.1</b>	<b>5,542.3</b>	<b>2,940.7</b>	<b>5,498.3</b>

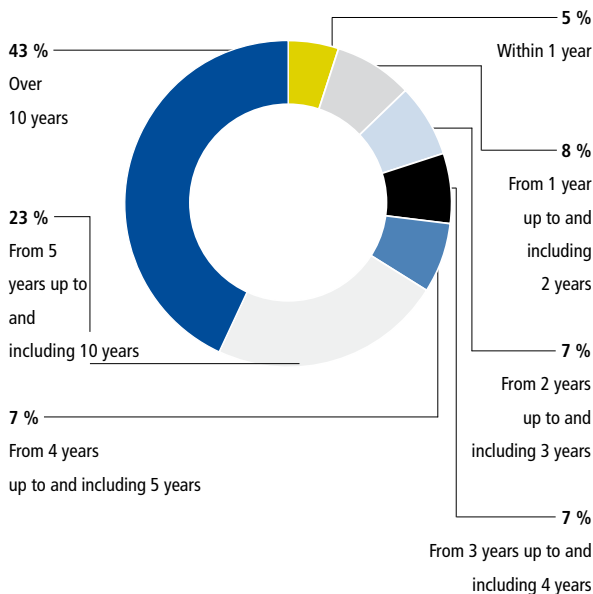
**THE MATURITY STRUCTURE OF PFANDBRIEFE IN CIRCULATION DEC. 31, 2009**



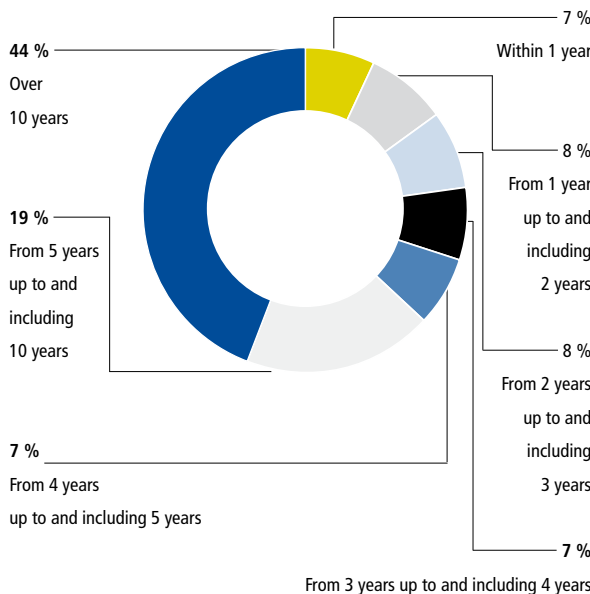
**THE MATURITY STRUCTURE OF PFANDBRIEFE IN CIRCULATION DEC. 31, 2010**



**MATURITY STRUCTURE OF THE COVER POOL DEC. 31, 2009**



**MATURITY STRUCTURE OF THE COVER POOL DEC. 31, 2010**



**RECEIVABLES USED TO COVER PUBLIC PFANDBRIEF**  
**(IN EUR MILLION)**

	Country		Regional authorities		Local authorities		Other debtors	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Belgium			369.9	1,609.2			0.0	0.0
Bulgaria	5.0	5.0						
Denmark		18.0					65.0	15.0
Germany thereof guaranteed by public authorities	51.1	86.4	11,065.0	12,241.9	8,198.3	7,588.1	7,595.4 4,596.4	5,695.5 4,099.0
Finland							45.0	25.0
France					6.7	0.0	411.1	307.0
Greece	637.0	417.0						
United Kingdom							245.0	210.0
International institutions							302.1	354.0
Ireland							30.0	0.0
Italy	97.6	510.2	1,426.8	1,154.8	47.4	614.6	337.5	351.7
Japan	472.5	579.6	5.0	141.1		122.3		
Canada					49.3	53.0	35.0	35.0
Lithuania	25.0	25.0						
Luxembourg							40.0	40.0
Netherlands							155.0	0.0
Norway							65.0	65.0
Austria	75.2	75.2	1,004.0	1,719.9		10.0	975.1	243.3
Poland	270.0	270.0						
Portugal	25.0	25.0	275.0	275.0			34.0	63.8
Romania	40.0	5.0						
Sweden							35.0	0.0
Switzerland			101.1	120.1			67.4	105.1
Slovenia	10.0	10.0						
Spain	18.7	18.7	270.5	453.8	74.0	201.6	386.5	1,042.4
Czech Republic	225.0	225.0						
Hungary	275.0	278.7						
USA			270.9	291.1	60.6	57.5	20.0	0.0
Cyprus	40.0	40.0						

No payments on the cover pool for the public Pfandbriefe are overdue by more than 90 days.

**Supervisory Board****Stéphane Vermeire**

*Head of Public & Wholesale Banking – International  
Member of the Management Board Dexia Crédit Local  
Chairman*

**Marc Buckens**

*(since 21.10.2010)  
Head of Dexia Crédit Local Group Financial Markets  
Member of the Management Board Dexia Crédit Local  
Deputy Chairman*

**Claude Schon**

*(until 07.10.2010)  
Head of Treasury & Portfolio Solutions  
Member of the Management Board Dexia Banque  
Internationale à Luxembourg SA  
Deputy Chairman*

**Nikola Bilandzija**

*(since 21.01.2010)  
Bank employee*

**Hans Handschuh**

*(until 08.09.2010)  
Bank employee*

**François Laugier**

*Chief Financial Officer  
Member of the Management Board  
of Dexia Crédit Local*

**Nico Picard**

*Managing Director, Head of Controlling and Financial Planning  
Dexia Banque Internationale à Luxembourg SA*

**Management Board****Friedrich Munsberg**

*(since 09.12.2010)  
Banker  
Chairman*

**Giselbert Behr**

*(until 30.11.2010)  
Banker  
Chairman*

**Laurent Fritsch**

*(since 01.04.2010)  
Banker*

**Wilfried Wouters**

*Banker*

**Dr. Wolfgang Eickhoff**

*(until 31.03.2010)  
Attorney*



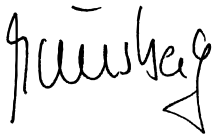
# RESPONSIBILITY STATEMENT OF THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with German principles of proper accounting, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company. We also certify that to the best of our knowledge the management report portrays the business development including the results of operations and the position of the Company in such a way as to provide a true and fair view and to adequately describe significant opportunities and risks in accordance with Section 289 (1) sentence 4 of the German Commercial Code (HGB).

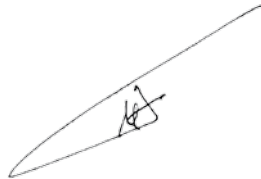
Berlin, March 07th 2011

**DEXIA KOMMUNALBANK DEUTSCHLAND AG**

*The Management Board*



**Munsberg**



**Fritsch**



**Wouters**

# AUDITORS' REPORT

We have audited the annual financial statements, including the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes to the financial statements, together with the bookkeeping system and the management report of Dexia Kommunalbank Deutschland AG, Berlin, for the financial year from January 1st to December 31st 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 provisions of the Articles of Incorporation are the responsibility of the Company's Management Board. 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 Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements in accordance with the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that erroneous statements 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 the Company's Management Board, 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 of Dexia Kommunalbank Deutschland AG, Berlin, comply with the legal requirements and the supplement-

tal provisions of the Articles of Incorporation 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.

Berlin, March 07th 2011

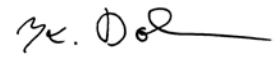
**Deloitte & Touche GmbH**

*Wirtschaftsprüfungsgesellschaft*



**Katrin Rohmann**

*Wirtschaftsprüferin*



**Karin Dohm**

*Wirtschaftsprüferin*

# FURTHER EXPLANATORY REMARKS

DEVELOPMENT OF ASSET STRUCTURE (IN EUR MILLION)	2010	2010 in %	2009 in %
<b>Due from banks</b>			
b) Loans to the public sector	2,668.4	5.5	6.2
c) Other claims	6,224.6	12.8	9.9
<b>Due from customers</b>			
a) Mortgage loans	100.1	0.2	0.3
b) Loans to the public sector	20,892.9	42.9	42.9
c) Other claims	400.8	0.8	0.9
<b>Notes and other fixed interest securities</b>			
b) Bonds and notes	17,929.2	36.8	38.8
c) Own bonds	13.0	0.0	0.0
Other assets	465.5	1.0	1.0
<b>TOTAL ASSETS</b>	<b>48,694.6</b>	<b>100.0</b>	<b>100.0</b>

DEVELOPMENT OF LIABILITY STRUCTURE (IN EUR MILLION)	2010	2010 in %	2009 in %
<b>Due to banks</b>			
b) Registered Pfandbriefe	1,252.2	2.6	3.2
c) Other liabilities	9,633.3	19.8	19.6
<b>Due to customer</b>			
b) Registered Pfandbriefe	17,674.5	36.3	36.0
c) Other liabilities	2,423.4	5.0	4.0
<b>Securitized liabilities</b>			
ab) Public Pfandbriefe	15,992.3	32.8	35.2
ac) Other notes	30.5	0.1	0.1
<b>Subordinated liabilities</b>	106.0	0.2	0.3
<b>Profit participation capital</b>	142.3	0.3	0.3
<b>Equity</b>			
a) Subscribed capital	282.5	0.6	0.4
b), c) Reserves	248.6	0.5	0.3
d) Net income	0.8	0.0	0.0
<b>Other liabilities</b>	908.2	1.9	0.7
<b>TOTAL LIABILITIES</b>	<b>48,694.6</b>	<b>100.0</b>	<b>100.0</b>

<b>INCOME STATEMENT/ STATEMENT OF OPERATING RESULTS (IN EUR THOUSAND)</b>				
	2009	2010	Change	Change in %
Interest income	2,961,334	3,240,174		
Interest expenses	2,916,150	3,198,635		
Net interest income	45,183	41,540	-3,643	-8
Commission income	-1,390	-2,203		
Interest and commission income	43,794	39,337	-4,457	-10
Net income from financial transactions	0	0		
Personnel expenses	7,323	7,225		
Other administrative expenses	9,106	8,364		
Depreciations of tangible assets	2,578	2,656		
Partial operating profit	24,787	21,093	-3,694	-15
Other operating income/expenses	51	2,008		
Risk provisioning	-20,266	-18,484		
Result of financial investments	847	-9		
Operating result	5,420	4,609	-811	-15
Extraordinary expenses	-4,463	-3,601		
<b>NET INCOME FOR THE FISCAL YEAR</b>	<b>585</b>	<b>794</b>	<b>209</b>	<b>36</b>



## ■ PUBLISHER'S DETAILS

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