DEUTSCHE HYPO
Member of NORD/LB

ANNUAL REPORT 2010

Your success is : our benchmark

ANNUAL REPORT 2010

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ADDRESSWORD BY THE CHAIRMAN OF THE BOARD OF MANAGING DIRECTORS

Dear Customers and Business Partners,

The past year has demonstrated that though the global economy has started to recover, risks that may threaten growth are still a reality, and the crises resulting from government debts in certain peripheral states of the eurozone and the effects these have had upon the capital markets only serve to illustrate this. Structural and taxation measures in those states will also continue to affect the economic development of the eurozone, which would have been much less significant, had the German economy not regained strength and recorded strong growth during the 2010 financial year. Further challenges are also arising as a result of the measures taken to combat the crisis on the financial markets, and the future requirements resulting from Basel III will form only the start of a long chain of regulatory innovations.

More significantly, however, the recent catastrophe in Japan has brought before us the extreme forces of a quite different kind that Japan itself and subsequently the entire global community and global economy as a whole will be required to contend with as we deal with the aftermath of the disaster.

To return to the 2010 financial year, it is clear, however, that Deutsche Hypo successfully coped with the challenging conditions that existed on the capital and real estate markets. As far as income is concerned, commercial real estate financing and capital markets business, which form the bank's two core business segments, performed better than they did in the previous year and

each made a positive contribution towards the bank's overall interest income of over € 172 million, which increased by approximately 47 %. This rise in interest income also led to a significant improvement in the bank's cost-income ratio, which went from 43.9 % to 39.0 %.

A significant part of the bank's improved performance can especially be attributed to the new business that the bank succeeded in developing in its commercial real estate financing activities, which rose from € 1.4 billion to € 1.8 billion. This was also achieved without com-promising the bank's stringent requirements with regard to the risk/return profile. In this regard, Deutsche Hypo has been successful in maintaining its conservative business structure, which is primarily income-driven and not volume-driven.

This also confirms us in our conviction that our investors and customers share our view that even under difficult conditions, our business model remains a credible one and that we can therefore continue to build upon a stable balance of interests. In our view, credibility and reliability form the two cornerstones that underpin a sustainable and successful market position.

Our market position formed one of the pre-requisites that enabled Deutsche Hypo to strengthen its equity base, which, during the 2010 financial year, formed one of the primary focal points of the measures we took in order to fulfil the regulatory requirements that will apply in the future in good time. We achieved a significant improvement in our equity ratio, both in terms of the total capital ratio in the sense of the German Solvency Regulation, as well as our regulatory core capital, thereby enabling us to exceed the regulatory ratios by a considerable margin.

Many other milestones from the 2010 financial year demonstrate the success of the bank's efforts to reinforce its market position in its core business areas, whilst ensuring that it continues to be able to withstand the challenges that the future may place before it. Especially worthy of mention are the following:

- Deutsche Hypo's benchmark issue, which was successfully placed in May 2010. This was the first issue of its type in the Covered Bonds and Pfandbriefe segment, following the rescue blanket set up by the EU and the IMF.

- The opening of a branch in London in order to bring together our group's activities in this important foreign market.

- Numerous internal projects to improve efficiency and optimise processes, which should result in a further improvement, especially with regard to our proximity to our customers and the speed with which customer's applications and orders are processed.

For me, this address provides yet another opportunity to pass on my thanks to everyone who works at Deutsche Hypo, for their professionalism and unrelenting efforts. We can be sure that even for Deutsche Hypo, the market will continue to be a challenging one and that professionalism and dedication will enable us to continue the successes we have achieved so far.

Dr. Jürgen Allerkamp
Chairman of the Board of Managing Directors
of Deutsche Hypo

THE SUPERVISORY BOARD AND ITS COMMITTEES

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Hanover
Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale
– Chairman –

ECKHARD FORST
Hanover
Member of the Board of Management of Norddeutsche Landesbank Girozentrale
– Vice-Chairman –

DR. ELKE KÖNIG
Hanover
to 31 December 2010

DIRK METZNER
Hanover
Bank employee

DR. JOHANNES-JÖRG RIEGLER
Hanover
Member of the Board of Management of Norddeutsche Landesbank Girozentrale

FRANK WOLFF
Hanover
Bank employee

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DR. JOHANNES-JÖRG RIEGLER
– Chairman –

DR. GUNTER DUNKEL

ECKHARD FORST

DIRK METZNER
– Substitute member –
to 30 June 2010

·· PERSONNEL COMMITTEE

DR. GUNTER DUNKEL
– Chairman –

ECKHARD FORST

DR. JOHANNES-JÖRG RIEGLER

·· AUDIT COMMITTEE

DR. JOHANNES-JÖRG RIEGLER
– Chairman –

DR. ELKE KÖNIG
to 31 December 2010

FRANK WOLFF

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– Substitute member –

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DR. GUNTER DUNKEL
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ECKHARD FORST

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BOARD OF MANAGING DIRECTORS, EXECUTIVE MANAGER AND DEPARTMENTAL MANAGERS

·· BOARD OF MANAGING DIRECTORS

DR. JÜRGEN ALLERKAMP
Hanover
– Chairman –

ANDREAS POHL
Hanover

ANDREAS REHFUS
Hanover

·· EXECUTIVE MANAGER

Michael Müller

·· DEPARTMENTAL MANAGERS

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Gunter Bierwisch
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Dirk Hunger
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Albrecht Mayer
Uwe Menninger
Jürgen Munke
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Jörg Quentin
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Thomas Staats
Ralf Vogel
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Paul Weber
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PUBLIC TRUSTEES

Dr. Gunther Krajewski
Hanover
Retired Assistant Director
– Trustee –

Wolfdietrich Kühne
Hanover
Degree in business
– Deputy Trustee –

REPORT OF THE BOARD OF MANAGING DIRECTORS

Economic environment in our target markets

Germany

The German economy recovered with remarkable resilience last year, leaving behind the difficult recession of 2009. Growth in the country's real gross domestic product (GDP), according to initial estimates, was 3.6 % compared with the previous year and thus a good two times as strong as in the eurozone as a whole (+1.7 %). This impressive upturn has already been enough to make up for a large part of the fall of 4.7 % in GDP recorded during the previous year. The previous record for GDP growth in Germany since unification, achieved in 2006, was also slightly bettered.

Traditionally strong in exports, Germany benefited from the dynamic state of the world economy in particular. Other major industrialised nations, among them the USA and Japan, but above all numerous emerging markets, also recorded a high level of macroeconomic growth in 2010. Buoyed by this development, a double-digit increase in global trade was recorded in 2010, marking a return to the levels observed before the crisis. Germany's manufacturing sector was a key source of momentum, as reflected for example in the clear rise in orders placed with German companies by customers abroad and in industrial production. The global stabilisation and economic rescue programmes, not to mention a very expansionist monetary policy, played their part in this global economic recovery, and there were increasing signs over the course of the year of a self-supporting upwards movement in many areas. Against this background, it comes as no surprise that the Ifo Business Climate Index for companies recovered strongly, hitting a new all-time high in December.

German exports expanded by a good 14 % in real terms in 2010, with imports growing by 13 %. Investment in plant and equipment increased strongly in 2010, up by 9.4 % (price-adjusted) but was only high enough to make up for some of the fall recorded in 2009. Invest-

from left: Andreas Rehfus, Dr. Jürgen Allerkamp, Andreas Pohl ment in construction grew by 2.8 % due to such factors as measures related to economic rescue packages and the historically low level of mortgage rates. As well as public consumption (+ 2.2 %), private consumption was also up on 2009, growing by 0.5 %. This is not least attributable to the remarkably good development on the labour market. Whilst most industrialised countries in the West saw their unemployment levels rise dramatically in response to the financial crisis, Germany only faced a slight and short-lived increase in its jobless figures, which have been falling consistently since the middle of 2009. A key contribution in this regard came – in addition to the flexible reaction shown by the two sides of industry – from the tool of short-time working in response to the state of the economy. Short-time working affected around 1.5 million people at its peak. As unemployment fell and the economy recovered, this number has fallen considerably since early 2010. Additionally, the unemployment figures had fallen to 7.7 % by the middle of 2010, whilst the absolute number of people who were recorded in the statistics as being without a job reached its lowest level for approximately 18 years in November, at 2.93 million. Alongside this very gratifying development on the labour market, the relatively low level of inflation last year also had a positive impact on real purchasing power again and thus on private consumption levels. Having remained almost unchanged in 2009, the national consumer price index rose by a moderate 1.1 % in 2010.

How did the German commercial property markets perform in the 2010 reporting year?

The volume of business on the real estate investment market in Germany increased further, although the record results of 2005 to 2007 are still some way off. Low bond yields make real estate relatively attractive as an investment class. Investors focused on Germany, where the economic upturn was particularly strong by international standards and where the commercial property markets appeared to be more stable than in other countries, even in times of crisis.

On the German office markets, the recovery made slow, steady progress, but lagged behind the economic upturn by some distance. The impact of the financial and economic crisis, with the dramatic fall in economic output, was somewhat restrained on the office markets. In light of the good economic development compared with the previous year, there was a clear increase in the number of properties changing hands. Whilst relocations were the main reason for this trend, the market also saw the beginnings of demand for additional space. The number of new completions was up on the previous year in the key office locations and thus at a historically high level. Office vacancies peaked in 2010.

The German retail sector profited from the economic upturn and state measures. Other factors included the not particularly tangible impact of the recession on private consumption and the anticipated end of the economic crisis, which improved the mood among consumers. The improved economic climate pushed sales up again for the first time, in turn stimulating demand for retail premises. At the same time, investors took a reserved approach to expanding their premises, resulting in a slight increase in surface area productivity. Rents for prime locations duly rose again, whilst stagnating or actually falling back elsewhere.

USA

The temporary weakening in the US economy in summer 2010 following the noticeable recovery from autumn 2009 until spring 2010 appears to have been overcome. The mood indicators for the manufacturing sector picked up again during the second half of 2010, clearly indicating expansion. Incoming order levels and industrial production also rose strongly. The double-dip feared by many people therefore failed to materialise. Rather, a healthy normalisation of growth rates appears more likely with a stabilisation in economic development. Contributory factors have been significantly robust consumption and the fact that the global economy remains dynamic. The real estate market crisis and the situation on the labour market did have a negative effect in 2010. However, consumption made high contributions to growth in GDP as income levels continued to grow strongly. The Federal Reserve stuck with its zero interest policy in 2010 and also made the decision to purchase further government bonds of up to USD 600 billion (Quantitative Easing 2). Capital market yields at the long end of the yield curve fell strongly in anticipation of this policy, but have since moved back up again. Ten-year US Treasuries thus ended 2010 at just below the 3.5 % mark.

In terms of the real estate market, a counter-movement is not to be expected in view of what is entirely a buyer's market. Nevertheless, there are signs of stabilisation setting in at a very low level. This meant that the downward trends with regard to new construction projects, planning permission and sales of new builds were brought to a halt. However, an excess supply of real estate can still be expected over the coming years. The transaction volume increased slightly compared with the previous year on the US real estate investment market. This was mainly due to the fact that real estate appeared more attractive than other asset classes due to high spreads.

The financial crisis has had a clear impact on the office markets. Even although new building activity was respectable overall, the recession triggered difficult phases of turbulence on the office property markets. The rapid rise in unemployment – among office employees in particular – and higher insolvency levels resulted in lower demand for office space and higher vacancy rates. In many cases, landlords were forced to lower their rents to attract new tenants. Existing tenants also frequently used this situation in order to renegotiate their terms. Particularly hard hit were the financial centres such as New York and San Francisco. Nevertheless, it is in these centres that rents remain the highest. Whilst rents generally fell during the first half-year, they stabilised against at most locations over the course of the year.

As net worth and employment levels collapsed, turnover in retail properties fell by almost 10 % during the crisis, also placing a difficult burden on the retail property market. Despite the fall in turnover, there was barely any reduction in the number of retail properties being completed. Net absorption has been negative since 2008, with a clear rise in the vacancy rate. The rise in the supply also resulted in a major fall in rental levels.

United Kingdom

The transaction volume in 2010 was on a par with the previous year, but successfully picked up speed over the course of the year. In terms of the investment market, foreign investors were focused on London, whilst domestic investors were active across the UK. Correspondingly, rents in the prime locations, after a strong rise over recent years, latterly came under pressure. Demand for properties in secondary locations was markedly weaker, despite a clear yield difference between first-class properties and the rest of the market.

An ongoing positive development was in evidence on the London office market. Compared with the previous year, turnover levels increased significantly on the rental market. Rising demand for office premises resulted in a shortage of supply again, with falling vacancy levels. First-rate office premises were particularly high in demand, resulting in vacancy rates for such properties falling very strongly to well below the general vacancy rates. This positive development meant that rents could rise again, also favoured by a low volume of new builds.

Growth in private consumption, which accounts for a large proportion of the UK's GDP, slowed over the course of 2010. The slight fall in employment levels and the weak recovery on the residential property markets had a negative impact on households. The weakness in private consumption, however, resulted in a reduced tendency to save, rather than to more moderate spending patterns. In terms of turnover levels for UK retail properties, there was a clear upwards movement after the collapse triggered by the recession in 2009. The fall in demand for premises among retailers, as well as some cases of insolvency, were particularly evident in secondary locations. These were hit by higher levels of vacancies and greater pressure on rents. Top rents in prime locations were not affected by these trends.

France

The recovery on the investment market was particularly marked after the weak start to the year compared with other European countries. Improved financing conditions and the relative attractiveness of real estate compared with other assets helped towards this development. Investors' interest continued to focus almost exclusively on core real estate however, with less of an emphasis on other property types. The top rents paid in the premium segment also fell as a result. Retail premises were especially in demand, primarily among domestic investors, with the number of transactions compared with the previous year far higher than the average. This was another area in which there was a clear fall in yields.

The French office market did recover over the course of the year, with a rise in the number of transactions. However, the generally weak nature of the wider economic recovery was not enough to stimulate a clear rise in demand, which was driven in the first instance by measures to rationalise space. In terms of top rents, the year-end level was again considerably higher than at the end of 2009.

The French retail sector has put the financial and economic crisis behind it. Having fallen substantially, household spending rose slightly again last year. In the case of shopping centres in particular, there was again a much stronger rise in turnover. In relation to new projects, however, a clear decline was observed, in terms of both the number of projects and surface area. Top rents proved relatively stable, with a balanced situation in terms of supply and demand. The situation in secondary locations was a different one, however, with rents significantly down on the previous year.

Spain

Spain's real estate investment market has not yet recovered, with the volume of transactions stuck at the previous year's level. There was, however, a slight improvement over the course of the year, despite what remained major differences in the price expectations of buyers and sellers. Investors were focused on core properties offering a high level of security. Even under these conditions, however, prices only stabilised at 2009 levels. Top rents, particularly those for office premises, continued their downward trend.

After a very weak 2009, the Spanish office market experienced partial recovery but by no means enjoyed a complete recovery in 2010. The dynamism of the economy as a whole was not sufficient to lend momentum to the office market. Companies are not yet demanding additional office space, with relocations being the main focus. Companies that chose to relocate frequently actually reduced the space being rented. Vacancy levels in key office locations rose further and actually reached new record highs in Madrid and Barcelona. Top rents continued to fall, albeit at a slower pace.

The retail sector's response to the difficult economic situation was to introduce major price discounts in order to stabilise sales levels. In many cases, retailers absorbed the cost of the value-added tax increase, resulting in more frequent custom and greater sales. Incentives were still incorporated into rent levels, but these were generally no longer as high as before. Whilst the situation in top locations stabilised, less prominent locations continued to suffer from imbalances in the market, resulting in high vacancy rates and impacting negatively on rents. There were some sporadic cases of international retailers attempting to exploit the market situation to gain a foothold in the market.

Netherlands

The investment market in the Netherlands was able to record strong year-on-year growth in the transaction volume thanks to keener interest from German investors in particular. However, it was a market that continued to feature a significant imbalance between supply and demand. Demand rose, but primarily for high-quality buildings with good renting levels. However, such properties tended to be in short supply. Overall, speculative investors were not very active. In addition, demand for properties outside the core markets remained weak. Correspondingly, it was only the market values of core properties that began to rise more strongly again, whilst the values of properties in other quality brackets tended to be lower. In terms of property type, investors appeared to be particularly drawn to retail properties in the premium segment. Due to higher prices, this was associated with a significant fall in yields.

The Dutch office market continued to be subdued. Transaction levels were predominantly stuck at the low level of the previous year, with relatively small transactions dominating events. The focus for many companies was not on expansion but on negotiating the extension of their lease term or better conditions. In light of the demand situation, many plans for new developments ended up on the backburner. Despite this, vacancy rates still increased in many regions, with a corresponding impact on the rent situation, which remained under pressure.

The situation for consumers began to improve as the year went on. The fall in real disposable incomes and negative effects on net worth prevented a quick recovery. Low, albeit rising, unemployment figures and, additionally, low wage agreements meant that private consumption stagnated at best. Demand on the rental market remained muted, with tenants preferring to wait and see if a sustained recovery was on the cards. This resulted in a slight fall in retail rents overall, with a rise in incentives. There were no significant vacancies among prime locations, whilst an increasing number of shops stood empty in secondary locations.

Financial markets

The comprehensive fiscal policy measures introduced in response to the economic situation, and the loss of revenue and additional burdens placed on public finances as a result of the recession, meant that nearly all of the eurozone member states had to accept a level of borrowing in 2009 and 2010 that exceeded the 3 % threshold set in the Stability and Growth Pact. The budget deficit within the eurozone in 2009, measured as a proportion of nominal GDP, averaged 6.3 %, with the figure for 2010 expected to be around the same. National debt levels have since increased to in excess of 80 % of GDP.

The budget deficit in Greece in particular, which a review carried out by the European Commission showed to be 15.4 % of GDP, and thus even higher than the 13.6 % reported in April 2010, was viewed very critically on the financial markets. Growing concerns about Greece's credit standing triggered major market turbulence in spring 2010. Greek government bonds subsequently came under significant pressure, and the Greek yield curve inverted. The spread between Greek government bonds with a residual term of ten years and German government bonds climbed to almost 10 percentage points. This development also spread to some of the other eurozone states, which were also battling with high borrowing levels and a difficult budgetary situation.

As the market distortions reached their height in early May, the eurozone states worked with the IMF and European Commission to derive a joint rescue mechanism for the ailing member states. At the heart of this mechanism was the European Financial Stability Facility (EFSF), worth € 440 billion, with an additional € 60 billion in Commission funds (European Stability Mechanism, ESM) and € 250 billion in support lines from the IMF. The first state that was forced to accept assistance from this rescue package was Ireland. Efforts to rescue Anglo Irish Bank placed such a huge burden on the country's public finances that the Irish government was forced to apply for assistance of € 85 billion from the joint scheme.

The most recent market distortions in the wake of the public finance crisis in Ireland have once again shown that the debt crisis is set to remain the number-one item on the European Union's agenda for the time being. For many states, budgetary consolidation, as well as finding their way back to sustained growth, will be one of the very major challenges to be tackled over the coming years.

The ECB reacted to the government debt crisis by launching its Securities Markets Programme (SMP), which resulted in it purchasing government bonds with a volume of just under € 74 billion by the year-end. By increasing capital by € 5 billion as at the year-end, the ECB made it clear to the governments that the costs incurred in relation to further purchases of government bonds through the euro system would be passed on to the member states at least indirectly.

Until just recently, the debt crisis was the issue dominating the capital markets. Despite the fact that German securities continue to be viewed as a safe haven, there was a strong rise in the yield on ten-year Bunds through until the end of 2010. From the low of just under 2.1 % recorded at the end of August, the yield soared by almost 100 basis points to above the 3.0 % mark. From our perspective, however, this reflects a normalisation in the unnaturally low yield levels in evidence over the summer months of 2010. Against the background of the positive economic outlook for 2011, higher-risk assets have also grown to be more attractive again.

The fluctuation range for US yields was somewhat greater than that of German government bonds once more. The yield on 10-year Treasuries tumbled from the high of almost 4.0 % in early April in the lead-up to the announcement of the Fed's new purchase programme (Quantitative Easing 2, QE2) to below the 2.4 % mark by October. The yield spread between 10-year US Treasuries and German government bonds fluctuated accordingly between 90 and just under 5 basis points, and rose slightly again as at the year-end to a good 30 basis points.

At the height of the eurozone debt crisis, the US dollar found its way to a price of just under 1.19 EUR/USD for a short period before coming under pressure again and briefly falling back to 1.45 USD/EUR in November. It was primarily positive economic news from German and the impact of QE2 that acted as a support to the euro during the second half of the year. Previously, however, market participants had been focusing more strongly on the budget situation facing several European states and on worries about stability in the eurozone. Compared against sterling, the euro moved within a range of 0.92 and 0.80 GBP/EUR over the course of the year, before ending 2010 at just under 0.86 GBP/EUR. The Japanese yen, in contrast, grew strongly in value against the euro, in common with the Swiss franc, which ended the year at 1.24 CHF/EUR, the highest point to date in the strong increase recorded in 2010.

The world's major equity markets were also able to make up lost ground last year and put in a very positive performance for the year as a whole. After a brief drop to a low of 5433 points in February, the German DAX proceeded to improve consistently, rising as high as above 7000 points in mid-December. The equity markets were bolstered considerably by the fact that yield levels remained low and by the high degree of liquidity on the markets. Additionally, higher risk assets, such as equities, became more attractive again as the economy took a turn for the better and as the economic outlook improved, with a corresponding fall in risk aversion levels.

MANAGEMENT REPORT

Deutsche Hypo, in line with its business strategy, is a Pfandbrief bank specialising in large-volume commercial finance with professional real estate customers and in capital market transactions with domestic and foreign market participants. The Bank has branches in Dusseldorf, Frankfurt am Main, Hamburg, Hanover, Munich and Nuremberg, a branch in London and foreign representative offices in Amsterdam, Madrid and Paris.

·· Business development

(Figures in the tables and charts in the management report are denominated in thousands (k), millions (m) and billions (bn) of euros (€). We would like to point out that the tables and charts may contain rounded amounts and percentage rates, and that differences may therefore arise due to the rounding process used.)

·· Overview

- Net interest and commission income was just below € 186.1 million, and thus considerably up on the previous year's figure of € 51.7 million. This corresponds to a year-on-year increase of 38.5 %. Net interest income includes current income. Key factors in this positive development were, in particular, the rise in the volume of real estate finance business and the improved margins in real estate finance and capital market transactions.

- Administrative expenses (including write-downs on intangible assets and property, plant and equipment) rose by € 12.8 million year-on-year to total € 69.4 million. Personnel costs totalled € 4.1 million and were mainly attributable to one-off factors and a rise in the number of employees. Other administrative expenses (including depreciation and write-downs on intangible assets and property, plant and equipment) were € 8.7 million higher than during the previous year, at € 32.0 million. Key drivers in this development were projects to implement statutory and internal Group requirements and costs in relation to the rise in problematic exposures, mainly in the USA.

- The risk result totalled € 78.8 million and exceeded the previous year's figure by € 9.2 million (€ 69.6 million). The risk result from lending business totalled € 80.8 million, primarily comprised of further write-downs/depreciation in relation to loan exposures in the USA and the UK.

- With regard to deprecation/appreciation and write-downs on securities held as fixed assets, a positive result of + € 6.6 million was achieved on balance. Depreciation applied was more than offset by disposal gains from the sale of securities. These sales related to the targeted sale of non-strategic positions.

- The result from ordinary business activity was € 45.0 million, a clear improvement on the previous year's result of – € 29.3 million.

- The positive development in income pushed the cost/income ratio up to a gratifying level of 39.0 % (2009: 43.9 %). The return on equity was 5.8 %.

- The volume of commitments in real estate finance business totalled € 1,784 million (2009: € 1,404 million). In conjunction with the calming of the situation on the real estate markets, improved opportunities for new business presented themselves again. Deutsche Hypo made very selective use of these opportunities taking into account its demanding and proven standards in relation to customer credit rating and the quality of the properties concerned.

·· The volume of commitments in capital market business fell to € 2,429 million (2009: € 2,766 million). This reflected Deutsche Hypo's conscious decision to apply a cautious approach, especially in light of the crisis in the eurozone.

·· Property finance business

·· New business

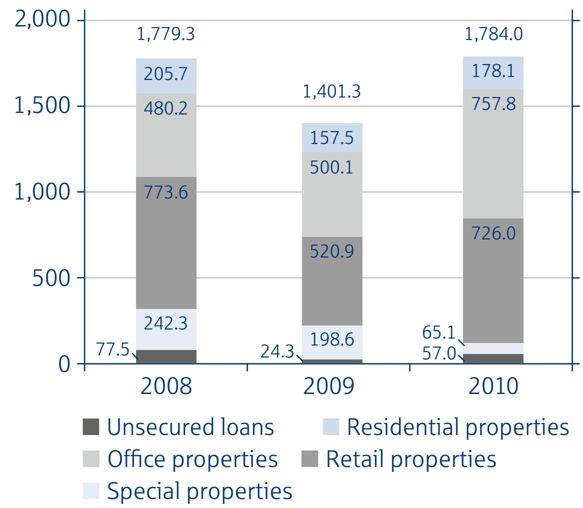
New real estate finance business in the 2010 financial year totalled € 1,784 million (2009: € 1,401 million). This equates to a rise of € 383 million (+ 27 %) compared with the previous year. Only a very small portion of this total, namely € 57 million, related to financing commitments that were not secured by mortgages (2009: € 24 million).

Commercial financing commitments accounted for 93 % of the total volume of new business, a rise on the previous year (84 %).

The largest proportion of the commitment volume related, once again, to office and retail properties. Commitments for office properties totalled € 726 million (2009: € 521 million), whilst finance commitments relating to retail real estate amounted to € 758 million (2009: € 500 million).

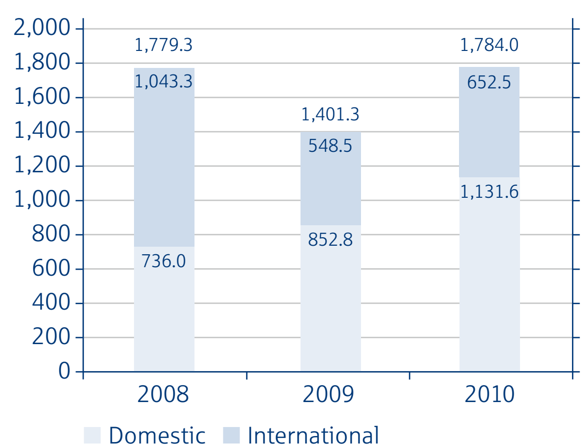
In relation to specialist property, financing commitments totalled € 178 million (2009: € 158 million). The business division of specialist properties encompasses hotels and transport buildings/logistics centres.

Real estate finance by property type (in € millions)



Growth in new business can be broken down into domestic business of + € 279 million and foreign business of + € 104 million. A total of € 1,132 million in commitments related to domestic real estate finance (2009: € 853 million), with a commitment volume for foreign real estate of € 652 million (2009: € 548 million).

Real estate finance – domestic/international (€ millions)



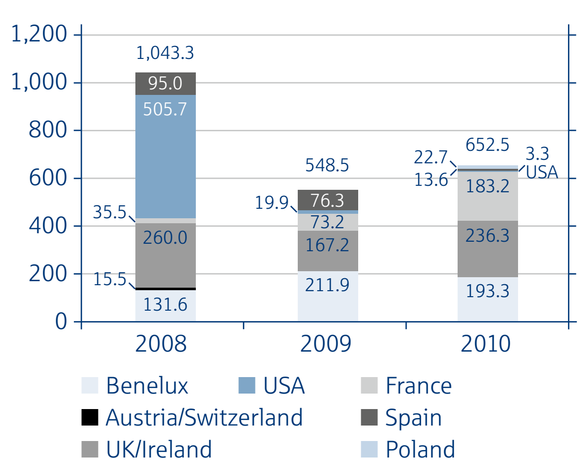
The development in commitment volumes reflects Deutsche Hypo's assessment of the real estate markets.

In 2008 and 2009, the property markets were still strongly affected by the financial market crisis. Since then, the markets have stabilised, opening the way for a greater level of exposure in real estate finance business.

As far as the German real estate market is concerned, things have generally returned to normal. Foreign markets, on the other hand, need to be viewed in more detail. The impact of the financial market crisis can be still be felt to the extent that the markets have not yet entirely got back to normal with regard to their fungibility and price levels. At the same time, however, national factors are also having an effect, resulting in the need for an individual assessment of different countries' real estate market situation putting the financial market crisis to one side.

Deutsche Hypo is permanently monitoring developments in the key real estate markets and tailoring its response accordingly. The Bank will continue as before to pursue its tried-and-tested cautious and selective business strategy.

Foreign real estate finance, by country (€ millions)



The commitment volume in France rose by € 110 million to € 183 million (2009: € 73 million). Deutsche Hypo has been able to successfully translate the fundamentally positive assessment of this market into a clear rise in new business.

The fact that the situation in the UK stabilised meant that we were able to build up new exposures on a very selective basis. The commitment volume during the past financial year was € 236 million, € 69 million higher than during 2009. Overall, however, new business activity remains at a comparatively low level as shown by the comparison with 2007.

Deutsche Hypo continued to be very reserved in its approach to the US and Spanish real estate markets. Practically no new business was recorded in the USA, with a commitment volume of a mere € 3 million (2009: € 20 million).

New business in Spain totalled € 14 million (2009: € 76 million). Deutsche Hypo is continuing with its very cautious approach to new business in Spain, as further consolidation effects in the property sector are to be expected on the market there.

The commitment volume in the Benelux countries was € 193 million, slightly down on the previous year (€ 212 million).

A finance commitment was entered into in Poland for the first time, in the amount of € 23 million.

Loan portfolio

The loan portfolio increased by € 1,671 million (+ 17 %) from € 9,784 million to € 11,456 million.

This expansion in the portfolio was due in equal measure to new real estate finance business and to the planned transfer of loan portfolios from NORD/LB to Deutsche Hypo (asset transfer).

As part of the Bank’s integration into NORD/LB Group, it was agreed that commercial real estate finance business would be transferred as far as possible from NORD/LB to Deutsche Hypo. This asset transfer progressed in a gratifying manner over the course of the past financial year. Overall, loans with a volume of € 1,807 million (2009: € 275 million) were transferred across to Deutsche Hypo.

The development of the portfolio in Germany and abroad can be broken down as follows:

Germany: € 6,716 million (2009: € 5,421 million)

The gross increase in the domestic portfolio totalled € 2,650 million (new business: € 1,132 million, asset transfer: € 1,518 million). Allowing for redemption payments (€ 1,355 million posted to the accounts), the net increase was € 1,295 million. This equates to 48.9 % of the gross increase in the portfolio.

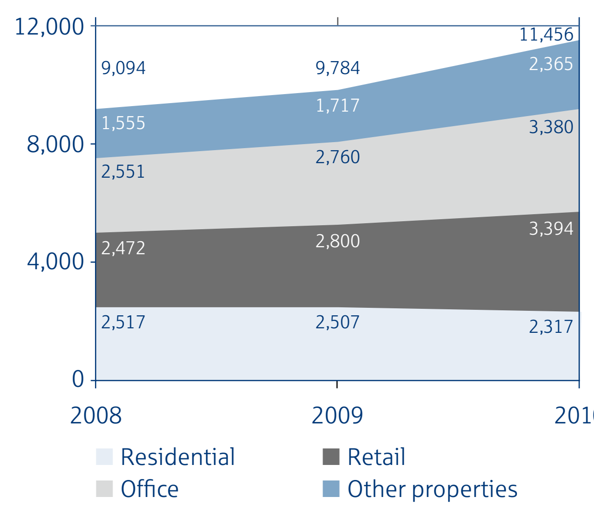
Abroad: € 4,740 million (2009: € 4,364 million)

The gross increase in the foreign portfolio totalled € 941 million (new business: € 652 million, asset transfer: € 289 million). Allowing for redemption payments (€ 565 million posted to the accounts), the net increase was € 376 million. This equates to 40.0 % of the gross increase in the portfolio.

The change in the portfolio can be broken down by property type as follows:

In terms of office properties, the increase in the portfolio was + € 620 million, with the portfolio of retail real estate growing by + € 594 million. The portfolio of specialist real estate finance (other property) grew by + € 648 million, an increase that was primarily attributable to the asset transfer, under the terms of which large volumes of real estate finance classed as specialist real estate were transferred to Deutsche Hypo.

Change in real estate finance portfolio (€ millions)



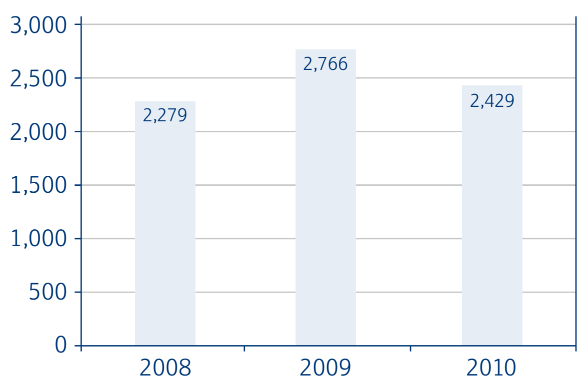
Capital market business

New business

The subject of the eurozone crisis dominated the capital markets in 2010 and, unsurprisingly, also impacted on the Bank’s new business in the field of capital market transactions. Based on the dramatic upwards revaluation of Greece’s public debt, the eurozone experienced a massive revaluation of outstanding loans. As well as Greece, the countries most affected were

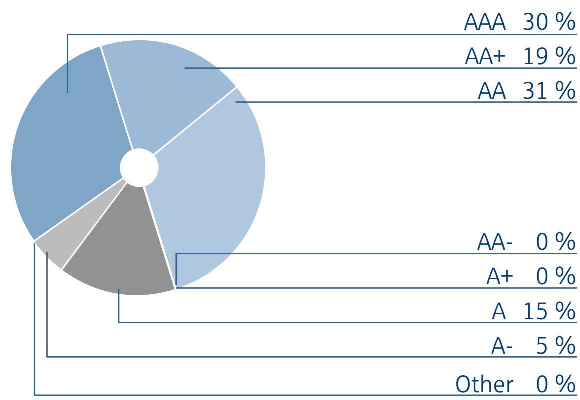
Ireland, Portugal, Spain and Italy. Of these, Portugal, Greece and Ireland have long since been excluded from Deutsche Hypo's new business activities. The Bank's traditionally conservative approach to risk meant that no new business was entered into in Italy or in other countries that are currently regarded as in a critical situation. With a volume of approximately € 2.4 billion, the previous year's figure of just under € 2.8 billion was not quite matched.

New business in € millions



There was a good level of market demand for Deutsche Hypo's public-sector Pfandbriefe. On this basis, the Bank was able to take up new business in a selective but stable way. The fact that an increasing number of Deutsche Hypo's competitors are withdrawing from this market segment opened up attractive new business opportunities. It was therefore possible to focus almost exclusively on low-risk business with German and European local authorities, and German and French government authorities, as well as with supranational issuers. Greater focus was placed in 2010 on an additional investment class, namely borrowers who guarantee a basic infrastructure-related service and are guaranteed by their respective states in this regard. In terms of credit risk aspects, we regard the risk level of such financings as being low. Generally, the projects that require finance generate stable cash flows, with the result that the state-backed guarantee is simply an additional form of protection and guarantees the eligibility of the assets as cover assets. The Bank will continue in 2011 to pursue the strategy followed in 2010.

New capital market business by rating class 01/01 – 31/12/2010 (€ 2.4 bn)



The share of new business with international partners, accounting for 46 %, can be broken down as follows. France, Austria and the Benelux countries accounted for 71 % of the total international capital market business. The remaining 29 % related to loans to Finnish local authorities and to supranational issuers. The national portion of new business, as in earlier years, primarily related to the German Länder and local authorities.

Once again, no investments were made outside the cover assets.

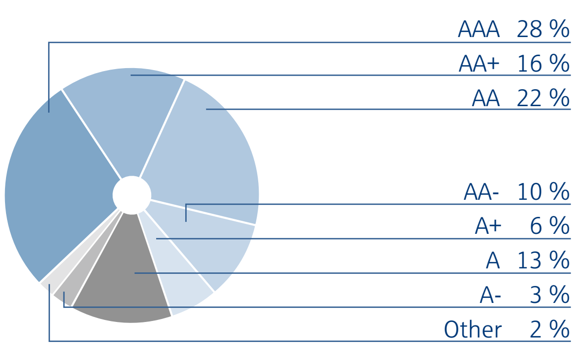
·· Portfolio performance

Given the Bank's selective approach to new business, there was a slight reduction in Deutsche Hypo's portfolio. The good quality of the cover assets was once again underlined by the new business. Overall, 30 % of the new business concluded involved a rating of AAA (or comparable). A further 50 % of new business related to a rating of AA.

The rating agency Moody's awarded Deutsche Hypo the highest possible rating of Aaa for its public-sector Pfandbriefe again in 2010.

The trend introduced in 2009 towards higher initial margins with matched-maturity refinancing in government lending business was one that could be extended further during the reporting period. The positive effects are evident from the Bank's net interest income. To this extent, the strategy of moving away from narrow-margin business with higher volumes to selected transactions with considerably higher margin requirements is already a better fit with the expected changes to supervisory regulations.

Capital market business by rating class
As at 31/12/2010 (€ 22.3 bn)



·· Refinancing

The year 2010 was marked by predominantly domestic investor demand, with international investors proving reticent in the main with regard to Pfandbrief investments. Nevertheless, Deutsche Hypo was again able to successfully pursue its tried-and-tested strategy of demand-oriented issuing business.

During the reporting year, unlike in earlier years, there were a few opportunities to place promising benchmark transactions on the market. We took advantage of one of these opportunities to issue a benchmark product in May 2010 in the amount of € 600 million. This was the subject of solid demand. After just two hours, we were able to close the book, which was highly oversubscribed. The issue met with a very positive response from investors, with good feedback from the syndicate banks and very gratifying press coverage. The refinancing volume expected for 2011 would indicate that we will need to make use of the benchmarks market segment at least once over the course of the year. We continue to view this format as an important source of funding. Particularly for foreign investors, it is a format that opens the way to our products, and thus is also a format suited to private placements.

The year 2010 was a year of stable sales via private placements. The total issue volume of € 6.5 billion comprised € 1.7 billion of mortgage Pfandbriefe, € 1.7 billion of public sector Pfandbriefe and € 3.1 billion of other bonds. The ratio of bearer to registered bonds was 62 to 38 %, with structured issues not playing any role this year. Deutsche Hypo was once again able to count on its stable, proven network of reliable capital market partners at all times, ensuring that the Bank's liquidity was guaranteed at all times. This was consistently achieved at competitive conditions, enabling us to make ourselves available as a partner for real estate finance and government lending throughout the entire year.

The cost-efficient issuing platform ensured that we maintained a sustained competitive edge in credit business.

The ECB's Covered Bond Purchase Programme, which was not used by Deutsche Hypo, supported the issuing activity of all European issuers of Pfandbriefe and other covered bonds during the first half of 2010. The programme was without doubt a clear signal from the ECB to the market and had the desired effect of bolstering confidence and overcoming the fragility in evidence in the wake of the financial market crisis. Even after this programme had expired, demand for Pfandbriefe held up well, with Deutsche Hypo's issues always being the subject to keen interest from investors. The Bank's positive reputation meant that all issues could be placed without any problems.

During the year under review, Deutsche Hypo's capital base was significantly increased by the issue of the hybrid Charlottenburg transaction worth € 75 million.

Secondary market activities

Deutsche Hypo traditionally sets great store by the treatment on the secondary market of its issues. With this in mind, own securities with a volume of € 72 million (2009: € 497 million) were settled by the Bank. It was possible to replace the resulting outflows of liquidity with new issues at all times. Early redemptions resulted in losses of € 3 million in the portfolio of own securities during the reporting year. This expense will reduce future interest expenses. The nominal value of our own portfolio as at the year-end was € 76 million (2009: € 109 million).

·· Rating

Rating Deutsche Hypo

	Public-sector-Pfandbriefe	Mortgage Pfandbriefe	Short-term liabilities	Long-term liabilities	Financial strength
Moody's	Aaa	Aaa	Prime-1 (stable)	A1 (stable) Since September 2010 A1 (negative)	C- (negative) Since September 2010 D+ (negative)

In 2010 Moody's Investor Service (Moody's) awarded Deutsche Hypo's mortgage Pfandbriefe and its public-sector Pfandbriefe the rating of Aaa. This means that the Bank's core business continues to have the highest possible rating. The Prime 1 rating was also confirmed by Moody's for Deutsche Hypo's short-term uncovered liabilities.

The rating for Deutsche Hypo's long-term liabilities was also set as A1, as in the previous year, with the outlook being adjusted from "stable" to "negative" in line with the adjustment of the corresponding rating of the Group parent company Nord/LB in September 2010. The rating for subordinated liabilities, in contrast, was downgraded from A2 to A3. This was due to a change in the German Banking Act, which affected all banks covered by the provisions of this law.

The downgrading of the rating for financial strength from C- to D+ should be viewed in conjunction with the risks inherent in international real estate finance and government finance portfolios, which have placed a burden on equity in the form of value adjustments and risk provisioning. Capital measures in late September and in December 2010 were used to significantly expand the capital base by a total of € 170 million. The measures taken underscore Deutsche Hypo's efforts towards and commitment to achieving a solid capital case for the long term.

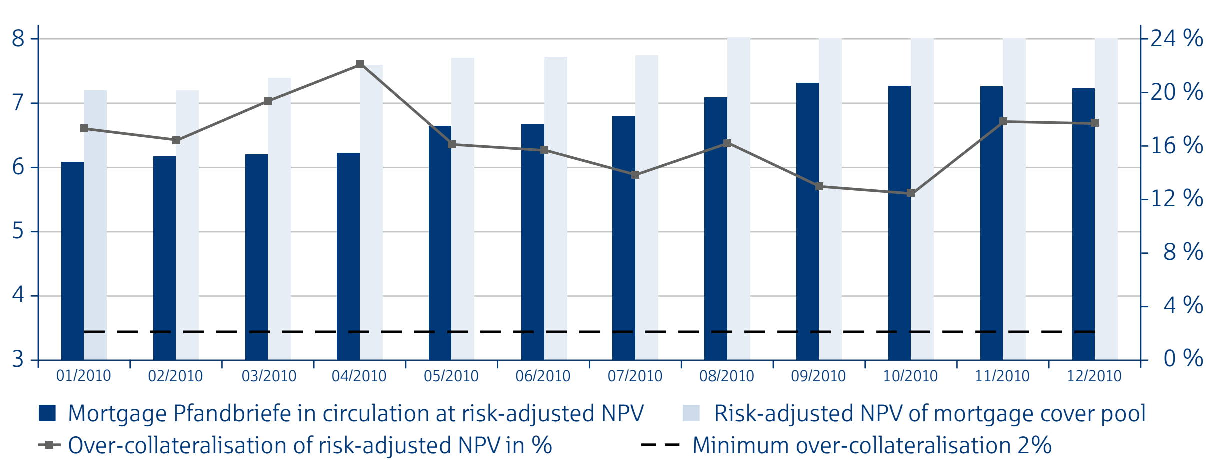
Moody's highlighted the following characteristics as being particularly positive: Deutsche Hypo's competitive position on the German real estate finance market, the international diversification of the Bank's real estate finance business, the independent refinancing channels and the Bank's advancing integration into the NORD/LB Group.

·· Net present value cover

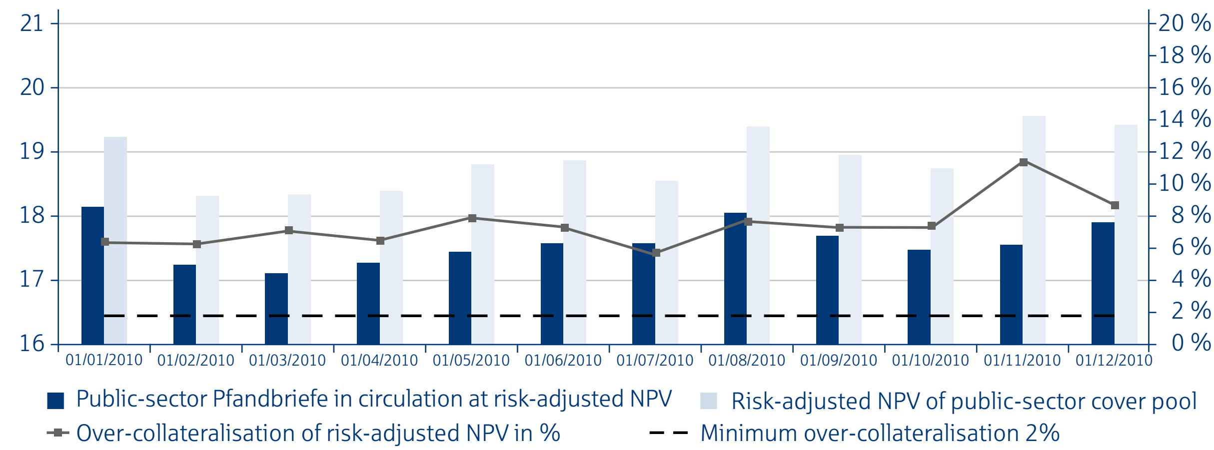
According to the Pfandbrief Net Present Value Ordinance (PfandBarwertV), Pfandbrief-issuing banks are obliged to maintain over-collateralisation on a net present value basis of 2 % for outstanding mortgage and public sector Pfandbriefe at all times. The Pfandbrief bank must also ensure that this cover on a net present value basis pursuant to Section 4, paragraph 2, sentence 1 of the Pfandbrief Act is assured even in the event of changes to interest or exchange rates (security excess cover).

For the purposes of calculating this security excess cover, Deutsche Hypo carries out the stress tests also prescribed by the PfandBarwertV, with the minimum over-collateralisation of 2 % also being maintained. Deutsche Hypo met this requirement at all times throughout the year under review. As an average for the year, the over-collateralisation on a net present value basis was 16.42 % in the case of mortgage Pfandbriefe and 7.40 % in the case of public sector Pfandbriefe, and thus well above the minimum required.

Over-collateralisation of mortgage Pfandbriefe according to risk-adjusted net present value (in € bn)



Over-collateralisation of public-sector Pfandbriefe according to risk-adjusted net present value (in € bn)



Income position

Net interest and commission income

Net interest income

Net interest income (including current income from equities and other variable-income securities and from investments) totalled € 172.7 million, almost € 55 million more than in the previous year. Income contributions from real estate finance and also from capital market transactions were key to this positive development. In terms of real estate finance, the clear rise in portfolios combined with an improvement in the margins generated helped towards the corresponding rise in the contribution made to the result. In capital market business, new business was also acquired on the basis of better initial margins. Furthermore, favourable refinancing conditions contributed to a better result.

Net commission income

Net commission income, at € 13.4 million, was € 3.3 million down on the previous year's figure. There were two main reasons for this decline.

Firstly, as a result of the asset transfer there was a reduction in the volume of loans under management still held in the NORD/LB portfolio. This explains the lower service fees received by Deutsche Hypo from NORD/LB for looking after the portfolio.

Additionally, in addition to the usual expenses associated with issuing business, the year under review was hampered by additional one-off costs for the successful placement of undisclosed holdings on the capital market.

Significantly higher commission income was generated in real estate business in conjunction with restructurings and reorganisation measures.

·· General administrative expenses

Administrative expenses including depreciation/write-downs relating to intangible assets and property, plant and equipment totalled € 69.4 million (2009: € 56.6 million), exceeding the previous year's figure by € 12.8 million. This corresponds to a rise of 23 %.

Personnel expenses, at € 37.4 million, were € 4.1 million up on 2009. This increase is due to one-off compensation payments and also to adjustments to the remuneration system. The hiring of new staff and the process of setting up and opening the London branch also contributed to the rise.

Other administrative expenses (including depreciation and write-downs on intangible assets and property, plant and equipment) were € 8.7 million higher than during the previous year, at € 32.0 million, compared with € 23.3 million in 2009. The main causes of this increase were project-related costs and also higher expenses for legal advice in conjunction with ailing credit exposures, primarily in the USA. The projects concerned activities to implement statutory and regulatory requirements, encompassing the further development and documentation of the internal control system and implementation of the requirements of the second revision of the Minimum Requirements for Risk Management (MaRisk). Projects were also implemented with a view to enforcing internal Group requirements. These projects related to improving liquidity risk management, improving the handling of ailing loans in the USA and improvements in relation to performance analysis.

The cost/income ratio improved considerably to 39.0 % (2009: 43.9 %). The calculation method used for this ratio changed slightly compared with the previous year, as a result of which the 2009 figure has been adjusted accordingly. Further information on the calculation of the cost/income ratio is provided in section 6.6. "Performance of the business areas".

·· Other operating income and expenses

The net other operating result for the year under review was € 0.5 million, compared with a negative balance of € 2.6 million during the previous year. The negative result recorded in 2009 was due to one-off extraordinary effects. This related in economic terms to the credit risk result but for accounting reasons were required to be posted under other operating expenses.

·· Risk provisioning

The risk result totalled € 78.8 million and exceeded the previous year's figure by € 9.2 million (€ 69.6 million). The risk result from credit activities was € 80.8 million and more or less as expected. Measured in terms of allocations to specific bad debt allowances, the risk result was almost exclusively attributable to loan exposures in the UK (approx. 60 %) and the USA (approx. 37 %).

·· Depreciation, write-downs and income from the write-up of investments, shares in affiliated companies and securities treated as fixed assets

This item mainly includes the development in securities held as fixed assets and the related write-downs. The income from this item in 2010 was + € 6.6 million (2009: – € 35.0 million). The year 2009 was mainly dominated by write-downs on structured mortgage-backed securities and write-downs in relation to Icelandic bank stocks. The result during the year under review was mainly attributable to income in relation to the targeted phasing out of non-strategic securities and receivables. This generated disposal gains which more than offset the write-downs needed.

·· Result from ordinary business activity

The result from normal business activity totalled € 45.0 million. This was a significant improvement on the previous year's figure of – € 29.3 million.

·· Income transferred on the basis of profit pooling, a profit transfer agreement or a partial profit transfer agreement

This item encompasses Deutsche Hypo's interest expenses for undisclosed holdings. These totalled € 8.4 million in 2010, compared with € 3.0 million during the previous year. The rise in expenses was caused by the addition of undisclosed holdings totalling € 150 million in the 2010 financial year.

·· Net income for the year

After deducting extraordinary income (– € 0.6 million), interest expenses for undisclosed holdings (– € 8.4 million) and tax expenses (– € 4.8 million) from the result for ordinary business activity, the net income for the year was € 31.2 million. This was a clear € 63.4 million increase compared with the previous year (– € 32.2 million).

·· Distributable profits

An initial amount of € 15 million was allocated to the revenue reserves from the net income for the year. As resolved by the Annual General Meeting, profit of € 0.5 million was also carried forward (corresponding to the previous year's distributable profits). The distributable profits recorded in 2010 were thus € 16.7 million.

·· Performance of the business areas

2010:

01/01 – 31/12/2010 (in € millions)	Real estate finance	Capital market business	Other	Overall result
Net interest income	120.7	30.4	21.6	172.7
Net commission income	17.1	– 0.4	– 3.3	13.4
Administrative expenses	– 38.6	– 5.8	– 25.0	– 69.4
Other operating income	– 0.6	0.0	1.1	0.5
Risk result	– 75.8	2.0	– 5.0	– 78.8
Balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets	0.0	12.3	– 5.7	6.6
Income from ordinary business activity	22.8	38.5	– 16.3	45.0
Extraordinary income	0.0	0.0	– 0.6	– 0.6
Income transferred on the basis of profit pooling, a profit transfer agreement or a partial profit transfer agreement	0.0	0.0	– 8.4	– 8.4
Income before taxes	22.8	38.5	– 25.3	36.0
CIR *	28.1 %	19.3 %	228.6 %	39.0 %
RoRaC / RoE **	6.5 %	76.5 %	– 174.9 %	5.8 %

* CIR = administrative expenses including depreciation allowance on property, plant and equipment / (net interest income including current income + net commission income + other operating income - interest expenses for undisclosed holdings)
**) RoRaC reported at business segment level, RoE reported for entire Bank
**) RoRaC for business segments = income before taxes / fixed capital (= 5% of risk-weighted assets)
**) RoE for entire Bank = income before taxes / average capital pursuant to commercial law (= subscribed capital + capital and revenue reserves)

The calculation of the return on risk-adjusted capital (RoRaC) in the business areas compares the pre-tax income against the fixed capital. At the level of the Bank as a whole, it is the return on equity (RoE) that is reported rather than the RoRaC. The RoE compares the pre-tax income with the average long-term equity pursuant to commercial law that was available during the reporting period. The long-term equity pursuant to commercial law corresponds to the total subscribed capital and capital and revenue reserves.

The pre-tax result corresponds to the net interest income plus net commission income, other operating income, extraordinary income and income from the disposal of securities held as fixed assets and investments minus the risk result, administrative expenses (including write-downs on plant, property and equipment) and interest expenses in relation to undisclosed holdings.

The calculation of fixed capital in the business areas is based on a capital backing of 5 % of the average risk-weighted assets. These assets are calculated in line with the provisions of the Solvency Ordinance (SolvV).

At the level of the Bank as a whole, the result from ordinary business activity for the year under review totalled € 45.5 million. The CIR in relation to the result for the

2009:

01/01 – 31/12/2009 (in € millions)	Real estate finance	Capital market business	Other	Overall result
Net interest income	88.8	7.2	21.7	117.7
Net commission income	16.4	0.0	0.3	16.7
Administrative expenses	– 32.0	– 4.6	– 19.9	– 56.6
Other operating income	– 5.2	0.0	2.6	– 2.6
Risk result	– 77.5	– 6.1	14.0	– 69.6
Balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets	0.0	– 7.8	– 27.2	– 34.9
Income from ordinary business activity	– 9.5	– 11.3	– 8.5	– 29.3
Extraordinary income	0.0	0.0	0.0	0.0
Income transferred on the basis of profit pooling, a profit transfer agreement or a partial profit transfer agreement	0.0	0.0	– 3.0	– 3.0
Income before taxes	– 9.5	– 11.3	– 11.5	– 32.3
CIR*	32.0 %	63.9 %	92.4 %	43.9 %
RoRaC / RoE **	– 3.2 %	– 18.3 %	– 72.3 %	– 5.0 %

* CIR = administrative expenses including depreciation allowance on property, plant and equipment / (net interest income including current income + net commission income + other operating income - interest expenses for undisclosed holdings)
**) RoRaC reported at business segment level, RoE reported for entire Bank
**) RoRaC for business segments = income before taxes / fixed capital (= 5% of risk-weighted assets)
**) RoE for entire Bank = income before taxes / average capital pursuant to commercial law (= subscribed capital + capital and revenue reserves)

Bank as a whole improved significantly in 2010, rising from 43.9 % to 39.0 %. This was mainly due to the significant rise in net interest income, which more than made up for the moderate increase in administrative expenses.

·· Property financing

This business segment encompasses real estate finance activities.

This area of business developed positively during the past financial year. Improvements were achieved in relation to net interest income in particular, due to the growth in the portfolio and an improvement in the average margin level. Portfolio growth resulted from the rise in new business levels and from the asset transfer. Margins improved on the basis of the new business that was entered into. Additionally, Deutsche Hypo was also able to enforce higher margins when negotiating extensions to existing finance arrangements.

Net commission income rose year-on-year. A fall in income from service fees paid by NORD/LB for looking after its loan portfolio was more than offset by fee income from the restructuring of real estate finance.

The risk result was slightly higher than during the previous year. Measured in terms of allocations to specific bad debt allowances, the risk result was almost exclusively attributable to loan exposures in the UK (approx. 60 %) and the USA (approx. 37 %).

The rise in administrative expenses was primarily due to expenses incurred in relation to ailing loans, mainly in the USA. The implementation of statutory/regulatory and internal requirements also contributed to costs.

Overall, the result from ordinary business activity was clearly positive, totalling € 22.8 million in this business segment. Given the comparatively high level of tied-up capital in this area of business, the RoRaC was slightly lower than the RoE for the Bank as a whole.

·· Capital market business

This business segment encompasses government finance activities and refinancing business. The effects of transformation contributions are also taken into account.

Despite the difficult capital market environment as the financial market crisis continued, the overall result recorded by this segment during the past financial year was a gratifying one. The crisis and the ongoing debate about the future fate of the PIIGS states resulted in a significant widening of credit spreads on the capital markets in some cases. This then set the basic parameters for Deutsche Hypo's securities portfolios and credit derivative portfolios. The widening of spreads had no direct impact on Deutsche Hypo's income levels given that the Bank, as a non-trading book institution, pursues a clear buy-and-hold strategy. The high quality and good ratings of the securities and derivatives held by Deutsche Hypo lead us to assume that there will not be any major instances of default in these portfolios in the future either.

The business segment's net interest income was significantly up on the previous year. One of the factors responsible for this rise was the increase in the margins on new business. This trend, which was already emerging in 2009, continued during the year under review and also resulted in a further increase in the average rate of return on the portfolio. Positive income effects were achieved by exploiting favourable refinancing conditions. In relation to repo transactions, the taking up of liquidity meant that the Bank could access significantly better conditions than those available in interbank business. At the same time, Deutsche Hypo's good standing in the market meant that it had access at all times to refinancing at favourable conditions, including in relation to its competitors.

The risk result in relation to capital market business is dominated by the performance of the papers in the liquidity reserve and, unlike in the previous year, developed positively. Additionally, the development of write-ups/write-downs of securities held as fixed assets is significant to capital market business. As previously reported, the Bank got rid of securities held as fixed assets during the past financial year as part of its strategy of removing non-strategic positions. These papers had already been value-adjusted in the main, but were able to be sold at their carrying amount. The balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets was positive, totalling € 12.3 million.

Administrative expenses in this area of business rose slightly. However, this increase was more than offset by the rise in income. The result from normal business activity totalled € 38.5 million. The corresponding CIR was a very good 19.3 %. For regulatory purposes, the capital market business segment at Deutsche Hypo ties up only a small amount of equity, due to the high quality of the portfolio transactions. Correspondingly, the RoRaC, at 76.5 %, was considerably better than the comparable RoE for the Bank as a whole.

·· Other business

This segment primarily comprises income contributed from the investment of equity capital and income from non-strategic business activities that have been discontinued. This segment also covers those expenses (overhead costs) and income that cannot be allocated directly to either of the other areas.

Taking into account expenses for undisclosed holdings, there was a marked reduction in net interest income in this segment. This was due to the interest expenses incurred in relation to the newly acquired undisclosed holdings during the past financial year. The net commission income includes expenses relating to the placement of the undisclosed holding on the capital market.

Based on the circumstances already described, administrative expenses increased. The balance of other operating income and expenses was practically unchanged on the previous year. The development of write-ups/write-downs of securities held as fixed assets that are not allocated to strategic business activities had a negative impact on this segment. Overall, however, this item was significantly improved on the previous year with a negative balance of just -€ 5.7 million. The result from ordinary business activity before taxes totalled -€ 16.3 million and was thus down on the previous year's figure.

·· Proposed appropriation of profit

The Board of Managing Directors and the Supervisory Board have decided to allocate € 15.0 million of the year's net income of € 31.2 million to the revenue reserves. This leaves a distributable profit of € 16.7 million including profit of € 0.5 million carried forward from the previous year.

The Board of Managing Directors and the Supervisory Board will propose to the sole main shareholder at the General Meeting that the distributable profit be used to make a further allocation of € 16.7 million to other revenue reserves.

·· Development of equity capital

Equity capital was affected by two factors during the past financial year. Firstly, the increase in the Bank's portfolio as a result of the asset transfer required sufficient capital backing. Secondly, measures were introduced to enable the Bank to react in good time to the higher equity capital requirements expected from Basel III. This environment determined the equity capital measures implemented in 2010.

Balance-sheet capital as at 31 December 2009 totalled € 654.8 million (including the distributable profits of € 0.5 million). Balance-sheet capital as at 31 December 2010 totalled € 930.9 million (including the distributable profits of € 16.7 million).

The capital reserves were increased by € 95.0 million following a payment by the sole shareholder NORD/LB. The capital held by undisclosed partners also increased by € 150.0 million. € 75.0 million of this increase was taken over by NORD/LB directly. The remaining € 75.0 million was successfully placed on the capital market, the difficult market environment notwithstanding.

Subordinated liabilities increased over the course of the financial year, up by € 129.8 million to € 383.3 million, of which € 340.6 million was incorporated into the liable equity capital pursuant to Section 10 of the German Banking Act.

Participatory capital remained unchanged during the financial year. As at 31 December 2010, it amounted to € 98.0 million, of which € 97.9 million was incorporated into the liable equity capital pursuant to Section 10 of the German Banking Act.

Equity capital as reported on the balance sheet (including participatory capital, subordinated liabilities and distributable profit) thus totalled € 1,412.2 million (2009: € 1,006.3 million).

The overall key figure pursuant to SolvV and the core capital ratio as at 31 December 2010 were 10.6 % and 7.7 % respectively (compared with 9.1 % and 6.8 % in 2009). Both the overall key figure and the core capital ratio therefore clearly exceed the statutory requirements of 8 % and 4 % respectively.

Membership of the Group

Norddeutsche Landesbank Girozentrale, Hanover, (NORD/LB) holds 100 % of the share capital and voting rights of Deutsche Hypo and is therefore to be viewed, in accordance with DRS 11 (German Accounting Standard No. 11), as an affiliated party that can control the company.

According to Section 271, paragraph 2 of HGB, Deutsche Hypothekenbank (Actien-Gesellschaft) is an affiliated company of NORD/LB and is included in the consolidated financial statements of NORD/LB. These consolidated financial statements will be published in the electronic Federal Gazette on 29 April 2011.

The Bank's Board of Managing Directors has produced a report on relations with affiliated companies for the period from 1 January 2010 to 31 December 2010, and declared as follows, in accordance with Section 312, paragraph 3 of the Joint Stock Companies Act (AktG):

"With regard to the legal transactions listed in the report on relations with affiliated companies, Deutsche Hypothekenbank (Actien-Gesellschaft) has – on the basis of the circumstances which were known to it at the time of the respective legal transaction – consistently been in receipt of an appropriate counter-performance. It has not been disadvantaged by any measures taken or omitted at NORD/LB's request."

Letter of comfort of NORD/LB

As noted by NORD/LB in the Notes to the 2010 Annual Report, NORD/LB shall ensure that Deutsche Hypothekenbank (Actien-Gesellschaft) is in a position to meet its obligations.

·· Report on subsequent events

There have been no events of particular importance since the end of the financial year that could have a permanent effect on the Bank's risk and income situation.

A date of 4 March 2011 has been set for the foreclosure sale of a US exposure. On the basis of an external expert report, which calculated a current market value of USD 395 million (stabilised market value of USD 450 million) as at 1 March 2011, it is the Bank's intention to make a bad debt allowance of USD 4.778 million.

·· Risk report

·· Current developments

In addition to the implementation of the amendments and extensions to the MaRisk requirements, activities in the 2010 reporting year focused on the ongoing further development of the risk management process.

For the first time, the annual review and adjustment of the Bank's commercial and risk strategy was supplemented by the identification of risks in the form of a risk inventory. Based on a uniform risk universe defined for the Group as a whole, all of the relevant risks (overall risk profile) facing Deutsche Hypo were identified using a process comprising several stages.

The risk universe was defined in consultation with the NORD/LB Group and encompasses all of the basic risks associated with the Bank's operations and the provision of financial services. Within this process to derive the Bank's overall risk profile, the risks within the risk universe were broken down further according to relevance and materiality. The key risk types facing Deutsche Hypo in this regard are all relevant risks that could significantly impact on the Bank's capital base, income situation, liquidity or achievement of its strategic targets.

The majority of the measures identified for implementation of the extended requirements resulting from the second revision of MaRisk of 14 August 2009 were implemented during the year under review. The various changes relating to stress testing across different risk types, the creation of an early warning stage and greater integration of risk concentration were at the heart of the changes made in 2010 to the uniform risk-bearing capacity (RBC) model applied throughout the NORD/LB Group. The overhauling of this model is also intended to improve reporting on risk-bearing capacity, using internal parameters to derive impetus for risk controlling. Further developments in terms of methodology and representation were implemented during a parallel phase. The new risk-bearing capacity model was officially introduced on the reporting date of 31 December 2010.

The third amendment to MaRisk, published on 15 December 2010, means that further adjustments will be required. An initial analysis of the steps needed was carried out on the basis of the second draft published on 7 October 2010 with a view to preparing an implementation plan.

Risk management

Risk management - Fundamentals

The business activity of Deutsche Hypo, as a credit institution, is inevitably associated with the assumption of risks. Deutsche Hypo defines risk from a business perspective as the possibility of suffering direct or indirect financial losses due to unexpected negative differences between results recorded in practice and the operating results previously forecast. Identifying, analysing, measuring and monitoring, as well as managing and reporting these risks, are all fundamental requirements for long-term commercial success.

As far as credit institutions and banking groups are concerned, the basis conditions governing how this risk management process is designed are provided by Section 25a of the German Banking Act (KWG) and the Minimum Requirements for Risk Management (MaRisk). According to these provisions, proper business organisation involves, among other aspects, setting strategies on the basis of processes to calculate and guarantee risk-bearing capacity that take account of both the risks and the capital available to cover these risks.

In its capacity as a Pfandbrief bank as defined in Section 1 of the German Pfandbrief Bank Act (PfandBG), Deutsche Hypo is also subject to the rules set out in this Act. Section 27 of the Act requires an appropriate risk management system for the identification, assessment, management and monitoring of all risks associated with Pfandbrief business.

The full list of risk types that must, as a basic minimum be included in the economic risk measurement is provided in the Minimum Requirements for Risk Management (MaRisk). Pursuant to the amendment of MaRisk, the full content of the Circular of 15 December 2010 relates to the material risks facing an institution and that make up that institution's overall profile (AT 2.2 Risks). Listed as material risks are, as a minimum, counterparty default (including sovereign), market price, liquidity and operational risks.

For the purposes of representing the institution's overall risk situation, all of the relevant risk types are first recorded and then broken down into material and immaterial risks (overall risk profile). The following risks types were classed as being material to Deutsche Hypo on the basis of this process: credit risk, market price risk, liquidity risk and operational risk. The following risks were defined as relevant but not material taking into account the Deutsche Hypo business model: investment risk, business and strategic risk, reputational risk and syndication risk. The risks referred to as relevant are also quantified based on the principle of caution when assessing risk-bearing capacity, using for example model premiums and stress testing.

Risk management – Strategies

Deutsche Hypo's risk strategy provides the basis of the Bank's risk management system and involves stipulating the risk principles governing organisational structure, the risk management process and the risk-bearing capacity concept. Substrategies for handling risk are also defined within the overall risk strategy. These comprise the definition of the Bank's risk policy in relation to the different risks to which the Bank is exposed through its business activity.

The aim of the risk strategy is to manage all material types of risk and to disclose these in a transparent way to the management, the supervisory bodies and other third parties with a justified interest in the Bank's risk position. At the core of the risk strategy is the uniform risk-bearing capacity model applied throughout the entire NORD/LB Group, on the basis of which the risk capital is allocated to the key risk types. For the purposes of calculating risk-bearing capacity, a maximum of 80 % of the risk capital in the form of the aggregate risk cover is compared against the risk potential arising from material risks. The restriction on the amount of the economic aggregate risk cover that may be offset against risk potential automatically implies a minimum coverage level/level of excess cover of 125 %.

The maximum allocation of risk capital to the material risk types is also stipulated in the risk strategy, according to which the largest portion of the aggregate risk cover is allocated to credit risks.

The risk strategy is formulated in accordance with the business model, the business strategy and the risk strategy rules set by the NORD/LB Group. The link between the Bank's strategic approach and the integration of this approach into risk management is highlighted by the consistency of the risk strategy and the commercial strategy pursued by the Bank.

As part of a regular review process, and at least once per year, the risk strategy is subject to ongoing evaluation to determine if adjustments or additions are needed. The adjustments made in 2010 were adopted by the Board of Managing Directors and submitted to the Supervisory Board for its information/approved by the Supervisory Board. The adjustments made were primarily concerned with the integration of the overall risk profile and the further developed risk-bearing capacity model.

·· Risk management – Structure and organisation

Risk management at Deutsche Hypo is structured and organised in line with the requirements of MaRisk. The risk-related organisational structure and the functions, roles and powers of the areas of the Bank involved in the risk management process are clearly defined down to the level of individual employees.

To ensure objectivity and to avoid conflicts of interest, front office and risk management/risk controlling functions are separated from one another in the Bank's organisational structure, up to and including management level.

The risk management process is subject to ongoing review and further development. Any adjustments relate to organisational measures, the modification of risk quantification methods and the ongoing updating of relevant parameters. Taking into account the Bank's position with NORD/LB Group, the tools used are aligned with those in use throughout the Group in order to guarantee that the assessment, reporting, management and monitoring of all material risks are as comparable as possible. For the purposes of promoting the Bank's risk culture and transparency vis-à-vis relevant third parties, the risk management tools used by Deutsche Hypo have also been summarised in the form of a risk manual.

The risk-oriented and process-independent review of the effectiveness and appropriateness of risk management is carried out by Internal Audit, which is a component of the internal monitoring system as a tool of the Board of Managing Directors. The aims of the Internal Audit also include helping to ensure that the effectiveness, economic and proper nature of business activity are secured. It also promotes optimisation of business processes and the management and monitoring processes. Taking into account the Group-wide monitoring tools, the Internal Audit of Deutsche Hypo works closely with its counterparts at NORD/LB, Bremer Landesbank, NORD/LB Luxembourg and NORD/LB CFB on the basis of fundamentally uniform tools (audit policy and assessment matrix for audit findings).

The approach to new products, new markets, new sales channels, new services and variations of these is regulated in Deutsche Hypo's new product processes (NPP). A key objective of the NPP is to identify, analyse and assess all potential risks for Deutsche Hypo before entering into a new business activity. Other key aspects include documentation of the new commercial activities, their treatment in the overall operational process, decisions on entering into the new area of business and, where applicable, the related restrictions.

·· Management of risks affecting cover portfolio

Section 27 of the German Pfandbrief Act (PfandBG) requires an appropriate risk management system for the identification, assessment, management and monitoring of all risks associated with Pfandbrief business. The background to this requirement is that the only credit institutions authorised to issue Pfandbriefe are those that have appropriate regulations and tools in place to manage, monitor and control the risks affecting the cover assets (cover asset pools) and that issue Pfandbrief products on this basis.

Deutsche Hypo has a risk management system that is specially designed for Pfandbrief business. Counterparty, market price and liquidity risks are managed at the level of the cover assets in order to guarantee the high quality standards of the cover assets used for public sector Pfandbriefe and the high quality of the properties serving as security in mortgage business. The top ratings awarded to the Pfandbriefe by the credit rating agencies and the resulting positive effects on the refinancing basis secure the Bank's long-term value and earning power.

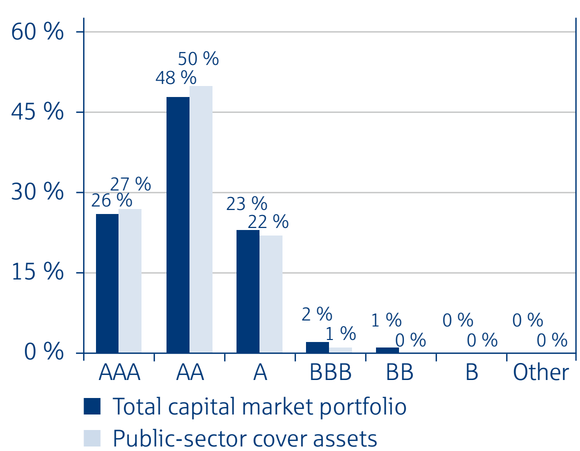
In addition to permanent adherence to the cover principle and the securing of sufficient excess cover measured at net present value (Section 4, paras. 1 and 2 of PfandBG), the Bank also regularly analyses the quality of the loan receivables serving as cover assets. This involves analysing ratings and cash flow structure and ongoing monitoring of the value of the real estate security serving as collateral. Additionally, the use of derivatives to manage interest rate and currency risks in the cover asset pools is growing increasingly important.

Alongside internal measures, our Pfandbriefe and the related cover assets are permanently monitored by the rating agencies on the basis of the detailed information submitted to them on a regular basis. The Bank is also required to meet additional disclosure requirements pursuant to the transparency rules set out in Section 28 of the Pfandbrief Act. This is achieved through the regular publication of information on our website and in the Notes for the respective financial year, including publication of the previous year's figures.

Cover assets for public sector Pfandbriefe

The proportion of receivables allocated to the cover assets with very good ratings of AAA and AA, at 77 %, is slightly higher than the corresponding proportion for the total portfolio (76 %). The average rating of the cover pool, as in previous years, is unchanged at AA, demonstrating the ongoing high quality of the cover assets for Pfandbriefe in circulation.

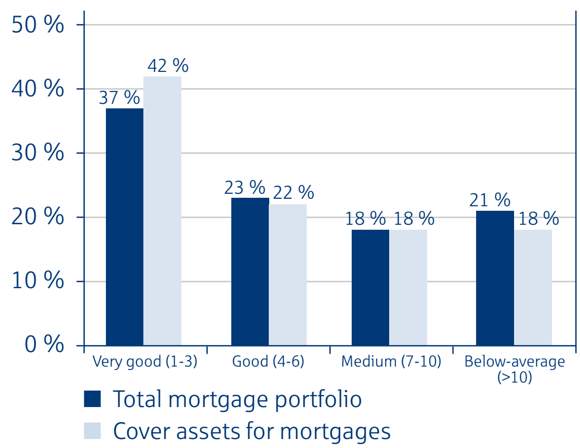
Rating allocation in capital market business



Real estate cover assets

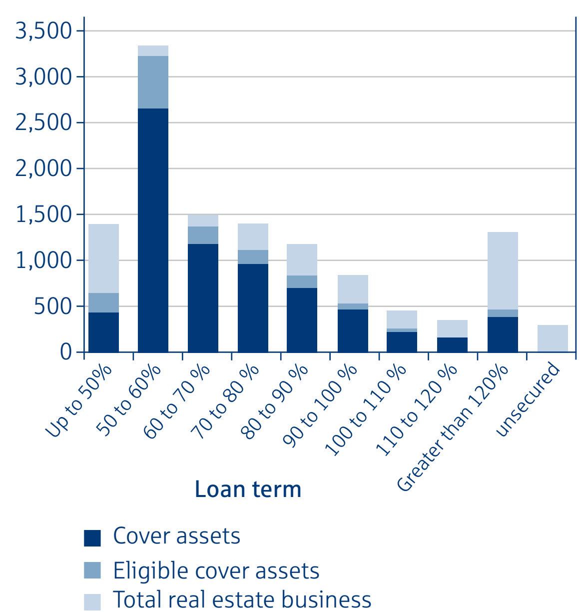
The over-collateralisation at net present value was between 12.46 % and 22.13 % during 2010. Additionally, the high proportion of good and very good credit ratings in the cover assets, at 65 % (61 % for total portfolio), is a clear indication of the high quality of the Pfandbriefe.

Rating allocation in real estate finance business



Loans are only included in the cover assets in the amount of up to 60 % of the lending value under the terms of the German Regulation on the Determination of Mortgage Lending Value (BelWertV).

Real estate business and cover assets by maturity (€ millions)



·· Risk management – Risk-bearing capacity modell

The risk-bearing capacity model provides the methodological basis for the monitoring of risk strategy and enables Deutsche Hypo to structure and manage its capital allocation process. The aim of the model is to present the Bank's risk-bearing capacity in aggregated form by comparing the risk potential resulting from material risks against the risk capital. The regular monitoring and reporting process guarantees that the Board of Managing Directors and Supervisory Board are briefed on the Bank's risk-bearing capacity situation in a timely manner.

The Group-wide RBC model was fundamentally overhauled and extended in 2010. Its membership of the NORD/LB Group means that, in terms of methodology, Deutsche Hypo is closely bound by the basic parameters applicable throughout the Group. The revised RBC model was applied for the first time as a parallel report to the risk reporting as at 31 March 2010.

The refined model not only implements the supervisory requirements resulting from the second revision of MaRisk but also represents a significant improvement in reporting on risk-bearing capacity. The integration of stress scenarios straddling different risk types – not just from an economic perspective but also from a regulatory point of view – is a sensible addition over and above the minimum requirements and means that potential critical events can be studied and analysed in full detail. The stress scenarios used always have the effect of reducing the risk capital and increasing the potential. The relevant scenarios are studied at Group level and are an essential part of reporting to the NORD/LB Group. Deutsche Hypo has also stipulated a further stress event, applicable solely to the Bank, taking into account the individual focuses of its business operations.

The new concept thus meets the goals of strengthening the early warning function, integrating stress testing, including all material risk types based on the overall risk profile, greater integration of concentration risks, and securing a uniform and thus comparable representation across the NORD/LB Group.

The revised RBC model has three main cornerstones – going concern, economic capital adequacy and regulatory capital adequacy. Risk potential is contrasted with risk capital in relation to each of these. With regard to the cornerstones of regulatory and economic capital adequacy, the status quo is accompanied by stress scenarios. The RBC model thus comprises three cornerstones and five pillars. The primary scenario for management purposes is economic capital adequacy (Internal Capital Adequacy Assessment Process, ICAAP).

The first cornerstone of the risk-bearing capacity model serves as an early warning function and is based on the going concern principle. Risk potential is calculated from an economic perspective and corresponds to potential losses that have to be expected every ten years or so. In terms of their severity and likelihood of occurrence, they represent the kind of economic distortion that would be expected in a normal economic cycle. The background is the question of the extent to which normal economic distortions could be coped with in addition to the current risk situation without jeopardising the Bank's adherence to the relevant thresholds in its report submitted pursuant to the Solvency Ordinance.

The cornerstone of economic capital adequacy is broken down into the two pillars of "status quo" and "under stress". With regard to the status quo, the appropriateness of the risk capital in relation to the risks that have been assumed is proven. The aggregate risk cover in this case is composed of regulatory capital and comprises core capital, supplementary capital and subordinated funds.

Risk potential is calculated from an economic perspective in the economic capital adequacy, status quo pillar. The calculations use models. Risk potential in the economic capital adequacy under stress pillar is also calculated from an economic perspective. Statistical models are used for stress testing, with the risk parameters that are applied having been deteriorated. As well as an increase in the risk potential, the stress testing also incorporates reductions in risk capital into the calculation.

The integration of stress testing into economic capital adequacy takes account of the requirements of the second revision of MaRisk, according to which regular and appropriate stress tests are required for the material risks (MaRisk AT 4.3.2 Risk management and controlling processes, item 3). Stress test results are also to be taken into account when assessing risk-bearing capacity (MaRisk AT 4.3.2 Risk management and controlling processes, item 6). The inclusion of regulatory stress testing results in this instance is an obligatory secondary condition in relation to economic risk-bearing capacity. Internal proof of capital adequacy can also only be provided in a stress scenario if the regulatory risk-bearing capacity is also maintained under the same assumed stress conditions.

With regard to regulatory capital adequacy, as in the case of economic capital adequacy, the total regulatory capital – the sum of core capital, supplementary capital and subordinated funds – is available as aggregate risk cover. However, the risk potential is determined according to the calculation rules set out in supervision law. The aim, by integrating the regulatory view into the RBC model, is to add to the value of statements of economic risk-bearing capacity. Whilst the SolvV stipulates a generally applicable measurement of risks (differentiated only on the basis of the approaches used – KSA, Foundation or Advanced Internal Rating-Based Approach), the aim of an internal risk measurement process is to provide a more accurate picture of the actual risk situation by considering probability of default, security, concentration risks etc. more precisely and in a more differentiated manner economically.

For the purposes of proving capital adequacy (ICAAP) in accordance with MaRisk, it is primarily the concept of economic capital adequacy (status quo) that is considered. Compliance with regulatory risk-bearing capacity is an obligatory secondary condition. Economic risk-bearing capacity can only be guaranteed if the institution meets the requirements of SolvV.

Strategic limits are derived from the consideration of risk-bearing capacity on the basis of the going concern cornerstone, taking into account the allocation of risk capital as per the risk strategy. This functions as an early warning stage and is based in terms of the risk potential on short-term events.

The revised RBC model also takes into account risk concentrations, both within a particular risk type and across different risk categories. Concentrations within a risk type primarily relate to credit risks, these being the most significant type of risk facing Deutsche Hypo. These are integrated into the calculation of risk-bearing capacity via the internal credit risk model in the form of additional economic risk potential. Concentrations straddling several risk types are regularly calculated and reported using targeted stress testing.

Reporting on risk-bearing capacity is carried out at least quarterly and is a key tool in risk reporting to the Board of Managing Directors and Supervisory Board. Compliance with the risk strategy rules on risk tendency and on the allocation of risk capital to the material risk types is thus reviewed at regular intervals.

Risk management – Development in 2010

Ongoing parallel reporting was carried out during the reporting year against the background of the official introduction of the refined RBC model as at 31 December 2010.

As part of the further development of the RBC model, various methodological adjustments were made during the year in relation to quantifying the material types of risk. With regard to liquidity risks for example, as well as considering the refinancing risk at net present value, premiums for foreign currency positions will also be taken into account from now on. In particular, the results from the stress scenarios (event scenarios) carried out uniformly across the whole NORD/LB Group were taken into account. The results of the integrated stress tests represent serious events, the impact of which extends well beyond the requirement to maintain regulatory risk-bearing capacity. In this regard, Deutsche Hypo also considers a further institution-specific stress scenario that takes specific account of the Bank's individual commercial focus.

The level to which the existing risk capital was utilised by the entire risk potential as at 31 December 2010 is shown in the following overview of risk-bearing capacity. The scenario for economic capital adequacy (ICAAP case) is shown, primarily relevant for management purposes. The risk capital comprises eligible own funds pursuant to the report required under the Solvency Ordinance. The risk potential is calculated from an economic perspective.

in € millions	Risk-bearing capacity ICAAP			
	31.12.2010		31.12.2009 [1]	
Risk capital	919.4	100 %	744.6	100 %
Credit risks	250.2	27 %	240.5	32 %
Investment risks	1.0	0 %	0.1	0 %
Market price risks	54.2	6 %	26.7	4 %
Liquidity risks	38.9	4 %	43.3	6 %
Operational risks	14.8	2 %	17.8	2 %
Total risk potential	359.1	39 %	328.4	44 %
Surplus cover	560.3	61 %	416.2	56 %
Degree of risk coverage		256 %		227 %

[1]) The figures for 2009 were converted in line with the revision of the model used.

During the year under review, various measures were introduced to strengthen the risk ratios for the purposes of improving risk-bearing capacity based on the status quo and under stress. As well as measures to reduce risk, these included taking up subordinated funds, allocating additional undisclosed capital contributions and the allocation to equity by NORD/LB. Overall, the degree of risk coverage based on the status quo is well above the internally set target of 125 percent.

The more stringent requirements for the design of stress tests introduced with the third revision of MaRisk of 15 December 2010 will be a further focus in 2011 as the RBC model is consistently developed further. Specifically, the credit spread risks associated with the fixed assets and the hidden charges and undisclosed capital contributions are currently being integrated into the calculation of risk-bearing capacity.

·· Counterparty and credit risk

Counterparty risk (including sovereign risk) encompasses credit risk and investment risk. Credit risk refers to the threat that a loss may be incurred that is not covered by security as a result of an external counterparty defaulting or suffering a deterioration in creditworthiness.

Security risk is a further component of credit risk. This is the risk that it might not be possible to recover the assumed fair values of loan securities in the event of realisation.

In addition to the original counterparty risk, cross border transactions also involve sovereign risk. This is the risk that state-imposed obstacles (transfer risk) could prevent repayment despite the individual borrower being able and willing to make a payment.

Counterparty risk is included under the generic term of credit risks and refers to the risk that if a contractual party defaults it might no longer be possible to collect an as yet unrealised gain from pending transactions (replacement risk) or that, in the case of a transaction requiring contemporaneous performance, the instance of a counterparty defaulting might mean that the counter-performance can no longer be fulfilled despite the Bank already having honoured its side of the agreement (performance risk).

Due to the area of business in which Deutsche Hypo is active, counterparty-related credit risk – the impairment or complete loss of the customer's ability to pay – represents the major source of risk to the Bank.

Investment risk is another component of counterparty default risk. It includes all losses that occur when the value of shareholdings held by the Bank in other companies or corporations undergoes a negative change.

·· Credit risk – Management

Strategy

Lending business and managing credit risks are core areas of expertise at Deutsche Hypo, and areas that are permanently being developed and expanded further. In order to meet the specific requirements of each business area, the Bank has set out financing principles for the individual business divisions within the NORD/LB Group. These represent binding guidance for the relevant front office department in relation to new lending business. The focus is placed on customers whose credit rating is very good/good. In capital market transactions too, Deutsche Hypo focuses on business with good counterparties. The aim is to work towards an appropriate level of profitability, demonstrating efficiency and flexibility in the active management of the Bank's credit risk positions, thereby minimising any unexpected losses.

The early recognition of crisis situations forms the basis of risk-aware and efficient management of credit risks. This is why Deutsche Hypo has a series of processes, systems and rules in place, both at portfolio and at individual borrower level, that combine to form an early-warning system for different risks, whilst enabling measures that limit these risks to be managed and/or introduced in a targeted way.

Structure and organisation

The risk-related organisational structure and the functions, roles and powers of the areas of the Bank involved in the risk management process are clearly defined down to the level of individual employees. In accordance with MaRisk, lending processes are clearly divided organisationally into front office and back office processes, a separation that extends right up to the company management level.

It is the Board of Managing Directors that manages the overall credit risk associated with Deutsche Hypo's portfolio. The Board uses various different tools to do this, e.g. ordering a halt to acquisitions, limiting sovereign or sector risks, or placing exposures or subportfolios externally.

Working on the basis of stipulated limits, the front-office departments implement the operational financing business for customers, properties and projects nationally and internationally. They bear primary responsibility for the core tasks of acquisition and sales, and are relieved of administrative tasks. The front-office departments are responsible for the initial lending decision, are in charge of setting lending conditions and bear responsibility for results. In the case of low-risk exposures with low volumes, the front offices are in some cases solely responsible for the associated risk (unilateral authority) and are also responsible for analysis and risk monitoring. In the Credit Risk Management (CRM) back office, analysis and risk monitoring tasks are pooled. Real estate valuations and specialist valuations are however exceptions to this, and are handled in the IBC (Real Estate Valuation and Consulting) Department. The CRM Department is also responsible for the second decision on whether to award individual loans.

Lending decision authority is scaled according to the total level of debt and the rating score of the borrower unit, and is not based around the security. The lending decision is always taken by one authorised front-office employee and another authorised back-office employee who is independent of the front office functions (bilateral authority). This second employee must be on the same functional level as the first. The front office has no authority to approve credit on its own. In addition to fulfilling the regulatory requirement for a functional division of the votes on the loan, this ensures that a high-quality credit decision is made on the basis of consistent criteria. For loans of a specific volume upwards, decisions on whether to award the loan are taken by the Board of Managing Directors or by the Lending Committee, a sub-committee of Deutsche Hypo's Supervisory Board. The Lending Committee is involved in the loan award process in line with the rules on level of responsibility set by the Supervisory Board.

The Credit Risk Management Department is a central analysis and approval body that is independent of the front-office departments. Within the lending process, the CRM Department is responsible for transaction and exposure analysis, rating classification and – depending on size and bilaterally with the front-office departments – approval in the case of real estate finance business. The CRM Department also has a right of initiative vis-à-vis the front office and central departments with regard to lending policy and risk-relevant issues, e.g. the further development of the financing principles for the business divisions.

The General Credit department prepares the written regulations governing Deutsche Hypo's lending business. It is also responsible for developing standardise loan and document templates for individual types of finance. Additionally, the General Credit department has the function of a back office in the capacity of an independent, central analysis and approval body for capital market business, and carries out exposure analysis and rating classification.

The Credit Risk Controlling department is responsible for developing and implementing methods and processes to quantify credit risks. Supervisory reporting (pursuant to SolvV, GroMiKV, statistical reporting) as well as internal credit risk reporting also falls within the remit of this department. It is also tasked with preparing industry and portfolio reviews on selected sub-sectors.

Non-performing loans or ailing exposures are dealt with at Deutsche Hypo in the Special Loans Management (SKM) department. In the case of all lending with a rating score of 11 on the DSGV rating master scale (assignment to the class "High Risk" according to the Initiative Finanzstandort Deutschland (IFD)) or worse, all exposures that deteriorate by three rating scores and thus reach rating score 7 or worse (assignment to the class still good/satisfactory pursuant to IFS) and all lending on the early warning list, the SKM may decide whether it should take over dealing with the loan or whether the loan can continue to be handled by the front-office units in collaboration with Credit Risk Management. The aim is to be able to implement appropriate restructuring measures in a timely fashion. Loans with a rating score of 16 (IFD class "Very High Risk") or higher must be taken over by the SKM department. In the case of capital market business, the AKR department will continue to handle the transactions.

·· Credit risk – Security

In addition to the creditworthiness of the borrower or the counterparty as reflected in the rating, the assessment of credit risks also takes considerable account of the standard collateral that is available and other risk mitigation techniques. Therefore, Deutsche Hypo accepts collateral located in Germany and abroad in order to reduce its credit risk. In terms of real estate finance business, the emphasis is on obtaining a full level of security for the loan by means of suitable mortgage charges. In exceptional cases, it is possible to dispense with the need for mortgage charges as security for up to 5 % of the total portfolio and where the customer has a good credit rating. The value of the security is assessed at the time of the loan being granted and during the ongoing (generally at least annual) monitoring processes to determine whether it appears to be realisable at the assumed value based on the likely economic development during the (residual) term of the loan. If there have been any influencing factors that are of relevance to the value of the security, a revaluation must be carried out. Deutsche Hypo's credit guidelines and lending principles set out definitions of the basic types of security and properties being mortgaged that may be used as security, and the maximum share of the value of the collateral or of the financed property that can be lent. Both the fair value and the lending value calculated in accordance with the strict provisions of the German Regulation on the Determination of Mortgage Lending Value (BelWertV) are applied. Guarantees and similar collateral, assignments of claims and other rights, liens on property, claims and other rights and transfers of ownership as security are all basically accepted as loan security. Only mortgage liens and guarantees from suitable credit institutions and liquid funds provided as collateral are taken into account for the purposes of risk assessment in the loan portfolio and the easing of capital requirements as stipulated in the Solvency Ordinance.

·· Credit risk – Management

For the purpose of evaluating credit risk, Deutsche Hypo calculates a rating for each borrower in the context of annual creditworthiness assessments and assessments carried out in specific situations. The rating modules that are used have been developed either in cooperation projects of the Sparkassen-Finanz Group or of the Landesbanken, or in the context of cooperation projects with other member institutions of the Association of German Pfandbrief Banks (vdp).

For the purposes of managing risks associated with individual transactions, a specific operational limit is set for each borrower. This has the character of an upper lending limit. The main parameters used to derive this limit are the debtor's credit standing, expressed in the form of a credit rating, and the free capital available to that borrower to service the loan.

Risk concentrations and correlations at portfolio level are depicted as part of the quantification of the credit risk potential in the credit risk model. Strategic limits at portfolio level restrict the concentration of credit risks that could jeopardise Deutsche Hypo's risk-bearing capacity.

Limits are generally applied to each business area. Risks are then limited at different levels:

Sector and sovereign risk: With regard to real estate finance, there are sector limits, based on the type of property and its value as a proportion of the total portfolio. These sub-limits ensure that a sub-sector does not exceed the maximum permitted percentage of the total portfolio. The limits are communicated by means of the traffic light system, which is updated annually. The traffic light model is used to control new business. It implements the business and risk strategy in respect of new lending business. This traffic light model is regularly revised and adjusted by the company management. The model classifies all types of financing into three categories based on sector and region. Categorisation on the basis of the traffic light model means that, within the context of the credit decision-making process, the quality requirements may be raised for a particular financing.

Limiting of major risk carriers: In order to avoid concentration risks at borrower level, limits are in place for economic units that extend beyond the borrower unit as defined in Section 19, para. 2 of the German Banking Act (KWG) and that also take into account secondary risks such as e.g. tenant liabilities.

Individual property limits: limits that stipulate the maximum size per individual property financing transaction up to € 60 million based on rating, financing term, property type and tenant diversification.

Project development: Project developments are also subject to an additional limit, currently set at 20 % of the total portfolio of real estate loans.

Loans without security in the form of mortgage charges: The limit for finances not secured by mortgages is currently 5 % of the total real estate finance volume. The Bank is also incorporated into the Group-wide limit system.

In respect of business conducted with the state and banks, the general procedures and methods for controlling and managing credit risk also apply.

In addition to through the counterparty-based limited system, risk in relation to capital market business and derivatives business is managed using additional limits based on the type of business (capital market transaction, forex trading, derivatives, performance risks, repo transactions), as well as using sub-limits set for individual countries. A minimum rating of A (or comparable internal rating) remains the general requirement for all new business. Deutsche Hypo makes high demands in terms of the creditworthiness of its derivative partners, only entering into derivative business with suitable bank partners as a general rule. Deutsche Hypo enters into collateral arrangements which – depending on their design – secure all or part of the counterparty risk. Credit derivatives are used where a direct investment is either not possible or would be less efficient. Trading in credit default swaps (CDS) and total return swaps (TRS) was suspended in the wake of the financial crisis. The portfolio is being monitored intensively on an ongoing basis with the aim of its reduction.

·· Credit risk – Measurement

Counterparty risk (credit risk and investment risk) is quantified using the risk key figures of expected loss and unexpected loss. The expected loss is calculated on the basis of the probability of default and taking into account recovery rates. The risk premium, which must be included in the risk-adjusted credit pricing to cover the expect loss, is calculated using methods applied uniformly across the Group.

The unexpected loss for the credit risk is quantified on a Group-wide basis using an economic credit risk model for different confidence levels and a time horizon of one year. The credit risk model used by the NORD/LB Group incorporates correlations and concentrations into the risk assessment.

The credit risk model calculates the unexpected loss at the level of the portfolio as a whole. The model used is based on the CreditRisk+ basic model. Using correlated sector variables, systematic influences on the loss allocation – differentiated by sector and region – are depicted. The credit risk model determines the contributions of the individual borrowers and shareholdings to the unexpected loss at portfolio level. These are then added together to give the unexpected loss for the entire portfolio. The estimation of probability of default (PD) is based on the internal rating procedures. The loss given default (LGD) is then stipulated for each transaction.

The model is accompanied by the use of limit models to restrict risk concentrations, thereby ensuring that risk concentrations are appropriately managed in the portfolio.

The methods and processes used to quantify risk are agreed between the risk controlling units of the main Group companies in order to guarantee uniformity across the entire NORD/LB Group. Ongoing risk management is carried out on a decentralised basis in the Group companies.

Deutsche Hypo uses the internal ratings based approach (IRBA) to calculate the capital backing required for credit risks.

·· Credit risk – Reporting

In line with the provisions of MaRisk, Deutsche Hypo prepares a quarterly risk report. This provides the Board of Managing Directors and the Supervisory Board with detailed information on the Bank's risk situation. This report includes the credit risk sub-report prepared by Credit Risk Controlling, which contains a summary and analysis of all material structural characteristics and parameters that are of relevance to the controlling of the credit portfolio. In addition, the Bank prepares its own risk-bearing capacity report, which is incorporated as a sub-segment into the risk-bearing capacity calculation for the entire NORD/LB Group.

The Special Loans Management department prepares a portfolio report for the Board of Managing Directors on the portfolio of problematic exposures in relation to real estate finance, with the General Credit department preparing the corresponding report on capital market transactions. Monthly reports are also prepared on the monitoring of project developments and any significant exposures in the context of the early warning system, and there are also monthly reports detailing the development of loan loss provisions.

·· Credit risk – Analysis of the credit exposure

The credit exposure, a key reference indicator in credit risk controlling, represents the quantification of all risk-encumbered transactions. Its calculation is based on drawdowns (at nominal value in the case of guarantees or carrying amount in the case of securities) and the credit equivalent amounts of derivatives (including add-ons and taking account of netting). Irrevocable credit agreements are usually included in the credit exposure at 75 %. Credit agreements that can be revoked are not taken into account. Investments are also included in the credit exposure on the basis of their carrying amounts, as these are treated in a similar way to credit transactions in terms of their measurement. As part of the internal reporting process, the Board of Managing Directors and the Supervisory Board are kept informed at all times of the development and analysis of the credit exposure.

·· Credit risk – Development in 2010

As at 31 December 2010, the credit exposure of Deutsche Hypo was € 38.1 billion, representing a year-on-year increase of 5.7 %. This increase is primarily due to the transfer of real estate finance deals from the NORD/LB portfolio. There was no expansion in volumes in relation to capital market business. In line with the conservative risk policy of Deutsche Hypo, new lending business was mainly generated with the two best IFD rating classes. This also applies to the real estate finance deals acquired as part of the asset transfer from NORD/LB. The portfolio continues to be focused around the very good to good IFD classes.

This classification corresponds to the standard IFD ratings scale as agreed on by the banks, Sparkassen and associations that together form the Initiative Finanzstandort Deutschland (IFD). The aim of this scale is to make it easier to compare the ratings awarded by individual credit institutions. The rating classes of the 18-level DSGV rating master scale used throughout Deutsche Hypo can be translated directly into the IFD classes.

The table shows the rating structure for Deutsche Hypo's entire credit exposure (portfolio and new business) broken down by product type and as compared with the previous year's structure.

In € millions	Loans	Securities	Derivatives	Other products	Total exposure 31/12/10	Total exposure 31/12/09
Very good to good	15,789.8	11,990.2	731.1	1,604.3	30,115.3	29,227.5
Good/satisfactory	2,851.5	238.1	0.0	0.0	3,089.6	2,590.1
Still good/sufficient	1,435.9	44.9	0.0	75.4	1,556.3	1,253.3
Elevated risk	1,078.8	32.3	0.0	0.0	1,111.1	873.5
High risk	521.2	0.0	0.0	0.0	521.2	626.0
Very high risk	730.2	0.4	0.0	0.0	730.6	870.9
Default (NPL)	985.6	12.0	0.0	0.0	997.6	635.2
Total	**23,393.0**	**12,317.9**	**731.1**	**1,679.7**	**38,121.7**	**36,076.5**

The positions in the rating class "very good to good" increased by 3.0 percentage points in 2010 compared with the previous year. The continued very high share of these top rating classes in the overall exposure of 79.0 % (81.0 %) is explained by the major importance of business with public authorities and financing institutions with good credit ratings, and is therefore also a reflection of Deutsche Hypo's business and risk policy.

Overall, however, Deutsche Hypo also felt the impact of the financial and economic crisis on its loan portfolio. The proportion of loans in the elevated to very high risk rating classes fell slightly from 6.57 % in the previous year to 6.20 % during the year under review. However, the share of non-performing loans (NPL) increased from 1.76 % to 2.62 %.

Breakdown of real estate business by rating and region

in € millions	Germany 31/12/10	Germany 31/12/09	Abroad 31/12/10	Abroad 31/12/09	Total exposure 31/12/10	Total exposure 31/12/09
Very good to good	3,486.8	3,099.1	1,816.0	1,308.4	5,302.8	4,407.4
Good/satisfactory	2,296.2	1,536.9	530.3	662.2	2,826.5	2,199.1
Still good/sufficient	1,012.2	702.4	390.6	404.4	1,402.8	1,106.8
Elevated risk	491.4	307.6	536.3	542.5	1,027.6	850.1
High risk	106.2	53.1	362.0	512.3	468.3	565.4
Very high risk	53.4	28.7	676.8	838.8	730.2	867.5
Default (NPL)	112.8	135.6	872.8	483.5	985.6	619.1
Total	**7,559.0**	**5,863.4**	**5,184.8**	**4,752.1**	**12,743.8**	**10,615.4**

Around 75 % of the Bank's real estate finance portfolio, worth € 12.7 billion (exposure at default), comprises financing for customers that have a rating of at least satisfactory. The share contributed by these items fell slightly, down by approximately 2 percentage points compared with the beginning of the year. In contrast, the share of NPL in this area of business rose from 5.83 % during the previous year to 7.73 % of the portfolio. This rise is solely attributable to foreign business. In terms of domestic transactions, the NPL actually fell slightly compared with 2009. Foreign business accounts for 88 % of NPL, compared with 78 % in the previous year, and relates primarily to business in the USA and the UK.

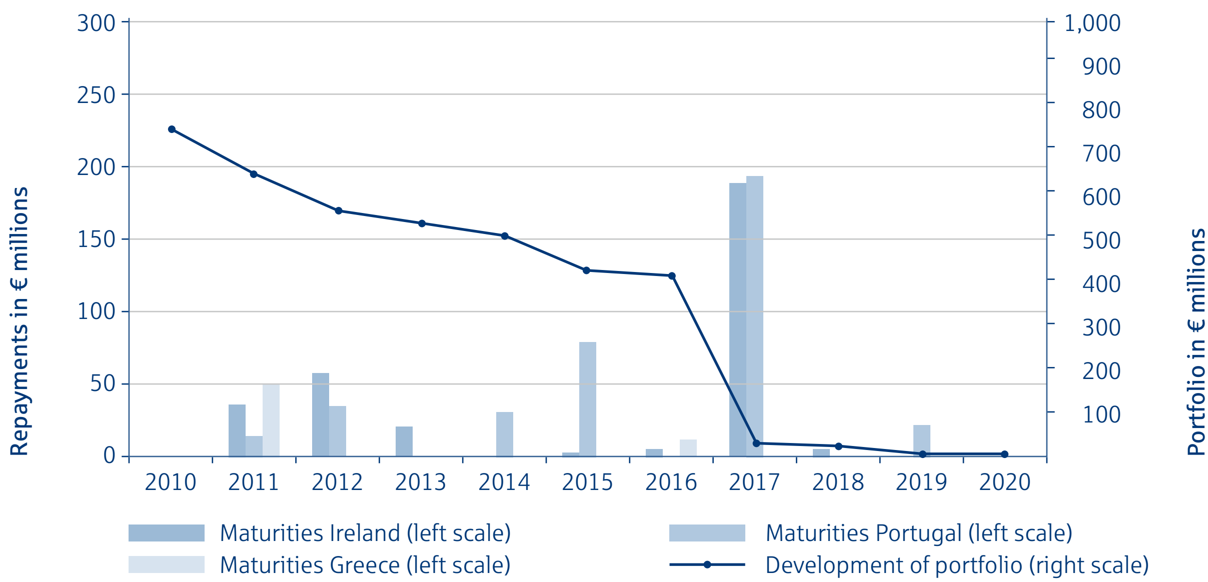
Breakdown of credit exposure by class and region

In € millions	Loans	Securities	Derivatives	Other	Total exposure 31/12/10	Total exposure 31/12/09
Eurozone	18,907.1	9,762.7	575.7	1,513.9	30,759.5	29,892.5
Other Western Europe	1,755.8	347.0	125.2	47.4	2,275.4	2,294.8
Eastern Europe	101.2	288.4	0.0	0.0	389.7	289.3
North America	2,470.2	661.3	30.1	53.5	3,215.1	3,273.5
Latin America	0.0	5.8	0.0	0.0	5.8	13.5
Middle East/Africa	0.0	0.0	0.0	0.0	0.0	0.0
Asia	0.0	565.1	0.0	0.5	565.6	601.6
Other	158.6	687.5	0.0	64.4	910.6	530.5
Total	**23,393.0**	**12,317.9**	**731.1**	**1,679.7**	**38,121.7**	**36,895.7**

Based on the breakdown of the total credit exposure by region, sovereign risk tends to be of subordinate importance to Deutsche Hypo. The eurozone, which continues, as in the previous year, to account for a high proportion of lending, at 81 %, remains by far the most important business region. Germany accounts for 54 % of the total loans, thus playing a particularly important role.

The Bank's exposure in those countries referred to as the PIIGS states that are already making use of international rescue packages (Greece) or the eurozone rescue package (Ireland), or where there is a heightened likelihood of such use being made, amounts to € 0.75 billion across all claim classes and customer groups. Of this, € 0.37 billion relates to Portugal and € 0.32 billion to Ireland. The exposure to Greece totals € 62 million, consisting of a local authority loan in the amount of € 50 million (expiry in June 2011) and a security in the amount of € 12 million (August 2016) issued by Greece. In light of the support measures that have been implemented, and the fact that these may be extended, we do not currently envisage any loss potential.

Change in portfolio – Selected PIIGS states



Amounts owned in Italy across all customer groups total € 1.7 billion, of which € 1.0 billion relates to claims against the central state. Amounts due from customers and other banks in Spain total € 2.1 billion. The main focus is Cédulas, i.e. Spanish securities covered by real estate finance deals.

Non-Performing Loans (NPL)

Where there are objective indications of acute default risks affecting balance-sheet lending business, Deutsche Hypo establishes specific bad debt allowances or records flat-rate write-downs. The write-down requirement is based on the net present value of the expected interest and principal payments and the proceeds from the realisation of collateral, and also on the extent to which claims can be serviced. Risk provisioning for off-balance-sheet business (guarantees, credit commitments) is carried out by means of the creation of a provision for risks from lending business. Any claims that cannot be recovered and for which there are no specific bad debt allowances are written off directly. Incoming payments towards written-down claims are recorded in the income statement.

The total specific bad debt allowances and provisions for lending business in 2010 rose year-on-year by € 31.9 million. This was in particular due to the increased loan loss provisions for real estate finance in the USA and United Kingdom, which accounted for as much as 80 % of impairments. The amount of bad debt allowances, write-downs and provisions as a proportion of the total credit exposure as at 31 December 2010 was 0.41 %.

Risk provisioning increased substantially during the year under review, due to the ongoing real estate crisis and associated deterioration in borrowers' credit ratings. When provisioning for risk, due account is taken of the expectations in relation to economic development. Business with both financial institutions and public-sector customers remains relatively low-risk.

The tables below show a comparison of the credit exposure of impaired credit and the total specific bad debt allowances and write-downs in lending business (referred to in summary as impairments).

Classes (in € millions)	Credit exposure impaired loans 31/12/2010	Credit exposure impaired loans 31/12/2009	Total impairments 31/12/2010	Total impairments 31/12/2009
Eurozone	109.7	172.9	31.4	48.7
Other Western Europe	378.7	205.0	68.4	32.7
Eastern Europe	0.0	0.0	0.0	0.0
North America	232.4	137.8	58.3	44.8
Latin America	0.0	0.0	0.0	0.0
Middle East/Africa	0.0	0.0	0.0	0.0
Asia	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total	**720.8**	**515.7**	**158.1**	**126.2**

The table below shows loans that are overdue but for which no adjustment has been recorded, broken down by the length of delay:

Classes (in € millions)	Delayed by up to 90 days 31/12/10	Delayed by up to 90 days 31/12/10	Total exposure 31/12/10	Total exposure 31/12/09
Eurozone	41.0	40.5	81.5	41.4
Other Western Europe	0.0	0.0	0.0	0.0
Eastern Europe	0.0	0.0	0.0	0.0
North America	119.0	76.3	195.3	78.0
Latin America	0.0	0.0	0.0	0.0
Middle East/Africa	0.0	0.0	0.0	0.0
Asia	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total	**160.0**	**116.8**	**276.8**	**119.4**

The overdue or impaired loans are secured by standard collateral, which is valued using the applicable lending principles. The impaired loans are covered by write-downs for 22 % of the total amount without including security and for the full amount after including security that can be valued.

Credit risk – Outlook

Despite some positive signs in individual markets, it is still too early to expect a tangible easing of the situation with regard to credit risks in 2011. Intensive monitoring of the progress made on the real estate and capital markets, which are affected to differing extents by the financial market crisis given their specific basic parameters, will continue to play a central role. Accordingly, the development of credit risk in the individual country portfolios will also differ from one country to another. There is also the risk that state consolidation measures could have a negative impact on the financial sector. Many banks are already reliant on state support.

Deutsche Hypo will monitor developments carefully and implement appropriate measures. Measures for the further optimisation of the models used to quantify and control credit risks are also planned for 2011. As well as the further development of the economic credit risk model, processes to determine the LGD in real estate and capital market business as well as stress scenarios are to be expanded further.

Investment risk

The business policies of Deutsche Hypo generally do not provide for the acquisition of investments. Where shareholdings are acquired, this is done solely for the purpose of supporting the Bank's own business objectives in its mortgage and capital market business. In addition, shareholdings are also possible (through the establishment of property companies) in the context of dealing with non-performing credit exposures. Investment risks are treated in the same way as credit risks, and are monitored on the basis of interim and annual reports and taken into account when assessing the Bank's risk-bearing capacity. In cases where the Bank holds investments in affiliated companies, representatives of Deutsche Hypo take on management roles in these companies. If problems occur, suitable measures are implemented as required, in discussion with the other owners. Material events are reported immediately to the Board of Managing Directors.

Market price risk

Market price risk refers to the potential losses that could be incurred following changes in the market parameters. In terms of market price risk, Deutsche Hypo distinguishes between interest rate risk and currency risk.

Interest rate risks arise when the value of a position is sensitive to changes in interest rates and these changes could lead to a reduction in the value of the position. For example, interest rate rises generally cause prices losses or reductions in value in the case of fixed-income securities.

Interest rate risk comprises the components general interest rate risk and credit-spread risk. The latter results from changes in the interest premium for the respective issuer (of securities) or reference borrower (in the case of credit derivatives), this being the difference compared with the risk-free interest rate when the market value of the position is calculated.

Interest rate risk also includes fund price risks that ultimately also result from changes in interest rate or credit spreads after having invested in a fixed-income fund.

Currency risks (or foreign exchange risks) occur when the converted value in euros of a position or a portfolio is sensitive to changes in one or more foreign exchange rates, and the change in the exchange rates may lead to a reduction in the value of the position.

Volatility risks from optional structures are generally hedged, and are therefore of no material relevance to Deutsche Hypo.

·· Market price risk – Management

Strategy

In the context of the controlling of market price risks, Deutsche Hypo's activities are concentrated on selected markets, customers and product segments.

Deutsche Hypo is a non-trading book institution whose business activities operate within the scope of a buy and hold strategy. Our capital market activities therefore follow a strategic goal and are not focused on exploiting short-term fluctuations in market prices. With regard to general interest rate risk, Deutsche Hypo engages in maturity transformation within the context of the stipulated risk limits in order to profit from expected market developments. Significant interest rate risks in foreign currencies are not assumed.

In the context of its strategic investments in matched term refinanced securities and borrowers' notes or credit derivatives, Deutsche Hypo also assumes credit spread risks. A buy and hold strategy is also largely pursued in relation to these positions. As part of its credit spread strategy, Deutsche Hypo also holds indirect investments in positions on the US municipality market through credit derivatives. Spread shifts between the municipality yield curve and the risk-free swap curve will influence the result achieved by the Bank. Deutsche Hypo is continuing to pursue a gradual exit strategy from these positions.

Currency risks arise depending on the strategic direction pursued by the different divisions. Viewed in terms of risk strategy, currency risks are of minor importance, however. In other words, Deutsche Hypo does not pursue an objective of making gains from general market developments on the foreign exchange markets. Actively eliminating such risks is one of the focuses of foreign currency risk controlling.

Structure and organisation

The management of market price risks involves the specialist Treasury and Controlling departments and the Board of Managing Directors.

Operational controlling is the responsibility of Treasury. In the context of the specifications laid down by the Board of Managing Directors, in compliance with the risk limits, Treasury decides on and manages capital market business activities, refinancing and the hedging of interest rate and currency risks.

In line with MaRisk, Controlling is both functionally and organisationally independent of the Treasury department. Controlling performs valuation, monitoring, limiting and reporting tasks within the risk management process and is responsible for developing and implementing the internal valuation methods for use with market price risks. The NORD/LB Group's investment decision committee uses the Group's current risk position as the basis for strategic investment decisions within the Group. This committee, which meets monthly, is an advisory body. Implementation of the proposed measures is the responsibility of the Treasury department of Deutsche Hypo, within the specifications of the Board of Managing Directors and whilst adhering to the risk limits.

Market price risk – Controlling and monitoring

Market price risk is controlled and monitored for the entire banking portfolio. Different methods are used according to risk type.

The general interest rate risk is essentially controlled via a value at risk (VaR) approach, a basis point value (BPV) method and stress testing.

The VaR indicators are calculated for interest rate risk using a variance/covariance approach. The analysis is based on exponentially weighted historical changes in the risk factors. The models take account of correlation effects between the risk factors. This involves the application of a confidence level of 95% and a holding period of one trading day. Interest rate risks in foreign currencies are taken into account when calculating the VaR indicators.

The Board of Managing Directors sets limits for the VaR values, which are derived from Deutsche Hypo's risk strategy and risk-bearing capacity. In addition, the Board of Managing Directors also establishes loss limits. Any losses from the result of the investment decisions made for the Bank as a whole are immediately charged to the loss limit and also lead to a proportionate reduction in the VaR limits.

The daily VaR calculations are reviewed by regular back-testing carried out by Controlling. This is done by comparing the daily fluctuations in the result from the investment decisions made for the Bank as a whole against the VaR forecasts from the previous day. Back-testing outliers are indicated by the observed negative change in portfolio value exceeding the value at risk. If there are exceptionally too many back-testing outliers, the VaR indicators are increased in percentage terms.

The basis-point-value method simulates an interest rate rise/fall of 100 bp by means of a parallel shift in the risk-free yield curve. The resulting changes in the net present value of the positions indicate the level of interest rate risk.

BPV limits exist in parallel to the VaR limits, in order to reduce market price risk. Any losses from the investment decisions made for the Bank as a whole are charged in their full amount to the BPV limit.

Fund price risk is an integral part of the general interest rate risk and is counted in full towards the VaR and BPV limits.

In addition to the VaR and BPV, regular stress testing is performed to investigate the effects of extreme interest rate changes on the risk positions. The interest rate shock required by the Solvency Ordinance (SolvV) is also calculated alongside the various different stress scenarios. In line with the requirements of a circular issued by the Federal Financial Supervisory Authority (BaFin), this interest rate shock consists of a parallel shift in the yield curve by 130 bp upwards and 190 bp downwards.

Credit spread risks are detected and controlled using an internal VaR procedure and scenario analyses. These analyse the credit spread risks in various portfolios and consider the results in a sophisticated breakdown taking account of the accounting standards.

Credit spread VaR indicators are calculated on the basis of historical simulation. This involves the application of a one-sided confidence level of 99 % and a holding period of 30 days. The basis for the analysis is the historical change of the credit spreads measured over many years. Risk-minimising correlation effects are not taken into account. Instead, all risks are simply added together.

The scenario analyses comprise a normal scenario and a stress scenario. The normal scenario contains a percentage terms increase on the current spreads of 10 %, or at least one basis point. The stress scenario calculates a 35 % increase in the credit spreads compared with the starting spreads of the individual transactions, subject to a minimum of 3.5 basis points.

The credit spread risks for the investment book are currently calculated and subjected to separate limits using the normal scenario. Limits are also imposed in the form of volume limits.

Currency risks are currently not reflected in the value at risk model due to the fundamental strategy of hedging individual transactions. Instead, this strategy is verified by means of an appropriate cash-flow oriented consideration of risk. In principle, all known future nominal cash flows in foreign currency and foreign exchange account balances are taken into account when calculating the currency risk. Since macro control of the currency risk will play a more important role in the future, we are currently in the process of implementing a refined method of measuring currency risks. The process will ensure that the operational control and monitoring of the currency risks guarantee the strategic aim of maintaining a neutral currency risk position.

Market price risk – Reporting

According to MaRisk, the Controlling department, which does not have responsibility for any specific positions, reports daily on the interest rate risks to the responsible member of the Board of Managing Directors. Furthermore, the market price risks facing the Bank and its net income situation are discussed at weekly meetings of the full Board. In particular, these discussions include reports on the VaR and BPV analyses, as well as the effects of stress testing and detailed evaluations of the credit spread risks. The Supervisory Board of the Bank is informed in detail of the Bank's market price risks on a quarterly basis in the scope of the risk report. Independent of the regular reporting cycles, ad hoc information is provided to the general Board of Managing Directors in the case of significant events.

Market price risk – Development in 2010

Market turbulence triggered by the financial market crisis continued to dominate during the first two quarters of 2010. This meant that higher risks were in evidence in some cases during the first six months given the clear rise in volatility levels. This particularly applies to the credit spread risks in the investment book.

The table below shows the Bank's market price risks in the year under review and in the form of a comparison with the previous year.

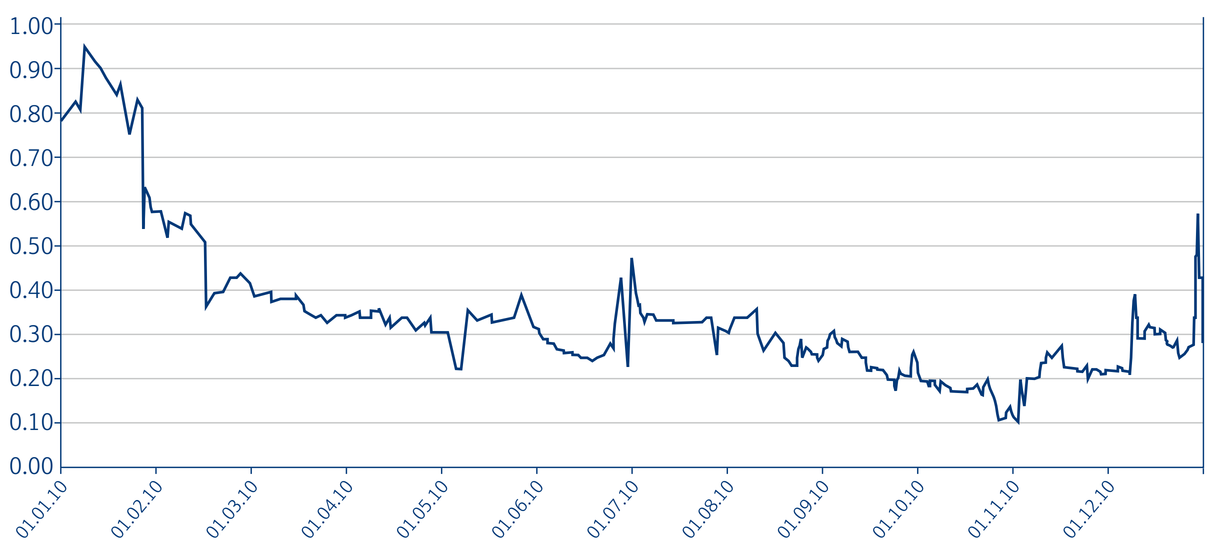
Market price risks (in € thousands)	Maximum		Average		Minimum		Year-end Value	
	2010	2009	2010	2009	2010	2009	2010	2009
Interest rate risk[1)] (VaR 95 %, 1d)	946	2,825	344	1,641	104	887	289	1,087
Interest rate risk[1)] (100 bp parallel- shift)	16,493	29,600	7,387	18,746	1,859	4,800	6,591	12,500
Normal scenario CI portfolio [2) 3)] (10 % relative Spread-Shift)	89,644	98,895	76,700	78,364	60,436	57,010	83,889	60,749
Low-CSR portfolio (Nominal volume)	13,319,908	13,423,269	13,080,148	13,172,064	12,774,682	12,831,685	12,979,033	13,341,433

[1)] Including fund price risks from bond funds [2)] Including credit-spread risiks from credit funds [3)] Excluding US municipal bond risk

This table shows the maximum, average, minimum and year-end value of the listed risk categories. All figures are given in thousands of euros.

The development in 2010 of the Bank's value at risk is shown in the chart below (95 % confidence level, holding period of 1 day). This chart does not include credit spread risks.

Value-at-Risk interest rate risks (95 %, 1d) in € millions

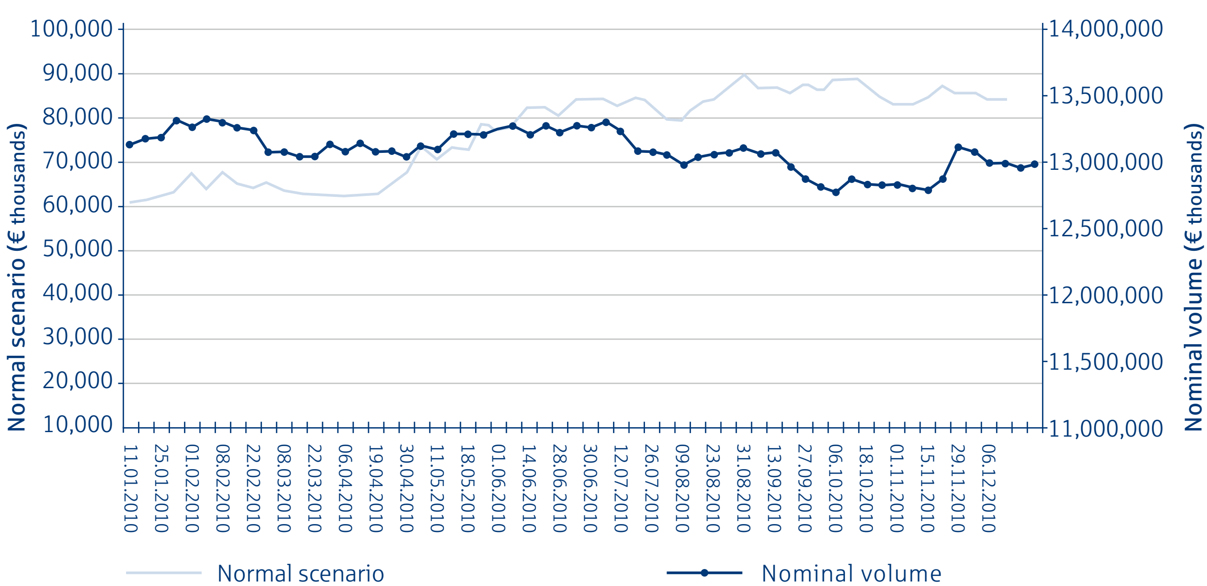


The utilisation of the VaR limit for interest rate risks was 6.9 % on average over the year (the maximum utilisation was 18.9 % and the minimum was 2.1 %). Thus, the limit was adhered to at all times. The development over the year of the value at risk demonstrates the generally low risk appetite of Deutsche Hypo for interest rate risk, and the Bank's proactive response to the emerging signs of an increased burden on its risk-bearing capacity from real estate finance business.

The corresponding market price risk figures in the overview of the calculation of risk-bearing capacity (cf. Table on risk-bearing capacity as at 31 December 2010) differ in terms of method from the above value-at-risk figures in that the credit spread risk of assets in circulation is incorporated and in that the interest rate risk model is calibrated differently (confidence level of 99.9 % and a holding period of 130 days).

In respect of the general interest rate risk in the banking book, the effects of a standardised interest rate shock of 130 bp upwards and 190 bp downwards are also analysed in accordance with the requirements of SolvV. As at 31 December 2010 the results for Deutsche Hypo of 4.07 % were significantly below the regulatory threshold, which allows for a maximum proportion of 20 % of the liable equity capital (the figure as at 31 December 2009 was 5.5 %).

Credit spread riks



The credit spread risks associated with the securities held in the investment book and with the credit derivatives rose as the crisis facing the PIIGS states intensified from the second quarter of 2010 onwards, with the yearly average ending up more or less on a par with the previous year. The total volume of the credit spread portfolio was practically unchanged. New business as a replacement for expiring existing business was only entered into on a selective basis and involving low-risk stocks.

Once again, no significant currency risks were assumed during 2010.

Market price risk – Outlook

Deutsche Hypo will continue to carefully monitor market developments across all relevant asset classes, with short-term volatility still to be expected. In particular, the Bank will be closely following developments in the PIIGS states. With regard to credit investment positions and, the credit derivative portfolio in particular, the existing exit strategy designed to protect P&L will be maintained. Additionally, efforts will continue to harmonise the Bank's risk measurement methods and systems with those of the NORD/LB Group and to fine-tune the processes used to calculate the key performance indicators.

Liquidity risk

Liquidity risks are the risks that can arise from disruptions to the liquidity of individual market segments, unexpected events in lending (e.g. delayed redemption), or any deterioration in the Bank's own funding conditions (e.g. following a rating downgrading). The Bank differentiates between classic liquidity risk, refinancing risk and market liquidity risk.

Classic liquidity risk is the risk that payment obligations cannot be met at all or cannot be met on time. Potential causes could include a general lack of liquidity on the money markets, affecting individual institutions or the financial market as a whole. In particular, market disruptions could mean that significant asset classes are no longer eligible as security. Alternatively, unexpected events in the Bank's own credit business could also give rise to liquidity bottlenecks. The focus of the analysis is always on the next twelve months.

Refinancing risk refers to the potential losses in income that could result for Deutsche Hypo were its own funding conditions to deteriorate on the money or capital market. The most important cause is a change in the assessment of the Bank's creditworthiness by the other market participants. The focus here is on the entire maturity spectrum.

Market liquidity risk identifies potential losses that the Bank will have to bear if low levels of liquidity in individual market segments, triggered by extreme market distortions and associated with further liquidity risks (refinancing risk) mean that transactions must be concluded at conditions that do not reflect the fair market value. Market liquidity risks can arise in the first instance from the security positions in the investment book.

Liquidity risk – Management

Strategy

Securing sufficient liquidity at all times is a commercial and strategic necessity for Deutsche Hypo, and is also a requirement imposed on it by supervisory law. While classic liquidity risk is generally limited by holding sufficient liquid assets (in particular securities that are eligible for refinancing at central banks), the refinancing risk relates to structural liquidity transformation. In both cases, the risks are limited by imposing limits.

The limit applicable to classic liquidity risk is used to secure the Bank's ability to pay, including under a conservative stress scenario, whilst the limit applied to refinancing risk is derived from Deutsche Hypo's risk strategy and risk-bearing capacity and leaves scope for income to be earned from maturity transformation, a typical source of income for banks.

The Bank's liquidity policy documents the principles of liquidity management and thus also the basic strategic guidelines for ensuring a sufficient supply of liquidity. The measures used to control liquidity in emergencies and crises are described in the contingency plan. The aim of this plan is to maintain the Bank's ability to pay should any unforeseen extreme situations occur on the market.

Structure and organisation

The liquidity policy set outs responsibility for liquidity risk management, both during normal commercial operations and in emergency situations.

The liquidity risk management process involves the Bank's specialist Treasury and Controlling departments, Credit Risk Controlling and the Board of Managing Directors.

The Treasury department is responsible for the operational management of positions that encompass a liquidity risk. This department takes decisions and acts in line with the requirements stipulated by the Board whilst adhering to the risk limits and fulfilling the regulatory and statutory requirements (Liquidity Ordinance, MaRisk and Pfandbrief Act). It is also involved in the further development of internal and Group-wide procedures for measuring liquidity risks.

The Controlling department is responsible for introducing, implementing and developing internal procedures for measuring, limiting and monitoring liquidity risks. The tasks of calculating, reporting and monitoring limits with regard to classic and refinancing risk are also carried out by Controlling. The department is involved in the NORD/LB Group committees and working groups responsible for the further development of Group-wide procedures for measuring liquidity risk. Controlling is also responsible for preparing supervisory notices for the attention of the Financial Services Authority in the UK relating to the business operations of the Bank's London branch.

The Central Reporting Office within Credit Risk Controlling responsible for submitting reports to the supervisory authorities calculates and monitors utilisation pursuant to the Liquidity Ordinance (LiqV) and exercise a service and control function in this regard. The findings are presented to the Treasury department.

The liquidity management crisis team is available in the event of a liquidity crisis. This team would assume responsibility for liquidity management, working in close cooperation with the Board of Managing Directors and – depending on the severity of the crisis – with the crisis managers from NORD/LB AöR.

·· Liquidity risk – Controlling

Liquidity risk is controlled both on a consolidated basis across all currencies and on an isolated basis for individual currencies. The concept of materiality, introduced during the year under review for liquidity risks from foreign currencies, provides the basis for this. The Bank uses a range of tools to control classic liquidity risk.

Classic liquidity risk is limited and managed using a dynamic stress test scenario. The scenario describes the most likely crisis situation in each case. The aim is to avoid liquidity bottlenecks even in times of crisis. Classic liquidity risk is also controlled and limited for key foreign currencies.

A traffic light limit system is used to ensure the availability of surplus liquidity for a minimum of three months even in stressed circumstances. Securing ability to pay at all times in this timeframe is thus given preference over potential profit opportunities. Taking into account profitability factors, the aim is to guarantee a surplus of liquidity to last at least six months. The limit system is firmly enshrined in the Bank's approach through the contingency plan detailing the measures to be taken in times of crisis and emergencies.

Moreover, the dynamic stress scenario is supplemented with further statistical stress tests on a monthly basis. Both the Bank's own and also market-wide crisis scenarios are considered.

The classic liquidity risk of the material foreign currencies is also controlled using the limits of a stress test scenario. In this way, the servicing of payment obligations in the respective foreign currency is guaranteed at all times during the next three months.

A further tool used to control classic liquidity risk is in the internal liquidity forecast. This shows, among other aspects, how long the Bank's liquidity will last in the absence of any measures to acquire cover on the money or capital market. The procedure used assumes an extreme stress scenario. In a further analytical stage, the potential of issuing mortgage Pfandbriefe as a preferred liquidity procurement method is incorporated into the calculation. This tools gives the Bank the opportunity to plan for the future, to handle new business in the context of an impaired refinancing market and to avoid liquidity bottlenecks.

The liquidity indicator as stipulated in the Liquidity Ordinance (LiqV) is also incorporated into liquidity risk controlling.

The Bank, as part of the security reserve of the Landesbanken and giro centres, aims to achieve a liquidity indicator of at least 1.15.

The refinancing risk is controlled using net present value limits derived from the risk strategy and risk-bearing capacity, as well as by using volume structure limits for all material currencies and various different maturity bands, covering the entire maturity spectrum.

Market liquidity risks are taken into account by dividing up the different types of security in the funding matrix according to their market liquidity between overnight money and final maturity. Otherwise, market liquidity risk is considered in the context of credit spread risks.

·· Liquidity risk – Measurement

Deutsche Hypo calculates the utilisation of the volume structure limits for the various maturity bans on the basis of a funding matrix for the Bank's entire position and on the basis of single-currency funding matrices for all foreign currencies that are classed as material. The assumptions on which the funding matrix is based basically reflect the normal case and, in particular, include appropriate consideration of the Bank's own covered issues from the perspective of risk controlling. Additionally, in the context of the stress testing of the risk-bearing capacity concept, funding matrices are prepared on the basis of the assumptions from the respective stress tests. These matrices then form the basis for quantifying the refinancing risk under stress.

Liquidity risk in the context of the risk-bearing capacity concept for the entire Bank is quantified on the basis of the net present value of the refinancing risk. The risk of a further expansion in Deutsche Hypo's costs is considered with regard to the take-up of uncovered refinancing. Additionally, the refinancing risk for foreign currencies is quantified by expanding the premiums for foreign currency derivatives traded on the derivatives market. The models take account of correlation effects between the individual risk factors.

The calculation of dynamic and static stress scenarios to model classic liquidity risk is based on the funding matrices taking into account planning for new business and funding. These are stressed in such a way as to reflect a crisis situation. For example, an elevated use of credit commitments and an elevated level of credit defaults is assumed for customer business. Using the stress scenarios, it is possible to depict the impact of unexpected events on the Bank's liquidity situation. This provides a way of planning for the future and of being prepared for emergencies.

Classic liquidity risk in foreign currency is measured on the basis of stressed liquidity outflows in the foreign currency taking account of new business planning. It must be possible for the maximum cumulative gap for the next 90-day period in each case to be refinanced by the Treasury in a stressed situation. Given the lack of original funding potential in the foreign currency, measures must therefore be taken to ensure that foreign currency derivatives can be used instead. The potential to turn the currency into the respective foreign currency is validated on a regular basis. The stressed derivative potential is used as the limit within the evaluation.

·· Liquidity risk – Reporting

The liquidity indicator, as required under LiqV, is reported to the Treasury department on a daily basis by the Central Reporting Office of Credit Risk Controlling for the purposes of supporting operational management. It is also reported to the Bundesbank on a monthly basis.

The dynamic stress scenario (LST) and internal liquidity forecast are made available to the Treasury and members of the Board responsible for Treasury and Controlling on a daily basis, and are also submitted to the full Board on a weekly basis. In terms of reporting to NORD/LB, a daily update is provided on the results of dynamic stress testing, with results from static stress scenarios being submitted monthly. A report on the results of dynamic stress scenarios, with comments, is forwarded to the Bundesbank every week. Controlling is responsible for the preparation of these reports.

The funding matrix and the refinancing risk at net present value calculated as part of the risk-bearing capacity model are made available to the Treasury department on a daily basis, and are submitted to the full Board every week. Monthly reports on the Bank's structural liquidity situation are provided at meetings of the NORD/LB Group's investment decision committee.

The Board of Managing Directors and the Bank's supervisory body receive the results of the dynamic stress scenarios, the internal liquidity forecast and information on the structural liquidity gaps as part of quarterly MaRisk reporting. This similarly applies to refinancing risk, forming part of the report on risk-bearing capacity. Classic liquidity risk and the funding matrices for material foreign currencies, as well as the funding matrices for the RTF stress scenarios, round off reporting on liquidity risk within the quarterly MaRisk reporting.

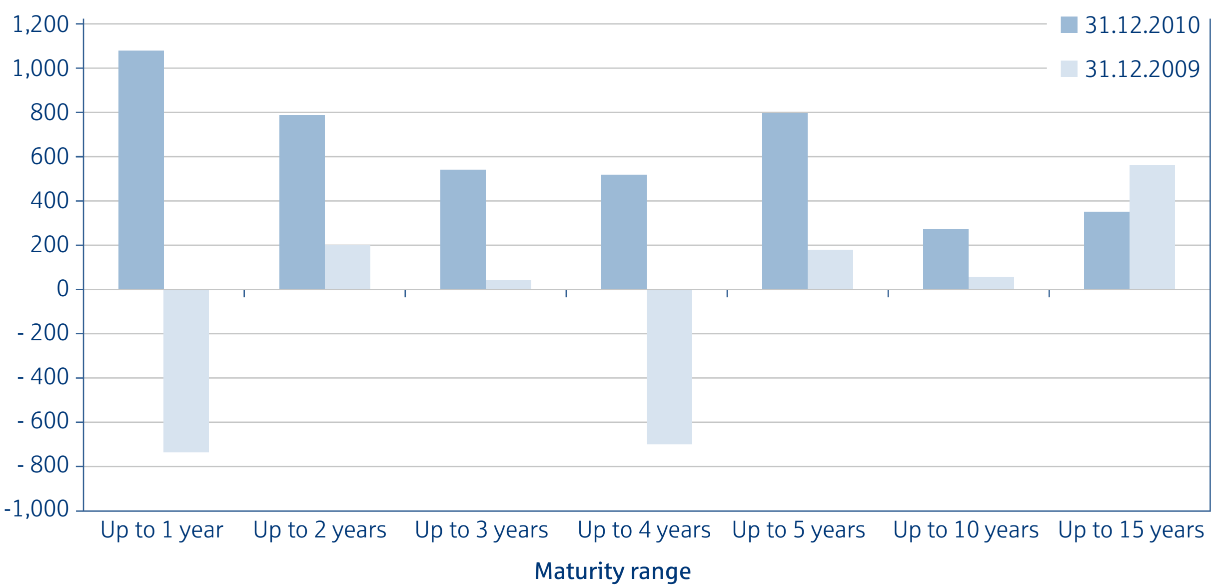
·· Liquidity risk – Development in 2010

Deutsche Hypo enjoyed a sufficient level of access to the money and capital market at all times in 2010 and was able to sell covered and uncovered issues successfully on the market on the basis of acceptable refinancing conditions. The total issue volume was raised considerably compared with the previous year, up by € 1.6 billion from € 4.9 billion in 2009 to € 6.5 billion in 2010.

The liquidity indicator pursuant to the Liquidity Ordinance was always well above the minimum of 1.00 stipulated by the supervisory authorities in 2010. As at 31 December 2010, the liquidity indicator was 1.45 (compared with 1.32 as at 31 December 2009).

Cumulative liquidity outflows, forming the basis for calculation of refinancing risk in nominal terms and at present value, are shown in the chart below for the reporting dates of 31 December 2010 and 31 December 2009.

Cumulative liquidity outflows in € millions



The Bank's funding matrix as at 31 December 2010 shows a clear reduction in the refinancing risk. This is mainly attributable to risk-reducing measures such as capital market refinancing (uncovered and mortgage Pfandbriefe) and new business refinanced as far as possible on the basis of matched maturities over the course of 2010. The way in which outflows from lending business are portrayed has also been fine-tuned, with the result that it now contributes to the proper presentation of refinancing risk.

The traffic light system used to limit the dynamic scenario in the liquidity stress test (LST) sets the green phase for a consistently positive liquidity surplus lasting 180 days in stress conditions, with the amber phase covering 90 to 180 days and the red phase less than

90 days. As at 31 December 2010, the transition into a negative liquidity surplus was as of the 365th day and thus within the green phase (as at 31 December 2009 the transition was on the 242nd day). Deutsche Hypo consistently found itself in the green phase during the reporting year. There was only one single day on which an amber traffic light status was recorded.

During 2010, a system for limiting the classic liquidity risk was introduced for the US dollar. As at 31 December 2010, the maximum cumulative US dollar gap for the next 90 days utilised the currently applicable derivative/conversion potential for US dollars at a rate of 39.71 % (no comparable figures as at 31 December 2009 available).

Based on the Bank's internal liquidity forecast, and based on the situation as at 31 December 2010, refinancing will be required as of June 2011. Taking into account the liquidity potential of mortgage Pfandbriefe, there will also be an uncovered liquidity requirement as of August 2011. By way of comparison, as at the reporting date of 31 December 2009, there was a refinancing requirement as of May 2010, and as of July 2010 taking into account the liquidity potential of mortgage Pfandbriefe.

·· Liquidity risk – Outlook

With the tools used for liquidity management, Deutsche Hypo ensures that it is always in a position to meet its payment obligations – both on a consolidated basis and also taking all of the material foreign currencies in isolation – on time and to acquire refinancing on the market at appropriate conditions.

Deutsche Hypo is involved in markets that are as liquid as possible and maintains a portfolio of high-quality securities, more than 75 % of which are eligible for open-market transactions with the European Central Bank.

By closely monitoring the markets and through active and forward-looking liquidity management, Deutsche Hypo guaranteed the availability of sufficient liquidity at all times during the year under review. No further increase in liquidity risks is anticipated for 2011.

The consistent expansion of liquidity risk controlling will also be continued in 2011. As well as the expansion of the technical platform and fine-tuning of the controlling tools, the implementation of the requirements imposed by national and international supervisory authorities in relation to controlling liquidity risk and external reporting has a key role to play. In this regard, the new requirements of the third revision of MaRisk, which are to be implemented as early as 2011, and the requirements of the Basel Committee on Banking Supervision (including liquidity coverage ratio and net stable funding ratio) are highly significant to Deutsche Hypo.

·· Operational risk

Operational risks are the risks associated with damages that could be incurred due to the inappropriate nature or failure of internal workflows, employees or technology, or as a result of external influences. The definition includes legal risks and reputational risks in the form of consequential risks. Commercial and strategic risks are not included.

Legal risk is the risk of damage occurring due to a lack of or incomplete adherence to the legal framework created by legal provisions and case law. Legal risk only exists with regard to the Bank's external relations.

For Deutsche Hypo's purposes, compliance risk and outsourcing risk are also components of operational risk.

Compliance risk is the risk of penalties being imposed by the courts, by official bodies or as a result of disciplinary proceedings in relation to improper procedures, processes etc. within the Bank's internal relationships (due to non-compliance with laws, rules, rules of conduct and standards).

The outsourcing risk relates to the outsourcing of activities and processes.

·· Operational risk – Management

Strategy

The guidelines for dealing with operational risks are formulated in Deutsche Hypo's business and risk strategy, according to which operational risks should as a general rule be avoided wherever it makes economic sense to do so. Deutsche Hypo protects itself against operation risks in instances where the costs of protection against such risks do not exceed the amount of the expected damage or where such risks could have a significant impact on the Bank's reputation.

The Bank creates the basic parameters in the form of technical and organisational measures, contractual rules and work instructions in order to do as much as possible to avoid operational risks. This encompasses emergency planning and appropriate insurance cover. The management of operational risks is supported by a methodological risk assessment framework. The risk awareness of all employees is key in the avoidance of operational risks in day-to-day operations (risk culture).

By permanently analysing cases where damage occurs, risk indicators and scenarios, the aim is to identify the causes of risk and prevent any risk concentration. The internal control system is reviewed at regular intervals from the perspective of risk to ensure that it is appropriate and effective (internal control system control loop). Appropriate counter-measures are introduced whenever necessary. Contingency plans are used to limit damage from any unexpected extreme events.

Organisational units

The Board of Managing Directors stipulates the basic approach to operational risks taking account of the risk situation of the Bank as a whole and is involved in the risk management process through the Operational Risk Committee (ORC). The ORC is the central body within which the key developments for the Bank in terms of its assessment of operational risk are discussed. As well as comprising the full Board of Managing Directors, the committee is composed of the heads of the Audit, Organisation and IT (OIT), and Controlling departments. Meetings are held quarterly as part of a regular cycle. Depending on how significant a risk is, a decision will be taken at Board or departmental manager level on how to proceed. The corresponding measures are introduced by the Board or the departmental manager as appropriate and are then implemented by the departments responsible.

It is then up to Controlling to devise and define the necessary procedures, and to develop these. Controlling is also responsible for central monitoring of and independent reporting on operational risks. This is carried out in close consultation with the corresponding departments of Nord/LB AöR.

·· Operational risk – Control

Internal workflows

Process-related and structural organisational risks are countered at Deutsche Hypo by suitably organised structures and workflows. The structural organisation ensures the continued presence of regulated interaction between all the areas that are involved in the management process for operational risks (board, corporate management, audit, other areas).

The bank reduces operational risks attributable to process-related uncertainties with instructions (manuals, guidelines, circulars, etc.) and with an institutionalised internal control system. The employees generally have online access to criteria with the requisite content (LotusNotes DB organisational manual). Internal Auditing monitors compliance with prevailing work instructions as part of regular checks.

Deutsche Hypo is developing the internal control system further along the lines of the COSO framework. This should guarantee a reasonable and effective internal control system. It will serve to identify process risks systematically and increase the transparency, quality and reliability of processes. This additional process knowledge will enhance the reliability of financial and risk-related data and boost the management options available to the executive board and the monitoring options available to the supervisory board.

Across specific areas, it is the bank's stated objective to consider workflows more from a process-related perspective and, thus, to discover and eliminate weaknesses in the workflows, and resulting damage, early on. A variety of methods are used for this, such as scoring.

Accounting-related ICS (details in accordance with article 289(5) German Commercial Code (HGB))

Controls are implemented in all accounting-related processes in the form of key or simple controls. These controls, which have to be performed and their results documented periodically or in relation to events, comprise ongoing manual control work within the workflow, as well as programmed controls within the IT systems. In particular, controls have been implemented at the interfaces between the divisions and departments involved in the accounting process, as well as between the bank's IT systems. This ensures that the clearly defined specifications of the Accounting unit within the accounting process are implemented.

The individual material characteristics of Deutsche Hypo's internal control system in relation to the accounting process can be described as follows:

- The accounting areas within the Bank are clearly organised in terms of responsibilities and the management structures.
- The functions of the departments of the Bank involved in the accounting process are clearly separated. Areas of responsibilities are clearly allocated.
- The departments and divisions involved in the accounting process are sufficiently staffed (in terms of numbers and qualification of employees) by highly qualified technical personnel.
- The ongoing in-service and further training of employees ensures consistent compliance with accounting regulations, as well as with criteria contained in tax law.
- The IT systems and files used in the accounting process are protected against unauthorised access, manipulation and loss by means of regular data backups and corresponding access restrictions.

- The permanent monitoring of the IT systems by appropriately trained employees of the Bank and external systems partners reduces the risk of downtime and ensures high availability.

- The Bank has implemented an appropriate system of guidelines and instructions by means of an organisational manual that takes the form of an organised structure and workflows.

- All accounting processes are subject to consistent dual controls according to the "two sets of eyes" principle.

- Bookkeeping files that are received or forwarded are checked for completeness and accuracy, for example by means of random sampling. The software used contains specific plausibility tests within its programming.

- The plausibility of the data that is collated in the accounting process is regularly checked in the context of the month-end closings. This ensures that deviations between planned and actual figures in the course of the year are detected quickly, and there can be an appropriate fast reaction.

- Accounting processes are subject to regular review by the internal auditing department and by the person auditing the annual accounts.

The control activities specified above serve to ensure that transactions are adequately assessed and entered correctly and promptly in the balance sheet. The qualified technical personnel, appropriate IT systems and clear legislative and internal company specifications form the basis for a proper accounting process. Report recipients are therefore provided with accurate and reliable information.

During the year under review, the recording and assessment of all checks in the main accounting process were concluded within the scope of the continuation of the bank's in-house project on the further development of the ICS. In the course of this, existing weaknesses within the internal control system were reduced by defining further key controls or by modifying existing control activities. The performance of the planned control actions is monitored by the appropriate process coordinators. The process and the key controls entailed in it undergo renewed analysis at regular intervals.

Staff

Operational risk potential caused by employees essentially results from three sources: The first cause is the simultaneous loss of a large group of personnel from the same division as a result of illness, staff turnover, or such like, which has an immediate and direct impact on the bank's ability to function properly within this division. In order to counter this cause, Deutsche Hypo offers an infrastructural working environment, as well as performance-related remuneration, but also supports measures that staff take with an awareness of risk. Furthermore, reconciling family life and work is an important target for nurturing a sense of loyalty towards the bank in staff. High priority is given to ensuring that staff stay healthy. Loss of personnel is part of our emergency planning strategy.

The second cause is unreasonable long-term staffing in a division, both in terms of the quantity and quality of the personnel deployed. In addition to the target of reasonable staffing levels, Deutsche Hypo attaches particular importance to its staff training. It seeks to ensure that every member of staff receives sufficient training to be able to cover his or her range of duties correctly and efficiently.

Unauthorised actions by employees are considered to be a third cause. In this regard, Deutsche Hypo uses an overall concept to prevent its employees from committing acts of economic crime. In addition to a fully functioning internal control system, this should be countered with the aid of effective regulations. To this end, the bank has introduced principles for combating fraud, managerial principles, a mission statement, ethics principles and a system of organisational guidelines.

Technology

In order to protect people and material assets, Deutsche Hypo has developed safety and emergency concepts which concern the procurement of replacement operating and business equipment as well as consumable materials, the use of the building (fire protection, maintenance, access controls), energy supply and property insurance.

As regards the failure of IT equipment, the Bank has drawn up emergency concepts for areas of particular sensitivity. With the aid of process instructions, emergency plans, adequate spare capacities and backup copies, serious problems are prevented in workflows that may otherwise result from system failures and data losses. The concepts are tested and updated on a regular basis.

External factors

Deutsche Hypo has reasonable insurance arrangements (covering against burglary, accident, public liability, damage to buildings, among others). The insurance cover is regularly reviewed. The Bank works closely with criminal prosecution agencies to take action against criminal activity.

As regards safeguards against legal risks, there is a stipulation that the Legal Affairs Department is to be consulted when legal action is instituted by or against Deutsche Hypo, as well as when drawing up specimen contracts and concluding contracts that are not based on approved specimen versions.

Natural disasters and terrorist attacks are defined as force majeure, and appropriate emergency plans are in place to tackle the effects of them.

Outsourcing

Deutsche Hypo avails of opportunities to outsource processes. It does so with a view towards improving synergies and efficiency, as well as optimising processes which are used in order to focus on core areas of competence, as well as to lower costs and to create more cost flexibility. The outsourced functions should continue to meet the bank’s performance and quality standards.

Generally speaking, Deutsche Hypo retains command of processes that represent the Bank’s core areas of competence. Each time a project is outsourced, the economic viability of this is assessed.

An implemented process is applied to determine how essential all the activities which are outsourced are to the Bank. The management of risks associated with outsourcing essential functions and the monitoring of outsourced activities and processes take the form of quarterly outsourcing reports that are prepared by the competent departments.

·· Operational risk – Measurement

Since early 2004, Deutsche Hypo has been collating claims arising from operational risks in a claims database and categorising them according to process, cause and effect.

The claims are both passed on to the group-wide claims database of NORD/LB and added in an anonymous form to DakOR data consortium which was initiated by the Association of German Public Sector Banks (VÖB). Furthermore, claims are passed on to the Central Evidence Service, which is housed in the Organisation and IT division, for Deutsche Hypo's internal control system.

The Central ICS Evidence Service is the central port of call for information about the internal control system. Responsibility rests with it for ICS reporting across the bank and, thus, for creating transparency on the orderly practice and correct functioning of the ICS. It also performs an internal and external consultation and communication role on the ICS. The continuous further development of the ICS methodology and central standards for implementation, as well as the conceptual design and implementation of training courses and spot check-based reviews of working results are further duties for which the Central Evidence Service is responsible.

Using the risk assessment method, the future component is added to the historic claims collections. The method is made up of three essential modules: quality question-based self-assessment, risk map and scenario analysis. The method underwent a root and branch revision in the year under review and is replacing the existing self-assessment.

In order to regularly identify and assess operational risks in all departments, a quality question-based Self Assessment (QSA) is generally conducted every year. The outcome of this is that every department is awarded a points value which is derived from the answers to the questions and from a division's OR score in the risk map.

The purpose of the risk map is to identify the areas of responsibility, processes or their interfaces at regular intervals which, compared to others, display a supposedly (relatively) high risk potential (in relation to operational risks). This is done by means of an OR score which takes both internal and external data sources into consideration. Hence, the risk map does not represent a statement on a department's absolute risk. This is only determined by a subsequent detailed analysis. Based upon the results of the risk map, a decision is taken on which processes to prioritise in a detailed scenario analysis.

Serious potential risk events are identified and assessed on the basis of expert appraisals using scenario analyses. Furthermore, scenario analyses are a technique used throughout the group for performing regular assessments of scenarios which are of relevance throughout the group which can occur equally in all the companies which belong to the group. The loss event themes covered include loss of the following: personnel, buildings, IT, key service providers or outsourcing partners. The group-wide scenarios are assessed on the basis of the same logic as the afore-mentioned assessment of the scenarios in the departments where risks prevail.

Work also got under way in 2010 on the implementation of methodology for identifying risk indicators. The aim of the risk indicators is to identify potential risks early on and to take appropriate measures to counteract these risks.

An internal model is used across the group to measure the operational risk. This model is closely aligned to the requirements for an advanced measuring approach in accordance with the Solvability Regulation, SolvV (AMA). In addition to internal data and scenario analyses from the risk assessment, this also takes external data from the DakOR consortium into account; correlation effects are also taken into consideration. This initially involves determining a value-at-risk at group level. The result is then passed on top-down to the individual banks, including Deutsche Hypo, via a risk-sensitive distribution key. The value-at-risk calculated by the model is used as a control variable for operational risks in the RBC model.

The methods and processes introduced at Deutsche Hypo meet the requirements of Section 272 SolvV regarding the use of a standard approach for operational risks. In addition, the further developments which are closely aligned with the requirements of the SolvV meet important requirements for the introduction of an Advanced Measurement Approach (AMA).

Operational risk – Reporting

The quarterly ORC meetings report on and discuss the current state of operational risks based on a standardised agenda.

The quarterly Operational Risk report essentially comprises information about current claims and ad hoc messages (including measures introduced in order to minimise risks) with the operational background to the claims, overdue discoveries by the Internal Auditing department (as well as reports on external audit findings), risk assessments from ongoing legal disputes, an overview of current new product processes, as well as notices on the statuses of the bank's most important projects, externally insured risks, outsourced key activities, and important changes to the risk assessment of the departments compared to the previous risk assessment.

Furthermore, upon completion of the risk assessment, the ORC and the heads of the business units are informed of the results and of their impact on the ability to bear risk.

The Supervisory Board is informed on a quarterly basis as part of MaRisk reporting and in aggregated form on the status of operational risks facing Deutsche Hypo.

Over and beyond the regular reporting to the executive board and to the supervisory board, an ad hoc reporting process has been implemented for high risk positions which change suddenly and which are potentially disadvantageous.

Operational risk – Development in 2010

As described above, the Self-Assessment method was replaced in the year under review by the more advanced Risk Assessment method. The implementation of all the necessary methods, which is harmonised across the group, has been largely completed. Associated analyses of group-wide scenarios and risk concentrations, as well as the performance of stress tests in the form of risk-oriented, individual scenario analyses, have been further refined as a result.

Within the scope of the further development of the ICS, important main processes were added and assessed under risk aspects by the end of 2010. Among other things, this includes the main processes of accounting and risk management for which the reasonableness and effectiveness of all key controls are tested; the main processes were then passed over to ICS normal operation.

Applying a risk-sensitive distribution key, the internal model revealed a value-at-risk of € 14.8m for Deutsche Hypo on 31.12.2010 for operational risk, based on a confidence level of 99.9 % and a duration of one year. Net claims with an operational claims background totalled € 0.2m for 2010, which means that it is close to the previous year's level which is also low.

·· Operational risk – Outlook

For further operationalisation of the management incentives, efforts will be made in 2011 to allocate the results from the internal model for the Deutsche Hypo to the individual departments. Furthermore, the system of risk indicators which has already been introduced is to be further developed and expanded to cover all the important categories of cause for operational risks at Deutsche Hypo completely and reasonably.

The further development of the ICS concept is to be continued in 2011. The essential risks associated with all the main processes which have not yet been assessed on the basis of the new ICS methodology will be identified by means of an expert assessment within the scope of an ICS self-assessment. Based on the findings of the ICS self-assessment, the reasonableness and efficacy of the key controls, which are put in place to counteract the identified risks, will be judged. Where necessary, appropriate measures will be put in place. Furthermore, other processes will be consistently subject to initial process and control assessment and subsequent transfer to ICS normal operation in a risk-oriented process.

The bank plans to switch over to a group-wide advanced measurement approach (AMA) in accordance with the Solvability Regulation (SolvV) for the third quarter of 2011 for the purposes of quantifying operational risks in accordance with supervisory law.

·· Summary and outlook

Deutsche Hypo has taken due account of all known risks by implementing the necessary measures. Suitable instruments have been implemented for identifying risks at an early stage.

The quotients determined in the RBC model show that the risk cover was in place at all times during the period under review. In the opinion of Deutsche Hypo, there are currently no risks which jeopardise its existence. Additionally, the RBC model, through its scenario analysis, provides sufficient information to enable the Bank to manage its risk situation appropriately at all times.

During 2010, Deutsche Hypo fulfilled the regulatory requirements for equity capital and liquidity at all times. During the reporting year, due account was also taken of the regulations on large credit limits in accordance with Sections 13a and 13b KWG (Banking Act).

During the reporting year, Deutsche Hypo still had a real sense of the consequences of the financial and economic crisis. While the situation in terms of market-price and liquidity risks has largely settled down in the course of the year, rising credit spreads in capital market business and a rise in the problems having to be tackled in property finance business have tended to pose a strain.

In order to take active measures to counter the effects of the financial and economic crisis, Deutsche Hypo took measures during the reporting year to reduce risks, as well as to consolidate capital. Deutsche Hypo will also continue to monitor developments carefully and, where necessary, take further measures to improve the risk situation.

Forecast

The economy and real estate markets

Overall economic development

Looking ahead to 2011, it is becoming apparent that the global economy will be slightly less dynamic because the impact of the monetary environment is no longer as expansive and on account of the more restrictive fiscal policy. The situation on the US labour market, which remains tense, and the possible negative repercussions that this is having on high street spending are weighing heavily on expected developments in terms of US economic growth. However, the growth trend in the United States still remains intact and may even have recently picked up again. As a result, a rise in real gross domestic product of 3.2 % may be expected for 2011. The US Federal Reserve Bank has intimated on a number of occasions that it wishes to maintain its course of a very expansive monetary policy for longer. The bank just has to point to the employment situation and to the modest levels of inflation for arguments to support its stance. Given this backdrop, we do not expect the FED to raise interest rates before the third quarter of 2011.

Germany is once again leading the way economically in the Eurozone with economic growth of 2.6 %. Even though the dynamics may also ease back here, there will continue to be a high divergence in overall economic development, in particular because there is considerably greater need to consolidate the public finances in a number of euro member states, and these states are also frequently opposed to further structural adjustments.

The Eurozone's modest economic recovery will continue in spite of the turbulence on the markets for government bonds, facilitating one-and-a-half per cent growth in GDP. The precarious positions of the public budgets of a whole host of member states, in particular, allows little room for manoeuvre for government investments or other expansive measures. Hence, there is a likelihood that the development in the member states in southern Europe will dampen Eurozone growth. Besides, the problem of high unemployment persists in many of the countries. A marked improvement is also expected in 2011. The employment situation in Spain continues to be particularly difficult.

The ECB will keep interest rates at their current low level for another year or so. This is not likely to be affected by the surprisingly sharp rise in inflation in December to 2.2 % compared to the previous year. This hike in prices is largely due to temporary rises in the price of energy, crude oil and food. Following increased price buoyancy in the first quarter, the pressure on prices is expected to ease off slightly over the course of the year, which means that inflation will not rise above 2 % for Germany and the Eurozone over the year on average. The latest trends in lending within the Eurozone and in money supply aggregates do not point towards possible inflationary risks. Given the lingering strains on the financial markets brought about by the circumstances of the debt crisis, the ECB will only role back its unconventional measures in 2011 on a very cautious and gradual basis and then introduce a cycle of interest rate rises.

·· Target real estate markets

Germany

The German real-estate market is a more secure investment environment for both domestic and foreign investors. Consequently, rising cross-border investments are also likely again in the medium term. Given the low volume of high quality property available, yields on core office property in central locations, in particular, are expected to come under pressure. Investors are also likely to broaden their spectrum of risk-return profile in the medium term. There will be an increase in sales as the property market picks up. Therefore, the volume of transactions will also continue to rise.

The general economic conditions remain favourable for the office market. Sales will continue to rise slightly this year. However, this is due more to relocations than to any additional net demand resulting from an expansion in available space. The expected slight rise in net absorption contrasts in the long term comparison with relatively low completion levels. This will only lead to slight decreases in vacancy quotas. Given the fact that there are still high levels of office vacancies, there is only expected to be slight growth in office rents.

Compared to previous years, retail sales have continued to grow due to further increases in disposable income resulting from falling unemployment. High street spending will also be boosted by positive trends in pay. This is also reflected in retail sales which are becoming one of the pillars supporting economic development. These good framework conditions are also having a positive impact on retail property, with rents expected to rise. Average rental income from shop premises in 1a locations in German city centres will rise slightly. There will still be more obvious rises in rent on the main shopping streets in large cities, while rents may even slip in some secondary locations.

USA

The American investment market has still not left its period of weakness fully behind. There is still pressure on prices; the recession is still not over, especially in secondary locations. The prevailing conditions on the credit market remain uncertain because it has been put under pressure by the weak securitisation market and high maturity on lending against collateral security. In the coming months, investors will continue to be cautious, and the banks will also be restrictive in their policy of providing lending for new projects given the many unresolved old cases. Therefore, growth in the volume of transactions is only expected to be modest, although this will gain in momentum as the year progresses.

Economic expansion will continue despite some problems on the domestic market. This will be linked to a turnaround on the labour market, although the expansion will be slow compared to previous economic cycles. The office market will also benefit from a slight rise in office employment levels. At the same time, the supply of new buildings will remain low. The recovery in the office markets will follow the situation in the economy as a whole, albeit lagging somewhat behind. Demand for office personnel, which will rise slowly as things pick up, will provide impetus for the office markets. This will first become apparent in high-end properties in top locations; secondary locations and non-core properties will continue to develop at a weaker rate initially. Office rents are likely to reach a trough in the coming months. An accelerated rise in rents is only expected in the medium term, however. Vacancies will only gradually drift away from their highs on account of the modest economic growth.

Even though sales have already made a discernible recovery, they still stand at pre-crisis levels. The retail sector will benefit from the slow improvement in employment. Things are picking up on the US labour market bit by bit, and this will also have a positive impact on spending by private households. At the same time, there has been a structural change which has been particularly beneficial to discounters. There is not only variation in how sectors are affected, but also regions; structurally weak areas are particularly hard hit. Since the number of insolvencies has not peaked yet, the market remains under pressure. Rental recovery will be weak, and there will only be a slight reduction in vacancies. Consequently, the retail property market recovery will occur after that of the retail sector on account of growth in sales.

United Kingdom

The British investment market will continue to be split: The majority of investors will also continue to be risk-averse, and will focus on core properties. However, there is a minority, which will grow, which is looking for opportunistic investment possibilities. The volume of transactions will rise correspondingly, albeit at a subdued level. Property values are already well advanced within the real-estate cycle; thus, this is likely to settle down in the short term. Therefore, slight rises in yields are also likely.

The office market remains in a recovery phase, even though its progress is still rather bumpy. The effects of more stringent budgetary policy is likely to slow down economic growth in the UK especially, reflecting itself in consumption stagnation because a second wave of job losses (in both the public and private sectors) and weak wage growth will hamper stimulus. This will also have a restrictive effect on office markets, and the recovery will slow down. At the same time, however, very few projects are nearing completion, and there is an absence of speculative construction projects. In summary, rents will only rise slowly, which will also be true of reductions in vacancies.

The retail sector will not be boosted significantly by trends on the labour market because employment will only rise very slowly, and wage agreements will be modest. In addition, government austerity measures and the rise in VAT at the start of the year will compound the situation. This will hamper stronger growth in high street spending; given the anticipated inflation, stagnation is even likely in real terms. A corresponding burden will also be placed on retail sales expectations. Thus, high growth is unlikely in retail rents.

France

Investors will also err on the side of caution in an economic environment which is expected to be rather quiet and while global uncertainty persists. Nevertheless, the volume of transactions will rise slightly because the finance conditions applied by banks should become more favourable. The competition between investors for the few investment opportunities that exist will cause lasting pressure on yields. The high decline that has been seen in yields, especially in the case of office property, will not continue on such a large scale. At the same time, however, there will be deceleration in price rises.

The essential determining factor for demand for office space is the level of employment and trends in this. With growth in employment so subdued, this will only generate minimal stimulus for demand for office space. There will be a marked reduction in new property becoming available as a significant decline in completions is expected. This will further the trend towards stabilisation in vacant premises. The recovery in rents will also continue, whereby this will be higher in high-end locations.

There will be conditional improvements in the framework conditions for the retail sector. Growth in high-street spending will have a positive impact, although this will not match pre-financial crisis growth rates. This is also attributable to the fact that there will only be a slight rise in disposable income due to the frail recovery on the labour market. Retails sales will also only be modest. At the same time, however, less new retail space will be completed. This will ease the pressure on vacant premises, and rents will make a further recovery, especially in top locations.

Spain

After the very weak performance of previous years, the Spanish investment market is expected to recover a little amount of ground. With some prices having fallen sharply since the financial crisis broke out, real estate represents an attractive investment again. Given the relatively high level achieved in yields, volumes of transactions are expected to be on the rise again. Furthermore, after retail property, offices will also become the increasing focus of investors' attention again. Therefore, prices are expected to rise again slightly from their low level, on the whole.

The expected weak economic recovery will have a negative bearing on demand on the office market. Demand for expansion will continue to be the exception. Furthermore, company relocations will remain the primary reason for demand for office space. However, the upgrading of office space will gradually draw to a close, so that less office space will be approved. At the same time, fewer completions are expected for the Spanish market. This will alleviate the pressure on rents and vacancies, although a general reversal in the trend is only likely to be seen in the medium term.

The Spanish retail sector is continuing to suffer from the weak increase in private consumption as a result of the weak labour market and wage developments, as well as the government's restrictive policy-making. No recovery in sales is anticipated in the foreseeable future either. Retailers will be correspondingly cautious with their plans to expand and are currently very selective with their choice of new locations. In view of the marked reduction in the number of projects being completed, this will lower the rise in vacancies. Consequently, there will be sustained pressure on rents, which will be especially evident in secondary locations.

Netherlands

The slight upward trend will continue on the Dutch investment market. Given the economic stabilisation and decreasing uncertainties on the capital markets, a modest rise in the volume of transactions is expected. With investors' attention having been focused largely on core property in recent years, they are now also turning to the other investment class. This growing interest will be accompanied by an overall reversal in yields.

Therefore, the recovery on the office market will be rather manageable. Given the weaker economic development, the number of employees is also likely to stagnate. The demand for additional office space will be affected accordingly. Relocations will continue to be the primary driver of sales. The high volume of vacant office space is only likely to come down strongly in the medium term. Since vacancies were also comparatively high in the boom years, project developers have arrived at logical conclusions. Fewer new-build projects are being carried out, especially as speculative investments. Rent rises are only likely to a limited extent against this background.

The recovery on the retail market will only set in slowly because little economic stimulus is expected. Consumer confidence will continue to grow, which will also lead to rising sales in the retail sector. However, there is still not expected to be any significant rise in demand from tenants for retail space because the economic recovery is too weak for that. In light of the high level of vacancies, the average prices for retail premises are also likely to slip. Rents in top locations will be unaffected by that and are likely to see small rises because there is particular demand for these premises from international chain stores.

·· Capital market development

The heterogeneous economic development within the European Union provides no clear pointers as to how interest rates are likely to develop in 2011. Germany will remain the engine that drives the European economy this year. By contrast, countries like Ireland or Greece are battling against huge problems. If the expansive monetary policy is rolled back too early, the efforts made by the most hard-hit countries to consolidate their budgets may unravel quickly. Judging by how the capital markets are faring around the world, we expect markets to stabilise in 2011. This trend will have a positive impact on the performance of the Bank's capital market business.

We continue to stand by our prediction that there will be sustained demand for credit in the area of public budgets. Since there are fewer employees in this market, Deutsche Hypo can be ever more selective in its choice of types of credit. As was previously the case in 2010, it will focus its attention on the core European markets, which are less exposed to fluctuations. The area of cash flow-based loans is given particular significance in the selection of assets. They are supported by income and are guaranteed exclusively by states or sub-state entities. This means that they are suitable for the cover fund and can be refinanced via Pfandbriefe. This meant that attractive margins were achieved at low risk last year.

·· Earnings forecast

The Bank's multi-year plan which is compiled yearly delivers the basis for the statements on the earnings forecast. A planning model is used for the multi-year planning which the Bank uses to model the results which are expected in future.

The model takes deterministic factors into account, such as trends in interest-bearing holdings and the margins achieved. Moreover, planning assumptions, such as the new business development expected in future or the likely development in administrative expenses, estimated by us on the basis of information which is currently at our disposal, are factored in.

The same applies to further assumptions and other parameters upon which the planning model is based.

The reliability of the statements which are forecast on the basis of the planning depends, of course, on receipt of the assumptions on which the planning is based, as well as on no risks emerging which may differ from the expected values. Provided this is not the case, this will impact accordingly upon the forecast earnings.

The following factors have a significant bearing on how results develop:

·· Development in property markets. On the one hand, this affects new business possibilities and, on the other hand, the development of the risk provision which is to be provided.

·· Development in the financial markets. This influences the development of new business in capital markets, in particular the margins to be achieved in this business. Furthermore, it also affects refinancing possibilities, the management of liquidity and valuation allowance requirements relative to the capital market portfolio.

- Development of asset transfer. The continued successful implementation of the transfer of the loan portfolio from NORD/LB to Deutsche Hypo has a tangible influence on the development of the future interest surplus.

In respect of real estate finance business, we expect to see further normalisation of the property markets, especially in USA and the UK.

In terms of macro-economic framework data, planning is based on market mechanisms which are largely fully functional. This implies the ability to raise an adequate amount of liquidity under normal market conditions at any time.

This gives rise to an increasing potential for new business which Deutsche Hypo can use selectively. The development of the margins is planned rather cautiously. It is likely, on the one hand, that a further increase in margins will come about as a result of the recovery of the property markets and by the associated higher demand from clients. This effect will also tend to be reinforced by the rising equity capital requirements (enshrined in Basel III) if the banks manage to shift (some of) the costs for maintaining additional equity capital reserves to the clients. On the other hand, however, increased competition between banks' offers may lead to effects in the opposite direction.

The earnings forecast also takes Deutsche Hypo's structural and business policy measures into consideration:

- Strengthening of project development business with resulting rises in earnings from interest and commission.
- Expansion of business in the area of Real Estate Investment Banking with more intensive financial advisoring in order to raise earnings from commission.
- Intensifying the area of syndicated finance. This serves to create greater possibilities for placing commitment in the interests of improved portfolio management and of tapping into any further sources of income that may be discovered.
- Client selection in terms of cross-selling potential connected with the rejection of less attractive client accounts.
- Expansion of the derivatives business and resulting earnings.
- Checking and improvement of efficiency in credit and other handling processes, as well as making use of other synergies within the NORD/LB Group.

Real-estate finance business area

The Bank is planning a volume of new business, which is noticeably above the volume canvassed in 2010. This is due to the assumption that the property markets will become further normalised, which is expected to generate further demand. We have erred on the side of caution and been rather more conservative in the calculation of the expected margin from new business than was the case with new business transactions in 2010.

We expect moderate growth in our loan portfolio, without taking into account the effects of the asset transfer. We anticipate double-digit growth in holdings when taking into account the effects of the transfer of the NORD/LB portfolio. In respect of the portfolio to be transferred, it is anticipated that margins on this business will be comparable to those achieved by the Deutsche

Hypo portfolio. This development will have a positive effect on net interest income, which we forecast to rise significantly in the scope of our planning.

Despite improved prospects on key real-estate markets, our cautious planning is based on the assumption that the risk result will be at about the same high level as it was in 2010.

The planned result from commission shows a slight rise over the corresponding result from 2010. The administration expenses for 2010 were also set a little higher during planning, most notably due to the continued extensive project portfolio.

Overall, we expect that the contribution from real-estate finance business will be slightly above the result for the last financial year.

Capital market business area

We expect the capital markets to gradually settle down and stabilise in 2011. Deutsche Hypo's good standing in the market and the continued good rating of our refinance instruments provide a platform for business to maintain its successful trend.

Our planning assumes that the volume of assets held in capital market business will remain constant in the medium term. With development in the financial market environment stabilising steadily, margins from the conclusion of new and existing business should also maintain on course for growth. In the case of results from period transformation, the contribution towards these results in 2011 is expected to be relatively low on account of the relatively flat interest rate structure curve. This is likely to be below the results for 2010. All in all, we expect capital market business to tend to show a slight drop in interest surplus compared to the previous year.

Our planning has allowed for a seven-digit loss in the risk result or in the result based on write-downs on securities held as fixed assets. This presupposes that the market will not be distorted any further by the euro crisis, which has already been described.

Allowing for the slight rises in administrative expenses, we anticipate that the contribution towards results for capital market business will be slightly down on the corresponding figure for 2010, which was very good.

Miscellaneous business area

As in the previous, the miscellaneous business area is expected to make a negative contribution towards results. The increased expenditure on interest for the new silent partnerships, which were taken on in 2010 will exacerbate the burden on the results

·· Outlook

All things considered, we expect the results from normal business activities in 2011 to be slightly up on 2010.

We expect rising interest surpluses and rising results from commission to continue in future years. In absolute terms, there will be a slight reduction in the credit risk result, although this should gradually come down close to the long-term average level again in relation to the volume of assets held. Compared to the trend in earnings, we expect to see disproportionately low rises in administrative costs.

All in all, we assume that there will be a further improvement in results from 2012 onwards.

Opportunities and risks

The major opportunities and risks facing the income situation of Deutsche Hypo can be described as follows:

Risks to operating income can arise if the anticipated volumes of new business cannot be generated on the markets subject to the anticipated margins. There is also the risk that the portfolio volume will not perform to the level anticipated in our plans and expectations. This is influenced by general factors, largely affected by customer behaviour in respect of ordinary and extraordinary repayment of loans. At the same time, risks arise from the possibility that the continued planned transfer of loan portfolios from NORD/LB to Deutsche Hypo will not progress as expected.

The after-effects of the euro and state financial crisis will continue to resonate on the capital markets and, thus, have a bearing on the development of Deutsche Hypo's results. However, in the event of a renewed exacerbation of the euro crisis, the possibility of a considerable increase in the risk potential and, thus, additional strain on the Bank's securities portfolio could not be ruled out.

We assume that there will also be persisting risks in some real-estate target markets in 2011 despite the economy having started to turn the corner and even though conditions on our target markets appear more favourable than they did in the previous two years. If there are renewed distortions on the real-estate markets, this would result in a corresponding increase in provision for risks.

However, a fundamental premise of our planning is that the stabilising tendencies being observed on capital and real-estate markets around the world will prove to be sustainable; in light of this development, we envisage opportunities to further develop new business successfully in our two areas of business, "real-estate finance" and "capital market business".

We are still of the opinion that our association with the NORD/LB Group is a source of opportunities. The wider perceptibility that Deutsche Hypo enjoys as a member of the NORD/LB Group can lead to additional opportunities for new business. The associated cross-selling potential also offers additional possibilities to generate income.

Equally, opportunities may arise in a competitive environment that is shrinking, to the extent that the mature and broad product range offered by Deutsche Hypo is able to gain market share.

Hanover, 4 March 2011

The Board of Directors

Dr. Allerkamp Pohl Rehfus

ANNUAL FINANCIAL STATEMENTS

- Balance sheet
- Profit and loss account
- Statement of changes in shareholders’ equity
- Cash flow statement
- Notes to the financial statements

ASSETS

BALANCE SHEET

		€	€	€	31 December 2009 €k
1. Cash reserve					
a) Cash on hand			2,749.92		4
b) Credit with central banks			32,556,442.76		46,720
of which					
with the German Central Bank	32,556,442.76 (PY 46,719 €k)				
c) Credit at postal giro offices			0.00		0
				32,559,192.68	46,724
2. Debt certificates from public authorities and bills of exchange for refinancing at central banks					
a) Treasury bills and non-interest-bearing Treasury bills as well as similar notes			0.00		0
of which					
refinanceable with the German Central Bank	0.00 (PY 0 €k)				
b) Bills of exchange			0.00	0.00	0
3. Due from banks					
a) Mortgage loans			8,054,325.29		5,172
b) Loans to local authorities			2,664,930,070.46		3,166,716
c) Other receivables			2,231,873,568.94		1,540,345
of which				4,904,857,964.69	4,712,233
due daily	882,231,854.30 (PY 618,393 €k)				
against pledging securities as collateral	0.00 (PY 0 €k)				
4. Due from clients					
a) Mortgage loans			11,447,739,113.34		9,773,705
b) Loans to local authorities			6,662,603,096.25		6,731,355
c) Other receivables			298,717,693.75		116,069
of which				18,409,059,903.34	16,621,129
against pledging securities as collateral	0.00 (PY 0 €k)				
5. Bonds and other fixed interest-interest securities					
a) Money market instruments					
aa) from public issuers		0.00			
ab) from other issuers		299,693,196.00	299,693,196.00		
					0
b) Bonds and debentures					
ba) from public issuers		5,191,365,888.63			
of which					
borr. from Ger. Central Bank	3,352,921,504.13 (PY 3,346,796 €k)				
bb) from other issuers		6,747,904,938.75	11,939,270,827.38		12,193,405
of which					
borr. from Ger. Central Bank	5,788,730,127.65 (PY 6,682,286 €k)				
c) Own bonds			76,408,428.07		109,429
Nominal amount	76,262,000.00 (PY 109,243 €k)			12,315,372,451.45	12,302,834
6. Shares and other variable-interest securities				51,129,188.12	91,804
7. Participatory interests				226,949.43	227
of which					
in banks	0.00 (PY 0 €k)				
in financial services institutions	0.00 (PY 0 €k)				
8. Shares in affiliated companies				10,806,588.53	51
of which					
in banks	0.00 (PY 0 €k)				
in financial services institutions	0.00 (PY 0 €k)				
9. Trust assets				5,006,192.14	5,174
of which					
Loans on a trust basis	5,006,192.14 (PY 5,174 €k)				
10. Equalisation claims against the public sector including bonds from their exchange				0.00	0
11. Intangible assets					
a) In-house industrial property rights and similar rights and assets			0.00		
b) purchased licences, industrial property, as well as licences to those rights and assets			292,107.00		
c) goodwill			0.00		
d) payments made on account			0.00	292,107.00	258
12. Tangible assets				3,909,471.80	3,948
13. Outstanding deposits on the subscribed capital				0.00	0
of which:					
called up	0.00 (PY 0 €k)				
14. Other assets				183,531,389.60	184,348
15. Accrued and deferred items					
a) from the issue and loan transaction			53,899,840.77		53,827
b) others			27,615,563.67		27,558
				81,515,404.44	81,385
16. Active deferred taxes				0.00	0.00
17. Assets arising from the overfunding of pension obligations				0.00	0.00
Total assets				**35,998,266,803.22**	**34,050,115**

LIABILITIES

BALANCE SHEET

		€	€	€	31 December 2009 €k
1. Bank loans and overdrafts					
a) Issued registered mortgage Pfandbriefe			305,918,717.14		282,487
b) Issued registered public Pfandbriefe			679,108,184.88		470,352
c) Other liabilities			7,310,565,688.57		6,474,342
of which				8,295,592,590.59	7,227,181
due daily	557,748,178.76 (PY 398,449 €k)				
issued to lenders to secure loans which have been taken on:					
registered mortgage Pfandbriefe	0.00 (PY 0 €k)				
registered public Pfandbriefe	0.00 (PY 0 €k)				
2. Amounts owed to customers					
a) Issued registered mortgage Pfandbriefe			949,120,821.07		1,120,589
b) Issued registered public Pfandbriefe			8,039,930,222.19		7,714,485
c) Savings deposits					
ca) with an agreed period of notice of three months		0.00			
cb) with an agreed period of more than three months		0.00	0,00		
					0
d) Other liabilities			1,052,382,133.49		1,286,162
of which:				10,041,433,176.75	10,121,236
due daily	40,218,330.32 (PY 5,898 €k)				
issued to lenders to secure loans which have been taken on:					
registered mortgage Pfandbriefe	0.00 (PY 0 €k)				
registered public Pfandbriefe	0.00 (PY 0 €k)				
3. Securitised liabilities					
a) Assigned bonds					
aa) Mortgage Pfandbriefe		5,461,871,912.46			4,069,258
ab) Public Pfandbriefe		7,177,466,178.86			8,144,245
ac) Other bonds		3,276,710,465.86			3,244,764
			15,916,048,557.18		15,458,267
b) Other securitised liabilities			0.00		0
of which:				15,916,048,557.18	15,458,267
Money market papers	0.00 (PY 0 €k)				
4. Trust liabilities				5,006,192.14	5,174
of which:					
Loans on a trust basis	5,006,192.14 (PY 5,174 €k)				
5. Sundry liabilities				217,650,449.71	114,955
6. Accrued and deferred items					
a) from the issue and loan transaction			50,854,497.04		51,588
b) other			20,584,367.93		23,619
				71,438,864.97	75,207
6a. Passive deferred taxes				**0.00**	
7. Provisions					
a) Provisions for pensions and similar obligations			23,742,626.00		22,248
b) Tax provisions			5,378,728.71		3,388
c) Other provisions			9,727,394.56		16,161
				38,848,749.27	41,797
9. Subordinated liabilities				383,300,000.00	253,526
10. Jouissance right capital				98,000,000.00	98,000
of which:					
due within the next two years	0.00 (PY 0 €k)				
11. Fund for general bank risks				0.00	0
12. Shareholders' equity					
a) Subscribed capital			80,640,000.00		80,640
Capital held by silent partners			194,000,000.00		44,000
b) Capital reserve			406,313,877.23		311,314
c) Profit reserves					
ca) Statutory reserve		18,917,799.60			18,918
cb) Reserve for shares in a controlling or majority-owned company		0.00			0
cc) Reserves acc. to articles of association		0.00			0
cd) Other profit reserves		214,424,000.00			199,424
			233,341,799.60		218,342
d) Balance sheet profit			16,652,545.78		476
			16,652,545.78	930,948,222.61	654,772
Total liabilities				35,998,266,803.22	34,050,115
1. Contingent liabilities					
a) Contingent liabilities from settled bills of exchange which have been rediscounted			0.00		0
b) Liabilities arising from sureties and guarantee agreements			842,981,428.47		692,390
c) Liability from the provision of collateral for third-party liabilities			0.00	842,981,428.47	0
					692,390
2. Other obligations					
a) Repurchase commitments from non-genuine repo transactions			0.00		0
b) Placement and underwriting obligations			0.00		0
c) Irrevocable credit commitments			719,456,530.75	719,456,530.75	559,164
					559,164

PROFIT AND LOSS ACCOUNT

	€	€	€	31 December 2009 €k
1. Interest earnings from				
a) Credit and money market transactions	819,555,539.87			905,574
b) Fixed interest bearing securities and book-entry securities	381,348,268.02			421,032
		1,200,903,807.89		1,326,606
2. Interest expenses		1,029,897,623.85		1,213,079
			171,006,184.04	113,527
3. Current income from				
a) Shares and other variable interest bearing securities		1,667,140.00		4,120
b) Participatory interests		763.89		1
c) Shares in affiliated companies		0.00		36
			1,667,903.89	4,157
4. Income from profit pooling, surrender or partial-surrender agreements			0.00	0
5. Commission income		16,230,069.01		17,388
6. Commission expenses		2,813,229.87		683
			13,416,839.14	16,705
7. Net income or net expenses from the trading portfolio			0.00	0
8. Other operating income			2,315,803.62	2,799
10. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	31,162,532.40			25,434
ab) Social security and expenses for pension plans and for support	6,197,534.35	37,360,066.75		7,846
of which: for pension plans 1,790,944.36 (PY 4,082 €k)				33,280
b) Other administrative expenses		31,302,671.16		22,324
			68,662,737.91	55,604
11. Write-downs and value adjustments on intangible assets and tangible fixed assets			737,546.68	967
12. Other operating expenses			1,809,157.37	5,404
13. Write-downs and value adjustments on receivables and specific securities as well as allocation to provisions in credit business		78,758,179.85		69,597
14. Income from writing up receivables and specific securities as well as from the release of provisions in credit business		0.00		0
			78,758,179.85	69,597
15. Write-downs and value adjustments on participatory interests, shares in affiliated companies and on securities treated as fixed assets		0.00		34,923
16. Income from writing up participatory interests, shares in affiliated companies and securities treated as fixed assets		6,587,457.96		0
			– 6,587,457.96	34,923
17. Expenses from pooled losses			0.00	0
19. Result from normal operations			**45,026,566.84**	**– 29,307**
20. Extraordinary income		9,560.41		0
21. Extraordinary expenses		570,081.00		0
22. Extraordinary result		– 560,520.59	**– 560,520.59**	0
23. Taxes on income		5,026,641.75		– 1,469
24. Other taxes not included under item 12		– 182,118.14		1,339
			4,844,523.61	– 130
25. Income from pooled losses			0.00	0
26. Profits surrendered under a profit pooling, surrender or partial surrender agreement			8,444,654.72	2,973
27. Profit/loss for the year			**31,176,867.92**	**– 32,150**
28. Profit/loss brought forward from previous year			475,677.86	626
30. Transfers from profit reserves d) from other profit reserves			0.00	32,000
32. Transfer to profit reserves d) other profit reserves			– 15,000,000.00	0
34. Balance sheet profit			**16,652,545.78**	**476**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in € thousands)	Subscribed capital	Silent deposits	Capital reserve	Profit reserves	Balance sheet profit	Total shareholders' equity
As of 31 December 2009	**80,640**	**44,000**	**311,314**	**218,342**	**476**	**654,772**
Capital increases	0	150,000	0	0	0	150,000
Dividend payments	0	0	0	0	0	0
Other changes						
Additional payments acc. to S. 272(2) No. 4 HGB	0	0	95,000	0	0	95,000
Pre-allocations to the profit reserves	0	0	0	15,000	– 15,000	0
2010 annual result	0	0	0	0	31,177	31,177
As of 31 December 2010	**80,640**	**194,000**	**406,314**	**233,342**	**16,653**	**930,949**

CASH FLOW STATEMENT

(in € thousands)		01.01.- 31.12.2010
1.	Net result before extraordinary items	31,737
	Non-cash items contained in the net result and transfer to the cash flow from current operations	
2.	Write-downs, value adjustments and write-ups to receivables, fixed and financial assets	107,573
3.	Increases/decreases in reserves	– 6,779
4.	Other non-cash expenses/income	0
5.	Profit/ loss from the disposal of financial assets	– 12,517
6.	Other adjustments (balance)	– 160,539
7.	**Subtotal**	– 40,524
	Change in assets and liabilities from current operations	
8.	Receivables	
8a.	- from banks	– 237,733
8b.	- from clients	– 1,902,180
9.	Securities (if not financial assets)	– 173,915
10.	Other assets from current operations	– 30,659
11.	Liabilities	
11a.	- to banks	1,088,354
11b.	- to clients	– 65,256
12.	Securitised liabilities	501,606
13.	Other liabilities from current operations	105,374
14.	Interest and dividends received	1,242,568
15.	Interest paid	– 1,053,087
16.	Extraordinary deposits	0
17.	Extraordinary disbursements	0
18.	Income tax payments	1,245
19.	**CASH FLOW from current operations**	**– 564,206**
20.	Proceeds from disposals of	
20a.	- financial assets	1,198,780
20b.	- tangible fixed assets	31
21.	Disbursements for investments in	
21a.	- financial assets	– 990,066
21b.	- tangible fixed assets	– 539
22.	Proceeds from the disposal of consolidated companies and other business units	0
23.	Disbursements for the acquisition of consolidated companies and other business units	– 11,855
24.	Changes in funds from other investment activities (balance)	– 236
25.	**CASH FLOW from investment activities**	**196,116**
26.	Proceeds from equity allocations (capital increases, disposal of own shares, etc.)	95,000
27.	Disbursements to company owners	
27a.	- dividend payments	0
27b.	- other disbursements	– 20,848
28.	Changes in funds from other capital (balance)	279,774
29.	**CASH FLOW from financing activities**	**353,926**
30.	Non-cash changes in finance	– 14,165
31.	Exchange rate, consolidation group and valuation-related changes in valuation funds	0
32.	Finance funds at the start of the period	46,724
33.	**Finance funds at the end of the period**	**32,559**

NOTES TO THE FINANCIAL STATEMENTS

General information

1. Accounting regulations

The annual financial statements for the 2010 financial year have been prepared in accordance with the provisions of the German Commercial Code (HGB) in conjunction with the Ordinance on the Presentation of Accounts of German Banks (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG). In accordance with the transitional provision Section 67(8) second sentence EGHGB (Introductory Law to the German Commercial Code), the previous year's figures were not adjusted.

The annual financial statements comprise the balance sheet, the profit and loss account, the cash flow statement, the statement of changes in shareholders' equity, and the notes.

2. Accounting and valuation principles

Cash reserves are reported at their nominal value.

The Bank's receivables are reported at their nominal value according to Section 340e(2) of the Commercial Code (HGB). Any differences between the nominal value and the payout value are reported under accrued and deferred items, which are released on a straight-line basis.

Appropriate valuation adjustments and provisions are set aside in relation to detectable individual risks. Account is taken of contingent risks in the form of a lump-sum valuation adjustment. Additionally, reserves have also been formed in accordance with Section 340f(1) HGB. The compensation possibilities available in accordance with Section 340f(3) HGB have been availed of.

Securities are reported in the balance sheet under "Bonds and other fixed-income securities", as well as under "Shares and other variable-interest securities".

Zero bonds are reported under assets at their historical cost upon acquisition. Depending on the terms of issue, the interest determined on the basis of the effective yield calculation is also reported under assets.

Securities held as fixed assets are shown on the balance sheet at their depreciated historical costs. With a sustained diminution in value considered likely, unscheduled write-downs will be reported in accordance with Section 253(3) third sentence HGB. Write-ups will be performed in cases where the reasons for a write-down cease to apply. The secu rities which are held as fixed assets will be written up or down to the nominal value in a straight-line manner by the end of their term. Securities held as fixed assets which have been written down due to a permanent diminution in value will no longer be written up or down in a straight-line manner from the time of depreciation. Securities which have been subject to unscheduled depreciation will only be written up or down again once the write-downs have been reversed.

Securities from the liquidity are valued in accordance with the lower-of-cost-or-market principle (Section 253(4) HGB).

In order to determine the fair values of securities, Deutsche Hypo bases the valuation on the mark-to-market) or mark-to-matrix values in the case of active markets. If markets are inactive, as with the two previous years, a discounted cash flow model (DCF model) is used to determine the fair value, especially if abnormal bid/ask spreads and absence of representative sales volumes have been discovered. Within the scope of the DCF model which is applied, the cash flows for the securities are risk-adjusted and discounted with the swap curve. The risk adjustment takes account of the issuer-related default probability, as well as a worst-case assumption about the loss quota in the event of a default of 100 percent. Furthermore, spread mark-ups are also taken into account during discounting for the claimed rate of return on equity. If the securities contain cancellation rights, they will be included in the valuation with the conventional methods of financial mathematics or standard option price models.

MBS bonds have also been valued as a general rule in accordance with the valuation model explained above for securities. Given the irregular structure of intention and repayment cash flows, the expected cash flows have been calculated on the basis of the Weighted Average Life (WAL) and the average expected rate of interest. The default probabilities used are based on current analyses conducted by the Moody's rating agency. In determining the risk-dependent return entitlement for maintaining equity capital reserves, the quality of the MBS tranche is also taken into consideration in addition to the issuer's likelihood of default. In order to make additional allowance for uncertainty in estimating the WAL in active markets, the WAL has also been extended by a year in these cases. This leads to a lower value and, thus, to a cautious valuation.

Standard market models have been used to determine diminutions in value, which are likely to be permanent, in US RMBS securities. These models are used to estimate the expected long-term defaults on the tranches which are held by Deutsche Hypo. The models allow for the decisive risk data for determining the default risk structure and have already been applied in the past two financial years. Credit analysis was used to determine diminutions in value, which are likely to be permanent, in other securitisation tranches, with due regard for the performance reports which are regularly provided for the securitisation tranches.

As in the previous year, securities from the liquidity reserve were valued at market prices or with corresponding interest curves on account of the adequate activity of the markets.

Participatory interests and shares in affiliated companies or at a lower fair value in accordance with the regulations governing fixed assets. Write-ups are performed in cases where the reasons for a write-down cease to apply. Applying Section 340c(2) HGB, we offset the expenses arising from write-downs on participatory interests, shares in affiliated companies and to securities which are treated as fixed assets against write-ups on these assets and report the offset expenses or income as results from financial assets.

Tangible assets and intangible assets are carried at their historical cost and, where depreciable, taking account of write-downs. Thus tangible assets and intangible assets are carried at their historical cost minus straight-line scheduled depreciation over their estimated useful life. Minor-value assets are depreciated in accordance with Section 6(2a) German Income Tax Act (EStG).

The tax claim resulting from the amendment of Section 37 of the German Corporate Income Tax Act (KStG) as a result of the Act on fiscal measures to accompany the introduction of the European Company and the modification of other fiscal provisions (SEStEG) was reported at its present value applying a rate of interest of 3.9 %. The payout shall commence with effect from 2008 in ten equal annual instalments.

Debts are, as a general rule, carried as liabilities in their settlement amount. Any difference between the nominal value and payout amount is reported under accruals and deferrals, which are written back on a scheduled basis. Zero bonds are reported at the price of the issue plus a pro-rata amount of interest based on the issue yield.

The pension provisions are calculated by independent actuaries using an expectancy cash-value method, the projected unit credit method, applying the provisions of the German Accounting Law Modernisation Act (BilMoG). In this process the pensions which are running on the date of the financial statements and the part of the expectancies accruing (or earned) on the previous period in service are evaluated. Allowance is also made for increases on this which are expected in the future as a result of pay rises or pension adjustments. The cash value of the obligation is calculated by discounting the pension payments which are expected in future (settlement amount in accordance with Section 253(1) second sentence HGB) pursuant to Section 253(1) HGB with the average rate of market interest over the past seven years. Use is made here of the simplification ruling set forth in Section 253(2) second sentence HGB, and the rate of interest is applied on a flat-rate basis for the remaining term of fifteen years.

The higher obligation cash value arising from the first application of the German Accounting Law Modernisation Act (BilMoG) compared to the criteria which previously applied under commercial law is to be collected in application of Section 67(1) EGHGB by no later than 31 December 2024 in each financial year in respect of at least one fifteenth and is to be reported in the profit and loss account under “Extraordinary expenses”.

The calculations for the period to 31 December 2010 are based on the following actuarial assumptions:

Actuarial interest	5.15 %
Mortality tables	Heubeck RT 2005 G
Expectancy dynamics	2.00 % p.a
Pension dynamics	2.75 % / 2.87 % / 1.00 %
Fluctuation	3.00 %

The other provisions and tax provisions are set at the level of the settlement amount which is required on the basis of a reasonable commercial assessment. Pursuant to Section 253(2) first sentence HGB with a residual term of more than one year, they are discounted with an average market rate of interest for the past seven financial years reflecting their residual term.

“Contingent liabilities” and “Other liabilities” are reported at their nominal amounts in the balance sheet.

·· 3. Currency conversion

The assets, debts and off-balance-sheet transactions denominated in foreign currencies are converted in line with the principles stipulated in Sections 256a and 340h of the Commercial Code.

The following deferral criteria apply to the special cover:

The risk associated with changes in the exchange rate is eliminated in full or in part within the scope of all the transactions conducted in one currency. The assessment on whether there is a risk arising from changes in the exchange rate is determined by the overall position for each currency, i.e. the combination of all the transactions in a particular currency which do and do not have an effect on the balance sheet.

If an asset in a foreign currency is at acute risk of default, it will be reduced by the amount in question, so that it is no longer taken into consideration in the special cover.

When comparing the amounts receivable and payable in a particular currency irrespective of the dates on which the respective transactions mature, it is ensured that incongruencies in terms of time can be eliminated by appropriate follow-up transactions.

Assets and liabilities in a foreign currency are converted at the mean spot exchange rate on the date of the financial statements. Forward transactions are valued using the split forward price method (swap price and forward margin), as they are concluded to hedge interest-bearing items.

The adjusting items created from valuing swap transactions at current rates are reported separately according to the balance under other assets or other liabilities.

The adjustment items for forward exchange transactions are netted under Other assets or Other liabilities.

Expenses arising from currency conversion are included in the profit and loss account. Income arising from the currency conversion is taken into consideration insofar as it is based on specially covered transactions, or that the assets or liabilities being converted have a residual term of one year or less. These expenses and this income are reported either under “Other operating expenses” or under “Other operating income”.

As a general rule, there is special cover for all transactions in foreign currencies. Excesses are generally insignificant and have a term of up to one year.

All foreign exchange rates are calculated by and taken from the European System of Central Banks.

·· 4. Derivatives

The Bank uses derivative financial instruments to manage the general interest rate risk (global bank management). In addition, the Bank holds derivative financial instruments to hedge foreign currency risks, as well as credit derivatives in the portfolio. All derivatives are assigned to the non-trading portfolio. Derivatives from the non-trading portfolio are governed by the principle of non-accounting of pending transactions. The Bank checks the requirement for accrual for contingent losses for the non-trading portfolio on the date of the financial statements.

Limitation of interest by phases from derivatives is reported under “Monies due from banks” or “Bank loans and overdraft”. Upfronts from derivatives are reported under accruals and deferrals.

Deutsche Hypo provides the security for the credit default swaps (CDS) contained in the portfolio. The issuers of reference are European states, as well as a US federal state. The nominal volume of the CDS is reported in the off-balance sheet under “Contingent liabilities”. In this regard, reference is also made to Note No. 23 in respect of “Contingent liabilities”.

Notes on the balance sheet

5. Breakdown of residual maturities

(in € thousands)	31.12.2010	31.12.2009
Monies due from banks		
- up to three months	1,645,194	1,288,393
- between three months and one year	780,786	563,064
- between one and five years	873,190	1,096,715
- more than five years	1.028,142	1,141,407
- total pro-rata interest	577,546	622,654
Balance sheet value	**4,904,858**	**4,712,233**
Due from clients		
- up to three months	1,140,801	1,006,694
- between three months and one year	1,553,583	1,175,644
- between one and five years	5,645,091	5,475,596
- more than five years	9,896,744	8,772,237
- total pro-rata interest	172,841	190,958
	18,409,060	16,621,129
Claims without an agreed term	0	0
Balance sheet value	**18,409,060**	**16,621,129**
Debenture bonds and other fixed-interest securities		
- due in the following year	1,651,666	1,467,003
Bank loans and overdraft		
- up to three months	4,206,556	4,187,273
- between three months and one year	1,436,619	1,495,587
- between one and five years	1,331,829	655,125
- more than five years	839,496	388,161
- total pro-rata interest	481,093	501,035
Balance sheet value	**8,295,593**	**7,227,181**
Securitised liabilities		
- due in the following year	79,945	144,684
- mehr als drei Monate bis ein Jahr	205,339	397,796
- between one and five years	1,043,552	1,075,787
- more than five years	8,485,992	8,261,818
- total pro-rata interest	226,606	241,151
Balance sheet value	**10,041,433**	**10,121,236**
Securitised liabilities		
- due in the following year	3,761,794	3,396,611

6. Monies due from and payable to affiliated companies and undertakings in which the company has a participating interest

	Balance sheet amount		Of which:			
			Affiliated companies		Undertakings in which the company has a participating interest	
(in € thousands)	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Due from						
banks	4,904,858	4,712,233	730,283	394,534	-	-
Clients	18,409,060	16,621,129	8,718	8,335	4,595	5,413
of which: subordinated	8,718	8,335	8,718	8,335	-	-
Debenture bonds and other fixed-interest securities	12,315,372	12,302,834	811,256	296,602	-	-
Bank loans and						
overdraft	8,295,593	7,227,181	2,343,025	2,090,833	-	-
Clients	10,041,433	10,121,236	132	148	-	-
Securitised liabilities	15,916,048	15,458,267	-	-	-	-
Subordinated loans (external)	383,300	253,526	-	-	-	-

7. Securities held as fixed assets

Under “Bonds and other fixed-income securities”, securities with a volume of € 11,485.6 million (PY € 11,645.5 million) are, as resolved, treated as fixed assets and carried at historical cost.

These commercial papers, which should remain permanently in the Bank’s possession, may for the greater part be used as cover for the issuance of public Pfandbriefe.

The results of the write-up and down of the order of – € 1,195,000 (PY € + 1,680,000) are reported in the profit and loss item "Interest earned on fixed-interest securities and book-entry securities”. In the financial year, unscheduled write-downs in accordance with Section 253(3) third sentence HGB due to probable permanent diminutions in value of the order of – € 6,758,000 (PY – € 35,596,000) are reported in the profit and loss item “Write-downs on participatory interests, shares in affiliated companies and to securities which are treated as fixed assets”. In the case of the other securities, the good credit rating indicates no fundamental risks. Write-ups in accordance with Section 253(5) HGB of the order of € 3,635,000 (PY € 9,923,000) were performed in the reporting year.

Securities held as fixed assets are valued at their historical costs if there is no permanent diminution in value. The lower of cost or market value depreciation was not applied to these securities for holdings with a book value of € 4,327 million (PY € 4,654 million) and a fair value of € 4,166 million (PY € 4,493 million).

8. Shares and other variable-interest securities, participatory interests, shares in affiliated companies

NORD/LB AM 9 (book value € 51.1m, market value € 51.2m), which is contained under "Shares and other variable-interest securities", shows an undervaluation of € 42,500 at the end of 2010. The fund is managed as a special asset within the meaning of the forms of investment permitted under the Investment Act in connection with the fund's investment guidelines. Payments of € 1,660,000 were collected in 2010.

The HSBC Trinkaus Euro Value Bonds INKA fund, which was included in the previous year under "Shares and other variable-interest securities", was disposed of in the reporting year, returning a profit of € 1,641,300.

Shares in Deutsche Börse AG were also disposed of with a profit of € 171,400.

There was no change in the participatory interests held during the year. There was no need for write-downs during the year.

Deutsche Hypo Delaware Blocker Inc., Wilmington, Delaware/USA, costing € 10,755,500 to acquire, has been added to the affiliated companies. It was formed within the scope of an emergency acquisition in the US.

9. Marketable securities and participatory interests

	Balance sheet disclosure		of which:		of which:			
			marketable[1]		marketable[1]		Not listed on the stock market[1]	
(in € thousands)	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Debenture bonds and other fixed-interest securities	12,315,372	12,302,834	12,151,872	12,137,692	10,462,320	10,922,191	1,689,552	1,215,501
Shares and other variable-interest securities	51,129	91,804	-	40,675	-	40,675	-	-
Investments in subsidiaries	227	227	-	-	-	-	-	-
Shares in affiliated companies	10,807	51	-	-	-	-	-	-

[1] excluding pro-rata interest

10. Fiduciary transactions

(in € millions)	31.12.2010	31.12.2009
Trust assets		
Monies due from banks	-	-
Due from clients	5,006	5,174
Total assets	**5,006**	**5,174**
Trust liabilities		
Bank loans and overdraft	2	3
Amounts owed to other depositors	5,004	5,171
Total liabilities	**5,006**	**5,174**

11. Fixed-asset movement schedule

(in € thousands)	Historical costs 01.01.2010	Additions	Disposals	Depreciation accumulated	in 2010	Book value on 31.12.2010	Book value on 31.12.2009
Intangible assets	7,069	236	408	6,605	201	292	258
Property, plant and equipment	26,496	530	1,775	21,342	528	3,909	3,948
			Change*				
Securities held as fixed assets			– 159,830			11,485,619	11,645,449
Shares and other variable-interest securities			– 40,675			0	40,675
Investments in subsidiaries			0			227	227
Shares in affiliated companies			+ 10,756			10,807	51

*) Summary acc. to Section 34(3) RechKredV (German ordinance regulating the financial reporting of banks and credit institutes)

12. Intangible assets

Intangible assets exclusively include software licences acquired at cost.

13. Tangible assets

The property and buildings used by the Bank with a value of € 1,534,000 (PY € 1,550,000) and the operating and business equipment with a value of € 1,665,000 (PY € 1,678,000) are contained under tangible assets.

14. Own shares

Our employees were not given share-purchase options during the reporting year. On the balance sheet date, the Bank held none of its own shares in its portfolio.

15. Other assets

The other assets essentially include balancing items from foreign currencies of the order of € 169,638,000 (PY € 166,758,000), receivables from the tax office of € 7,187,000 (PY € 10,168,000), as well as surrender values from reinsurance policies of € 4,340,000 (PY € 4,522,000).

16. Prepaid and deferred items

(in € millions)	31.12.2010	31.12.2009
Assets		
Issuing discount from bonds	27.4	23.8
Premium on claims	26.5	30.0
Swap upfront payments	26.9	27.6
Liabilities		
Discount from claims	33.3	34.0
Premium on bonds	9.7	15.4
Swap upfront payments	20.6	23.6

17. Taxes

a) Income taxes
Taxes on income arose exclusively from the results of normal business activities. Losses carried forward from the previous year were offset against this tax liability.

b) Deferred taxes:
The Bank's passive deferred taxes, which are very low, have been netted against active deferred taxes which largely result from fiscal losses carried forward. Additional active deferred taxes amounting to € 14,130,000 were not entered on the assets side, exercising the option provided under Section 274(1) second sentence HGB.

The deferred taxes for head office in Germany were calculated applying an income tax rate of 31.90 %, as well as a rate of 28 % for the UK branch. The German tax rate arises from the prevailing 15.00 % corporation tax rate in Germany, along with 5.50 % solidarity surcharge and trade tax of 16.07 %.

18. Other liabilities

The other liabilities essentially contain balancing items from foreign currencies of the order of € 189,550,000 (PY € 90,727,000).

Furthermore, the other liabilities also include interest on subordinated liabilities of € 21.1m (PY € 6.2m) and on the jouissance right capital of € 5.5m (PY € 6.3m).

19.Provisions

Applying Section 67(1) first sentence EGHGB (Introductory Law to the German Commercial Code), this gives rise to an off-balance sheet pension provision of € 7.9m as of 31 December 2010. This amount is to be appropriated to the provisions by 31 December 2024 at the latest.

20. Subordinated liabilities

Subordinated liabilities are subject to nominal rates of interest of between 4.00 % and 6.75 % and fall due from 2011 to 2027. Early repayments and conversions are not possible.

A subordinated liability exceeds 10 % of the total statement. This is an amount of € 90m at an interest rate of 6.12 % and with a due date of 27 January 2020. Early repayment is only possible if there are additional payments to the lender or its legal successor on account of taxation.

The liabilities reported correspond with the requirements of Section 10(5a) of the German Banking Act (KWG).

The sum of € 70.3 million will fall due within the next two years. € 20.7m was paid in interest in the reporting year (PY € 13.2m). The rise results from a clear increase in the volume of subordinated liabilities.

·· 21. Jouissance right capital

The nominal jouissance right capital reported is € 98.0m. The jouissance rights meet the requirements of Section 10(5) of the German Banking Act (KWG).

The terms run to 31 December 2015 (nominally € 23.0m), 31 December 2016 (nominally € 40.0m) and 31 December 2017 (nominally € 35.0m). No jouissance rights will fall due within the next two years (PY € 0m).

There is no approved jouissance right capital.

·· 22. Notes on the development of equity capital

The statement of changels in shareholders' equity shows how equity capital developed during the reporting period. The key elements of the equity capital, as well as important changes in the last financial year are explained below:

Subscribed capital

Deutsche Hypo held subscribed capital of € 80.64m on 31 December 2010, which is divided into 13,440,000 individual shares.

The Board of Directors is authorised, until 19 January 2014 and with the approval of the Supervisory Board, to increase the Bank's share capital on one or more occasions but by no more than a total of € 40.2m by issuing up to 6,700,000 new bearer shares in exchange for cash deposits in accordance with Sections 202 et seq. of the Joint Stock Companies Act. This right was not exercised in the year under review.

Capital held by silent partners

At the Bank's Extraordinary General Meeting held on 20 January 2000, it was decided to conclude agreements for setting up undisclosed partnerships. By 31 January 2000, cash contributions totalling € 44m had been made. These deposits attract interest at 8.10 % / 8.16 % or at the 12-month EURIBOR + 2.6 %. The term ends on 31 December 2011.

Two new contracts with an indefinite term were concluded during the reporting year, each for € 75 m and with interest yields of 10.00 % and 11.20 % respectively.

The deposits from the silent partners are allocated to the Bank's risk equity capital in accordance with Section 10(4) German Banking Act (KWG).

Capital reserve

Nord/LB placed a deposit of € 95 m in the capital reserve in the last financial year.

23. Contingent liabilities

(in € millions)	31.12.2010	31.12.2009
Liabilities arising from sureties and guarantee agreements	843.0	692.4
of which, payable to affiliated companies	-	-
Composition:		
Credit default swaps	604.4	591.9
Guarantees in mortgage business	238.6	100.5

In future, contingent liabilities will lead to possible disbursements, albeit based on events in the past. These obligations will be brought about by the occurrence of uncertain events in the future. The amount which will have to be settled cannot be estimated with any adequate degree of reliability. No provision has been set aside for obligations set at nominal values because the loss is considered less likely to occur. The assessment of probability is based on the estimated creditworthiness of the issuers of reference (credit default swaps) or of the borrowers (guarantees in mortgage business) on the date of the financial statements.

24. Other obligations

The irrevocable credit commitments, amounting to € 719.6 m (PY € 559.2 m) are exclusively on mortgage loans.

25. Foreign-currency positions

The foreign-currency amounts reported in the balance-sheet positions and off-balance sheet are divided as follows:

(in € millions)	31.12.2010	31.12.2009
Fixed assets	5,705.5	5,007.6
Liabilities	1,628.4	1,168.3
Other commitments	155.8	178.7
Contingent liabilities	169.4	156.9

26. Securities repurchase transactions

49 securities with a book value of € 2,577 m (PY € 2,871 m) were sold under agreements to repurchase on the balance-sheet date within the scope of repo transactions. The securities are used to hedge bank loans and overdrafts.

27. Open market transactions

On 31 December 2010, securities with a nominal value of € 1,177.7 m (PY € 1,325.3 m) were blocked for overdraft facilities and open market transactions with the German Central Bank. They are used to hedge bank loans and overdrafts. Open market loans worth a total of € 500 m (PY € 220 m) were availed of on the balance-sheet date.

As in the previous year, no own bonds were pledged as collateral for transactions on EUREX.

Notes on the profit and loss account

28. Other operating income

The other operating income essentially contains cost reimbursements of the order of € 1.3 m.

29. Other operating expenses

The item essentially contains exchange-rate losses arising from foreign-exchange transactions of the order of € 1.3 m.

30. Extraordinary expenses

The extraordinary expenses of € 0.6 m essentially result from the changed evaluation of provisions for pensions due to the German Accounting Law Modernisation Act (BilMoG) (one fifteenth of the difference amount to be allocated by 31 December 2024 at the latest).

Other information

31. Information on the cover analysis

Publication in accordance with S. 28(2) No. 1a PfandBG

Claims used to cover mortgage Pfandbriefe by size (Mortgage loans serving as cover):

(in € millions)	31.12.2010	31.12.2009
up to and including € 300,000	645	668
over € 300,000 up to and including € 5 million	1,429	1,195
more than € 5 million	5,241	4,244
Total	**7,315**	**6,107**

Publication in accordance with S. 28(2) Nos. 2 and 3 PfandBG

Total amount of payments overdue by at least 90 days

(in € millions)	31.12.2010	31.12.2009
Germany	0.8	2.0
Netherlands	0.9	0
Spain	3.0	0
USA	3.1	0
Total	**7.8**	**2.0**

Publication in accordance with S. 28(2) No. 1b, c PfandBG

Claims used to cover mortgage Pfandbriefe according to the region in which the mortgaged property is located and according to type of use (mortgage loans serving as cover):

	Germany		United Kingdom		Netherlands		France	
(in € millions)	2010	2009	2010	2009	2010	2009	2010	2009
Apartments	144	153	5	0	17	3	1	1
Detached family homes	418	446	0	0	1	1	0	0
Multifamily homes	890	896	22	19	98	1	59	60
Office buildings	801	732	299	246	453	217	192	146
Commercial buildings	1,574	1,352	142	120	64	104	72	12
Industrial buildings	13	10	13	15	0	0	0	0
Other commercial use	418	274	207	176	130	120	23	23
Building sites	25	12	1	30	0	0	0	0
Total	4,283	3,875	689	606	763	446	347	242

	Austria		Spain		Belgium		USA	
(in € millions)	2010	2009	2010	2009	2010	2009	2010	2009
Apartments	0	0	0	0	0	0	12	0
Detached family homes	0	0	0	0	0	0	0	0
Multifamily homes	0	0	0	0	0	0	140	118
Office buildings	0	0	61	62	2	2	407	319
Commercial buildings	0	0	139	81	0	0	185	74
Industrial buildings	0	0	0	0	0	0	0	0
Other commercial use	13	0	42	43	0	0	217	221
Building sites	0	0	4	5	0	0	11	14
Total	13	0	246	191	2	2	972	746

Publication in accordance with S. 28(3) Nos. 1, 2 PfandBG

Claims used to cover public Pfandbriefe (cover assets):

	Germany		Belgium		European Union		Finland	
(in € millions)	2010	2009	2010	2009	2010	2009	2010	2009
Central state	151	251	25	10	149	148	0	0
Regional authority	3,691	3,992	348	248	0	0	62	45
Local authority	115	46	0	0	0	0	0	0
Others	5,588	5,288	140	140	368	317	0	0
Total	9,545	9,577	513	398	517	465	62	45

(in € millions)	France 2010	France 2009	Greece 2010	Greece 2009	United Kingdom 2010	United Kingdom 2009	Ireland 2010	Ireland 2009
Central state	0	0	62	66	0	0	0	0
Regional authority	70	76	0	0	0	0	0	0
Local authority	0	0	0	0	0	0	0	0
Others	262	99	0	0	74	71	20	20
Total	**332**	**175**	**62**	**66**	**74**	**71**	**20**	**20**

(in € millions)	Italy 2010	Italy 2009	Japan 2010	Japan 2009	Canada 2010	Canada 2009	Latvia 2010	Latvia 2009
Central state	654	615	0	185	0	0	0	0
Regional authority	590	704	159	159	140	179	18	18
Local authority	0	0	0	0	0	0	0	0
Others	82	0	313	123	68	63	0	0
Total	**1,326**	**1,319**	**472**	**467**	**208**	**242**	**18**	**18**

(in € millions)	Luxembourg 2010	Luxembourg 2009	Netherlands 2010	Netherlands 2009	Norway 2010	Norway 2009	Austria 2010	Austria 2009
Central state	0	0	0	0	0	0	785	797
Regional authority	0	0	90	5	0	0	23	0
Local authority	0	0	0	0	0	0	0	0
Others	225	335	189	32	25	25	664	877
Total	**225**	**335**	**279**	**37**	**25**	**25**	**1.472**	**1.674**

(in € millions)	Poland 2010	Poland 2009	Portugal 2010	Portugal 2009	Sweden 2010	Sweden 2009	Switzerland 2010	Switzerland 2009
Central state	113	97	30	30	0	56	0	0
Regional authority	0	0	0	0	50	50	134	112
Local authority	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	140	134
Total	**113**	**97**	**30**	**30**	**50**	**106**	**274**	**246**

(in € millions)	Slovenia 2010	Slovenia 2009	Spain 2010	Spain 2009	Hungary 2010	Hungary 2009	USA 2010	USA 2009
Central state	30	0	0	0	96	89	0	0
Regional authority	0	0	393	465	0	0	319	295
Local authority	0	0	0	0	0	0	0	0
Others	25	0	205	205	0	0	0	0
Total	**55**	**0**	**598**	**670**	**96**	**89**	**319**	**295**

(in € millions)	Other supranational institutions 2010	2009
Central state	0	0
Regional authority	0	0
Local authority	0	0
Others	203	184
Total	**203**	**184**

Publication in accordance with S. 28(3) No. 2 PfandBG

No payments overdue by at least 90 days for public claims, as in the previous year.

Publication in accordance with S. 28(1) Nos. 1 to 3 PfandBG

Pfandbriefe in circulation and the related cover assets:

a) Total amount of outstanding

(in € millions)	Nominal 2010	Nominal 2009	Net present value 2010	Net present value 2009	Risk net present value *) 2010	Risk net present value *) 2009
Mortgage Pfandbriefe	6,576	5,333	7,024	5,705	7,288	6,050
of which **derivatives**	0	0	24	– 15	– 25	– 2
Cover pool	8,046	6,588	8,601	7,047	8,671	7,251
of which **derivatives**	0	0	15	45	144	48
Surplus cover	**1,470**	**1,255**	**1,577**	**1,342**	**1,383**	**1,201**

*) Calculation of the risk present value using dynamic simulation method in accordance with Pfandbrief Act

re a) maturity structure (residual maturity)

2010 (in € millions)	up to and including 1 year	over 1 year and up to and including 2 years	over 2 years and up to and including 3 years	over 3 years and up to and including 4 years	over 4 years and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years
Mortgage Pfandbriefe	713	722	1,854	264	775	1,846	402
Cover pool	2,258	1,405	977	697	865	1,339	505

2009 (in € millions)	up to and including 1 year	over 1 year and up to and including 2 years	over 2 years and up to and including 3 years	over 3 years and up to and including 4 years	over 4 years and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years
Mortgage Pfandbriefe	485	240	503	1,778	49	1,885	393
Cover pool	2,769	774	651	641	513	882	358

b) Total amount of outstanding

(in € millions)	Nominal 2010	Nominal 2009	Net present value 2010	Net present value 2009	Risk net present value *) 2010	Risk net present value *) 2009
Mortgage Pfandbriefe	15,576	15,977	16,701	16,943	17,875	18,151
of which **derivatives**	0	0	8	– 2	– 4	13
Cover pool	16,886	16,648	18,403	18,050	19,416	19,126
of which **derivatives**	0	0	9	13	9	11
Surplus cover	**1,310**	**671**	**1,702**	**1,107**	**1,541**	**975**

*) Calculation of the risk present value using dynamic simulation method in accordance with Pfandbrief Act

re b) maturity structure (residual maturity)

(in € millions)	2010 up to and including 1 year	over 1 year and up to and including 2 years	over 2 years and up to and including 3 years	over 3 years and up to and including 4 years	over 4 years and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years
Mortgage Pfandbriefe	2,985	1,761	1,008	1,302	1,360	3,484	3,676
Cover pool	3,217	1,259	1,454	1,461	2,074	4,239	3,182

(in € millions)	2009 up to and including 1 year	over 1 year and up to and including 2 years	over 2 years and up to and including 3 years	over 3 years and up to and including 4 years	over 4 years and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years
Mortgage Pfandbriefe	2,192	2,974	1,613	781	1,067	4,045	3,305
Cover pool	2,986	1,791	1,009	1,292	1,248	5,346	2,976

Development of the portfolio of loans
(excluding interest and costs claims)

(in € millions)	Mortgage loans	Public-sector loans
Portfolio as at 31.12.09	**9,889.8**	**9,643.1**
Additions		
New loans	**+ 2,997.5**	**+ 1,076.0**
Disposals		
Scheduled redemptions	**– 662.1**	**– 1,595.6**
of which, used for residential purposes	– 138.2	– 1,595.5
of which, commercial	– 523.9	– 0.1
Non-scheduled redemptions	**– 995.8**	**– 40.0**
of which, used for residential purposes	– 220.1	– 40.0
of which, commercial	– 775.7	0.0
Regroupings and valuation adjustments	**372.7**	**24.6**
Portfolio as at 31.12.10	**11,602.1**	**9,108.1**

Cover for bonds in circulation:

(in € millions)	2010	2009
Bonds issued	25,406	24,513
plus registered Pfandbriefe issued to lenders as security		
for loans	-	-
registered public Pfandbriefe	-	-
Bonds in circulation	25,406	24,513
plus certificates issued but not yet sold (treasury paper)	-	-
less bonds which do not require cover (formerly Section 5(1) No. 4c German Mortgage Bank Act)	– 3,254	– 3,203
Total amount in circulation requiring cover	**22,152**	**21,310**

This compares with the following cover assets:

	for mortgage Pfandbriefe		for public Pfandbriefe	
(in € millions)	2010	2009	2010	2009
Ordinary cover				
Monies due from banks				
Mortgage loans	8	-	-	-
Public-sector loans	-	-	2,640	3,168
Due from clients				
Mortgage loans	7,307	6,107	-	-
Public-sector loans	-	-	6,510	6,557
Bonds of public-sector issuers	-	-	7,081	6,544
	7,315	**6,107**	**16,231**	**16,269**
Substitute cover				
Other monies due from banks	-	-	655	380
Debenture bonds and other fixed-interest securities	731	481	-	-
	731	**481**	**655**	**380**
Total value of cover	**8,046**	**6,588**	**16,886**	**16,649**
Total amount in circulation requiring cover	**6,576**	**5,333**	**15,576**	**15,977**
Surplus cover	**1,470**	**1,255**	**1,310**	**672**

Foreclosures/Sequestrations

	As at 31 December					
	Foreclosures pending		Sequestration pending		Foreclosures executed	
	2010	2009	2010	2009	2010	2009
in residential properties	43	37	16	20	11	12
in commercial properties	13	10	17	8	9	6
Total	**56**	**47**	**33**	**28**	**20**	**18**

Real estate taken on

In the 2010 financial year, Deutsche Hypo acquired real estate in the US with a book value of € 10.8m in order to recover existing mortgages via the newly founded emergency acquisitions company Deutsche Hypo Delaware Blocker Inc.

Value-adjusted interest in arrears

(in € millions)	2010	2009
in residential properties	1.5	1.6
in commercial properties	2.4	2.7
Gesamt	3.9	4.3

32. Derivatives (information in acc. with Section 285 No. 19 HGB and Section 36 RechKredV)

The nominal volume of the different types of forward transactions in the portfolio in accordance with Section 36 RechKredV (German ordinance regulating the financial reporting of banks and credit institutes) is shown in the tables below.

The forward exchange transactions are used to cover foreign-currency positions in GBP, USD and CHF; they are ultimately scheduled until 30 June 2011.

All of the Bank's derivative instruments are OTC products. The (off-balance sheet) fair values are determined applying the economic valuation method which is recognised on the market (especially discounted cash flow models), applying the market conditions prevailing on the date of the financial statements (interest curves, foreign-currency exchange rates, etc.) including interest accrued.

There were no CDS spread quotations available for the CDS in the portfolio on the date of the financial statements. The fair values attributable to these CDS were, therefore, determined on the basis of the spread quotations for comparable CDS. Depending on the level of spread quotations for comparable CDS, securities spreads for liquid bonds from issuers of reference were also taken into consideration in the valuation process, where appropriate.

The fair values attributable to the TRS are determined on the basis of the price quotations for the corresponding underlying transactions. If the underlying market is shown to be inactive, the model used for the valuation of securities in illiquid markets is applied. Reference is made in this regard to the statements made in the general information about accounting and valuation methods in these notes. The fair values attributable to the TRS also include the interest rate swaps concluded in the package with the TRS.

The fair values determined in this way are summarised in the following table by product groups. They are also used in accordance with the Solvability Regulation (SolvV), with due regard for netting in accordance with supervisory law.

2010	Nominal amount/Residual term				
(in € millions)	< = 1 year	1-5 years	> 5 years	Total	Fair values
Currency-related transactions					
Forward exchange transactions	2,107.71	0.00	0.00	2,107.71	3.16
Cross-currency swaps	595.02	1,173.09	1,333.09	3,101.20	– 112.47
Interest rate-related transactions					
Interest rate swaps	8,079.08	12,721.58	19,127.05	39,927.71	– 176.96
Credit derivatives					
Total return swaps	0.00	16.20	671.86	688.06	– 48.56
Credit default swaps	0.00	0.00	604.43	604.43	– 125.33

2009	Nominal amount/Residual term				
(in € millions)	< = 1 year	1-5 years	> 5 years	Total	Fair values
Currency-related transactions					
Forward exchange transactions	2,078.95	0.00	0.00	2,078.95	– 41.18
Cross-currency swaps	396.22	1,164.70	1,333.99	2,894.91	74.61
Interest rate-related transactions					
Interest rate swaps	5,652.10	13,170.17	18,906.95	37,729.22	– 248.30
Credit derivatives					
Total return swaps	0.00	0.00	636.22	636.22	– 29.80
Credit default swaps	0.00	0.00	591.66	591.66	– 5.02

The netted fair values of – € 460.16m, split by addresses, give rise to positive fair values of € 1,660.3m and negative fair values of € 2,120.46m.

To hedge the derivative risks after netting, Deutsche Hypothekenbank enters into security agreements with some of its business partners. As at 31 December 2010, Deutsche Hypothekenbank had provided security of € 823.14m and received security of € 347.58m.

33. Members of the Board of Directors including details of directorships

DR. JÜRGEN ALLERKAMP – Chairman –	ConCardis GmbH, Frankfurt/Main Member of the Supervisory Board (until 25 April 2010) GAGFAH S.A., Luxembourg Member of the Board of Directors INDUS Holding AG, Bergisch-Gladbach Vice-Chairman of the Supervisory Board LHI Leasing GmbH, Munich Member of the Supervisory Board Neue Dorint GmbH, Cologne Chairman of the Supervisory Board
ANDREAS POHL	
ANDREAS REHFUS	RMS GmbH RISK MANAGEMENT SOLUTIONS, Cologne Member of the Supervisory Board

34. Members of the Supervisory Board

DR. GUNTER DUNKEL
Vice-Chairman of the Board
of Directors of Norddeutsche Landesbank
Girozentrale
– Chairman –

ECKHARD FORST
Member of the Board
of Directors of Norddeutsche Landesbank
Girozentrale
– Vice-Chairman –

DR. JOHANNES-JÖRG RIEGLER
Member of the Board
of Directors of Norddeutsche Landesbank
Girozentrale

DR. ELKE KÖNIG
Consultant
(until 31 December 2010)

DIRK METZNER
Bank employee

FRANK WOLFF
Bank employee

35. Emoluments of the Board of Directors and Supervisory Board

The emoluments paid to the Board of Directors for the 2010 financial year amounted to € 1,132,800 (PY € 1,036,000).

Former board members and their surviving dependents received € 681,000 (PY € 680,900). A provision of € 8,003,000 is set aside for pension commitments towards this group of people (PY € 6,016,800).

The emoluments paid to the Supervisory Board totalled € 105,000 (PY € 121,000), of which the fixed components accounted for € 90,000 (PY € 121,000) (excluding VAT).

36. Size of workforce on average over the year

	2010	2009
Female employees	160	143
Male employees	208	183
Total	**368**	**326**

37. Auditor's fees

(in € thousands)	2010	2009
Audit of financial statements	823	950
Other confirmations	269	179
Other services	-	106
Total	**1,092**	**1,235**

·· 38. Participatory interests subject to reporting

According to the notification, Norddeutsche Landesbank Girozentrale, Hanover, has been the sole shareholder since 9 December 2008.

·· 39. Group affiliation

Deutsche Hypothekenbank (Actien-Gesellschaft) is an affiliated company of NORD/LB in accordance with Section 271(2) HGB and is included in the consolidated financial statements of NORD/LB. These consolidated financial statements will be published in the electronic Federal Gazette on 29 April 2011.

·· 40. Shareholding

Name/Location	Share	Shareholders' equity	2010 result
Terra Grundbesitzgesellschaft am Aegi mbH, Hanover)* (in € thousands)	100.0 %	256	– 934
Deutsche Hypo Delaware Blocker Inc., Wilmington / Delaware, USA)** (in USD thousands)	100.0 %	14,125	– 158

)* Differing from the previous year, the information on shareholders' equity is provided with regard to the annual results for the last financial year (2010).

)** Deutsche Hypo Delaware Blocker Inc. is preparing year-end figures exclusively based on IFRS.

·· 41. Off-balance sheet transactions and other financial obligations

As in the previous year, there are no off-balance sheet transactions within the meaning of Section 285 No. 3 HGB, which are required for assessing the financial position and other financial obligations within the meaning of Section 285 No. 3a HGB, which may lead to a substantial burden on the Bank's financial position.

Other obligations arising from rental, leasing, outsourcing and similar contracts are within normal business boundaries.

·· 42. Notes on the cash-flow account

The cash-flow account shows the change in stock of means of payment during the reporting year as a result of payment flows from ongoing business activities, from investment activities and from finance activities. The stock of means of payment is defined as the cash reserve (cash on hand and credit with central banks).

Hanover, 4 March 2011

The Board of Directors

Dr. Allerkamp

Pohl

Rehfus

RESPONSIBILITY STATEMENT

"We affirm that, to the best of our knowledge and pursuant to the applicable accounting principles, the annual financial statements provide a true and fair view of the net assets, financial position and results of operations of the Company and that the Management Report presents the business development, including the Company's results and position, such that an accurate picture is presented, with a suitable description of the opportunities and risks linked to future development of the Company."

Hanover, 4 March 2011

The Board of Managing Directors

Dr. Allerkamp   Pohl   Rehfus

The audit opinion reproduced below is an English translation of the original German audit opinion. The original German relates solely to the original German financial statements and group management report.

AUDIT OPINION

We have issued the following opinion on the financial statements and management report:

"We have audited the annual financial statements, comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in shareholder's equity and the notes to the financial statements, together with the bookkeeping system, and the management report of Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover/Berlin, for the fiscal year from 1 January to 31 December 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and 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."

Hannover, 4 March 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Sterz	Trierweiler
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

PERSONNEL REPORT

Important strides were taken and markets set in the area of personnel in 2010. Company agreements on “Performance-related bonus” and “Annual appraisal” were concluded which together regulate the newly introduced system of performance-related remuneration. Standardised, cascade-shaped targets will be agreed and assessments conducted in 2011 on the basis of these company agreements.

The PRIMA project (processes on the verge of change) is a measure which is extremely important for the Bank and which affects many of its employees. The aim of the project is to make work simpler, more manageable and more efficient and to ensure that we can also offer our clients the best possible service in future. Liaising with all the employees concerned, we are seeking to improve processes and workflows in the real-estate finance business. The employees have exhibited great commitment in the support which they have shown to this process of change and, in 2010, took a great step towards a future which is geared towards success.

Wage system

All the departments at Deutsche Hypo were appraised in 2010 on the basis of the STRATA method in the form of job descriptions. Annual targets were agreed for all employees in 2011, and the employees were assessed with an appraisal process, the results of which will form the basis for the payment of bonuses in 2011.

Furthermore, Deutsche Hypo was actively engaged working on the requirements resulting from Institution Remuneration Ordinance (InstitutsVergV) during the 2010 reporting year. The bank meets these requirements.

Encouraging/attracting the next generation

Deutsche Hypo has always been involved in classical banking training. This training package has been expanded to include the international Bachelor of Arts course of study which is offered in association with Leibniz Akademie.

The training cooperation with NORD/LB, which was launched in 2009, was continued and enhanced in the reporting year. The exchange of trainees and apprentices has been stepped up. A total of nine apprentices and trainees from NORD/LB availed of the opportunity to gain work experience in core functions within Deutsche Hypo. Furthermore, trainees from NORD/LB and Deutsche Hypo attended a joint team-building workshop.

Alongside traditional vocational training, Deutsche Hypo also offers university graduates the opportunity of participating in graduate training programmes in a number of disciplines. In addition, the Bank allows interested young people who are still at school to gain an early insight into the ways of a real estate bank, in the form of work experience placements.

Personnel development

Corporate Guidelines and Managerial Principles

The Corporate Guidelines, which were developed with a high degree of input from employees, were rolled out throughout the bank on 2 September 2010. In addition to accompanying measures which regularly touch upon the principles, the Bank is planning to hold implementation workshops at group and department level in 2011. Taking the Corporate Guidelines as a basis, a team comprising twelve managers and a member of the Supervisory Board compiled a draft set of Managerial Principles which is currentlybeing presented and discussed in-house. The definitive version of the Managerial Principles is scheduled to be introduced in May 2011.

Personnel development plan

The following have been defined as the central pillars of personnel development:

- training and ensuring the emergence of a new generation
- system staff training development (technical, methodological and personal)
- identification and systematic development of employees with good potential
- systematic managerial staff development.

It will contain general, managerial and job-specific areas of competence. They will be worked through in the first and second quarters of 2011, and suitable development measures will be derived from them.

As regards the development of employees who exhibit good potential, the Bank plans to train them in a variety of development routes (manager, project manager, specialist, business-canvasser).

Family and work

The company agreement to support the reconciling of family life and work was modified in 2010. Places in the crèche are available up to 31 July 2010 after a child's third birthday if there are no other suitable nursery places available. The three places available in the crèche have all been taken. Furthermore, employees may apply for financial assistance with paying for places in the crèche or for childminders within the scope of the budget.

Deutsche Hypo is introducing health check-ups for employees from the age of 50. At the same time, coaching is provided on diet and health.

Facts and figures

The workforce rose to 362 (previous year: 326) by the end of the year.

On the date of the financial statements, 31 December 2010, the average age was 42 (PY: 42.4); a student at Leibniz Academy is currently writing a dissertation on "Demographic change at Deutsche Hypo". We expect this to provide us with interesting pointers for our personnel strategy for the future.

We were pleased to see the figure for staff absence due to illness fall from 3.09 % in 2009 to 2.75 %.

Two employees celebrated twenty-five years with the company, while another 13 reached the ten-year mark.

Cooperation with the Works Council

We would like to extend our thanks to the Works Council for its cooperation, which was both constructive and conducted in an atmosphere of trust.

CORPORATE GOVERNANCE REPORT

At its plenary meeting on 26 May 2010, the Government Commission for the German Corporate Governance Code provided more specifics about the previous diversity recommendation for German supervisory boards in order to make sustainable increases to the percentage of women and representatives from other countries on German supervisory boards.

In future, the supervisory board will set down specific targets for its composition which, taking due account of the company's own circumstances, will lead to greater diversity. It will be particularly concerned with ensuring that women are reasonably represented. The proposals by the supervisory board to the election committees, in particular the general meeting and the relevant committees, should have these objectives in mind.

Where necessary, the planning will also seek to take the international activities of the company into account and lead to a greater international presence on the supervisory board, which would be reasonable in this particular case.

At the same time, by recommending that there be greater diversity in the executive boards of companies which are listed on the stock market, the Commission has highlighted the fact that the supervisory board should particularly exhibit reasonable consideration for women in the composition of the board. It has added a recommendation for the board that it should also heed diversity when appointing people to managerial positions in the company and, in particular, seek to ensure that women are better represented.

Within the further professionalisation of German supervisory boards, the Commission has also described the statutory obligation in the code that members of the Supervisory Board are responsible for arranging any initial and further training that they require in order to discharge their duties. The Commission also recommends that companies should provide reasonable support for these initial and further training measures.

Finally, the Code Commission expanded the recommendation that a board member from a stock market-listed company may not hold more than three seats on supervisory boards in stock market-listed companies outside the group. In future, this recommendation will also encompass seats on supervisory board committees in companies outside the group which are not listed on the stock market and which place comparable requirements on their members.

Furthermore, in the course of amendments to legislation, a series of corresponding adaptations was made in the code.

The Commission recommends that the specific objectives of the supervisory board and the status of the implementation of the recommendations be published in the Corporate Governance report of the Annual Report.

To this end, the following is to be stated:

The objectives of the Supervisory Board of Deutsche Hypo in the appointment of new members are defined in the rules of procedure of the supervisory board:

In proposals on the election of members to the supervisory board, the board shall ensure that they possess the necessary knowledge, skills and experience and are also adequately independent. Due account is also taken here of the company's international activities, as well as its diversity. The proposed people should not have exceeded 66 years of age at the start of their period of office, and should provide an adequate guarantee that no conflicts of interest arise.

Needless to say, it is also in the best interests of the Supervisory Board to seek to have women better represented. There was already one woman on the committee in the 2010 financial year.

Declaration

On 16 December 2010 the members of the Board of Managing Directors and the Supervisory Board adopted the annual declaration. The declaration has been published on the Internet, on the Deutsche Hypo website. It is worded as follows:

2010 Declaration

of Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin with regard to the recommendations of the "Government Commission on the German Corporate Governance Code"

The Board of Managing Directors and the Supervisory Board of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover/Berlin hereby declare in accordance with Section 161 of the Joint Stock Corporation Act:

1. Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin, since its last declaration of 17 December 2009, has complied with the recommendations of the Government Commission on the German Corporate Governance Code of 18 June 2009 and as last amended on 26 May 2010 with the following exceptions:

a) The recommendations of the Code on the subjects of invitations to the Shareholders' Meeting, postal voting and representatives of voting rights, were not implemented (No. 2.3 of the Code).

b) A D&O policy existed for the members of the Supervisory Board without a suitable deductible (Code No. 3.8).

c) The emoluments of the members of the Board of Managing Directors and Supervisory Board and the material content of commitments entered into in the event of the activity of Board members being terminated were not broken down in the Notes to the annual accounts (Code Nos. 4.2.4, 4.2.5 and 5.4.6),

d) The annual accounts for the 2009 financial year were published on 29 April 2010; the half-yearly financial report was published on 31 August 2010. Consequently, the recommended periods of 90 and 45 days from the end of the financial year or reporting period respectively (Code No. 7.1.2) were not complied with. However, the reports were published in compliance with the time limits specified in Section 325 HGB, and in Sections 37v and 37w WpHG (Securities Trading Act).

2. Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover/Berlin shall adhere to the recommendations of the Government Commission on the German Corporate Governance Code as last amended on 26 May 2010 subject to the exceptions listed under 1.a) to 1.d).

Explanatory notes:

Re. Code No. 2.3:

All (100 %) of the shares of Deutsche Hypo are held by NORD/LB. There are no "free" shareholders. The recommendations of the Code under 2.3 are concerned with the holding of shareholders' meetings of joint stock corporations with a diverse group of shareholders. This is not the case for Deutsche Hypo, therefore these recommendations have not been and will not be followed.

Re. Code No. 3.8:

Deutsche Hypo does not comply with this recommendation, as already the case in the past:

Applying the principle that all members of the Supervisory Board be accorded equal treatment, a deductible would have to be identical in terms of its economic effect. The Code recommends that the regulations on the deductible, as apply to the Board of Directors in accordance with Section 93(2) AktG, be applied accordingly to the members of the Supervisory Board. However, this would affect the members of the Supervisory Board very differently, depending on their personal financial circumstances. In the most extreme case, for example, those members of the Supervisory Board with lower net worth might find themselves in financial difficulties. Therefore, these regulations do not seem to be fair when equality of responsibility is taken into consideration.

Re. Code Nos. 4.2.4, 4.2.5 and 5.4.6

The emoluments of the members of the Board of Managing Directors and Supervisory Board have not been listed for each individual member in the past. Similarly, Deutsche Hypothekenbank will not be complying with this recommendation in future:

At the extraordinary general meeting of Deutsche Hypothekenbank on 13 November 2006 a resolution was adopted in accordance with Section 286(5) HGB with the required majority stating that the individual details of the emoluments paid to each of the members of the Board of Directors were not to be disclosed.

The emoluments paid to the members of the Supervisory Board are regulated in the Articles of Association of Deutsche Hypothekenbank, which may be consulted on the Bank's website. The payment made to each member of the Supervisory Board can basically be derived from this. There is no obvious benefit to be gained from itemising the amounts by individual member.

Re. Code No. 7.1.2:

As a consequence of its membership of the NORD/LB Group, Deutsche Hypo is tied into the group procedures in respect of the publication of interim reports, financial reports and the annual financial statements. They are based on statutory time limits.

Hanover, 16 December 2010

The Supervisory Board The Board of Directors

Emoluments of the members of the Board of Directors

Emoluments paid to the Board of Directors for the 2010 financial year amounted to € 1,132,800 (PY € 1,036,000).

Deutsche Hypothekenbank does not have any form of share option programme.

Emoluments of the members of the Supervisory Board

The emoluments paid to the Supervisory Board totalled € 105,000 (PY € 121,000), of which the fixed components accounted for € 90,000 (PY € 121,000) (excluding VAT).

DEUTSCHE HYPO SUPPORTS MEDICAL RESEARCH

Johann Georg Zimmermann Association

The Johann Georg Zimmermann Research Prize and the Johann Georg Zimmermann Medal were awarded for the 39th time this year in recognition of special services to cancer research.

To mark its centenary, Deutsche Hypo established a fund to support research into cancer back in 1972. The Association grew out of this in 1999. Aimed at furthering our understanding of cancerous diseases and of finding improved methods of treatment, the Johann Georg Zimmermann Research Prize recognises the current academic work of young up-and-coming researchers every year, while the Johann Georg Zimmermann Medal honours researchers who have made an outstanding contribution to the fight against cancer.

Both awards rank amongst the most highly endowed and best established for special services in research into cancer and are seen as recognition for innovative, successfully completed research projects. A range of eminent researchers have already been honoured with the prize, including the 2007 recipient, Dr. Harald zur Hausen, who was the 2007 Nobel Laureate in Medicine.

The jury of the Johann Georg Zimmermann Association, which is composed of high-calibre and significant academics from Hanover University of Medicine (MHH) and external academics, were once again presented with a range of outstanding and worthy cancer researchers from university faculties in Germany, Austria and Switzerland. Following intensive deliberations, two prize-winners were selected: PD Dr. med. Hans Christian Reinhardt was awarded the 2010/2011 Johann Georg Zimmermann Research Prize, and Professor Dr. Klaus Rajewsky received the 2010/2011 Johann Georg Zimmermann Medal.

PD Dr. med. Hans Christian Reinhardt, Clinic I for Internal Medicine, Cologne University Clinic, was awarded the € 10,000 research prize in recognition of his highly innovative analysis of genetic interaction in the context of malignant transformation and the development of new concepts for specific cancer therapy. A particularly interesting aspect of this is that, using a synthetic lethality-based approach, deliberate therapeutic use can even be made of the loss of a tumour-suppressor gene in order to provide therapy on a highly selective and tumour-specific basis. Dr. Reinhardt recently identified a large number of these interactions and had the new concept patented, which is evidence that the therapy strategies developed by him possess high potential for application. Clinical trials, which got under way in late 2010, are currently being conducted in association with a pharmaceuticals group.

The Johann Georg Zimmermann Medal, which comes with a prize of € 5,000, was awarded to Professor Dr. Klaus Rajewsky, Harvard Medical School, Center for Blood Research, Boston, in recognition of his outstanding work, most notably in tumour immunology and in research into the biology of malignant lymphomas. In the 1990s Professor Rajewsky and his colleagues succeeded in identifying B-cells as the cells where the most frequent lymph gland cancer, Hodgkin's lymphoma, originates. At the same time, the then professor of molecular genetics at Cologne University and his colleagues developed conditional mouse mutagenesis, a technique with which genes in mice can be deliberately turned on and off in certain tissues and at certain times. Nowadays, this technique is used by biomedical researchers around the world in studying how genes work in the body.

Professor Rajewsky conducted research successfully in Cologne for almost 40 years. At the age of 65 he moved to the Harvard Medical School in the American city of Boston, where he is currently researching the mechanisms by which cancerous diseases occur in the immune system and the significance of microRNAs for the development and function of the immune system.

from left: Prof. Dr. Michael Peter Manns, Dr. Jürgen Allerkamp, Prof. Dr. Klaus Rajewsky, Dr. Christian Reinhardt, Prof. Dr. Dieter Bitter-Suermann

·· KinderHerz Foundation

Deutsche Hypo has been supporting medical research in Germany for around forty years. This commitment was widened to include a further project this year.

Some 7,000 children are born with heart defects in Germany every year. Thanks to innovative medical care, children with heart problems have much improved chances of survival and they enjoyed a better quality of life. However, the financial wherewithal for this is often lacking. Deutsche Hypo would like to contribute towards ensuring that the best possible care is available for children with heart defects and to support the expansion of specialist children's cardiac centres where complex heart defects can be treated.

To move a step closer to achieving this target, Deutsche Hypo hosted a series of events in 2010 which were conducted together with the KinderHerz Foundation. It works regionally with selected children's cardiac centres and is committed to helping children with heart defects receive the best possible care. The foundation supports projects in all the main areas of acquired and congenital heart defects.

Dr. Allerkamp, Chief Executive Officer of Deutsche Hypo, was brought on board by the foundation back in 2009 as KinderHerz curator for the areas of Business and provides the foundation with advice and support on its projects.

One of these projects, COPRA, was successfully implemented in the children's cardiac surgical intensive care unit of Hanover University of Medicine (MHH) in 2010. This is a ground-breaking system for intensive-care data acquisition. Where children with congenital heart defects have had surgery, COPRA can be used to "record" the course of their post-operative treatment in the intensive care unit, enabling the follow-up therapy to be optimised individually. Data can also be analysed statistically, enabling risks to be detected early on and averted. It also supports further scientific analysis in cooperation with other clinics and paediatric cardiologists. Therefore, the introduction of the patient management system plays a key role in enhancing the quality of treatment given to children with heart defects.

At Deutsche Hypo's "Charity Events" day in August 2010, a press conference was held on the "Launch of the new, integrated documentation and presentation system (COPRA) at the MHH", including a report on the successful implementation of the system. Dr. Hilde Moennig, Mayoress of the state capital Hanover, Ms. Sylvia Paul, from the board of the KinderHerz Foundation, and Dr. Breymann, senior paediatric cardiac surgeon at the MHH, were on hand to speak to representatives from the media.

COPRA could only be made available at the MHH thanks to the assistance of generous donors. In order to support the optimum treatment of younger cardiac patients in the future, an event was held in the evening which was attended by some of Deutsche Hypo's business partners from the Hanover area, as well as by Ms. Aygül Özkan, Lower Saxony State Minister for Social Affairs, Women, Family, Health and Integration. Under the motto "Hoch hinaus für kleine Kinderherzen" (Up, up and away for small children's hearts), the KinderHerz Foundation gave a presentation on its projects (including a model of a hot-air balloon drawing attention to the disease) and at the same time it demonstrated how people could support the foundation and its projects.

By autumn, a new product being conducted at the MHH in association with the KinderHerz Foundation was already so far progressed that a press conference on "Projects for the introduction of the new Home Monitoring System (HoMo Sapiens) at MHH" was held at the offices of Deutsche Hypo. HoMo Sapiens provides a reliable means of monitoring paediatric cardiac patients from home. Parents enter measurement readings such as weight, pulse, oxygen saturation, etc., and this enables the doctor who is treating the patient to instantly identify deviations from individual profiles, which were created previously. This enables the safety of younger patients to be improved and gives the whole family a sense of reassurance that they are not on their own when they are in the privacy of their own home. Mr. Bernd Strauch, mayor of the city of Hanover, Ms. Sylvia Paul, from the board of the KinderHerz Foundation, and Dr. Breymann, senior paediatric cardiac surgeon at the MHH, were on hand to talk, along with Ms. Gladisch who as a mother of a paediatric cardiac patient who had received surgery at the MHH, gave an impressive and moving account of her fears and experiences.

The cooperation with the KinderHerz Foundation will be continued in 2011.

REPORT BY THE SUPERVISORY BOARD

The Supervisory Board performed the tasks required of it by law, under the Bank's Articles of Association and in accordance with the German Corporate Governance Code during 2010. The Board of Directors of the Bank kept the Supervisory Board and its committees regularly informed about the business development and situation of the Bank during the reporting year.

The Supervisory Board and its committees have adopted the transactions and other matters that have been presented to it as requiring its agreement in accordance with the Bank's Articles of Association and the Rules of Procedure.

In 2010, the Supervisory Board held four ordinary meetings and one extraordinary meeting. The extraordinary meeting of the Supervisory Board was held on 24 September 2010. The only item on the agenda was the vote by the Supervisory Board on the conclusion of an agreement to establish an undisclosed partnership between Deutsche Hypo and Charlottenburg Capital International S.àr.l. & Cie. SECS, Luxembourg. A resolution was adopted to conclude this agreement at the shareholders' meeting which was held on the same day following the meeting of the Supervisory Board. This agreement enabled dormant equity holdings of € 75m to be placed on the capital market.

The auditor Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Hanover, elected by the Shareholders' Meeting and subsequently appointed by the Supervisory Board, audited the financial statements for the 2010 financial year and issued an unqualified audit certificate. This confirms that the bookkeeping and annual accounts comply with the statutory requirements and that the audit did not lead to any reservations. The auditor was available to the Chairman of the Supervisory Board and the Audit Committee to take questions and provide additional information. He also took part in the meeting of the Supervisory Board held on 24 March 2011 to discuss the annual financial statements and reported on the findings of the audit of the annual financial statements.

The Supervisory Board agreed to the findings of the auditor's report and raised no objections following the subsequent findings of its own audit.

At its meeting of 24 March 2011, the Supervisory Board approved the management report and the annual financial statements as at 31 December 2010, which are thereby adopted.

The Board of Directors also provided the Supervisory Board with comprehensive information about the situation and development of the Bank outside its regular meetings. This information included the quarterly risk reports prepared in accordance with the provisions of MaRisk and monthly reports on the Bank's business development and income situation.

The Supervisory Board formed committees to aid it in the discharge of its responsibilities.

The Lending Committee assessed all credits involving large-scale risks or an elevated degree of risk. In 2010, the Lending Committee held two sessions in person on 22 September 2010 and on 16 December 2010. The Lending Committee normally makes its decisions by means of written resolutions.

The Audit Committee met on two occasions during the year under review. The annual financial statements for 2009 and the auditor's report were discussed at the meeting on 17 March 2010. This meeting was also attended by representatives of the auditor. In a further meeting on 25 August 2010, the Audit Committee concerned itself with Deutsche Hypo's interim report as at 30 June 2010.

The Board of Directors has drawn up a report in accordance with Section 312 of the Joint Stock Companies Act on relations with affiliated companies. This has been audited by the auditor and also awarded an unreserved audit certificate. The Supervisory Board endorses the dependence report and the related audit report. There were no objections to the declaration of the Board of Directors at the end of this report.

Hanover, 24 March 2011

The Supervisory Board

Chairman

ORGANISATIONAL STRUCTURE

Dr. Jürgen Allerkamp (Chair) Business Division 1

- Treasury
  Dirk Schönfeld
  Senior Manager
- Law
  Albrecht Mayer
  Senior Manager
- Auditing
  Marc Grote
  Head of Department
- Marketing and Corporate Communications
  Markus Nitsche
  Head of Department
- Business Development
  Dirk Hunger
  Senior Manager
- Personnel/Adminis-tration/Service
  Paul Weber
  Senior Manager
- Operations and IT
  Dr. Wulfgar Wagener
  Senior Manager

Andreas Pohl Business Division 2

- Domestic Property Finance
  Volker Basler
  Senior Manager
- Domestic Property Finance
  Wolfgang Koppert
  Senior Manager
- Domestic Property Finance
  Ralf Vogel
  Senior Manager
- International Property Finance
  Thomas Staats
  Senior Manager
- International Property Finance
  Sabine Barthauer
  Senior Manager
- Real Estate Investment Banking
  Dieter Koch
  Senior Manager
- Relationship Management International Financial Institutions
  Hergen Dieckmann
- Syndication
  Jürgen Munke
  Senior Manager
- Market Analysis
  Dr. Günter Vornholz
  Head of Department

Andreas Rehfus Business Division 3

- Treasury Operations
  Gunter Bierwisch
  Senior Manager
- Credit Risk Management
  Michael Müller
  Executive Manager
- Credit Risk Controlling
  Uwe Menninger
  Senior Manager
- General Credit Department
  Markus Heinzel
  Senior Manager
- Accounting
  Joachim Bloß
  Senior Manager
- Controlling
  Hendrik Weis
  Head of Department
- Real Estate Valuation and Consulting
  Jörg Quentin
  Senior Manager

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GLOSSARY

Backtesting

Process for testing the quality of forecasts for → LaR. This involves comparing the actual changes in the net present value determined with the forecast values.

Basis point value (100 bp)

Besides → LaR, an additional method for measuring the risk of changes in interest rates by simulating an increase in interest rates of 100 bp by means of a parallel movement of the interest curve. The changes incurred in the fair values of all balance sheet and off-balance sheet items then indicate the overall level of the risk of changes in interest rates.

Cost-income-ratio

Ratio which shows the relationship between administrative expenses and net interest income and net commission income. The cost-income-ratio provides a quantitative statement regarding the efficiency of banking operations. In principle, the following applies: the lower the cost-income-ratio, the more efficiently the bank is operating.

Credit default swap (CDS)

Within the credit derivatives market, CDS are the most widespread and most significant instrument in quantitative terms. CDS make it possible to detach the credit risk from the underlying credit relationship. The ability to trade these default risks separately broadens the spectrum of possibilities for systematically managing risk and controlling earnings.

ICAAP

Internal Capital Adequacy Assessment Process: requirement of MaRisk (Minimum Requirements for Risk Management) in order to assess internal capital adequacy.

PfandBarwertV
[Pfandbrief Net Present Value Regulation]

Pfandbrief Net Present Value Regulation: regulation regarding ensuring the coverage of mortgage Pfandbriefe, public Pfandbriefe and ship covered bonds ["Schiffspfandbriefe"] at all times, according to their net present value and the calculation of this provided by Pfandbrief banks.

Probability of default (PD)

Coefficient to determine the probability of default on a loan.

Scoring model

Internal rating method used by Deutsche Hypo to determine the creditworthiness of debtors in the capital market business segment.

Spread

Difference between the returns of different types of bonds, for example, the difference in return between Pfandbriefe and Federal Government Bonds.

Swap

A swap generally denotes an exchange of cash flows. In particular, it is a financing technique which involves interest payments and/or currency positions being exchanged between two partners. Transactions relating to the assets side of a balance sheet are called asset swaps and transactions relating to the liabilities side are called liability swaps.

Total Return Swap (TRS)

In the case of a total return swap, the collateral taker swaps income from a reference asset (e.g. a bond), along with any appreciations in value, with the collateral provider, in return for payment of a variable or fixed reference rate and the periodic settlement of impairments taken on the reference asset. The entirety of the foreign exchange risk associated with the reference asset, in addition to the financial risk, is thereby transferred from the collateral taker to the collateral provider for the term of the transaction.

Value-at-Risk (VaR)

Concept for quantifying market price risks (risks of changes in interest rates) and a significant component of modern risk management. The potential loss (in net present value) is determined, which is likely, to a certain extent, not to be exceeded during a specified period of time.

ANNUAL REPORT 2010

DEUTSCHE HYPO

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