DEUTSCHE HYPO
Member of NORD/LB

ANNUAL REPORT 2011

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.- 31.12.2011	01.01.- 31.12.2010	Change (in %)
Business progress figures			
Commercial real estate finance business	2,769	1,784	55.2
Capital market transactions	1,748	2,429	– 28.0
of which public-sector loans	634	1,057	– 40.0
Loans drawdowns	4,056	3,194	27.0
Bond sales and loans taken up	4,940	6,471	– 23.7

in € millions	31.12.2011	31.12.2010	Change (in %)
Balance sheet figures			
Commercial real estate finance (including interest)	12,126	11,448	5.9
Public-sector loans	8,321	9,328	– 10.8
Securities	11,876	12,367	– 4.0
Borrowed funds	33,178	34,253	– 3.1
Equity *)	1,314	1,396	– 5.9
of which: core capital	892	914	– 2.4
Total assets	34,999	35,998	– 2.8

in € millions	01.01.- 31.12.2011	01.01.- 31.12.2010	Change (in %)
Income statement figures			
Net interest income	191.9	172.7	11.1
Net commission income	10.8	13.4	– 19.5
Administrative expenses **)	70.6	69.4	1.7
Risk result	82.7	78.8	5.0
Result from ordinary business activity	32.7	45.0	– 27.3
Income transferred for investments by silent partners	18.5	8.4	> 100
Net income (after taxes)	11.0	31.2	– 64.7

in %	31.12.2011	31.12.2010	
Other information			
Cost/income ratio ***)	35.8	37.2	
Core capital ratio	8.4	7.7	

*) including juissance right capital and subordinated liabilities, excluding balance sheet profit
**) including depreciation on property, plant and equipment and intangible assets
***) the previous year's figure has been adjusted

The annual report of Deutsche Hypo is also available in German. In the event of any descrepancy, the German version shall prevail.

ANNUAL REPORT 2011

DEUTSCHE HYPO:

Real estate specialist of the NORD/LB Group and Pfandbrief bank since 1872.

WE HAVE ESTABLISHED A CENTRE OF COMPETENCE:

Benedikt von Abendroth, Carolin Albers, Ingo Albert, Alois Algermissen, Dr. Jürgen Allerkamp, Pascale Angelopoulos, Anne-Kathrin Apel, Elena Argun, Kristina Aselmeyer, Jens Assmann, Wolfgang Aust, Hans-Hermann Baltz, Angela Bank, Sabine Barthauer, Anna Sophie Bartölke, Susie Bassett, Christopher Batke, Jürgen Becksvoort, Michaela Behnsen, Ulrike Behnsen, Andrea Behre, Dana Beitz, Lara Bengsch, Nadja Bengsch, Alica Bergmann, Andreas Bergmeier, Marco Bertram, Olaf Beuleke, Wouter de Bever, Sebastian Biel, Heike Bien, Kathrin Biering, Petra Biering, Gunter Bierwisch, Carsten Bläck, Markus Block, Joachim Bloß, Annett Bludzun, Martina Blum, Cornelia Bock, Jürgen Bode, Marianne Böx, Stefanie Bojahr, Andrea Booth, Ines Bornemann, Oliver Boser, Lisa Bosetzky, Jasmin Bothe, Michael Brämer, Kirsten Brandt, Alexander Braun, Jens Breithecker, Wolfgang Breitung, Brigitte Brenning, Jeremy Bretherton, Iris Brünau, Marc Brune, Volker Brunner, Jochen Bucek, Wolf-Günther Burucker, Lars Busch, Janina Butterbrodt, José Luis Calderón Martínez, Anne-Isabelle Carbonniéres, Juan Manuel Casas Guillen, Yvonne Coppel-Tamms, Bettina Cramer, Suzie Cruess-Callaghan, Ursula Czech, Dennis Dasselaar, Anja Daunert, Katrin-Genevieve Deitermann, Ulrich Deppe, Carsten Dickhut, Hergen Dieckmann, Frank Dittmann, Wolfgang Donie, Daniela Dreier, Reinhard Drexler, Beate Droste, Jürgen Eckert, Nicole Edle von Wölfel, Jens Ehlerding, Ernst-August Endrulat, Carina Engelbrecht, Klaus Engelbrecht, Pervin Evelek, Iris Kerstin Ewert, Tobias Faust, Matthias Feifer, Raimund Ferley, Christian Fischer, Kai Fischer, Eric Mark Fowell, Jörg Franz, Michael Frech, Christine Frenzen, Oliver Frerking, Chiquita Sandra Freudel, Andreas Froebus, Björn Fuhr, Britta Gabriel, Christian Gail, Julio Garcia Garcia, Nikola Gaulke, Michael Gehrig, Melanie Geldmacher, Christoph Gennrich, Maria Germann, Larissa Gieselmann, Michael Glatzer, Melanie Glende, Susanne Gödecke, Elke Görg, Rüdiger Göricke, Sabine Gößmann, Silvia Golbeck, Jutta Graf-Frieling, Katja Gramatte, Georg Greive, William Groen, Elke Großer, Detlev Grote, Marc Grote, Christian Gudat, Cristina Guilherme, Petra-Ingeborg Haake, Anne-Kathrin Habermann, Lars Haftmann, Ralf Hagendorff, James Robert Aikm Hall, Mary Hamilton, Burghard Hanke, Christian Hansel, Dr. Bernd Hansen, Thomas Hansen, Kevin Harmer, Jan Hartmann, Tina Hartmann, Iris Hauser, Brigitte Heep, Albrecht Heinecke, Stefan Heinitz, Joachim Heinrich, Markus Heinzel, Christian Hellwinkel, Heini Katariina Hemminki, Janina Herrmann, Miriam Herzog, Janos Hielscher, Ralf Hinrichs, Christian Hinze, Dr. Peter Hinze, René Hodko, Achim von Hoegen, Raimo Höpfner, Christoph Hötzel, Nils Hoffmann, Monika Hofschulte, Marcel Holk, Helmut Hornung, Simone Huch, Klaudia Hüskes, Thomas Hundertmark, Dirk Hunger, Tanja Hußmann, Malte Ilginnis, Axel Intemann, Peter Jabs, Anna-Dorothea Jäger, Marion Jaeger-Kufel, Helmut Jördening, Thorsteinn Jonsson, Ute Jürges, Georg Kaisler, Dirk Kallikat, Christina Kanning, Gudrun Karges, Gabriele Karp, Brit Kaufmann, Melanie Kautzner, Kerstin Kelm, Dorothea Kind, Ruth Kirchstein, Claudia Kirsch, Andreas Kirschner, Jürgen Klebe, Lutz Klinkmann, Florian Knaul, Tobias Knoche, Detlef Koch, Dieter Koch, Gerald Kölle, Irina Köllner, Heiko Kollmann, Jörg Kopp, Jutta Carola Kopp, Wolfgang Koppert, Renate Koppitz, Gabriele Kornweih, Stefanie Kortmann, Stefan Kriegs, Ulrich Krogmeier, Regina Kubina, Elke Kücken, Roger Kücken, Frank Kühne, Silke Kues, Marcel Kujawski, Andrea Kuschel, Eike Oliver Laase, Bernd Lademann, Thomas Lang, Cornelia Lange, Nicole Lange, Sascha Langeheine,

OUR STAFF

Katrin Langer, Annika Leenen, Annemarie Leeuwen, Dr. Pia Leipertz, Stefan Leise, Claudia Leu, Maria Teresa Linares Fernández, Antje Loof, Ulrike Looft, Veit Look, Walter Love, Michael Lowery, Alexander Ludwig, Karin Ludwig, Nadine Lüder, Hans-Joachim Luther, Dörte Mamber-Pierstorff, Ingo Martin, Manfred Matthies, Albrecht Mayer, Andreas Meiser, Uwe Menninger, Kevin-York Merchel, Karen Mergelsberg, José Ignacio Merinero Muñoz, Dirk Metzner, Björn Meyer, Claudia Meyer, Eleonore Meyer, Jens Meyer, Yvonne Michael, Andreas Michel, Stefan Mikus, Christopher Millington, Sonja Misch, Irina Monsler, Marlis Mügge, Frank Müller, Michael Müller, Brigitte Müller-Bühren, Thomas Müser, Simon Munaretto, Jürgen Munke, Sven Muschkewitz, Claudia Nacke, Andreas Nagel, Dirk Neugebauer, Evelin Neuhäuser, Josef Niehoff, Uwe Niemann, Michael Niemeyer, Rebecca Nienhaus, Markus Nitsche, Matthias Nittscher, Rico Noack, Ralf Obst, Maria Belén Ozcariz Salazar, Jan Christoph Paape, Nelson Ruben Parmigiani, Rainer Passiel, Antonela Pavicic, Kornelia Penker, René Penno, Andreas Peter, Meike Peter, Daniel Pfeiffer, Anja Philipps, Sandra Piehl, Liane Pilz, Karell Pitsch, Gudrun Pösger, Andreas Pohl, Nina Poletzschny, Arne Preuß, Martin Priesnitz, Torben Pschunder, Dr. Florian Putzka, Petra Putzka, Timothy Pygott, Uwe Radloff, Horst Reffke, Andreas Rehfus, Andrea Reinecke, Helmut Reinholz, Frank Rekowski, Heinz-Josef Rensmann, Tanja Riesenbeck, Christian Röske, Stefan Roggelin, Anja Rosenhagen, Gabriele Rotzien, Vera Ruck-Bekedorf, Christin Rudolph, Sebastian Rudolph, Regina Rüter, Jens-Oliver Ruff, Petra Ruff, Annemarie Rumke, Monika Rust, Stefan Ryll, Amir Saleem, Renate Sasse, Sebastian Schab, Anja Schad, Erich Schasse, Katharina Schauer-Stach, Jan Schaumburg, Frank Scherr, Alexandra Schild, Dr. Matthias Schleef, Adrian Schleffler, Christian Schlenker, Uwe Schliephacke, Andreas Schlüter, Hans-Jörg Schmallenberg, Martin Schmidt, Rebecca Schnorrbusch, Christof Schönefeld, Dirk Schönfeld, Stefan Schrader, Erik Schramm, Wiebke Schramm, Yannick Schreiber, Karsten Schröter, Stefan Schröter, Matthias Schroff, Anke Schuchhardt, Heike Schünemann, Heike Schütte, Sandra Schuler, Manuela Schult, Frank Schulte, Frank Schultze, Karsten Schulz-Porth, Ulf Schuhmacher, Katja Schumann, Ralph Schumann, Sabine Schwarz-Möbius, Werner Schwertfeger, Hans-Werner Seidel, Uwe Seifert, Fredrik Serck, Phil Shackleton, Kristof Sidorowicz, Cnut Siebert, Britta Siedentopf, Sandra Simon, Fabian Socha, Petra Söfker, Mirko Sommer, Kerstin Sonntag, Sascha Sonntag, Andre Spellsiek, Thomas Staats, Karl H. Stein, Jana Stephani, Thomas Stoklas, Mathias Stolte, Axel Stoppel, Gabriele Strienke, Bianca Ströhla, Paul Sutcliffe, Marc Techtmann, Maren Tegtmeier, Martina Teutloff, Bettina Thiedtke, André Thürmer, Dirk Töteberg, Stefan Treptow, Stefan Ullmann, Manja Unger, Martin Vila Kues, Manja Vogel, Ralf Vogel, Carsten Vogt, Nicole Voigt, Jürgen Volkers, Ina Volkmann, Prof. Dr. Günter Vornholz, Dr. Wulfgar Wagener, Mathias Wanner, Hans-Ernst Warczok, Sabine Watermann, Marion Weber, Paul Weber, Hans-Georg Wehrhahn, Hendrik Weis, Angelika Wellmann, Renate Wels, Aenne Wendeling, Alexandra Werner, Ansgar Werner, Robert Sebastian Werner, Ralf Westermann, Torsten Wickert, Inge Wieggrebe, Simone Wilhelms, Dirk Wilke, Ulrich Wilkens, Holger Wille, Bärbel Willert, Immo Willner, Tanja Willruth, Thomas Winkler, Bernd Wissmach, Ulrike Witte, Renate Wittkowski, Dirk Wömpner, Frank Wolff, Christopher J. Woodard, Michael Woodgate, Anita Wrosch, Stefanie Wünsch, Martina Wulschläger, Heike Wuttke, Haishu Yu, Özlem Yüksel, Olivier Zapf, Sebastian Ziegler, Frank Zimmermann, Jörg Zimmermann.

CONTENT

TRUST BEGINS WITH **TRANSPARENCY**

Our flat hierarchies offer clear advantages and allow us to make rapid, uncomplicated decisions.

Your success : our benchmark

Material: laminated glass (element of a facade made entirely of glass)

FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Customers and Business Partners
of Deutsche Hypo,

It would be impossible to reach a 140th birthday without having experienced a lot in life. This is certainly true of Deutsche Hypo, which is celebrating its 140th anniversary this year. Over the recent past in particular, the bank has experienced a number of different owners. Or up until 2008 at least. Since then, Deutsche Hypo – a Pfandbrief bank founded in 1872 – has been in safe hands as a member of the NORD/LB Group.

In the years since Deutsche Hypo became part of NORD/LB, its capacities have been further expanded. Some areas of NORD/LB's real estate banking business have been transferred to Deutsche Hypo, and with them a large proportion of the employees working in this field. NORD/LB's loan portfolio has gradually been transferred to Deutsche Hypo, which now covers real estate transactions from start to finish for the Group as a whole. This underscores the Bank's position as a centre of competence for commercial real estate business within the NORD/LB Group.

Today, Deutsche Hypo ranks among Germany's major real estate financers, in terms of both its existing portfolio and new business. The Bank is also successfully involved in capital market business and can rely on a stable refinancing basis. Over the past few years Deutsche Hypo has been able to demonstrate how, even when faced with a difficult situation on the real estate markets, its business model based on these two pillars is a sound and sustainable model. Deutsche Hypo has established itself on the market as a quality player.

Meanwhile, Deutsche Hypo has also established itself within the NORD/LB Group. Although it is only four years since the Bank was acquired, we already take for granted the fact that the two entities belong together. We are linked in many ways, not least through our corporate culture and business philosophy. Just like its parent company, Deutsche Hypo attaches the utmost importance to its customers and to business that can generate a sound profit over the long term combined with a conservative risk profile.

Looking back, we can safely say that the acquisition of Deutsche Hypo was a natural and right step for NORD/LB. And not just because the head offices of the two banks are a mere 200 metres apart, but also because NORD/LB, by joining forces with Deutsche Hypo, has been able to strengthen its real estate finance business, one of its core business divisions.

With best regards,

Dr. Gunter Dunkel
Chairman of the Board of Management of
NORD/LB and Chairman of the Supervisory Board
of Deutsche Hypo

FOREWORD BY THE BOARD OF MANAGING DIRECTORS

Dear Customers and Business Partners,

“Anything but ordinary” is how we can best sum up the year 2011. It was also a very memorable year. But, however it is described, 2011 was a year in which an exceptional number of events and developments affected the economy, politics and society, a year dominated by upward trends and crises alike, and a year that challenged the participants on the financial markets perhaps more than they had ever been challenged before.

In 2011 Germany experienced a high level of economic growth and a record number of people were in employment. But it was the worsening of the European government debt crisis that attracted much more attention, with action needed to prevent Greece from defaulting. Bonds could only be issued by the major European governments on the basis of record yields, in some cases exceeding 7 %. The question of whether some states would remain in the European Union came up for debate time and time again. Towards the end of the year, there were even growing calls for a return to the deutschmark. Indeed, the very concept of European integration was called into question.

The turbulence on the financial markets inevitably prompted market participants to lose more and more confidence in each other. Refinancing – particularly with issues not secured by mortgages – proved to be increasingly difficult. Against the background of such a challenging market environment we can be very satisfied with our refinancing activities. Deutsche Hypo acquired around € 2 billion of unsecured funding in 2011, in what was a demonstration of investors’ faith in our Bank. We were also able to issue Pfandbriefe with a volume of approximately € 3 billion. Pfandbriefe will continue to play a central role in our refinancing in 2012, having clearly proven their status during the past few years as a reliable source of refinancing and as a form of investment that is highly regarded worldwide.

Meanwhile, the commercial real estate markets presented themselves basically unimpressed by events on the financial markets. The volume of transactions in Germany, at around € 23 billion, was almost in line with our prediction. We also expect to see a similar volume achieved in 2012. A tangible recovery was observed in the key European real estate markets too. Deutsche Hypo was able to benefit as the markets picked up speed again, increasing its new business by 55 % to € 2.8 billion, without having to sacrifice its high quality standards. We were also able to achieve a significant increase in the number of transactions in Germany and, in particular, in the UK and France. This confirmed that our decisions to open a branch in London in 2010 and to increase the number of employees at our representative office in Paris in the middle of 2011 were the right ones. Our clear focus on direct business and on projects also had a similarly positive impact.

Whilst we have strongly expanded our activities in commercial real estate finance, we have made a conscious effort to scale down our new capital market business in light of the government debt crisis in Europe, although capital market activities also made a clearly positive contribution to the result. Overall, with a result from ordinary business activity of € 32.7 million, Deutsche Hypo did not match the previous year’s performance but nevertheless concluded the 2011 financial year on a satisfactory note, all the more so against the backdrop of the difficult market circumstances and new regulatory demands such as the bank levy. Particularly positive elements were the gratifying development in net interest income, the further improvement in our lending portfolio and our comfortable equity capital situation. Additionally, we expect our level of risk provisioning to gradually approach our long-term average once more.

from left: Andreas Pohl, Dr. Jürgen Allerkamp, Andreas Rehfus

The fact that we recorded a good result last year, a year dominated by external challenges, encourages us to continue in our pursuit of our strategy and approach. After all, our business model based on the two pillars of commercial real estate finance and capital market business has proved its worth, even in the most difficult of times.

We expect 2012 to be just as demanding as 2011. Much will depend on how robustly the real economy and real estate sector can withstand difficulties, on the strategies adopted to resolving Europe's government debt crisis, and on the speed with which these are implemented. The financial markets can only be expected to calm down once signs emerge that government budgets are being consolidated and once the debate about European cohesion subsides.

Regardless of what happens on the financial markets and on the political stage, Deutsche Hypo will continue to do everything within its power in 2012 to repay and live up to the trust vested in us by our customers and partners. We will leave no stone unturned in our efforts to expand our lending business and thus further strengthen the Bank's earning power. We will also be striving to improve our processes and to optimise our risk and cost situation.

We would like to take this opportunity to extend our thanks to our employees. We are very proud of our skilled workforce at Deutsche Hypo and of all that they have achieved. Thanks to their dedication and commitment, Deutsche Hypo can look back on a successful 2011 whilst also looking optimistically to the future.

Kind regards

Dr. Jürgen Allerkamp Andreas Pohl Andreas Rehfus

THE YEAR AT A GLANCE

29 March 2011

Despite difficult market conditions, Deutsche Hypo places a public Pfandbrief of € 1 billion. The Aaa-rated jumbo Pfandbrief with a 2.625 % coupon and three-year term, is well received on the market. German investors account for the majority of subscribers, making up 78 %, followed by Asian (10 %), French (4 %) and Italian (also 4 %) investors. Benchmark transactions therefore remain a strategic measure used by the Bank to reach investors focused on large-volume issues. The transaction demonstrates that the German Pfandbrief is viewed as a high-quality investment, particularly in times of crisis.

18 April 2011

Deutsche Hypo publishes the study “Logistics properties – A cluster with complex development potential”. According to this study, the Bank considers there to be complex development potential in logistics real estate in Germany and expects positive prospects as far as future demand for this asset class is concerned. In the long term, the market for logistics properties is undergoing constant change, as the qualitative demands being made of such real estate have risen over recent years. Increasingly, customers with logistics operations are looking for sustainable properties that comply with certain ecological criteria.

1 May 2011

Deutsche Hypo concludes its “PRIMA 2011” project (Prozesse im Aufbruch 2011), involving the critical review and optimisation of lending processes. Adjustments have also been made to the structural organisation of lending. Overall, PRIMA 2011 will contribute to clear improvements in efficiency.

1 May 2011

Deutsche Hypo expands its capacity in France, where it has been active for 15 years. Anne-Isabelle Carbonnières takes over as head of the Paris representative office and thus assumes overall responsibility for operations in France. The appointment of Ms Carbonnières, who has many years' experience of the French commercial real estate market, brings the total number of employees on the team in France to five. This addition in staffing increases the Bank's presence in what has traditionally been an important core market for Deutsche Hypo.

25 Mai 2011

Deutsche Hypo's Supervisory Board appoints a new member, Wilhelm Zeller. Through this appointment, the Supervisory Board of Deutsche Hypo gains a well-known figure. Wilhelm Zeller headed one of the world's leading reinsurance groups for over 13 years as Chairman of the Management Board of the Hanover Re Group, before retiring in June 2009. Mr Zeller was already a member of the Supervisory Board of Deutsche Hypo during the period from 2001 to 2005. He fills the vacancy on the Board left by Dr. Elke König who left her position at the end of 2010 to represent German interests on the International Accounting Standards Board. Since January 2012 she has been the President of BaFin.

20 June 2011

A new Deutsche Hypo branch is opened in Nuremberg. The branch manager, Hans-Ernst Warczok, will be looking after customers in Franconia, the northern Upper Palatinate region, Lower Bavaria, Thuringia and Saxony. At the same time as opening this new branch, Deutsche Hypo has merged its two Munich bases into one. Dr. Bernd Hansen manages the Munich branch and is responsible for the entire Munich/Upper Bavaria conurbation, as well as Swabia and Baden-Württemberg.

20 July 2011

Deutsche Hypo signs the rental agreement for its new head office in Hanover. Based on current plans, Deutsche Hypo will move into an as yet unbuilt office building in Osterstraße in Hanover in late 2013. The new location is in close proximity to the current head office in Georgsplatz. With regard to the new premises, Deutsche Hypo is striving to achieve gold certification from the sustainable construction association, Deutsche Gesellschaft für Nachhaltiges Bauen e.V.. Additionally, the design should ensure that the building's energy saving figures are 15 % better than the targets set in Germany's Energy Saving Ordinance. The move will see the two sites in Hanover being merged into one. The Bank hopes that this will have a positive impact on its corporate culture, and create more efficient and thus more cost-effective structures.

31 August 2011

Deutsche Hypo publishes its half-yearly results. Despite the turbulence on the financial markets, the Bank achieved a satisfactory result for the first six months of the year. Financing of commercial real estate in Germany and abroad developed very positively. Whilst there was a clear increase in net interest income with new real estate business almost doubling in volume, the bank levy, which was incurred for the first time, and increased administrative expenses had a negative impact on the result.

19 September 2011

Deutsche Hypo presents its study "New trends in German retail", according to which demand can be expected to develop positively over the next few years, with all sectors of retail benefiting. Demand will continue to rise in the short term before consolidating at a high level over the medium term. E-commerce is proving to be a key driver of retail trade, with e-commerce figures being included in the market share figures for the first time. More than half of all mail order business in terms of volume is now generated online.

21 September 2011

Dr. Günter Vornholz, Head of Market Analysis at Deutsche Hypo is appointed by the Bochum-based EBZ Business School as Professor of Real Estate Economics. Prof. Dr. Vornholz will continue to make his expert knowledge available to the Bank, combining his academic with his practical work.

1 November 2011

Deutsche Hypo concludes its "Group-wide risk management" project. As a result of this project, Deutsche Hypo's risk functions are now more closely interlinked with those of NORD/LB. At the same time, the back-office functions at NORD/LB responsible for commercial real estate finance have been transferred to Deutsche Hypo. In this way Deutsche Hypo has further expanded its role as the centre of excellence for commercial real estate finance within the Group.

16 November 2011

As part of its review of the Landesbanken, Moody's implements various rating adjustments. Deutsche Hypo is also affected, being downgraded by three notches. This reflects the view taken by Moody's that there is a lower likelihood of the Landesbanken and their subsidiaries receiving external support if required. Despite this, the Bank believes that it occupies a good position and that its refinancing options remain secure.

REGION FRANKFURT/WIESBADEN, BAVARIA, HAMBURG

In the capacity of lead bank, Deutsche Hypo is financing a residential portfolio of DeWAG Deutsche WohnAnlage GmbH. The total volume of financing is € 208 million, of which Deutsche Hypo is providing € 78.1 million. Münchener Hypothekenbank eG, R+V Versicherung AG and WL Bank AG are the other banks in the syndicate. Volksbank Düsseldorf Neuss eG is also granting a subordinated loan of € 5 million. The portfolio consists primarily of residential units in Bavaria, Hamburg and the Frankfurt/Wiesbaden region. The biggest regional focus is on southern Bavaria, accounting for 26 %.

FRANKFURT

Deutsche Hypo is financing the acquisition and development of a GBI AG real estate project in Frankfurt's Europaviertel district. GBI, which specialises in real estate development, has acquired a building plot measuring 8,000 square metres in the Europaviertel and plans to construct a 400-room Motel One budget hotel, a Citadines Apart'hotel and a hall of residence for students, with 165 and 131 apartments, as well as a childcare facility, using a passive construction method. Building permits for a total of 24,500 square metres of gross floor space apply to the plot, and the total investment is approximately € 65 million.

PARIS

Deutsche Hypo is financing a residential and commercial building in Paris for the borrower Gecina S.A. The total loan volume amounts to € 60 million. The residential and commercial property, which was built around 1900 in the Haussmann style, is located between the luxury shopping streets of Avenue Montaigne, Rue du Faubourg St.-Honoré and the Élysée-Palace. The floor space is around 11,000 square metres and around 50% of it is leased as office space. The remaining half is split equally between apartments and retail shopping space.

A GOOD ADDRESS: OUR **REFERENCES**

LONDON

Through its London branch, Deutsche Hypo is financing the project development “Snowhill II” in Birmingham, worth £ 60 million. The office building covering 29,000 square metres in Birmingham’s business district was acquired from the Hines European Development Fund in April 2011. The building is due to be completed by the first quarter of 2013, and the financing term is five years.

ROTTERDAM

Deutsche Hypo is acting as the sole provider of financing for a fund of Hanover Leasing for the construction of a new office building in Rotterdam. The total volume of the deal amounts to approximately € 38.5 million. The transaction comprises short-term interim financing to cover sales tax and a complex interest rate and redemption structure. The term of the loan is ten years. The property is to be used as the head office of Stedin Netbeheer B.V., the largest energy supplier in the Netherlands. It offers over 13,000 square metres of floor space on 19 floors. In view of its high energy efficiency, the property is considered to be a “green building”.

PARIS

Deutsche Hypo is financing the acquisition of the SIGMA office building in Saint-Ouen near Paris for the “Grundbesitz Europa” fund operated by the borrower RREEF. The loan volume amounts to € 30 million. The property is a nine-storey office building that was built in the context of the redevelopment of industrial wasteland in the “Les Docks” area. The 82-hectare site is being developed into a modern office park, with over 300,000 square metres of office space, 60,000 square metres of service and retail space and 4,000 apartments.

Material: Scandinavian spruce

STRUCTURE IS THE MOST NATURAL PATH TO EFFICIENCY

Thanks to a linear construction we can maintain direct contacts with our customers and are able to make decisions quickly.

Your success : our benchmark

MANAGEMENT REPORT

Deutsche Hypo is a Pfandbrief bank specialising in the financing of commercial real estate and capital market business with domestic and foreign market participants. The Bank is part of the NORD/LB Group and is its centre of competence for commercial real estate business, one of NORD/LB's core business areas. Founded in 1872, 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.

Economic environment

Economic performance

Germany

The year 2011 was a successful year for the German economy despite all of the distortions on the financial markets. According to initial estimates from the German Federal Office for Statistics, real gross domestic product (GDP) grew by 3.0 % compared with the previous year. Nearly every area of the economy recorded an increase in real value creation. The rapid pace of the recovery meant that economic output had returned to its pre-crisis levels by the middle of 2011. Germany's deficit ratio fell to 1.0 % of nominal GDP, due to economic factors, with the result that the deficit criterion set in the European Stability and Growth Pact was adhered to again.

The economic recovery in 2011 was broadly supported: Alongside net exports, investments and private consumption were the major drivers of growth. Given its traditional exporting strength, Germany benefited once again from high levels of demand from emerging markets. Nevertheless, some one-off factors such as the natural disaster in Japan and a weak US economy during the first half of the year meant that global trade became less dynamic. Strong export growth of 8.2 % compared with the previous year once again proved how competitive products bearing the "Made in Germany" label were. Given that imports also rose strongly (+ 7.2 %), net exports only contributed 0.8 percentage points to real GDP however. A good two percentage points can therefore be attributed to domestic demand.

Thanks to a considerable rise in actual wages and a robust labour market, the increase in private consumption was the highest since five years, with real growth of 1.5 %. Investment levels were also strong in 2011: Investments in equipment grew by 8.3 % in real terms, assisted by the low level of real interest rates and a rise in capacity utilisation until the middle of the year. Additionally, investments in construction were above average, at 5.4 %. The increase in building activity was the main contributory factor in this regard, supported by a low interest rate level.

The high rate of growth for the year as a whole disguises the fact, however, that dynamism waned significantly over the course of 2011. During the first quarter 2011, the seasonally adjusted figure for real GDP grew by 1.3 % compared with the previous quarter. Particularly mild weather was a key factor, with activity in the construction sector enjoying its customary springtime boost somewhat earlier than usual. This also limited the scope for expansion during the second quarter, so that real GDP in the spring increased by a mere 0.3 % on the previous quarter. Private consumption figures were hit by the strong rise in the price of crude oil, whilst foreign trade also stifled developments during the spring. Whilst GDP did begin to rise a little more strongly again during the third quarter (+ 0.5 %), the economic engine had started to stutter by the year-end. The reported annual growth rate of 3.0 % corresponds to a fall of almost 0.3 % in GDP during the last three months of 2011 compared with the previous quarter. This highlights the fact that the expected downward phase has already begun, something that is confirmed by the hard economic indicators available. Whilst industrial production only fell slightly in November, the collapse in incoming orders made for a gloomy outlook. Orders from abroad were particularly affected, with a significant decrease recorded, which also had a negative impact on exports.

The labour market benefited from the positive way in which the economy developed during the previous year. Whilst the number of people in employment reached an all-time high, the jobless figures fell once more. On average, just under 3 million people were registered as being unemployed in 2011, which was 262,000 fewer than in 2010. The unemployment rate fell to an average of 6.8 %. This is the lowest figure recorded since unemployment figures have been calculated for the whole of Germany after unification. The improved labour market situation also led to a clear rise in collectively agreed wages. Special payments and extra benefits paid on the basis of the good commercial situation also contributed to an even stronger increase in actual wages. In contrast, however, inflation served to stifle real purchasing power and prevented private consumption from growing more dynamically. The national consumer price index rose by 2.3 % in 2011, which means that inflation picked up speed considerably compared with the two previous years (1.1 % and 0.4 % respectively). This can be primarily attributed to the strong increase in the price of crude oil. Towards the year-end, however, inflationary pressure eased off again, as some base effects began to have an impact.

Eurozone

In 2011 the economy in the eurozone got off to a promising start before the intensification of the government debt crisis, one of the key factors in the subsequent collapse on the equity markets, and leading indicators began stifling economic activity. Buoyed by the exceptional mild weather conditions across vast regions of Central Europe and the keen level of construction activity as a result, GDP grew by a further 0.8 % in the first quarter compared with the final quarter of 2010. It was almost inevitable that these distortions caused by the weather conditions, and which could not be covered by the process to seasonally adjust the figures, would trigger a countermovement during the second quarter. Consequently, a low growth rate of 0.2 % compared with the previous year was actually a sign of normalisation rather than an indication of any fundamental slowing in the pace of economic development. As the debt problem spread to the third and fourth-largest economies in the eurozone, namely Italy and Spain, in the form of rising yields, and as Europe's policymakers failed to provide an adequate response, the crisis of confidence increasingly began to spill over into the real economy. During the third quarter GDP grew at a current rate of just 0.1 % and is expected to have shrunk in the final quarter for the first time since spring 2009. This gives a growth figure for the year as a whole of 1.5 % compared with 2010.

As in 2010, economic development across the eurozone varied significantly from one region to another. Germany once again functioned as the engine of growth, with GDP growth of 3.0 % after adjustments for seasonal and calendar effects. The largest economy thus contributed around 0.9 % of the total growth recorded in the eurozone. Austria, Finland and Slovakia recorded similar rates of expansion, whilst economic output in the large economies of France and the Netherlands grew by approximately 1.5 % in each case. Meanwhile, GDP in Italy and Spain grew only slightly in 2011, with consolidation demands and structural problems, not to mention the considerably more acute financing conditions, smothering growth. Greece and Portugal, the countries in the midst of adjustment, were experiencing a serious recession, whilst Ireland performed very positively at least in the first half of the year.

USA

The US economy experienced a two-track development in 2011: Whilst the first six months were dominated by surprisingly weak growth despite what was still a positive mood, the economy proved to be remarkably solid during the second half of the year albeit a clear deterioration in the mood. The dip recorded during the first six months was primarily due to a few negative one-off factors such as freak weather conditions, the rise in commodity prices and the natural disaster in Japan, with negative fall-out for the automotive sector. The catch-up effort that was subsequently needed was a key factor in the very robust level of growth recorded during the second half of 2011. The strongest areas were the investment sector as well as consumer goods.

The phase of economic development from August onwards was overshadowed by a new financial crisis. Firstly, the financial markets came under massive pressure as America's politicians left it to the very last minute to strike a compromise on the budget, immediately following the US rating agency Standard & Poor's (S&P) downgrading the USA's rating from AAA to AA+. Additionally, the crisis in the eurozone was a source of uncertainty across the world. It is these unresolved difficulties, coupled with the unsecure state of US budgetary policy, that represent the key economic risks facing the USA in 2012.

The Federal Reserve continued with its zero interest rate policy in 2011. This relaxed approach to monetary policy was a burden on the currency, particularly during the first half of the year. As the year progressed, the European government debt crisis became a greater priority in market participants' minds, with an increasingly negative impact on the European currency. The easing of the monetary reins by the European Central Bank (ECB) towards the year-end also further increased the pressure on the euro. As a result, the 1.30 USD/EUR mark even moved closer into focus towards the end of 2011. The eurozone crisis gave US treasuries a boost, and yields in the ten-year sector as at the 2011 year-end were just below 2.0 %.

Asia

Growth in Asia became less dynamic in 2011. After the rapid pace of recovery in 2010, China experienced somewhat moderate growth, although the Chinese economy did appear surprisingly robust towards the end of the year. Fears of a hard landing therefore proved to be unfounded. Economic development in Japan was overshadowed by the triple disaster on 11 March 2011 with the earthquake, tsunami and resulting damage to the Fukushima nuclear power plant. From an economic perspective, the significance was that value added chains were dramatically disrupted, intensifying the fall in GDP during the first quarter. It was, however, the second quarter that was particularly hard hit as exports collapsed. Meanwhile, the situation continues to be marred by the Japanese government's level of borrowing, which is already high and still growing.

The importance of China as a regional engine of growth was further consolidated last year. For countries such as South Korea and Taiwan, China is already the major source of demand. Political decision-makers were focused during the past year on tackling inflation, energetically continuing to pursue the monetary policy approach first adopted in 2010 with increases in key interest rates and the minimum reserve. Indeed, these measures did have the desired effect by the end of the year. With an inflation rate of 4.1 %, the inflation target had almost been reached by December.

Development of international real estate markets

Investment markets – Overview

Global investments in commercial real estate rose significantly again in 2011 compared with the previous year, as this investment class increasingly picked up speed compared with other assets. Growth was around the 25 % mark. Investors particularly favoured core properties with a high occupancy rate in their specific markets. Other asset classes continued to be the subject of lower demand from investors. This market development is striking against the background of strongly unsettled investors: The government debt crisis coupled with fears about economic growth dominated the basic parameters on the real estate investment markets during the past financial year.

Europe as a whole recorded average growth compared with the previous year, albeit with a slightly less dynamic development over the course of 2011. Investors' interest was mainly focused on the real estate markets in the UK, France and Germany, and thus on core markets. Southern European countries, where the problems relating to government finance are the most severe, tended to be ignored by investors.

A slightly above-average increase was recorded in the USA. Consequently, it was the economic region that suffered most from the financial crisis that recorded the strongest increases. Slight rises were recorded in the Asia-Pacific region, with only a weak level of dynamism in evidence over the course of the year.

There was a change with regard to the selection of property types. Retail properties in particular were the subject of greater attention than in previous years among institutional investors looking for commercial real estate in 2011.

Rental markets – Overview

Sustained government debt problems, worsening economic data and turbulences on the financial markets generated uncertainty among companies and consumers, albeit to differing degrees in the individual countries. This development, the scale of which varied across the different regions, impacted on both the office rental markets and the retail sector, and therefore indirectly on retail real estate markets.

Although the business climate deteriorated, office rents have risen continuously since the beginning of 2010 in central commercial districts across the world. Now, however, there were increasing signs that the rates of growth were easing off. Vacancy levels have dropped slightly across all prime locations. In contrast, there has been a rise in the proportion of unoccupied premises with regard to properties in non-central locations or properties of moderate quality.

Germany

Transactions on the real estate investment market in Germany increased further, although the record results of 2006 and 2007 were still a long way off. Given the uncertainties on the international financial markets, the relative attractiveness of real estate as an asset class had grown further. In Germany, the volume of business rose by around 30 % to just under € 23 billion in total, with a relatively constant development in evidence over the year. The polarisation in favour of core and secondary markets, which influenced commercial real estate investments over recent years, also continued during the past financial year. In terms of property types, Germany once again occupied the leading position for retail investments in Europe.

The dynamism on the German office market was sustained over the year and transaction levels were in some cases up on the previous year's figures in prime office locations. Germany benefited from the favourable development in the economy as a whole and in the labour market in 2011, with net absorption increasing as a result. With only a very small number of construction projects being completed, vacancy levels fell slightly across the country. Given that vacancy levels are currently high, the impact on the top rents was however minimal.

Economic growth boosted German retail business last year. As a result, sales were able to rise again for the first time in several years. The positive development in city-centre retail was the result of the strong trend in favour of very good and good locations. Successful retailers favoured premises in 1A and strong 1B locations, which are not readily available, with a view to further expanding their brand presence. The lack of attractive premises in 1A location resulted in continued upward pressure on rents. Consequently, tenants were forced to keep a look-out for properties in other cities or in secondary locations.

United Kingdom

The UK continued to maintain its leading position as an investment location in Europe, despite the fact that the volume of investment tailed off during 2011 compared with the previous year. London in particular retained its reputation as a secure and also very transparent location for investors. Both equity-based and leveraged investors were primarily interested in first-rate real estate in core markets. Demand in this market segment clearly exceeded supply, and it became increasingly difficult for investors to find the desired properties.

The office market suffered as a result of the gloomier state of the economy. Transactions on the rental market fell slightly and were thus down on the long-term average. Corporate service providers were one of the main groups looking for properties. The second half of the year saw some building projects reach completion and enter onto the market. Vacancy levels were therefore stuck where they were in 2010, with the better locations also being affected. One advantage for the office market was that the volume of new project completions was at a historic low. After what had sometimes been significant rent rises in earlier years, top rents stagnated in 2011.

As the state of the economy darkened the mood in the retail sector, many chain stores cut back on their expansion plans. Meanwhile, tourism continued to have a positive impact on retail in London. Retailers were, once again, interested in top-of-the-range properties with a high level of pedestrian frequency. Further reductions in the development pipeline kept rents stable and resulted in more intensive competition among investors, pushing returns down further. In prime locations, in London in particular, rent increases were however in evidence, sometimes entailing considerable rises.

France

Relatively large investment markets such as France were also able to continue their recovery process during the year under review and record further increases in their investment volume. Key factors in this regard included the considerable number of portfolio purchases and large-scale transactions, primarily on the part of French investors. With the finance environment having become more difficult, investors with a strong capital base dominated, focusing on core properties. Correspondingly, the top rents for office properties in Paris fell considerably compared with their all-time high at the beginning of 2009.

France's office markets braved the macroeconomic uncertainty. Sales were able to match the previous year's level, an achievement mainly attributable to a few large deals. Given that some new projects were launched at the same time, there was only a slight fall in vacancy levels. Speculative developments in particular were sparse. Following a significant rise in top rents last year, rent levels stagnated over the course of 2011. This trend also applied to average rents, with a downwards movement actually in evidence in peripheral locations.

The uncertainty among French consumers was also reflected in a high savings rate, which had a negative impact on retail sales. As a result, consumer spending lagged behind economic growth. Demand for sales premises on the part of retailers was focused on the top locations. The French market remained attractive to international chains. Overall, the available space therefore rose slightly compared with the previous year despite the uncertainty on the markets. Rent levels remained stable, with the most popular locations in particular being re-let relatively quickly.

Netherlands

After a short upturn, the volume of transactions in the Netherlands fell again during the past financial year. It is striking, when analysing the investment market, that a good one third of investments related to the retail segment in 2011, which is considerably higher than during the previous year. The rise in the retail share would have been even higher had it not been for a lack of available top-of-the-range properties. There was keen interest among investors in buying this type of property. This is also evident from the compression of yields observed overall in 2011.

Demand for office properties in the Netherlands proved to be relatively stable in 2011 compared with the previous year. The main source of demand was companies in the services and financial sector. A large proportion of sales could, however, be attributed to relocations, and did not lead to a higher net absorption. These constant demand conditions were also evident from rents and incentives, which were unchanged on the previous year. At the same time, there was a slight rise in the number of projects being completed, with the market being able to absorb most of these.

Private consumption figures were below average despite unemployment levels remaining low due to the loss of consumer confidence. The result was stagnating retail figures. It was only in the area of online trading that retailers were able to generate strong increases in sales. This also impacted on demand for premises, which stagnated on a year-on-year basis. There were, however, practically no vacancies in the main shopping streets: In Amsterdam, rents for retail space rose slightly compared with the previous year. In poorer locations, in contrast, vacancy levels rose, with rents coming under continued downward pressure.

Spain

The volume of real estate transactions in Spain in 2011 was again well down on the previous year and actually reached its lowest level for ten years. Spanish investors continued to play a central role on Spain's investment market due to the lack of foreign interest. In terms of sellers, banks and authorities dominated activity as they attempted to improve their balance sheets or raise their liquidity levels. The division of the market, with opportunistic investors on one side and mainly Spanish, more traditional core investors on the other, continued during 2011.

The Spanish office market continued to suffer from the effects of the financial and economic crisis. Net absorption levels remained negative. Demand for office premises was primarily only due to relocations, as companies looked to optimise their office space. The fact that the level of new completions was exceptionally low had a positive impact. There has been an ongoing reduction in the pipeline for project developments over recent months, with the result that the supply side only had a minor influence. Once again during the past year, there was continued pressure on rents, with even more marked reductions in evidence in Madrid outside of the top office locations.

The Spanish retail sector continued to suffer from the effects of the ailing economy and the exceptionally high levels of unemployment, with the jobless figures having doubled since 2007. There was, however, no particular worsening in the situation compared with the previous year. Consumer spending by households remained stuck at the previous year's level. Retailers were primarily interested in optimising their existing bases and less concerned with expansion. In terms of the supply side, new completions were at a record low. Correspondingly, top rents stagnated and rents in peripheral locations came under downward pressure.

USA

The investment markets became considerably more dynamic during the last few quarters. The stabilisation of the rental markets and improved basic financial conditions in the USA meant that investing in real estate became attractive again. Additionally, the supply of investment opportunities increasingly broadened. "Emergency sales" as a proportion of total investments rose in both absolute and real terms, but investors focused strongly on first-rate real estate in the core markets. Whilst cap rates for office real estate fell, they remained more or less stable for other real estate types.

The economic recovery, particularly in sectors related to offices such as company service providers, generated growth in jobs. This meant that a positive net absorption was recorded in the majority of US office markets, i.e. more office space was occupied than in the previous year. Office buildings in better locations were particular beneficiaries of this development, with a slight drop in vacancies. In other locations, vacancy levels rose again as space was freed up. Consequently, office rents were latterly stabilising again for the greater part. Rent rises were even in evidence again in New York and Washington.

The financial and economic crisis had a sustained impact on US consumer confidence. After years of growth, the retail sector suffered a decline in 2009, but has been back on a growth path since then. Whilst the food retail sector continued to record above-average growth, sectors related to real estate such as furniture and DIY came under pressure. The keen level of new building activity over recent years, as well as a high number of insolvencies, resulted in a rapid increase in the number of vacant commercial premises.

Development of international financial markets

The financial markets were once again hit by distortions during the past financial year. The capital markets and Europe's policymakers have been on tenterhooks since spring 2010, awaiting the outcome of the debt situation in some of the eurozone states. Starting from huge budgetary problems in Greece, the government debt crisis began to spread to more and more eurozone countries, among them Italy, Spain and Portugal. Yields on government bonds point to the major lack of trust in the markets, but some of the reaction during the second half of 2011 was panic-like. This posed a substantial threat to financial stability and the development of the global economy.

Solely as the result of bonds becoming due, Spain and Italy will have significant refinancing requirements over the coming years, which is why clear improvements in their budgets will not automatically alleviate the situation, unless such efforts succeed in turning around the expectations of capital market participants. For both countries, it is essential that the average interest charge does not dramatically increase so that the improvements being targeted in relation to the primary balance can also help cut the real debt burden.

European policymakers attempted last year, with the help of an expansion of the existing rescue mechanism, to calm the capital markets and thus avoid any contagion of the debt crisis in the eurozone. More and more measures were adopted at numerous European summits throughout the year, but with little more than moderate success to date. But they have failed to develop any sustainable solution to the problem. Certainly, Greece has received a second support package from its European partners, including voluntary involvement on the part of private investors, with negotiations to follow on a significant reduction of the country's debt. At the same time, improvements had been made to the European Financial Stability Facility (EFSF) in terms of both quality and quantity. However, these measures have not been viewed as sufficient or have not been seen as a credible solution by the markets in light of the limits on volume imposed by the EFSF. For the purposes of increasing the EFSF's impact, leverage was also agreed. This does depend, however, on whether and to what extent investors can be found.

Yields for Spain and Italy could only be maintained at a level that was even half-way acceptable thanks to the ECB buying up huge quantities of government bonds. From the autumn onwards, the crisis had an increasingly negative impact on the real economy. Due to the steps needed in many eurozone states to consolidate government finances and the darkening of the prospects for the global economy, the outlook for the European economy grew increasingly gloomy over the course of the year. Before the December summit, the credit rating agency S&P warned that it would be downgrading practically all of the eurozone states if no convincing measures were adopted. Germany too faced the threat of losing its AAA rating. However, there was no downgrade by S&P and German federal bonds continue to be viewed on the market as a safe haven in the eurozone. France and Austria, meanwhile, did lose their top rating, which also resulted in the EFSF being downgraded.

Given the escalating crisis in the eurozone, the ECB returned to its temporarily suspended programme for buying back European government bonds (Securities Markets Programme, SMP) and had purchased bonds with a volume of more than € 137 billion by the year-end. This almost tripled the total volume of its government bond portfolio within the space of six months, a move that triggered huge criticism and ultimately resulted in the resignations of Axel Weber and Jürgen Stark. Additionally, at the first two ECB Council meetings chaired by the new ECB President, Mario Draghi, the Bank agreed on two interest rate cuts to 1.0 %, thus reversing the interest rate increases introduced in April and July. With the crisis in the eurozone being the key issue on the capital markets, German federal securities continued to be very much in demand in their capacity as a safe investment. The yield on ten-year federal bonds fell strongly and by the 2011 year-end was lower than 2.0 %. US treasuries were also in demand as a safe haven. The yield on ten-year treasuries slumped from its high of 3.7 % in February to 1.7 % in September as the crisis progressed. The yield spread between ten-year US treasuries and German federal bonds was successively reduced over the course of the year. Following a weak issuing result for German government bonds in November, yields on ten-year US government bonds were temporarily 30 basis points below those of their German counterparts. This situation had normalised again by the year-end, and the spread had more or less evened out.

On the interbank market, the crisis in the eurozone and emerging involvement of the private sector in the efforts to rescue Greece generated renewed tensions. After money market rates had more or less normalised during the previous year, the 3-month EURIBOR ended the year a good 120 basis points above its secured equivalent (EUREPO). The ECB reacted by flooding the markets with liquidity. For the first time in its history, it provided liquidity for a period of up to three years. In December the banks called up almost € 500 billion from the three-year tender. Yet even this was not enough to calm the situation down. European credit institutions, for example, made increasing use of the deposit facility. By the 2011 year-end, the volume of overnight deposits had climbed to € 452 billion. Particularly institutions in those states that have been especially hard hit by the debt crisis continue to have significant problems in obtaining refinancing via the markets and thus away from the ECB. Many institutions have not yet concluded the process of adjusting their balance sheets. The imminent introduction of stricter requirements in terms of the quality and quantity of banks' liable capital has placed many institutions under considerable pressure.

During the first half of the year the euro gained significantly in value against the US dollar. The relaxed monetary policy pursued by the USA impacted on the dollar. Then, as the year progressed, the European government debt crisis affecting eurozone states became a greater priority in market participants' minds, with an increasingly negative impact on the euro. The easing of the monetary reins by the ECB towards the year-end further increased the pressure on the European currency. The escalation of the crisis in the eurozone enabled the US dollar to appreciate against the euro, again slightly undershooting the 1.30 USD/EUR mark by the year-end. Compared with sterling, the euro spent the year in a relatively narrow band of between 0.91 and 0.83 GBP/EUR, ending the year at a price of 0.83 GBP/EUR. The Japanese yen, in contrast, appreciated further against the euro. This also applied to the Swiss franc through until August, although the Swiss National Bank announced a minimum exchange rate of 1.20 CHF/EUR at the year-end. This minimum has been adhered to since then, without the need for any intensive defence measures.

The major international equity markets were also hit by the debt crisis by the middle of the year, with markets on both sides of the Atlantic being affected. The gloomier state of global economic prospects also played a role in this regard. The DAX, Germany's leading index, slumped from its high of 7,500 points recorded in May to as low as 5,000 points on some occasions in the summer. Although the DAX was always able to recover from these dips, the performance for the year as a whole was negative, as was the case for most other international equity indices.

Income position

Figures in the tables and charts in the management report are denominated in thousands (k), millions (m) and billions (bn) of euros (€). It should be noted that the amounts and percentages quoted in the tables, charts and text are rounded figures, resulting in rounding differences in some cases.

Overview

- The volume of new business (€ 2,769.2 million) in the core division of commercial real estate finance during the financial year 2011 rose strongly compared with the previous year (€ 1,784.0 million). Margin levels continued to develop positively.

- In light of the European government debt crisis, new business in the capital market business division was only entered into on a selective basis.

- Despite the difficult market environment, the Bank was able to acquire sufficient funding at all times.

- Overall, a gratifying level of net interest and commission income (including current income from shares and other variable-interest securities) was recorded, at € 202.7 million. This represents a clear rise of 8.9 % compared with the previous year (2010: € 186.1 million).

- The risk result during the past financial year was, as expected, at a high level, amounting to € – 82.7 million (2010: € – 78.8 million). At the same time, there was a tangible improvement in the portfolio quality. This was evident from the volume of impaired loan commitments, which has been consistently falling for several quarters now.

- Administrative expenses including write-downs on intangible assets and property, plant and equipment were more or less unchanged on the previous year, totalling € 70.6 million in the 2011 financial year (2010: € 69.4 million). At the same time, the first successes were recorded as a result of the programme to increase efficiency. Despite a rise in the number of employees, the cost/income ratio improved to 35.8 % (2010: 37.2 %*)).

- The result from ordinary business activity totalled € 32.7 million (2010: € 45.0 million).

- Total assets fell from € 36.0 billion to € 35.0 billion.

- The core capital ratio and overall ratio pursuant to the Solvency Ordinance (SolvV) were 8.4 % (2010: 7.7 %) and 11.6 % (2010: 10.6 %) respectively, well up on the previous year's figures. Factors contributing to the strengthened key figures included the reinvestment of the previous year's profit and the improved quality of the commercial real estate finance portfolio.

*) The previous year's figure has been adjusted retrospectively to take account of a new calculation method. Cf. footnotes in the table "Performance of the business divisions".

in € millions Income Statement	31.12.2011	31.12.2010	Relative change
Net interest income	191.9	172.7	11.1 %
Net commission income	10.8	13.4	– 19.4 %
Administrative expenses	70.6	69.4	1.7 %
of which personnel expenses	41.9	37.4	12.0 %
of which other administrative expenses including depreciation	28.7	32.0	– 10.3 %
Other operating income	– 5.4	0.5	>100 %
Risk result	– 82.7	– 78.8	4.9 %
Balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets	– 11.3	6.6	>100 %
Income from ordinary business activity	32.7	45.0	– 27.3 %
Extraordinary income	– 0.6	– 0.6	0.0 %
Income transferred on the basis of profit pooling, a profit transfer or a partial profit transfer agreement	– 18.5	– 8.4	>100 %
Income before taxes	13.6	36.0	– 62.2 %
Taxes	2.6	4.8	– 45.8 %
Net income for the year	11.0	31.2	– 64.7 %

Net interest and commission income

Net interest income totalled € 191.9 million. This equates to an increase of 11.1 % compared with the previous year (2010: € 172.7 million). A key driver responsible for this positive development was commercial real estate finance business. The Bank's real estate finance portfolio increased slightly compared with 2010. The margin also developed positively.

Against the background of the ongoing European government debt crisis, Deutsche Hypo set high standards for its new government finance business. In the context of Deutsche Hypo's business strategy, the portfolio was reduced as planned. Consequently, net interest income from capital market business fell to € 23.9 million (2010: € 30.4 million).

Net commission income totalled € 10.8 million and was thus € 2.6 million lower than in the previous year (€ 13.4 million). The pleasingly high level of processing fees in relation to new business was mainly classed as interest-related income. Consequently, these contributions to income were not recorded directly in the income statement, but reported under net interest income on an accrued basis over the term of the loan. Given the noticeable improvements in portfolio quality, there were no instances of large-scale commission income in the context of restructuring, as was still the case during 2010. Additionally, the service fee paid by NORD/LB to Deutsche Hypo for the servicing of its real estate finance portfolio was, as expected, lower, due to the progress made in the asset transfer.

Administrative expenses

Despite the increase in personnel costs, administrative expenses were more or less on a par with the previous year at € 70.6 million (2010: € 69.4 million) due to the first successes being recorded in the context of the efficiency improvement programme.

Personnel expenses rose by 12.1 % year-on-year. In the first instance, the rise in the Bank's headcount pushed personnel costs up. This can be attributed to the rise in business volume with regard to commercial real estate finance and stricter supervisory requirements. Additionally, the Group-wide strengthening of Deutsche Hypo as the centre of competence for commercial real estate finance within the Group and the associated transfer of further loan specialists from NORD/LB to Deutsche Hypo also contributed to the higher staff numbers.

Other administrative expenses including write-downs on intangible assets and property, plant and equipment were significantly lower than during the previous year, at € 28.7 million (2010: € 32.0 million). The first successes from the efficiency improvement programme were generated, and this was reflected in administrative expenses.

The cost/income ratio was a gratifying 35.8 %, an improvement on the 2010 figure (37.2 %).

Other operating income

The result from other ordinary activity was € – 5.4 million (2010: € 0.5 million). This negative result was due to the first-time payment of the contribution towards the restructuring fund for banks, referred to as the bank levy.

Risk result

The risk result was as expected, with net expenses as at the end of the 2011 financial year of € 82.7 million (2010: € 78.8 million). The key factor was risk provisioning for commercial real estate finance business, accounting for a net expense of € 79.8 million. Allocations to specific bad debt allowances related almost exclusively to foreign business. At the same time, there was a tangible improvement in the quality of the commercial real estate finance portfolio. This was clear, for example, from the volume of defaulted loan commitments, which has fallen consistently during the past few quarters. Key factors in this regard, alongside active portfolio management measures, also included migration effects in the portfolio and lower-risk new business.

The risk result based on securities held in the liquidity reserve was € – 2.9 million (2010: € 2.0 million) and was mainly attributed to the repurchase of the Bank's own securities as part of measures to regulate price. Taking into account the corresponding income effects included under net interest income, these activities to regulate the price of Deutsche Hypo securities contributed a positive net effect of € 6.2 million overall.

Income from financial investments

Income of € – 11.3 million from financial investments was primarily influenced by write-downs on securities held as fixed assets. The only Greek government bond included in the portfolio was written down appropriately. The Bank's remaining exposure to Greece as at the 2011 year-end was a mere € 4.2 million.

Income from ordinary business activity

Deutsche Hypo generated income from ordinary business activity of € 32.7 million, a lower level than the € 45.0 million recorded during the previous year. Key factors in this decline were, in particular, the additional burdens created by the European government debt crisis, risk provisioning, the bank levy and allocations to protection schemes.

Net income for the year

As a result of higher expenses (€ 18.5 million) due to the take-up of capital from silent partners of € 150.0 million during the 2010 financial year and the fall in income from ordinary operations, the net income for the year fell compared with 2010 to total € 11.0 million (2010: € 31.2 million).

Distributable profits

The distributable profits for the 2011 financial year totalled € 6.0 million (2010: € 16.7 million).

Performance by business area

Performance by business area in € millions	Commercial real estate finance		Capital market business		Other business		Total result	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Net interest income	141.3	120.7	23.9	30.4	26.7	21.6	191.9	172.7
Net commission income	11.8	17.1	– 0.4	– 0.4	– 0.6	– 3.3	10.8	13.4
Administrative expenses	40.8	38.6	6.1	5.8	23.7	25.0	70.6	69.4
Other operating income	1.4	– 0.6	0.0	0.0	– 6.8	1.1	– 5.4	0.5
Risk result	– 74.8	– 75.8	– 2.9	2.0	– 5.0	– 5.0	– 82.7	– 78.8
Balance of depreciation/write-downs/ write-ups on investments, shares in affiliated companies and securities treated as fixed assets	– 4.4	0.0	– 6.5	12.3	– 0.4	– 5.7	– 11.3	6.6
Income from ordinary business activity	34.5	22.8	7.9	38.5	– 9.8	– 16.3	32.7	45.0
Extraordinary income	0.0	0.0	0.0	0.0	– 0.6	– 0.6	– 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	0.0	0.0	– 18.5	– 8.4	– 18.5	– 8.4
Income before taxes	34.5	22.8	7.9	38.5	– 28.8	– 25.3	13.6	36.0
CIR*	26.4 %	28.1 %	25.9 %	19.3 %	123.1 %	129.0 %	35.8 %	37.2 %
RoRaC/RoE**	9.9 %	6.5 %	16.8 %	76.5 %	– 195.8 %	– 174.9 %	1.9 %	5.8 %

* CIR = Administrative expenses including depreciation / (net interest income + net commission income + other operating income), figures from previous years have been adjusted in line with the new calculation method

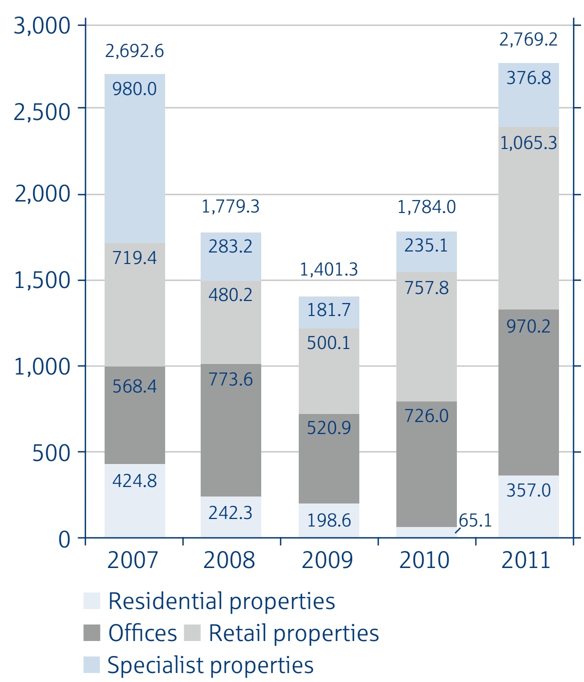
** RoRaC reported at business area level, RoE reported for entire Bank.
RoRaC for business area = income before taxes / fixed capital (= 5.0 % of average risk-weighted assets)
RoE for entire Bank = income before taxes / average capital pursuant to commercial law (= subscribed capital + capital and revenue reserves)

Commercial real estate finance

New business

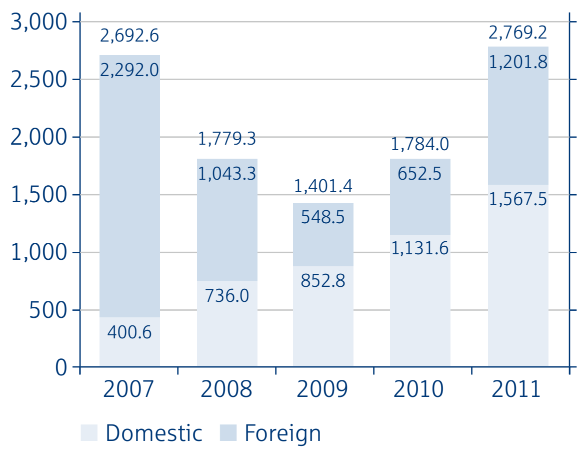
New commitments during 2011 totalled € 2,769.2 million, some 55.2 % up on the previous year's figure (€ 1,784.0 million). The positive development of Germany's real estate market favoured a significant rise in new domestic business. The volume of new domestic commitments duly rose by 38.5 % to reach € 1,567.5 million (2010: € 1,131.6 million).

Real estate finance business by property types (in € millions)



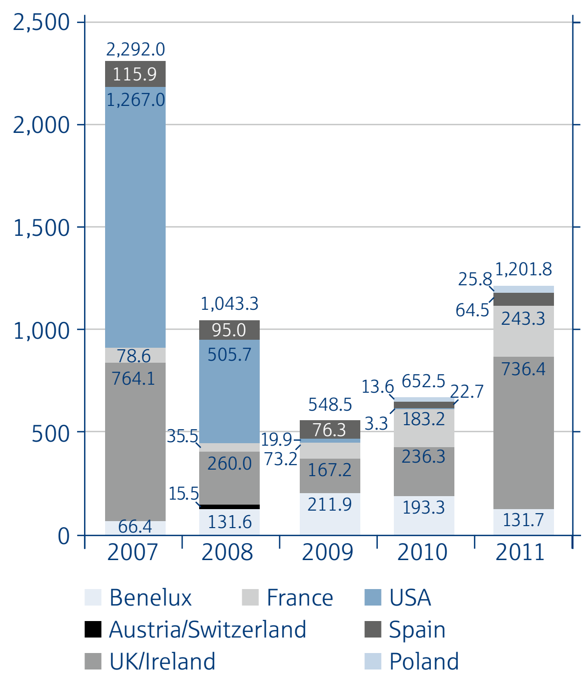
The development in new real estate finance business outside Germany was very gratifying. Foreign new business rose by 84.2 % to reach € 1,201.8 million (2010: € 652.5 million). The distribution of the new business across the different countries highlights the Bank's fundamentally differentiated analysis and assessment of the different foreign markets.

New real estate finance business by region (in € millions)



The increase in new foreign business during 2011 was heavily dominated by the strong expansion in commitments in the UK, entered into on a selective basis. These commitments totalled € 736.4 million (2010: € 236.3 million). The Bank's strategic step of establishing a London branch in 2010 has paid off. In the core market of France, meanwhile, new business grew by approximately one third to reach € 243.3 million (2010: € 183.2 million). The volume of commitments in the Benelux countries fell to € 131.7 million (2010: € 193.3 million) due to the more cautious assessment of the office real estate segment. Deutsche Hypo's assessment of the Spanish market remained reserved, with sporadic business opportunities presenting themselves there. The volume of new commitments on the Spanish market was € 64.5 million (2010: € 13.6 million). In the USA, Deutsche Hypo is currently only taking up new business through NORD/LB. With regard to the Polish market, meanwhile, the Bank is planning on expanding its real estate finance activity.

Real estate finance business by country (in € millions)

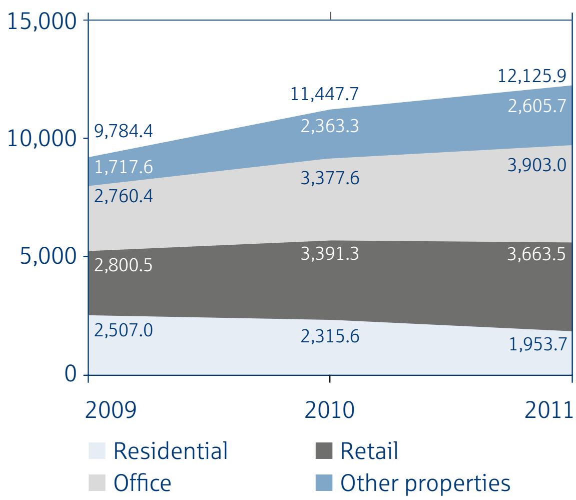


In terms of new commitments in real estate finance, commercial loans accounted for a share of 87.1 % with a volume of € 2,412.2 million (2010: € 1,718.9 million). Financings for residential property accounted for 12.9 % or € 357.0 million (2010: € 65.1 million).

Portfolio

The real estate finance portfolio grew by 5.9 % compared with the previous year to € 12,125.9 million (2010: € 11,447.7 million). During the reporting period, as part of the transfer of the NORD/LB commercial real estate portfolio to Deutsche Hypo, a total volume of € 1,470.0 million was transferred over to the Bank.

Development of real estate finance business (in € millions)



Substantial portfolio increases were posted in the area of office real estate (€ + 525.4 million) and retail properties (€ + 272.2 million), as well as in the case of other properties (€ + 242.4 million). In terms of residential finance, the size of the portfolio fell (€ – 362 million). There was a corresponding shift in the weightings of the respective portfolio components to the detriment of residential properties. Other property types accounted for 21.5 % of the total portfolio.

Domestic financing business totalled € 7,362.3 million (2010: € 6,711.4 million), whilst foreign finance deals totalled € 4,763.5 million (2010: € 4,736.3 million). The share of foreign loans therefore fell slightly year-on-year from 41.6 % to 39.2 % of the total loan portfolio and was around the target level of approximately 40 %.

Result

The commercial real estate finance business division was able to achieve a good result during the year under review. The volume of new commitments rose by 55.2 %. Both the portfolio margin and the margin on new business developed positively. This resulted in a significant rise of 17.1 % in net interest income compared with the previous year.

Processing fees developed positively again in 2011. A large proportion of these commissions are classed under interest income and thus reported on an accrued basis of the term of the loan.

At € – 74.8 million (2010: € – 75.8 million), the level of risk provisioning during the past financial year was as expected. Allocations to specific bad debt allowances primarily related to foreign commitments. Leaving this aspect aside, there was a tangible improvement in the quality of the real estate finance portfolio.

Reported administrative expenses totalled € 40.8 million (2010: € 38.6 million), slightly up on the previous year. A key factor was the rise in personnel costs due to the higher number of employees. This corresponded to an increasing volume of business in real estate finance.

The balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets was € – 4.4 million.

Overall, income from ordinary business in the commercial real estate finance division rose considerably during the past financial year to total € 34.5 million (2010: € 22.8 million).

Capital market business

New business

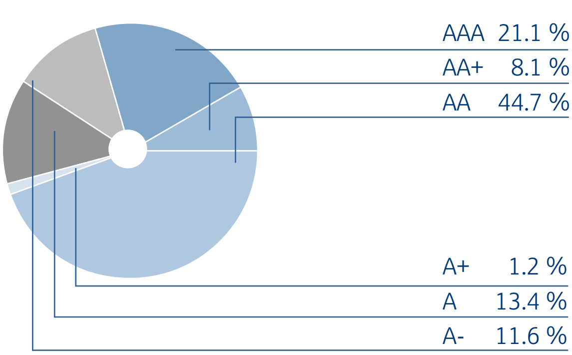
The capital markets featured a high level of uncertainty throughout 2011. The question of whether government would be in a position to pay their debts in future meant that the countries most affected by the uncertainty experienced extreme yield increases. Spanish government bonds were one such example, with the 10-year yield soaring by 170 basis points between early October and late November before tumbling back down by 150 basis points by the end of the year. In contrast, the yields for stable countries, such as Germany, fell to record lows. Meanwhile, the credit rating agencies only added to the tension, significantly downgrading some states and reviewing other countries, such as France, with a view to a potential reduction of their top ratings. In this nervy environment, Deutsche Hypo decided to use its capital market business for liquidity management in the first instance.

As a result of this decision, the volume of new business was limited to € 1.7 billion, which was significantly lower than the figure for 2010. New business was focused on the area of basic infrastructure services backed by state guarantees and on a few selected European local authorities in the target markets of the Netherlands and Scandinavia. Additional transactions were effected essentially for the purposes of liquidity management. The significant overall reduction in the number of transactions being concluded impacted on the collateral pool for public Pfandbriefe: The registered nominal amount fell by around € 2.2 billion or 13 % and thus reflected the adjustment that had been made to Deutsche Hypo's business strategy. Over the medium term the Bank is looking to reduce its government lending business further in order to fulfil the requirements of Basel III (leverage ratio).

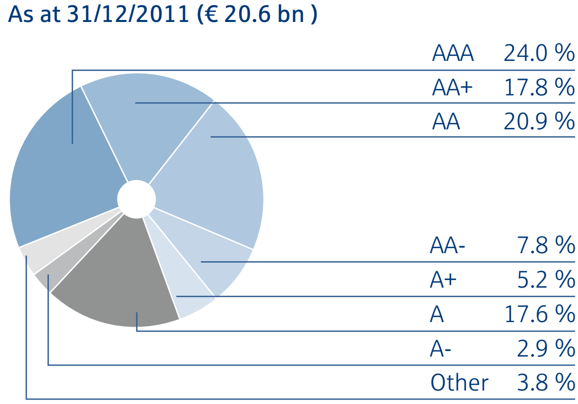
New business can be broken down by rating as follows: 21.1 % of the total involved AAA ratings. The biggest proportion, 52.8 %, related to AA ratings. The remaining transactions related exclusively to A ratings. In this way the Bank continued to adhere to its strategy of only acquiring credit, the quality of which ranges from good to very good.

Portfolio

New capital market business by rating classification 01/01-31/12/2011 (€1.7 bn)



capital market business portfolio by rating classification As at 31/12/2011 (€ 20.6 bn)



Given the strategy of only entering into new capital market business on a selective basis, the portfolio was reduced by 7.6 % overall. As at the reporting date, the portfolio had a value of € 20.6 billion (2010: € 22.3 billion). There was no reduction in the quality of the collateral pool during 2011. In total, 24.0 % of the loans related to the rating class AAA, whilst 46.5 % was rated at least AA-.

Result

Against the backdrop of the European government debt crisis, the Bank adopted a very selective approach to new business. As part of its business strategy, Deutsche Hypo pursued the goal of successively reducing its capital market business portfolio in order to cut the risks associated with it. Consequently, the reported net interest income, at € 23.9 million, was clearly down on the previous year's level even taking into account management effects applicable to the Bank as a whole.

Risk provisioning in capital market business totalled € – 2.9 million (2010: € 2.0 million). Effects from the Bank's repurchase of its own securities as a means of regulating price were a key factor. The positive opposite effects from the reversal of the related hedging transactions in the amount of € 8.5 million were included under net interest income.

The balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets was € – 6.5 million. The previous year's figure (€ + 12.3 million) still included one-off positive income from disposal gains.

Administrative expenses for capital market business totalled € 6.1 million in 2011 and were thus slightly higher than during the previous year (€ 5.8 million).

The result from ordinary business for the capital market business division was € 7.9 million for the past financial year (2010: € 38.5 million).

Other business

Other business includes income effects from the investment of equity capital and income from non-strategic business activities. Also included are income and expenses that cannot be allocated directly to the core business divisions of commercial real estate finance or capital market business.

Net interest income for this division during the past financial year was € 26.7 million (2010: € 21.6 million). The factors driving this positive development were, first and foremost, the rise in equity capital and the resulting higher level of income from reinvestment.

Despite a rise in additional costs due to regulatory requirements, administrative expenses fell by around € 1.3 million compared with the previous year as a result of lower IT and project costs, totalling € 23.7 million (2010: € 25.0 million).

The balance of other operating income and expenses was € – 6.8 million (2010: € 1.1 million). These negative components were primarily due to the contribution made to the restructuring fund for credit institutions, referred to as the bank levy.

For the above reasons the result from ordinary business activity in other business was € – 9.8 million. This was a considerable increase on the previous year's figure of € – 16.3 million.

Refinancing

The 2011 financial year, like previous years, was dominated by private placements. The focus lay on demand from domestic investors, as their international counterparts tended towards a reticent approach against a background of market uncertainty and distortions in relation to Pfandbrief products. The total issue volume of € 4.9 billion comprised € 1.5 billion of mortgage Pfandbriefe, € 1.4 billion of public Pfandbriefe and € 2.0 billion of uncovered bonds. The split between bearer and registered bonds was 65 % to 35 %, which was comparable to the previous year. Structured products were also issued on a small scale (6 %) during the reporting year. The quite high proportion of uncovered bonds, as in the previous year, was mainly due to the fact that further sections of NORD/LB's commercial real estate portfolio, including the related refinancing funds, were transferred over to Deutsche Hypo.

Whilst private placements and domestic demand were the priority, Deutsche Hypo also made use of one of the few opportunities to place a benchmark issue of € 1.0 billion with a three-year term, doing so in March 2011. The plan is to continue to operate in this market segment in future. It is likely that the challenge will involve finding the right window in terms of the timing of such an issue. Despite the uncertainty still prevalent on the market, Deutsche Hypo is optimistic that benchmark issues can remain an important and well-functioning source of refinancing given that there is still domestic demand and in view of the fact that foreign investors too are increasingly receptive to the Pfandbrief in its capacity as a quality product.

For the purposes of the timely preparation of such a benchmark issue and in order to secure the sale of private placements, Deutsche Hypo again stepped up its investor relations activities. The Bank met with investors on numerous occasions in 2011, accompanying long-term market partners during their activities to market Pfandbriefe and holding several roadshows, some of which were international. The response was resoundingly positive, although some questions were asked, given the volatile nature of the market, about Pfandbriefe in general, about the market situation and with regard to the competitive environment.

Deutsche Hypo continued to successfully pursue its tried-and-tested strategy of demand-oriented issuing and, as in previous years, was also able to count on its stable and resilient network of reliable nationally and internationally active capital market partners. This meant that the Bank's liquidity was guaranteed at all times ensuring that, despite the market distortions described, Deutsche Hypo was a consistently stable finance partner both in commercial real estate finance and in government lending business. The cost-effective issuing platform for Pfandbriefe compared with the Bank's peers secured a sustainable and recognisable competitive edge for Deutsche Hypo in its customer business.

Secondary market activities

Given its well-functioning approach to refinancing in what was difficult market environment, Deutsche Hypo was again able in 2011 to engage in long-term secondary market activities in the interests of investors, an obligation that it has taken on voluntarily. During the reporting year, own securities with a volume of € 171 million (2010: € 72 million) were settled. The resulting outflows of liquidity were replaced with new issues without any problems. As at the year-end, the nominal value of the Bank's portfolio of its own issues was € 38 million (2010: € 76 million).

Rating

Deutsche Hypo rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Long-term liabilities	Financial strength
Moody's	Aaa	Aaa	Prime-1 (stable)	A1 (negative)	D+ (negative)
				Since July 2011: A1 (on review)	
	Since October 2011: Aaa (on review)	Since October 2011: Aaa (on review)	Since October 2011: Prime-1 (on review)		Since October 2011: D (negative)
			Since November 2011: Prime-2 (stable)	Since November 2011: Baa1 (stable)	

As far as many credit institutions were concerned, 2011 was a year that brought changes to their ratings in the wake of the government debt crisis, which triggered distortions on the financial markets. Deutsche Hypo was unable to escape this trend.

In October 2011, Moody's Investor Service (Moody's) reduced its financial strength rating for Deutsche Hypo from D+ to D. The reason given by the rating agency was that the Bank was subject to cyclical market fluctuations as a result of its government finance activities and commercial real estate business operations.

In November 2011, Moody's published a rating report on the Landesbanken sector in which it stressed, among other aspects, that state support for this category of bank was viewed less favourably than in the past. The lack of agreement on the part of the European Commission with regard to state aid and the adoption of the German Bank Restructuring Act were also given as reasons for the downgradings.

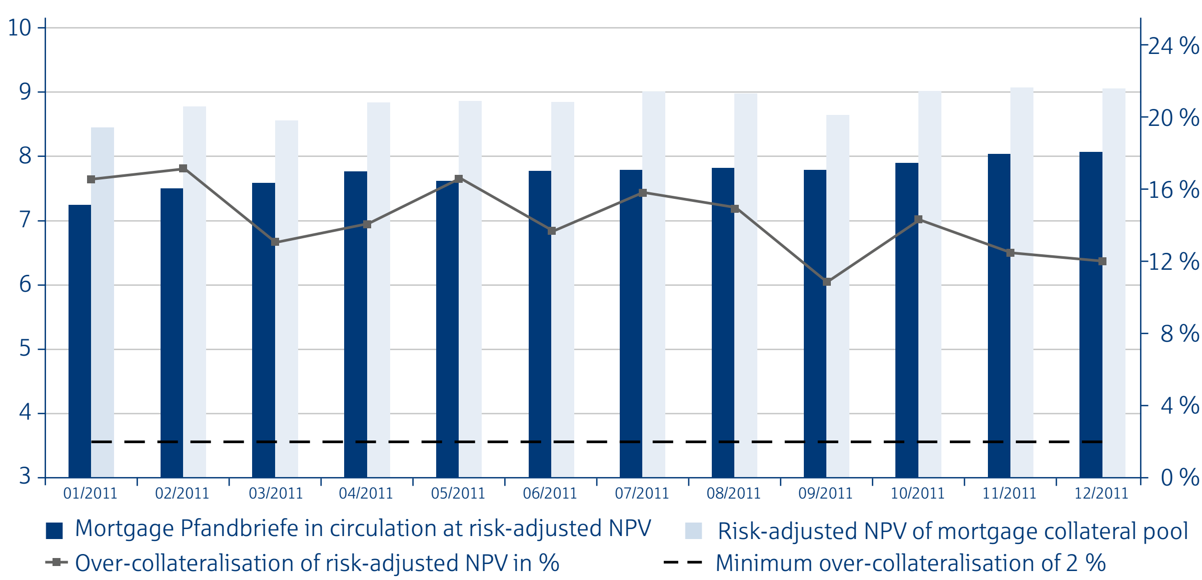
In amending its ratings for the Landesbanken, Moody's also adjusted various different ratings for Deutsche Hypo in the Bank's capacity as a subsidiary of NORD/LB: Deutsche Hypo's rating for long-term liabilities was cut from A1 to Baa1, whilst the rating for short-term uncovered liabilities was reduced from Prime-1 to Prime-2. These changes in the rating agency's assessment also led to the Aaa rating held by Deutsche Hypo's mortgage and public Pfandbriefe being reviewed in October 2011. No decision had been made by the end of the financial year. As a result, Deutsche Hypo's Pfandbriefe retained their top ratings for the whole of 2011.

Positive factors stressed by Moody's in its assessment included the fact that Deutsche Hypo occupies a strong competitive position in commercial real estate business and is internationally diversified. The establishment of Deutsche Hypo as the centre of competence for commercial real estate finance business is regarded by Moody's as proof of its strong integration into the NORD/LB Group, which is secured by the letter of comfort. Moody's also felt that the Bank's access to the refinancing market was well established and independent. Against this background, Deutsche Hypo believes that its funding options will also be secure in the future.

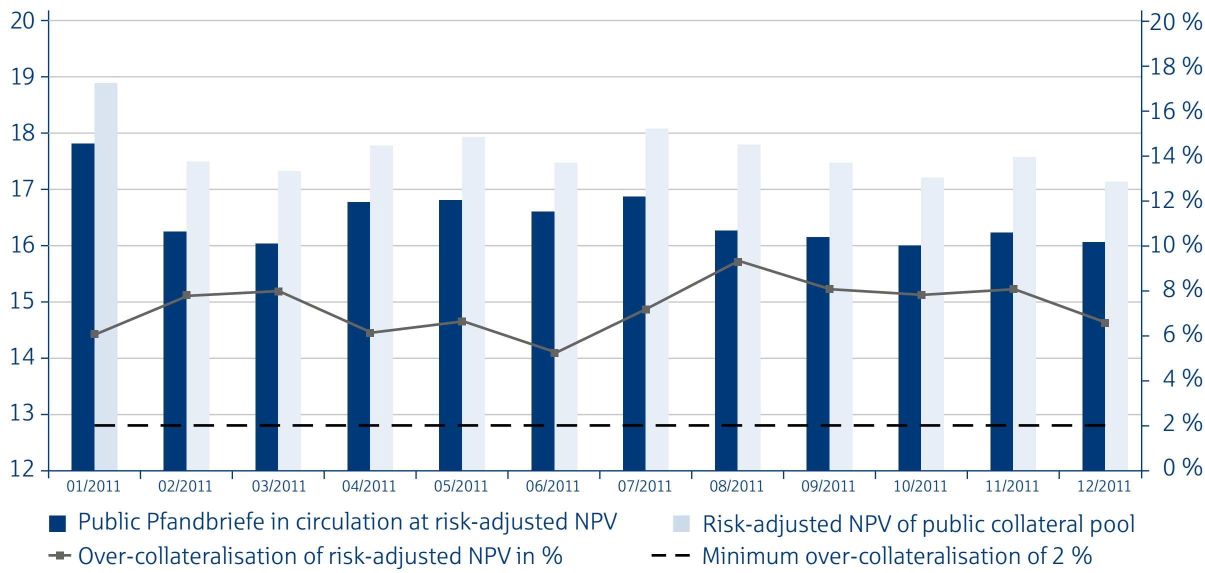
Net present value cover

In accordance with Section 4, para. 1 of the German Pfandbrief Act (PfandBG), Pfandbrief banks are obliged to maintain over-collateralisation on a net present value basis of 2 % for outstanding mortgage and public Pfandbriefe at all times. The Pfandbrief bank must also ensure that the net present value cover pursuant to Section 4, para. 2, sentence 1 of PfandBG is assured even in the event of changes to interest or exchange rates. For the purposes of calculating this security excess cover, Deutsche Hypo once again carried out the stress tests as prescribed in the Pfandbrief Net Present Value Ordinance (PfandBarwertV). During the 2011 financial year, Deutsche Hypo fulfilled this requirement at all times. At 14.29 % for mortgage Pfandbriefe and 7.34 % for public Pfandbriefe, the average over-collateralisation on a net present value was comfortably above the minimum required throughout the year.

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



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



Proposed appropriation of profit

The Board of Managing Directors and the Supervisory Board have decided to allocate € 5.0 million of the year's net income of € 11.0 million to the revenue reserves. This leaves a net profit for the year of € 6.0 million.

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 € 6.0 million to other revenue reserves.

Development of equity capital

As at 31 December 2011 the Bank's balance-sheet equity capital totalled € 897.9 million (2010: € 930.9 million). The decrease can be attributed to the amount of € 44.0 million falling due with regard to capital held by silent partners during the past financial year. This contrasted with an allocation to other revenue reserves from the 2011 net income in the amount of € 5.0 million and the reported balance-sheet profit for 2011 of € 6.0 million.

The Annual General Meeting resolved on 25 May 2011 to allocate the net income from the 2010 financial year (€ 16.7 million) to other revenue reserves. Subordinated liabilities fell by € 59.3 million as a result of amounts falling due.

The total balance-sheet equity plus juissance right capital and subordinated liabilities was € 1,319.9 million (2010: € 1,412.2 million). Taking into account those items that are required to be deducted in accordance with supervisory law, a total of € 1,047.1 million (2010: € 919.4 million) constituted eligible equity capital. This represents a rise of € 127.7 million compared with the 2010 year-end.

The increase in eligible equity capital contrasted with what was only a small rise in risk-weighted assets. The core capital ratio improved to 8.4 % (2010: 7.7 %) as a result. The overall capital ratio also improved, at 11.6 % (2010: 10.6 %). 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 the German Accounting Standard No. 11, as an affiliated party that can control the company.

According to Section 271, paragraph 2 of the German Commercial Code (HGB), Deutsche Hypo is a company affiliated to NORD/LB and is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as at 31 December 2010 were published in the electronic federal gazette on 13 May 2011. The Board of Managing Directors has produced a report on relations with affiliated companies for the period from 1 January 2011 to 31 December 2011, 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

Pursuant to the notes in the NORD/LB 2011 Annual Report, NORD/LB has issued a letter of comfort for Deutsche Hypo.

Report on subsequent events

On 16 February 2012 the rating agency Moody's adjusted Deutsche Hypo's main ratings – its financial strength rating, the rating for long-term liabilities and the rating for short-term uncovered liabilities – to "Rating under Review down (RuR down)". This decision was based on the agency's changed view of the European banking sector, with more than 100 banks affected by this new assessment. The following factors formed the basis of the "RuR down" decision:

1. The ongoing government debt crisis in Europe
2. The deteriorating credit standing of European states
3. The substantial challenges facing banks with significant capital market operations.

On 1 March 2012 the Bank sold its only remaining Greek government bond. The risk provisioning carried out in this respect at the year-end proved to be sufficient.

Risk report

Current developments

The impact of the European government debt crisis and the resulting uncertainties on the financial markets was tangible on Deutsche Hypo's environment during the year under review. In this regard the Bank's ability to react at short notice to changes in the basic economic and political parameters was a key focus of its risk management. Additionally, the reporting year featured numerous further developments with regard to Deutsche Hypo's risk management process. The methodical implementation of more stringent internal and external demands was a particular focus.

For the purposes of harmonising risk management across the Group, NORD/LB's subsidiaries have been integrated more strongly into the parent company. Consequently, Deutsche Hypo implemented management levels specific to individual areas to improve its process transparency. Implementation of the third amendment to the Minimum Requirements for Risk Management (MaRisk) was carried out on the basis of a gap analysis specific to the Bank. The measures designed to close this gap were successfully worked through in the context of a high-priority, independent project. The process of carrying out an annual review and adjustment of the Bank's business and risk strategy and the risk inventory process were also carried out in 2011 with special attention being paid to the strategic demands of the third amendment to MaRisk. The existing ad hoc reporting process was overhauled and further developed with a view to implementing a standardised process flow.

Experiences of the financial crisis meant that the supervisory authorities began to focus more strongly on banks' internal analysis of their risk-bearing capacity. This subsequently led to the publication of the interpretative document on the supervisory assessment of in-house risk-bearing capacity concepts. The resulting new requirements create more stringent basic parameters for institutions' own assessment of an appropriate capital base in the context of the Internal Capital Adequacy Assessment Process (ICAAP). In order to meet these requirements, the NORD/LB Group began work, with the involvement of Deutsche Hypo, on redesigning its risk-bearing capacity model during the year under review.

Risk management

Risk management – Fundamentals

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. The Bank has a risk management process in place that is applied throughout the institution and consists of the following sub-processes: identifying, assessing, reporting, managing and monitoring risk.

For Deutsche Hypo, the topic of risk management has always had high importance as a tool for overall bank control. The aim, by implementing a comprehensive risk management system, is to ensure that in-house requirements and regulatory requirements monitored by the supervisory authority are interlinked as far as possible. The process for identifying, assessing, managing and monitoring risks is subject to ongoing review and further development.

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

The requirements of MaRisk relate to how the institution manages its material risks. The risk types deemed to be material and therefore to be included in the economic risk assessment are counterparty default (including sovereign), market price, liquidity and operational risks. In Deutsche Hypo's case, the assessment of whether risks are material or not is based on the institution's specific overall risk profile. This depicts the risks of relevance to the Bank and is derived from a risk inventory on a regular basis and in the event of any particular risk-related occurrence. For further differentiation, a distinction is made between significant and insignificant risks. The following risks have been classed as significant: credit risk, market price risk, liquidity risk and operational risk. Using corresponding model premiums and a capital buffer, the economic risk assessment also includes a quantitative assessment of the risks not judged to be material.

Risk management – Strategies

With regard to revising the Bank's business and risk strategies, the focus again lay on taking due account of how the current market environment is developing and on findings from supervisory reviews. Capital market business is now based on adjusted strategic guidelines and is carried out selectively and primarily for liquidity management purposes with a view to reducing risk. In terms of real estate finance business, however, no changes have been made in relation to the strategic parameters.

Deutsche Hypo's risk strategy is geared towards the Bank's overall risk profile and is developed with due regard for consistency with the business strategy and the terms of the NORD/LB Group's risk strategy. The risk controlling objectives and the measures to attain these objectives are implemented within the framework of the risk strategy. At the core of the risk strategy is the uniform risk-bearing capacity model applied throughout the entire Group, on the basis of which the risk capital is allocated to the key risk types. The risk capital is allocated to the individual business areas, within the framework of the business model, in accordance with the strategic requirements set out in the business strategy.

Deutsche Hypo's Board of Managing Directors is responsible for drawing up and implementing the risk strategy. Irrespective of the planning horizon, adjustments and additions to the strategy are made regularly, and at least once a year. The established risk strategy is also submitted and explained to the Bank's Supervisory Board at least annually. The adjustments made during the reporting year were primarily concerned with the integration of the overall risk profile and the further developed risk-bearing capacity model.

Risk management – Structure and organisation

Deutsche Hypo has implemented a risk organisation that corresponds to the objectives of its risk policy. This encompasses an organisational structure that ensures a regulated interplay between all areas involved in the risk management process, for the long term. The risk-related organisational structure and the functions, roles and powers of the areas of the Bank involved in the risk processes are clearly defined down to the level of individual employees. In order to ensure objectivity and to avoid conflicts of interest, market and risk management functions are separated from one another in the Bank's organisational structure, up to and including management level.

The process-independent review of the effectiveness and appropriateness of risk management is carried out by Deutsche Hypo's Internal Audit department. This monitoring is carried out in consultation with the Group audit department on the basis of uniform tools. For the purposes of ensuring that supervisory requirements are adhered to in relation to activities in new products or new markets, a "New Product Process" (NPP) is in place throughout Deutsche Hypo. As a standard process, the NPP regulates the development of new products and product diversifications and the approach taken to new markets, new sales channels and new services. The early detection of risks and appropriate assessment of the impact on the Bank's overall risk profile is the key priority.

With a view to the goal of harmonising Group-wide risk management within the NORD/LB Group, it has been agreed that Deutsche Hypo will be more strongly integrated into the parent company in its capacity as a subsidiary company. This decision was based in particular on the statutory provisions of Section 25a, para. 1a of the German Banking Act (KWG) and on the terms of MaRisk.

Management of risks affecting collateral pool

Deutsche Hypo's risk management system also takes account of any 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 collateral pool and that issue Pfandbrief products on this basis.

Deutsche Hypo has established a risk management system that is specially designed for Pfandbrief business. Counterparty, market price and liquidity risks are managed at the level of the collateral pools in order to guarantee the high quality standards of the collateral pool used for public Pfandbriefe and the high quality of the properties serving as security in mortgage business. The fact that the credit rating agencies continue to rate the Bank's Pfandbriefe highly and the sound refinancing basis mean that Deutsche Hypo's long-term value and earning power are secure.

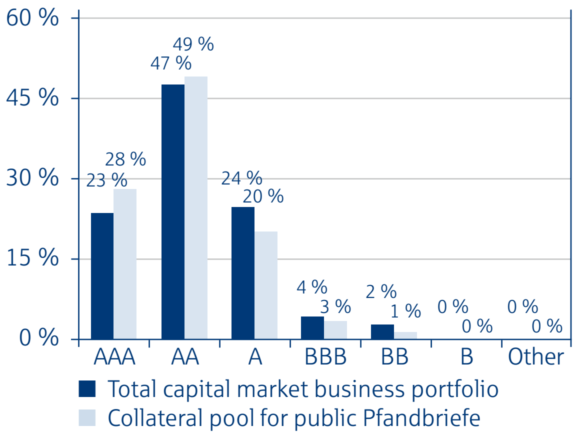
In addition to permanent adherence to the cover principle and the securing of sufficient excess cover measured at net present value (Section 4, para. 2 of PfandBG), the Bank also regularly analyses the quality of the loan receivables serving as collateral pool. This involves analysing ratings and cash flow structure and the ongoing monitoring of the value of the real estate collateral. Derivatives are also used to manage interest rate and currency risks in the collateral pools.

In addition to internal measures, Deutsche Hypo Pfandbriefe and the related collateral pool 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 disclosures in the Notes for the respective financial year and through the publication of the relevant information, together with historical figures, on the Bank's website.

- **Collateral pool for public Pfandbriefe**

The proportion of receivables allocated to the collateral pool with very good ratings of AAA and AA, at 77 %, was slightly higher than the corresponding proportion for the total portfolio (70 %). The average rating of the collateral pool was AA-, demonstrating the high quality of the outstanding Pfandbriefe.

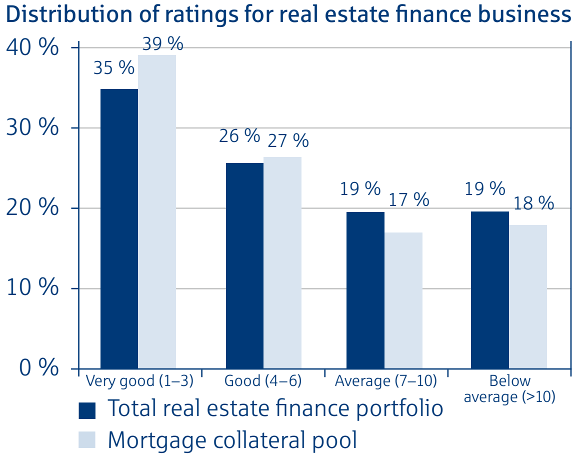
Distribution of ratings in capital market business



- **Real estate collateral pool**

The high proportion of good and very good credit ratings in the mortgage collateral pool, accounting for 66 % (61 % for total portfolio), is a clear indication of the quality of the Pfandbriefe.

Distribution of ratings for real estate finance business



Risk management – Risk-bearing capacity model

As a core element of risk strategy, Deutsche Hypo's risk-bearing capacity (RBC) model provides the basis for allocating risk capital to the material risk types. It also enables the available risk capital to be contrasted against the risk potential.

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. As part of the ongoing further development of the RBC model, the following goals were taken into account: 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 of risk across the NORD/LB Group. Given the increase in both in-house and external requirements, particularly with due regard for the third amendment of MaRisk, the supervisory assessment of banks' in-house risk-bearing capacity concepts and the requirements arising from the modernisation of supervisory reporting, a process for the conceptual redesign of the Group-wide RBC model was launched in 2011.

The revised RBC model has three main cornerstones – going concern, economic capital adequacy and regulatory capital adequacy. Risk potential resulting from the material risks is contrasted with the available risk collateral pool (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 integration of an inverse stress test takes account of the extended requirements following the third amendment to MaRisk and means that, going beyond classic stress testing, the stress test results can be subjected to critical reflection.

The going concern cornerstone is used in the current RBC model as an early warning function. Risk potential is calculated using internal models and corresponds to the potential losses to be expected from economic downturns as part of normal cycles. The risk capital for this purpose comprises the available regulatory capital at an overall capital ratio well above the minimum requirements, ensuring that an appropriate capital buffer is maintained.

The cornerstone of economic capital adequacy is broken down into the 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 risk collateral pool applied in this case corresponds to the regulatory capital. The model-based calculation of risk potential takes account of economic aspects for both pillars. As well as an increase in the risk potential, the stress testing also incorporates reductions in risk capital into the calculation, e.g. in the form of hidden charges.

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 Solvency Ordinance (SolvV) stipulates a generally applicable measurement of risks, the aim of the internal risk measurement process is to provide a more accurate picture of the actual risk situation by considering probability of default more precisely, using differentiated security and taking account of risk concentrations.

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. Where necessary, recommendations for action can also be drawn up alongside an assessment of the risk situation to ensure that the information is tailored to the recipient.

Risk management – Development in 2011

The degree of risk coverage in economic capital adequacy improved during the reporting year, amounting to 329 % as at the reporting date. This rise is mainly attributable to a strengthening of the risk capital, the rise in which resulted from various measures carried out in 2011 to strengthen the Bank’s capital base.

As part of the further development of the RBS model, various methodological adjustments were also made, some of which resulted in a change to the economic risk potential. In terms of market price risk, the integration of hidden charges and credit spread risks from securities held as fixed assets and credit derivatives resulted in a negative change in risk-bearing capacity in the stress case. With regard to credit risk and liquidity risk, the model was further refined in terms of its parameters and through a change to the assumptions for products without fixed liquidity outflows. As at the reporting date of 31 December 2011, the calculation of risk-bearing capacity was supplemented with an inverse stress test for the first time.

The level to which the existing risk capital was utilised by the entire risk potential is shown in the following overview of risk-bearing capacity. The scenario for economic capital adequacy 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 Economic capital adequacy			
	31.12.2011		31.12.2010	
Risk capital	**1,046.0**	**100 %**	**919.4**	**100 %**
Risk potential				
Credit risks	219.8	21 %	196.6 *)	21 %
Investment risks	0.3	0 %	1.0	0 %
Market price risks	54.1	5 %	54.2	6 %
Liquidity risks	27.5	3 %	38.9	4 %
Operational risks	16.4	1 %	14.8	2 %
Total risk potential	318.1	30 %	305.5	33 %
Surplus cover	727.8	70 %	613.9	67 %
Degree of risk coverage		**329 %**		**301 %**

*) To ensure that the data is comparable, the credit risks as at 31 December 2010 were also calculated using a model premium of 40 %.

Hidden charges from securities held as fixed assets and credit derivatives rose considerably during the third and fourth quarter of 2011. This increase meant that the internal targets set for the stress case were undershot. In order to also be able to meet the intended target ratios for the stress case in future, in addition to the target ratio for the ICAAP case that has already been achieved, Deutsche Hypo has already introduced measures to strengthen its risk-bearing capacity in the stress case. These include the expansion of routine reporting on risk-bearing capacity to include a monthly, abbreviated report and the continuation of the Bank's strategy of successively eliminating credit spread risks. Ongoing efforts are also being made with regard to active portfolio management by means of reduced new capital market business entered into on a selected basis. Examples in this context include the expansion of syndication activities and the limiting of concentration risks, as well as the review of financing principles with a view to focussing on counterparties with a high credit rating and shorter financing commitments, in addition to focusing on security that can serve as cover and other forms of value-maintaining security. There are also plans for a further strengthening of core capital.

In order to implement the more stringent regulatory requirements relating to internal risk measurement procedures, work began during the reporting year on redesigning the Group-wide RBC model. As well as the official calculation of risk-bearing capacity, this also involved additional internal parallel calculations on the basis of a dual control approach. The focus lies on depicting hidden charges and reserves appropriately and on integrating the credit spread risks associated with fixed assets. The plan is for reporting to be based on the newly designed model for the first time as at 31 March 2012.

Counterparty risk

Counterparty risk (including sovereign risk) encompasses credit risk and investment risk. The latter refers to the risk of losses being incurred as a result of making capital available to a third party.

Credit risk refers to the possibility 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. As well as the classic default risk, 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. 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).

A further component of the credit risk in the case of cross border transactions is the related 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.

Credit risk – Management

- **Strategy**

Credit risks are handled on the basis of the Bank's credit risk strategy which, in turn, is part of the overall risk strategy.

As far as Deutsche Hypo is concerned, counterparty-related credit risk is the main risk. Correspondingly, with due regard for its risk-bearing capacity, the Bank allocated the majority of its available risk capital to credit risks. This strategic decision highlights the Bank's commercial focus in its customer-oriented lending business. This allocation is also taken into account when setting the basis for limits on risk concentration and thus guarantees the necessary link between limits and risk-bearing capacity.

Within new lending business, the focus is placed on transactions with customers who have very good to good credit ratings and suitable collateral. In capital market transactions too, Deutsche Hypo focuses on business with good counterparties. It is part of Deutsche Hypo's credit risk strategy that no individual loan exposure may reach a size that could significantly impair the Bank's economic stability. For early detection and prompt avoidance/reduction of credit risks with increasing probabilities of default, all borrowers and counterparties with justifiable risks yet a trend towards a deterioration in credit ratings are determined in an early warning process defined for this purpose. The lending business is organised, controlled and monitored in accordance with statutory and supervisory provisions, in a manner appropriate to the scale of the business. The relevant regulations are set out in the Bank's Organisational Handbook and are checked to ensure that they are up-to-date on an ongoing basis – at least once a year – and are updated where necessary.

Deutsche Hypo's aim is to achieve a competitive level of profitability in its business areas taking into account the risk potential inherent in its individual exposures. Specifically, the Bank has also drawn up financing principles for each market segment, which take the form of binding guidelines for new business. Lending operations and controlling credit risk are a core skill at Deutsche Hypo, and one that is permanently being developed and expanded.

- **Structure and organisation**

The main factor guaranteeing appropriate control of credit risk is the Bank's organisational structure, comprising a strict division between front office and back office, a clear allocation of roles and authority, permanent monitoring of the loan portfolio and regular review of individual exposures.

Deutsche Hypo's written rules describe and define all of the functions, tasks and powers of the areas and people involved in the lending process, right down to the level of the individual employee. In accordance with the provisions of the Minimum Requirements for Risk Management (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.

The front-office areas are responsible for implementing financing operations. One of their core tasks is also acquiring new business. As part of the lending decision-making process, the front-office areas have the first vote and are responsible for setting the terms of any loan.

The front-office departments include Credit Risk Management (CRM), Credit Risk Management Special Loans (CRM Special Loans), General Credit Department (GCD), Credit Risk Controlling (CRC) and Property Valuation and Consulting (PVC).

The CRM department has the second vote in the loan decision-making process. This section carries out the analysis of the transaction and exposure, checks and approves the rating classifications of the front-office section, and in the context of the arrangement in place with the front-office departments, approves commercial real estate finance deals. CRM is also free to deal with issues related to lending policy and risk, such as, for example, adjusting the financing principles.

Non-performing loans or ailing exposures are dealt with at Deutsche Hypo in the CRM Special Loans department. Initially, this relates to all loan exposures as of a rating score of 16 (allocation to the IFD risk class "default" (NPL)).

In the case of exposures that, according to pre-defined indicators, are likely to require heightened observation or attention but are not cases of default, CRM Special Loans may decide whether to take over the loan or whether it should continue to be handled by the front-office departments together with CRM. This decision is made on the basis of the individual circumstances and with due account of the aim of being able to take appropriate rescue measures in good time. With regard to capital market business, any ailing exposures are handled by CRM.

The CRC 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. A further task of this department is the preparation of industry and portfolio reviews on selected sub-sectors.

The GCD department draws up and maintains the written regulations governing Deutsche Hypo's lending business. It is also responsible for developing standardised loan and document templates for individual types of finance.

The division between front and back office required under the terms of MaRisk is also upheld in the Bank's rules on decision-making powers in lending operations. Credit decisions as defined in MaRisk are all decisions on new loans, loan increases, loan takeovers, loan extensions and significant changes to risk-relevant properties of loans.

Loan decisions are always made by two authorised employees or, for specific sizes of loan, by decision-making committees (e.g. the full Board of Managing Directors). One person is always from the front office and one person from the back office. The authorised employees responsible for making the decision must be on the same functional or hierarchical level as each other. The front office has no authority to approve credit on its own.

Before the loan decision is made by the responsible employee, the front and back offices must first have submitted their vote. The responsibility of the authorised employee is basically based around the total commitment of the borrower or borrower unit to which the customer is to be allocated and around the rating class as determined in the credit review for the borrower or borrower unit concerned. This ensures that the basis of the loan decision is not simply the amount of the requested loan. Rather, the risk potential inherent in the total commitment is taken into account.

Credit risk – Management

Deutsche Hypo's credit risk is controlled primarily through the Bank's rating system and limit system. The rating system calculates a rating score for each borrower, expressing the individual probability of default over the next 12-month period. This rating score is then permanently updated as part of the annual credit rating assessment and any assessment carried out in following a particular occurrence. The rating modules in use were developed as part of a cooperation project involving the savings bank group/Landesbanken. The limit system ensures that risk is restricted at different levels – risks at the level of the individual transaction are controlled, as are risks at the level of the entire loan portfolio.

For the purposes of controlling risks associated with individual transactions, a limit is set for each borrower or borrower unit. Additionally, limits also apply to different property types, in the form of ceilings. The amount of these is set by the Board of Management Directors, taking into account the Bank's risk-bearing capacity. The use made of the limits by individual credit transactions is based on the individual risk inherent to that transaction. The risk level of the individual transaction is mainly determined by the borrower's creditworthiness, expressed in the form of a rating score, and by the relative amount of the financing deal in relation to the value of the property being financed.

Risks are permanently being analysed to control risks at the level of the total loan portfolio. This is done using a credit risk model. As part of this analysis, the total risk potential inherent in the loan portfolio is calculated. Particular account is taken of risk concentrations and correlations at portfolio level that were used to determine the strategic limits for the entire portfolio. These are permanently being monitored and adjusted where necessary. 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. In terms of the use made of these limits, the risk potential inherent in the individual transactions is also applied. Risks are then limited at different levels:

Limiting sector and sovereign risk:

With regard to commercial real estate finance, there are sector limits, based on the type of property and its value as a proportion of the total portfolio. Finance for particular property types may not exceed a certain percentage of the total portfolio. Sovereign limits are also in place, limiting the maximum amount of finance applicable to individual countries. Deutsche Hypo has also implemented a traffic light model to control its new business. This 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 traffic light phases based on sector and region. Categorisation on the basis of the traffic light model may result, within the context of the credit decision-making process, in the quality requirements being raised for a particular financing or in a specific financing deal being classed as basically non-feasible.

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.

Project development:

Project developments generally represent an elevated level of risk for the bank providing finance. They are therefore subject to an additional limit, currently set at 20 % of the total portfolio of real estate loans.

Loans without mortgage collateral:

The limit for finance not secured by mortgages is currently 5 % of the total real estate finance volume.

In order to ensure compliance with the limits set for commercial real estate finance, Deutsche Hypo has developed a limit calculator. This analyses every new lending transaction against the existing limits and the extent to which these have been utilised, and flags up any instances of limits being exceeded. The results of this analysis are incorporated into the loan decision-making process and thus help to ensure that all of the limits are complied with.

In respect of lending business conducted with the state and banks, the general procedures and methods described above for controlling and managing credit risk also apply. In addition to counterparty limits, the limit system also comprises limits for business type (capital market, money market, derivatives, repo transaction performance risks) and sub-limits for individual countries. A minimum rating of A (or comparable internal rating) remains the general requirement for all new business. As a general rule, Deutsche Hypo only enters into derivative transactions with suitable bank partners that meet the high credit rating requirements. Deutsche Hypo also enters into collateral arrangements, which secure all or part of the counterparty risk.

In the past, MBS structures involved credit derivatives in cases where a direct investment was not possible or not particularly efficient. In an early reaction to the financial markets crisis, the Bank had already ceased to enter into new business in the MBS segment in May 2007. This similarly applies to credit default swaps (CDS) and total return swaps (TRS). The portfolio is currently being monitored intensively on an ongoing basis with the aim of its reduction

Credit risk – Security

Deutsche Hypo accepts collateral located in Germany and abroad in order to reduce its credit risk. With regard to commercial real estate finance, loans are generally secured by means of a mortgage in the amount of the loan. In exceptional cases, mortgage charges can be replaced by other forms of security.

The value of the property and thus the value of the related security is monitored on a regular basis, generally at least annually. 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. The latter has a direct impact on the eligibility as cover of the loan receivables and thus influences the volume of the collateral pool available as security for Pfandbriefe issued by Deutsche Hypo, in accordance with the terms of the Pfandbrief Act (PfandBG).

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 – Measurement

Credit risk is measured using the risk key figures of expected loss and unexpected loss. These are calculated on the basis of the probability of default that is determined from the rating scores and the anticipated loss amount per loan, taking account of any collateral.

The expected loss is the expected defaults in the loan portfolio over the next twelve months. To cover expected losses, the Bank collects a risk premium as part of its margin. The amount of this premium for each individual loan depends on the rating or probability of default and on the expected loss ratio.

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. It 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. Incorporated into these calculations are the probabilities of default and loss ratios calculated using internal ratings and determined for each individual transaction taking the security situation into account.

The credit risk model can be used to study sub-portfolios and their share of the unexpected loss. Such analysis also has a direct impact on the fundamental structure of the limit system and on the setting of specific individual limits. In this way, it is possible to manage risk concentrations in the portfolio appropriately.

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 regulatory capital backing required for credit risks pursuant to SolvV.

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 CRC, 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 CRM Special Loans 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, or on 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 2011

Deutsche Hypo's credit exposure as at 31 December 2011 was € 37.0 billion, down € 1.1 billion or 2.9 % on the previous year-end. A rise of € 0.8 billion was recorded in relation to commercial real estate finance. This was mainly attributable to new business and, in part, to the transfer of commercial real estate finance transactions from NORD/LB's portfolio. A total reduction of € 1.9 billon was recorded for capital market business and other financing products.

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 following table shows the rating structure for Deutsche Hypo's entire credit exposure broken down by product type and as compared with the previous year's structure.

Breakdown of exposures by rating category

in € millions	Loans	Securities	Derivatives	Other products	Total exposure 31.12.11	Total exposure 31.12.10	Share in exposure 31.12.11	Share in exposure 31.12.10
Very good to good	15,459.1	11,461.9	867.9	962.8	28,751.8	30,115.3	77.7 %	79.0 %
Good/satisfactory	3,056.6	287.8	0.0	0.1	3,344.4	3,089.6	9.0 %	8.1 %
Still good/sufficient	1,815.9	95.0	0.0	59.8	1,970.6	1,556.3	5.3 %	4.1 %
Elevated	1,030.6	2.4	0.0	0.0	1,033.0	1,111.1	2.8 %	2.9 %
High risk	617.5	0.0	0.0	9.1	626.7	521.2	1.7 %	1.4 %
Very high risk	586.2	0.0	0.0	0.0	586.3	730.6	1.6 %	1.9 %
Default (NPL)	701.5	5.3	0.0	0.0	706.8	997.6	1.9 %	2.6 %
Total:	**23,267.4**	**11,852.3**	**867.9**	**1,031.9**	**37,019.5**	**38,121.7**	**100.0 %**	**100.0 %**

The proportion of total exposures in the rating class "very good to good" is practically unchanged on the previous year's level at 77.7 % compared with 79.0 % in 2010. Business volumes with public authorities remained high, as did business levels with financing institutions with good credit ratings.

There was a positive development in relation to non-performing loans (NPL), which fell from 2.6 % to 1.9 %. The absolute volume decreased by € 290.8 million. This is due to progress made in dealing with ailing exposures and also to a fall in the number of new additions to the NPL portfolio. There appear to be signs that the worst of the real estate crisis has been overcome and that the situation is gradually returning to normal in terms of the volume of ailing real estate finance deals and the risk provisioning required as a result.

Breakdown of commercial real estate business by rating category

in € millions	Domestic 31.12.11	Domestic 31.12.10	Foreign 31.12.11	Foreign 31.12.10	Total exposure 31.12.11	Total exposure 31.12.10
Very good to good	3,693.6	3,486.8	2,589.5	1,816.0	6,283.1	5,302.8
Good/satisfactory	2,109.8	2,296.2	541.6	530.3	2,651.4	2,826.5
Still good/sufficient	1,478.0	1,012.2	282.9	390.6	1,760.9	1,402.8
Elevated	828.4	491.4	198.0	536.3	1,026.4	1,027.6
High risk	46.5	106.2	518.1	362.0	564.7	468.3
Very high risk	24.0	53.4	562.3	676.8	586.2	730.2
Default (NPL)	109.7	112.8	591.7	872.8	701.5	985.6
Total	**8,289.9**	**7,559.0**	**5,284.2**	**5,184.8**	**13,574.1**	**12,743.8**

Around 78.8 % of the Bank's commercial real estate finance portfolio, worth approximately € 13.6 billion, comprises financing for customers that have a rating of at least satisfactory. The share contributed by these items has risen by approximately four percentage points compared with the beginning of the year.

There was also a gratifying change in the volume of NPL, down from € 985.6 million to € 701.5 million, a reduction from 7.7 % to 5.2 %. Foreign finance deals made up the largest share of the NPL portfolio, accounting for around 84.3 % and primarily relating to business with the USA and UK.

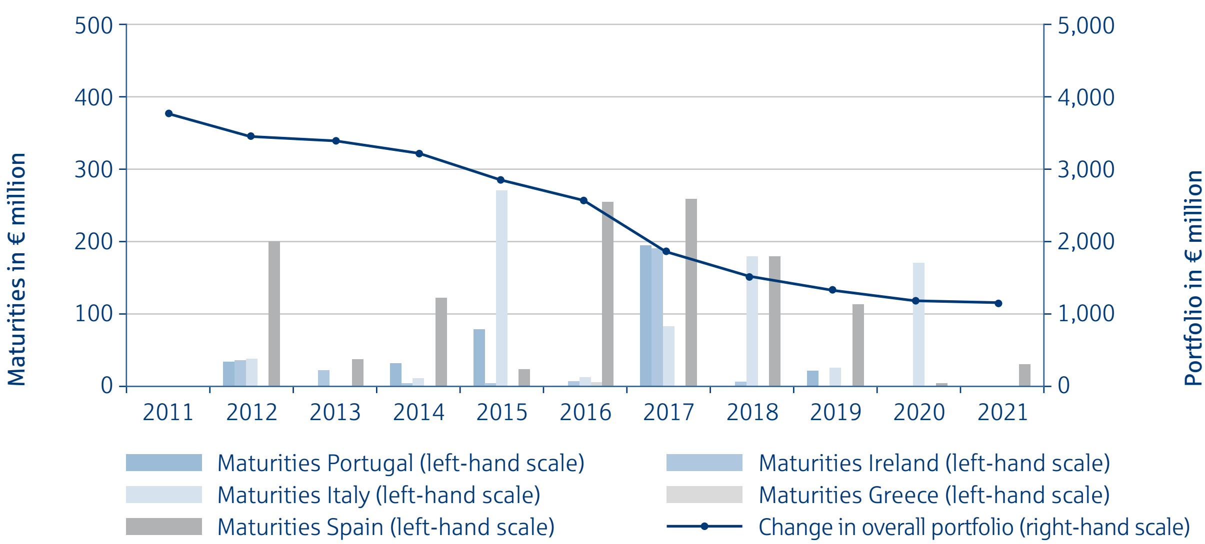
Breakdown of commercial real estate business by rating and region

in € millions	Loans	Securities	Derivatives	Other	Total exposure 31.12.11	Total exposure 31.12.10
Eurozone	18,934.9	9,410.2	770.3	868.0	29,983.5	30,815.2
of which, Germany	14,837.6	3,563.2	644.4	823.2	19,868.4	20,606.4
Other EU	1,944.1	410.4	55.1	0.0	2,409.6	2,144.6
Other Europe	238.9	90.7	12.1	33.3	375.0	494.8
North America	1,993.9	672.7	30.4	41.9	2,738.9	3,215.1
Central America	0.0	6.0	0.0	0.0	6.0	5.8
Middle East/Africa	0.0	0.0	0.0	0.0	0.0	0.0
Asia	0.0	488.1	0.0	0.3	488.5	565.6
Other	155.7	774.1	0.0	88.3	1,018.1	910.6
Total	**23,267.4**	**11,852.3**	**867.9**	**1,031.9**	**37,019.5**	**38,121.7**

The breakdown of the total credit exposure by class and region shows that around 87.5 % of the total financing related to the eurozone, a level that is practically unchanged on the previous year. Also unchanged compared with 2010 was the proportion of business relating to Germany, which accounted for 53.7 %. The far-reaching focussing of business activities on Germany and the eurozone has always given the portfolio a solid country structure to date. Nevertheless, this statement must now be viewed against the background of the current economic situation in various different euro states. The Bank's exposure in the PIIGS states is € 3.8 billion, excluding real estate finance of € 389.6 million. Of this amount, Portugal accounts for € 355.1 million, Ireland for € 268.3 million, Italy for € 1,640.9 million, Spain for € 1,487.3 million and Greece – after write-downs of 67.2 % – for € 4.2 million. Given the general European support measures and the further development of these, Deutsche Hypo does not believe that there is currently any acute default risk.

The following table shows the further development of the Bank's exposures taking into account the maturities. Based on current plans, the portfolio will be reduced by € 2.6 billion to € 1.2 billion over the next ten years.

Portfolio performance PIIGS countries



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 flatrate 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, such as guarantees and credit commitments, is carried out by creating 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 increased by € 24.0 million compared with the previous year, totalling € 182.1 million in 2011. Loan loss provisions for commercial real estate finance business in the USA and UK accounted for the biggest share, at 70.3 % or € 128.0 million. The amount of bad debt allowances, write-downs and provisions as a proportion of the total credit exposure as at 31 December 2011 was 0.5 %.

New provisions for risk in relation to commercial real estate finance business were higher in 2011 than during the previous year. The year also saw write-downs in relation to securities held as fixed assets, in this case Greek bonds, which were reported under net income from financial instruments.

The tables below show a comparison of the credit exposure of impaired credit and the total impairments, consisting of specific bad debt allowances and provisions for loan losses.

in € millions	Credit exposure impaired loans 31.12.2011	Credit exposure impaired loans 31.12.2010	Total Impairments 31.12.2011	Total Impairments 31.12.2010
Eurozone	193.3	109.7	54.2	31.4
Other EU	144.4	378.7	66.1	68.4
Other Europe	0.0	0.0	0.0	0.0
North America	242.5	232.4	61.9	58.3
Middle 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	**580.2**	**720.8**	**182.1**	**158.1**

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

in € millions	Delayed by up to 90 days 31.12.2011	Delayed by up to 90 days 31.12.2010	Total exposure 31.12.2011	Total exposure 31.12.2010
Eurozone	15.3	22.1	37.4	81.5
Other EU	0.0	0.0	0.0	0.0
Other Europe	0.0	0.0	0.0	0.0
North America	33.7	55.5	89.1	195.3
Middle 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	**49.0**	**77.6**	**126.6**	**276.8**

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 31 % of the total amount without including security and for the full amount after including security that can be valued.

Credit risk – Outlook

Risk provisioning for commercial real estate finance business once again exceeded the previous year's level in 2011. However, the portfolio of NPL in real estate business fell by € 284.1 million over the same period. With regard to commercial real estate finance, the Bank is therefore assuming, based on its knowledge at the current time, that the positive mood on the real estate markets will be maintained further. A gradual reduction in the required level of risk provisioning for this business segment should therefore result. In terms of capital market and public lending business, future developments depend to a very large extent on the measures implemented by the eurozone countries to support the states in difficulty and to consolidate their finances. If these measures only have a limited impact or if the desired effect is delayed, capital cuts of the type currently on the agenda in Greece cannot be excluded in other countries, with the resulting negative effect on income.

Depending on the specific conditions in individual countries, very different developments in country-specific credit risks are possible. Deutsche Hypo will monitor developments on the real estate and capital markets carefully and implement appropriate measures. Additionally, the Bank's model used to quantify and control credit risks will be optimised in 2012. Similarly, the models used to calculate risk-bearing capacity and the application of stress scenarios will be further developed and refined.

Investment risk

Deutsche Hypo's business strategy does not generally involve acquiring investments. Where shareholdings are acquired, this is done solely for the purpose of supporting the Bank's own business objectives in its financing business. Investments (through the establishment of property companies) may also be made as part of efforts to deal with ailing loan 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 in the form of classes 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 following discussion and agreement 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. The Deutsche Hypo activities bound up with market price risks concentrate 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. The Bank's positioning on the capital markets is primarily geared around customers' requirements as well as being design to support the front-office sections and management of the Bank as a whole. The aims of risk control relate primarily to the specific risk types of interest rate risk, credit spread risk and currency risk.

Market price risk – Structure and organisation

Against the background of the established, risk-related organisational structure, it is primarily Treasury and Controlling, as well as the Board of Managing Directors, that are involved in the management of market price risks. Operational controlling is the responsibility of Treasury, which, in the context of the requirements laid down by the Board of Managing Directors and in accordance with the risk limits and goals set out for capital market business activities in the strategies, decides on and manages refinancing and the hedging of interest rate and currency risks. Controlling carries out tasks related to risk assessment and the control and monitoring function, as well as carrying out reporting tasks as part of the risk management process for market price risks. Checking whether limits are being adhered to is an essential component of the monitoring process.

Market price risk – Controlling and monitoring

Market price risk is controlled and monitored for the entire banking portfolio. In addition, separate market risk controlling is carried out on the basis of accounting aspects. Different procedures are used. Active market price risk controlling is focused on the interest rate risk, for which a limit system based on risk-bearing capacity is implemented. Compliance with the risk-bearing capacity at NORD/LB Group level is taken into account here. The limit system encompasses a loss limit applicable to the income measured at net present value from interest maturity transformation and a value-at-risk (VaR) risk limit consistent with this. Basis-point-value (BPV) limits exist in parallel to the VaR limits, in order to reduce market price risk.

The VaR indicators for interest rate risk are calculated using a variance/covariance approach. In addition to the calculation of the VaR indicators and BPV, regular stress testing is also carried out for interest rate risk. The result of the regulatory interest rate shock is also calculated pursuant to the requirements of SolvV. Credit spread risks are monitored and limited using stress tests. A distinction is made in this regard between a normal and a stress scenario. A percentage rise in the current credit spread is considered in both scenarios. Limits are set using the normal scenario, with a volume limit also being applied. Currency risk is closely controlled. Transactions in foreign currency are hedged against currency risks as far as possible. Outstanding currency risks generally only arise from unhedged margins received in the interest payments.

Market price risk – Reporting

The Board of Managing Directors is briefed on a daily basis on interest rate risks, income from interest maturity transformation, and risk concentrations relating to individual currencies and maturities. The results of the stress tests are reported weekly, whilst the results of backtesting are reported every quarter. 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 full Board of Managing Directors in the case of significant events relevant to market price risk.

Market price risk – Development in 2011

The 2011 financial year was dominated by strong market turbulence triggered by the government debt crisis, particularly during the second half of the year. This lead to a clear rise in valuation spreads and thus higher risks. This is particularly relevant to the credit spread risks in the investment book.

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

Market price risk in € thousands	Year-end values 31.12.11	31.12.10
VaR*) Interest rate risks for portfolio of the entire bank	2,443	2,419
Standard risk**) Interest rate risks for the operating portfolio	4,758	6,591
Normal scenario***) credit spread risks	102,828	83,889
Nominal volume credit spread risks	12,475,441	12,979,033

*) Confidence level 95 %,
) Parallel shift 100 BP, *) Exclusive municipality risks

The development in 2011 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 %, 1 day) in € millions

The development of the VaR over the course of the year demonstrates Deutsche Hypo's generally low risk appetite for interest rate risk. The interest rate risk is almost exclusi related to the investment of perpetual equity. The utilisation of the VaR limit for interest rate risks averaged a mere 50 % over the year. At no time was the limit exceeded.

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 2011) 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 risks in the banking book, the impact of a standardised interest rate shock is also analysed in accordance with the requirements of SolvV. As at 31 December 2011 the interest rate shock was adjusted to the scenario of +/– 200 basis points. With a result for Deutsche Hypo as at 31 December 2011 of 5.93 %, the Bank was significantly below the regulatory threshold, which allows for a maximum proportion of 20 % of the liable equity capital (situation as at 31 December 2010 was a figure of 4.07 % for a smaller interest rate shock).

The expansion of the crisis on the financial markets into a government debt crisis is continuing to result in restricted liquidity on the credit markets and extremely volatile credit spread levels. The volume of asset-side items involving credit spread risk fell over the course of the year from approximately € 13 billion to € 12.5 billion. Over the same period the credit spread risk for the normal scenario expanded from € 84 million at the beginning of the year to € 128 million by the year-end. This marked increase in the credit spread risk can be mainly attributed to the existing positions in Italian and Spanish securities in particular. The aim of Deutsche Hypo is generally to collect the credit spread risks by the final maturity of the commitment (buy and hold) and to make successive cuts to the credit spread risks in the banking book by reducing the portfolio. The increase in the credit spread risks has no impact on Deutsche Hypo's profit and loss, as there are no long-term impairments. However, hidden charges have been created as a result. New business involving fixed assets was therefore only entered into on a very selective basis in 2011 under the premise of reducing risk, and was used primarily for liquidity management purposes.

Market price risk – Outlook

Deutsche Hypo will continue to carefully monitor market developments across all relevant asset classes in 2012, 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 the P&L will be maintained. The integration of credit spread risks associated with securities held as fixed assets and of credit derivatives into Deutsche Hypo's risk-bearing capacity model will be a particular focus. Additionally, efforts will be made to bring further risk measurement methods and systems into line with the standards applicable throughout the NORD/LB Group.

Liquidity risk

Liquidity risk encompasses the following risks: being unable to meet payment obligations or unable to meet them on time (classic liquidity risk); being unable to acquire sufficient liquidity on the basis of the expected conditions with a negative potential impact on income (refinancing risk); being forced due to low liquidity levels to enter into transactions in some market segments on the basis of conditions that do not correspond to the fair market value (market liquidity risk).

Liquidity risk – Management

- **Strategy**

Securing sufficient available 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 kept in check 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, as part of the security reserve of the Landesbanken and giro centres, aims to achieve a liquidity indicator of at least 1.15. Deutsche Hypo'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 policy 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 process of liquidity risk management primarily involves the specialist Treasury and Controlling departments and the Board of Managing Directors. Treasury is responsible for the operational control of 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 such as the Liquidity Ordinance, MaRisk and Pfandbrief Act. Controlling carries out tasks related to risk assessment and the control and monitoring function, as well as carrying out reporting tasks as part of the risk management process for liquidity risks.

A 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 type of crisis – with the crisis managers from NORD/LB.

Liquidity risk – Controlling

Liquidity risk is controlled both on a consolidated basis across all currencies and on an isolated basis for individual currencies identified as being significant.

Classic liquidity risk is limited and managed using a dynamic stress test scenario. The scenario describes the most likely crisis situation from an expert perspective in each case. The aim is to avoid liquidity bottlenecks even in times of crisis. Classic liquidity risk for significant foreign currencies is also limited. Additionally, the dynamic stress scenario is expanded to include further static stress testing. Both the Bank's own and also market-wide crisis scenarios are considered.

A further tool used to control classic liquidity risk is in the internal liquidity forecast. Whilst the dynamic stress test scenario is based on assumptions regarding new business and funding planning, the aim of the internal liquidity forecast is to show the Bank's liquidity requirement in a targeted way based on the current funding matrix without any assumed new business.

The refinancing risk is controlled using limits in the form of net present value limits and volume structure limits for all significant currencies and various different maturity bands covering the full 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

The calculation of the dynamic and static stress scenarios for modelling classic liquidity risk is based on the known liquidity outflows. Unknown liquidity outflows are also modelled on a consistent basis for each stress scenario. Particular note is taken of planned new business and funding. Using the stress scenarios, it is possible to depict the impact of unexpected events on the Bank's liquidity situation. Classic liquidity risk relating to foreign currency is measured on the basis of the liquidity outflows in foreign currency taking into account new business planning and the potential foreign currency derivatives available in the stress case. Deutsche Hypo calculates the utilisation of the volume structure limits for the various maturity bands 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 also considered. 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.

Liquidity risk – Reporting

The dynamic stress scenario 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. A report on the results of dynamic stress testing, with comments, is forwarded to the Bundesbank every week. Additionally, since 31 December 2011, Deutsche Hypo has provided the Treasury with daily updates on the level of use of the liquidity buffer required under the third amendment of MaRisk.

The funding matrix and the refinancing risk at net present value calculated as part of the risk-bearing capacity model are submitted to Treasury on a daily basis. Details of refinancing risk are reported to the Board of Managing Directors monthly as part of reporting on the Bank's risk-bearing capacity.

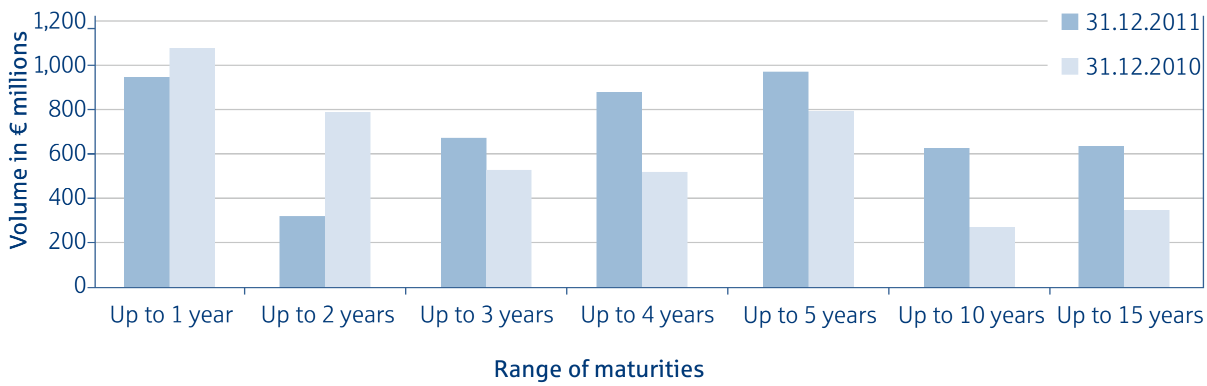
Furthermore, quarterly MaRisk reporting covers reporting on classic liquidity risk in key currencies, the funding matrices for the RBC stress scenario, inverse stress tests and concentration risks.

Liquidity risk – Development in 2011

Despite difficult market conditions, Deutsche Hypo enjoyed a sufficient level of access to the money and capital market at all times during the reporting year and was able to sell sufficient covered and uncovered issues on the market on the basis of acceptable refinancing conditions. The total issue volume recorded was € 4.9 billion (2010: € 6.5 billion). Over the course of the year the liquidity indicator pursuant to the Liquidity Ordinance was consistently well above the minimum of 1.00 stipulated by the supervisory authorities. As at 31 December 2011 the liquidity indicator was 2.09 (compared with 1.45 as at 31 December 2010).

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 2011 and 31 December 2010.

Cumulative liquidity outflows in € millions



The Bank's funding matrix as at 31 December 2011 shows that, as in the previous year, there was no uncovered refinancing requirement. This relatively constant development in refinancing risk is mainly due to the fact that new business in 2011 was as far as possible refinanced on the basis of matched maturities.

The traffic light system used to limit the dynamic stress scenario 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 2011, the transition into a negative liquidity surplus was as of the 210th day and thus within the green phase (as at 31 December 2010 the transition was after more than 365 days). Deutsche Hypo found itself in the green phase almost consistently during the reporting year. There were only two days on which an amber traffic light status was recorded. The reduction in the transition to the negative liquidity surplus compared with the previous year can primarily be attributed to an ambitious plan for new business included in the dynamic stress scenario and to conservative funding planning in light of the current market situation. As at 31 December 2011, the degree of coverage of the cumulative US dollar outflows in relation to the available potential foreign currency derivatives over the next 90 days was 6.8 % (compared with 39.7 % as at 31 December 2010). The clear improvement in the liquidity situation in USD is mainly due to the long-term foreign currency hedges entered into during the reporting year.

Additionally, during 2011 Deutsche Hypo implemented various different additional supervisory requirements relating to liquidity risk. Since 31 December 2011, for example, the Bank has been reporting the extent to which it is using the liquidity buffer made available by the third amendment to MaRisk. As at the year-end, Deutsche Hypo held sufficient highly liquid securities in its portfolio to cover the buffer requirement, with 0 % use being made of this cushion. Existing reporting has also been extended to cover a concentration risk report for liquidity risks. As well as MaRisk, other requirements on the agenda in 2011 were those of the Basel Committee on Banking Supervision, particularly with regard to the issue of the liquidity coverage ratio. Deutsche Hypo is continuing to build up its portfolio of liquid and high-quality papers in this regard, ensuring that it will be able to comply with the extended supervisory requirements in future.

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 on time and to acquire refinancing on the market under appropriate conditions. Deutsche Hypo is involved in markets that are as liquid as possible and maintains a portfolio of high-quality securities, more than 70 % 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 despite the generally more difficult funding situation on the capital markets. Deutsche Hypo is not yet expecting any significant easing of the situation on the funding markets in 2012, as reflected in its conservative planning. However, the Bank believes that it is in a position to master this situation thanks to its close interweaving of new business and refinancing, the high proportion of new business with covered refinancing, and its sufficiently large portfolio of liquid securities.

The consistent expansion of liquidity risk controlling will also be continued in 2012. 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. Of particular significance to the Bank are the requirements being set by the Basel Committee on Banking Supervision, such as the liquidity coverage ratio or net stable funding ratio.

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.

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 operational 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.

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. Appropriate counter-measures are introduced whenever necessary, and contingency plans are used to limit the amount of damage caused by 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, and Controlling departments. Meetings are held quarterly as part of a regular cycle. 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.

Operational risk – Control

The following factors in particular are taken into account in order to control and minimise operational risks:

Internal workflows

Internal workflows are automated as far as possible. Any uncertainties about processes are avoided through the provision of instructions and the institutionalised internal control system (IKS). Internal Audit carries out regular checks to ensure that the applicable instructions are being adhered to and to verify the suitability and proper functioning of the internal control system. With regard to the further development of its IKS, Deutsche Hypo is working along the lines of the COSO framework. This should guarantee a reasonable and effective IKS. 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 Board of Managing Directors and the monitoring options available to the Supervisory Board. It is the Bank's stated objective to consider workflows more from a process-related perspective and, in this way, to discover and eliminate weaknesses in the workflows – and any resulting damage – at an early stage. A variety of methods are used for this, such as scoring.

The main risks associated with all of the Bank's main processes have been identified, along with the key controls to counter these risks. These key controls have been assessed with regard to their appropriateness and effectiveness. The detailed process and control records and assessment have already been concluded for more than half of the Bank's main processes, with the result that the further developed IKS methodology is already fully in place. The remaining processes are to be considered in detail over the next few years based on a risk assessment.

Accounting-related IKS (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 IKS 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 back-ups 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 four 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.

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.

Staff

Deutsche Hypo is particularly committed to providing its employees with training and continuing professional development opportunities. In addition, various different measures are used to strengthen employee loyalty. In order to combat unauthorised actions effectively, principles for tackling fraud, management guidelines, a mission statement, a code of ethics and a system of organisational guidelines are all in place alongside the IKS principles.

Technology

Deutsche Hypo has developed safety and emergency plans covering the failure of IT equipment, the procurement of replacement operating and business equipment as well as consumable materials, the use of the building, energy supply and property insurance.

Insurance cover

Deutsche Hypo has appropriate insurance cover in place, and the level of cover is regularly reviewed.

Outsourcing

The Bank has a process in place to review all activities that are outsourced as defined in MaRisk to determine if they constitute essential activities. The management of risks associated with outsourcing essential functions and the monitoring of outsourced activities and processes take the form of quarterly outsourcing reports which are prepared by the departments responsible.

Operational risk – Measurement

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 the essential requirements for the introduction of an Advanced Measurement Approach (AMA). These further developments will be applied to management of the bank as a whole and to risk-bearing capacity.

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 IKS. The Central IKS Evidence Service is the central port of call for information about the internal control system. Responsibility rests with it for IKS reporting across the bank and, thus, for creating transparency on the orderly practice and correct functioning of the IKS. It also performs an internal and external consultation and communication role regarding the IKS. The continuous further development of the IKS 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. Expert opinions on the impact of specific scenarios provide detailed insights into the risk situation of the individual departments, so that needs-based measures can be devised. Expert assessments of scenarios with Group-wide relevance are also carried out. The risk assessment method was further development during the year under review. Risk indicators are also taken into account.

An internal model is used across the Group to measure operational risk. A loss allocation approach is used, incorporating elements of extreme value theory. The allocation parameters are set on the basis of internal data, scenario analysis and external DakOR data. Correlation effects are modelled using a Gauss-Copula model. Risk indicators in the warning range result in the model being marked up accordingly. The result is allocated to the individual institutions and thus also to Deutsche Hypo using an allocation procedure that combines indicators with risk-sensitive elements. The value-at-risk calculated by the model is used as a control variable for operational risks in the RBC model.

Operational risk – Reporting

The quarterly ORC meetings report on and discuss the current state of operational risks. The quarterly ORC report includes information on current claims and ad hoc reports with operational background on the claims, overdue findings of the Internal Audit department and reporting on external audit findings, the status of risk indicators, risk assessments of ongoing legal disputes, an overview of current NPP's, as well as progress reports on the Bank's most important projects, externally insured risks and outsourced activities.

The Supervisory Board is also 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 Board of Managing Directors 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 – Developments in 2011

The risk indicator system was implemented during the reporting year. The aim of the risk indicators is to act as an early warning system, so that potential risks are recognised from an early stage and appropriate countermeasures can be introduced. The indicators are calculated on a quarterly basis, as part of a process in place since the first quarter of 2011. In order to ensure that Deutsche Hypo's claims database is complete, a Bank-wide analysis was carried out as part of this project. Existing management tools were also reviewed and further developed.

Operational risk – Outlook

As far as 2012 is concerned, the Bank plans to overhaul its system for reporting on operational risks, as well as working on the further development and expansion of the existing risk indicator system. The project dedicated to the further development of the IKS was completed on 31 December 2011, when it was handed over to the Central Evidence Service, which will now handle these tasks as part of its line activities. The initial process review for a total of five main processes is planned for 2012.

Summary and outlook

During 2011 Deutsche Hypo fulfilled the regulatory requirements on equity capital and liquidity at all times. The measures planned back in late 2010 to strengthen the Bank's capital base have been successfully implemented. Similarly, during the year under review the Bank consistently adhered to the statutory provisions on large exposure limits pursuant to Sections 13a and 13b of the German Banking Act (KWG) and to the terms of the Pfandbrief Act, which is binding on Deutsche Hypo.

For the purposes of the early detection of risks and the introduction of the corresponding preventive measures, Deutsche Hypo implemented suitable tools to tackle the risks inherent in the overall risk profile specific to the Bank. The coverage levels calculated as part of the calculation of risk-bearing capacity show that the requirements in terms of covering risk were met at all times during the reporting period. The findings from the scenario analysis that was also carried out were a key element in assessing the risk situation accurately and were also used to help develop control measures.

The expansion of the financial and economic crisis into a government debt crisis continued to have a tangible effect on Deutsche Hypo during the reporting year. The market turbulence prevalent in capital market business meant that credit spread risks and hidden charges continued to rise over the course of the year. In order to be able to react in good time to changing economic and political conditions, the Bank will continue to monitor developments on the money and capital markets closely, with a view to taking any action deemed necessary. The tense liquidity situation on the capital markets has made unsecured refinancing far more expensive across the sector as a whole. Given its business model, Deutsche Hypo will continue to focus in future on striking an optimum balance between covered and uncovered refinancing securities.

The Bank is taking active steps to meet the heightened requirements of Basel III in terms of its capital base and liquidity, implementing various different projects. A further strengthening of the Bank's capital base is also planned in this regard. Deutsche Hypo's risk-bearing capacity concept is currently being further developed in consultation with the NORD/LB Group. The going concern approach combined with a gone concern approach as a secondary condition will be the main focus when developing the RBC model. Due account will also be taken of the new regulatory requirements and applicable basic parameters.

Forecast

Overall economic development

The global economy will be markedly less dynamic in 2012 than in the two previous years. The real economic impact of the eurozone crisis has indeed been increasingly noticeable since the end of 2011.

Nevertheless, the US economy has started the new year with a good amount of momentum. With household income levels rising again and inflation falling, consumption remains a key driver of growth. Investment levels are also picking up, albeit at a somewhat slower pace than in 2011. In view of more optimistic surveys of the mood in the corporate sector of late and improved consumer confidence, GDP growth of 2.2 % is expected for 2012. The US Federal Reserve will, as previously announced, refrain from any interest rate hikes this year. For the time being the biggest obstacle in 2012 will be the labour market, which is only showing slow signs of improvement. US fiscal policy, meanwhile, could disturb the domestic economy, with some belt-tightening needed by 2013 at the latest, if not before the end of 2012. New adversarial budget discussions without any long-term decisions being reached, sparking a critical reaction on the markets, are to be feared in the run-up to the presidential election in November. However, the biggest risk to the global economy and thus also to the US economy stems from the eurozone and its debt crisis.

The process of calming the crisis in Europe is being made more difficult due to the growing burden on the real economy. GDP in the eurozone is expected to fall by 0.2 % in 2012 compared with the previous year. Drastic austerity programmes in several countries are having a negative impact on growth. Consequently, the collapse in the economy is expected to be more dramatic in Spain and Italy than in the eurozone as a whole. From Deutsche Hypo's perspective, a further rise in the average unemployment rate to 10.6 % can be expected for 2012. The high jobless figures in many states remain a major problem. The labour market situation in Spain continues to be particularly difficult. Due to the austerity policy being pursued, Greece and Portugal will still not be able to escape from the severe adjustment recession in 2012.

In its capacity as an export-oriented nation, Germany will not be able to separate itself from these developments altogether. However, thanks to the robust state of the domestic economy, slight economic growth of 0.5 % is expected. Private consumption in particular will be key to how the economy as a whole performs. The extent of the economic collapse and the question of how quickly the economy can recover crucially depend, however, on developments around the debt crisis.

Inflation will return to the range tolerated by the ECB as the economy cools significantly and as a result of base effects this year. The increase in administered prices can, however, be expected to prevent a strong fall, which is why an average HVPI of 1.9 % is anticipated for the eurozone in 2012. In Germany, inflation can be expected to move slightly more slowly. The European Central Bank has already returned to a key interest rate of 1.00 %. This level is likely to be left untouched until well into 2013, even if there is a certain chance of a further interest rate cut. Lending in the eurozone and the development of the monetary aggregates are so subdued that there are no significant risks of inflation in the medium term. In light of what remains a tense situation on the financial markets due to the debt crisis, the ECB will continue with its unconventional measures in 2012.

Federal bonds will continue to be secure although their "safe haven" reputation can be expected to diminish depending on the crisis strategy adopted by the policymakers. A moderate increase in yields coupled with a steep yield curve is anticipated through until the end of the year. Yet this is another area in which there is extreme uncertainty, with the future course of European policy being very difficult to predict.

Target real estate markets

Developments on the individual real estate markets will differ from one area to another in 2012 due to the varying levels of economic dynamism. In particular, the expected global weakening in the economy will impact on the markets, albeit with a delayed effect. This applies to both individual investment markets and the rental markets.

Investors' focus on well let core properties in large markets will further increase as they become more risk-averse. A further compression of yields is possible despite poorer rent growth expectations in markets with a high yield differential compared with government bonds.

Even if the economic uncertainty continues, rents in key office markets are expected to increase over the course of the year. Nevertheless, a general weakening of demand for property is anticipated overall, and thus a weakening in sales, as many tenants adopt a wait and see approach. There will be a growing shortage of modern office space with a low level of new projects being completed over the next two years due to a lack of finance and the cautious attitude of developers. Rents at the top end are therefore proving stable or tending slightly upwards.

The risk of falling rents cannot be excluded on individual markets, however, particularly with regard to Europe. It is office markets in particular that will be affected, exposed to the risk of an economic downturn. Additionally, premises of secondary quality will be very difficult to let, with a build-up of pressure on the rents for such properties.

Germany

The focus of investors on first-class property in Germany's core markets is forecast to continue in the current year and could possibly increase further. The very low yields from other assets make investment in property an attractive proposition. Due to the continuing economic uncertainty, investors are concentrating on the large markets that have lots of liquidity and that are reporting good economic fundamentals. Thanks to the strong and persistent competition for core real estate, the values of these properties will tend to rise further. However, in view of the uncertainties and regulatory changes, the volume of transactions is not expected to further expand.

The economic skies over the German office markets are likely to darken compared with the previous year. With the overall economic uncertainty persisting, the economy will only grow slightly. Sales will be driven mainly by relocations, rather than by a rising net absorption rate. A long-term comparison of completions indicates that they will remain at a very low level, such that the historically very high vacancy rates are expected to fall again. The impact on rents will only be very limited, however.

Following two years of significant sales growth in the retail market, only small increases are forecast for next year. However, as the growth in available floor space will be restricted over the same period, the space productivity will be affected only slightly. This will have a positive impact on revenue-based rents. Overall, however, rent rises can only be expected in the top city locations, whilst weaker locations and retail properties in smaller towns may even have to cope with declining rent levels. As one of the largest retail markets in Europe, Germany will continue to be very attractive to expanding retailers. As in previous years, it is expected that international retailers will continue to be interested in Germany as a retail location.

United Kingdom

In comparison with most other European countries, the UK real estate investment market is ahead of the cycle. Accordingly, in the current year it is anticipated that transaction volumes will register only low growth. Due to the expected uncertainty, investors will continue to prefer properties in core locations. However, it is anticipated that yields will tend to stagnate. Therefore, any growth in value will only be driven by a rise in rents. In other locations, in contrast, it is expected that prices will come under pressure.

The macroeconomic conditions are not aligning advantageously for the UK office market. The continued deceleration in economic activity will have a negative effect on the labour market, with the consequent impact on demand for additional office space. It will be left to the supply side to alleviate the situation, with completions once again at a low level this year. In the short-term, vacancy levels may benefit slightly, before heading back upwards as the number of new completions picks up again over the medium term. In view of the contraction in the surplus supply, especially in the high-end segments, a slight increase in rents can be anticipated.

The development of consumer confidence will be affected significantly by the continuing performance of the financial markets. Accordingly, growth in retail sales is not expected to be strong. Nevertheless, since both domestic and foreign retailers wish to carry on with their planned expansions, vacancies in 1A locations in particular will remain low. In other locations, in contrast, slightly increasing vacancy rates can be expected. As a consequence of these uneven developments, high-end rents are expected to rise.

France

Conditions for the real estate investment market in France have become more difficult. The image is one of weak economic prospects and financial uncertainty. Additional risks arising from continuing uncertainty regarding government finance amplify this trend. In many segments of the market, with the exception of core properties, liquidity is limited and price levels are set by imponderables. Transaction volumes this year will no longer demonstrate the dynamic movements of the previous year. As a consequence it is anticipated that prices will come under pressure and that yields will grow.

The uncertain prospects for the economy and a rising completion rate are stifling the prospects for the French office markets. Sales are dominated by relocations, with fewer new occupancies or rentals of large facilities. Due to projects that have already started, a significant rise in the number of completions is expected for the short to medium term. In some office markets this may lead to an increase in vacancies, although in the top office locations vacancy levels are actually expected to drop. High-end rents are anticipated to rise slightly, in the wake of moderate economic performance.

Consumer uncertainty as a result of a general economic cool-down and fraught events on the financial markets will have an effect again this year. Private demand will rise only slightly and retail sales will grow only in specific circumstances. Retailers' plans for expansion will continue and will focus primarily on prime locations in city centres. Other locations will not benefit from these plans. Accordingly, only high-end rents will grow very slightly, whilst those in other locations will come under pressure.

Netherlands

The Dutch real estate investment market is suffering from gloomy economic prospects and increased difficulty in obtaining finance. Following last year's significant falls, a slight recovery can be expected, but there will be no major dynamism in the economy. With finance costs having risen of late, prices will generally be subject to pressure whilst yields can be expected to rise again slightly.

The performance of the economy as a whole will slow down growth in the Dutch office markets. The Amsterdam office market in particular has not recovered from the excess construction at the beginning of the millennium. The vacancies that resulted now dominate activities on the market. In view of this and the expected weakening of the economic cycle, a further change in the market situation is not anticipated. Relocations will continue to be the primary driver of sales. Vacancies will stagnate, both in peripheral locations and in the top locations. High-end rents will not change from their current level. Due to consumers' continued uncertainty, the recovery in the retail markets will be slow. Private consumption will increase slightly, to the benefit of the retail sector too. However, demand for floor space will remain divided. In small towns and weaker locations, it will largely stagnate. In contrast, demand in top city locations will remain at a high level. Corresponding effects on vacancies can be expected. While this will result in average rents remaining largely unchanged, the upwards trend among high-end rates will persist.

Spain

Once again in 2012 there are no expectations of a recovery in the Spanish investment market. In view of the continuing difficult economic environment, with high unemployment and uncertainty in the international financial market, there are few factors that make this market attractive to investors. Only opportunistic investors looking for a bargain will see chances here. Given the low starting level, a slight rise in prices may even be anticipated. However, the mood of the market will have to improve markedly and pricing will have to take better account of the overall economic situation in Spain.

Similarly, increased demand for additional office space is not expected at the current time. However, since there are no significant completions in the pipeline, the effects on vacancies will be comparably low. New office space will largely comprise renovated stocks. This trend will help to further weaken the downwards movement in high-end rents on the Spanish office markets.

A reversal in this trend on the affected markets is not anticipated until a major economic upturn is experienced. Low economic growth and high levels of unemployment impact on consumer confidence and have a negative effect on the development of consumer spending. In the top locations, however, demand from retailers will persist as companies optimise their floor space and some even expand. The availability of units, in particular along the major shopping streets of Barcelona and Madrid, remains limited. As a result, high-end rents can be expected to remain almost constant. Meanwhile, the prospects for peripheral locations are not as healthy.

USA

The real estate investment market in the USA will benefit from the recovery on the rental markets and higher property prices. These price increases are focused primarily on core assets in top locations. Given the limited supply, yields here are still coming under a slight upwards pressure. There is, however, still uncertainty on the international finance markets, as a result of which finance conditions have deteriorated on a long-term basis. In terms of transaction volume, further increases can be expected, if only on a small scale.

The increasing uncertainty of the past few months has prompted US companies to delay new rental activity for the time being. More marked rent increases are therefore only expected for high-end office premises in the better locations. In contrast, falling rents must be feared with regard to moderate quality office properties and properties in peripheral locations. Given the expected trend towards a further increase in the number of office employees, it can be assumed that the positive net absorption levels will be maintained. Thanks to the relatively low level of new completions due over the next few months, the prospects for a slight reduction in vacancy levels are good. However, it is still too early to predict any sustained recovery in office rents over the short term.

In light of the expected increases in sales, a rise in retail space is also expected. Consequently, vacancy levels, which are currently still high, will continue to fall. The historically low level of planned completions would point towards a general recovery, which could be expected to help ease the situation on the rental markets. However, the polarisation of the retail sector, with a focus on luxury retail and discounters will be maintained. These market segments can be expected to experience further rent increases, whilst classic retail operations aimed at the middle classes are likely to record lower rises.

Capital market development

How the capital markets fare in 2012 will depend to a very large extent on viable solutions being found to the European government debt crisis. None of the proposals made to date have been able to create the requisite level of confidence among market participants. Should this remain the case, the markets will continue to be affected by intensive fluctuations with structurally low rates of interest. The measures introduced by the ECB provide a ray of hope. The introduction of a three-year tender could ensure that the European banks acquire more liquidity, which they can then invest in crisis-hit bonds from the European periphery. This would result in a certain easing of the situation. The Bank does not, however, expect all of the current problems to be completely remedied. Consequently, the markets cannot be expected to move into calmer waters quite yet.

Expectations with regard to new government lending business are below average. As the environment remains difficult to assess, Deutsche Hypo is assuming that government lending business will only be possible in very few selected areas. With this in mind, the Bank will be further developing its strategy, which it has already implemented, of issuing loans for basic infrastructure facilities with state guarantees. The results from last year can be viewed as confirmation of this course of action. The portfolio in this asset class is exceptionally stable in terms of its value. Given the relatively small volumes involved, this new business can be refinanced easily and efficiently using small-scale public Pfandbrief issues.

Deutsche Hypo is optimistic about its issuing business. Particularly with regard to the Bank's main refinancing tool – the mortgage Pfandbrief – keen demand is expected from investors in 2012, as the volume available for investment is assessed as high. In Germany, in contrast, a somewhat lower issue volume is anticipated. Supported by the ECB's covered bond purchase programme, the Pfandbrief will continue its success story as a safe and cost-effective refinancing tool for Deutsche Hypo's commercial real estate business.

Earnings forecast

The Bank's multi-year plan, which is compiled yearly, provides the basis for statements on the earnings forecast. A planning model is used that enables Deutsche Hypo to model the results expected in future, taking into account such factors as new business, development of the portfolio and the resulting margins.

Economic assumptions on future economic and financial market development are also incorporated into the planning. These inevitably involve uncertainties given the ongoing European government debt crisis and its potential impact on economic performance in the eurozone. Regulatory requirements, including Basel III, are also taken into account.

The value of the planning statements is naturally highly dependent on the assumptions used in the planning model. Unexpected developments in external or internal factors have a major impact on the Bank's results. The following factors have a significant impact on the Bank's success:

- The way in which commercial real estate markets develop impacts significantly on new business and on risk provisioning.
- Changes to redemption and extension behaviour affect the real estate finance portfolio.
- The way in which the financial markets develop influences new capital market business. Additionally, refinancing options, liquidity management and the need for write-downs in relation to the capital market portfolio are affected in this regard.
- The successful continuation of the transfer of the real estate finance portfolio as part of the asset transfer from NORD/LB to Deutsche Hypo has an influence on the Bank's net interest income and capital.

In terms of real estate finance business, a further normalisation of the real estate markets is expected in the UK and USA. In terms of macroeconomic framework data, planning is based on market mechanisms that are largely fully functional. It is assumed that Deutsche Hypo will have access to refinancing on a sufficient scale at all times and on the basis of standard market conditions.

Deutsche Hypo is expecting increased new business potential in real estate finance. Margins are expected to rise thanks to the good state of the property markets and resulting increase in demand for credit. This effect will also tend to be reinforced by the rising equity capital requirements as imposed by Basel III to the extent that the banks manage to pass on some of the costs for maintaining additional equity capital reserves to their clients. For planning purposes, a conservative approach has been adopted to the development of margins.

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

- Strengthening of project development business.
- Expansion of business in the area of real estate investment banking.
- Intensification of syndication activities, creating greater possibilities for placing commitments 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 focus on key clients.
- Expansion of derivatives business.
- Greater focus on new business eligible as collateral assets.
- Reduction of capital market portfolio in the context of the overall business strategy as a means of reducing hidden charges and credit spread risks.
- Selective new capital market business with the focus on cash flow-based assets.
- Further cost reductions and process optimisation as part of the efficiency improvement programme; exploitation of further synergies within the NORD/LB Group.

Commercial real estate finance

Looking to the 2012 financial year, Deutsche Hypo expects its volume of new business to expand compared with the previous year. It is assumed in this regard that, in line with the Bank's targets, new business on the domestic market will account for 60 % of the total, with 40 % being generated on foreign markets. Particular importance will be attached to structured real estate finance, project developments, and syndication business with the placement of commitments. The expected margin from new business will be slightly higher than that achieved from new business transactions in 2011.

In terms of the commercial real estate finance portfolio, a further increase is expected, including the effects of the NORD/LB portfolio transfer. Consequently, Deutsche Hypo is also expecting its net interest income to increase. Additionally, a sufficient level of processing fees from new business is anticipated. These are generally reported under net interest income on an accrued basis over the term of the credit during subsequent periods.

With only a slight rise in the Bank's administrative expenses, coupled with falling levels of provisioning for loan losses, Deutsche Hypo expects the contribution to the result in 2012 to exceed the contribution recorded for the past financial year.

Capital market business

Against the background of the ongoing European government debt crisis, it is currently difficult to forecast performance in capital market business. In terms of the 2012 financial year, Deutsche Hypo is assuming that the financial markets will grow calmer and stabilise further.

As part of the Bank's business strategy, a further reduction of the capital market portfolio is planned. The aim is thus to reduce hidden charges and credit spread risks. Consequently, new business will only be entered into on a selective basis. The focus will be on cash flow-based assets. Deutsche Hypo assumes that its margins from new business will continue to develop positively in future, but expects net interest income from capital market business to tend downwards compared with the previous year.

Taking into account a moderate rise in administrative expenses, Deutsche Hypo expects the result from capital market business to be lower in 2012 than in the previous year.

Other business

A slightly negative result from ordinary business activity is planned for 2012 with regard to other business. Taking into account the higher interest expenses for the capital from silent partners taken up in the 2010 financial year, a negative pre-tax result is expected from other business overall.

Outlook

With regard to the 2012 financial year, Deutsche Hypo expects its overall level of income from ordinary business to exceed the result recorded in 2011. Over the coming years the Bank expects commercial real estate finance to continue to develop positively, contributing to an increase in net interest and commission income. Meanwhile, Deutsche Hypo expects its risk provisioning costs to move downwards and ever closer to their historical average. Whilst expecting its income to rise, the Bank hopes to be able to use such measures as active cost management in the context of its efficiency improvement programme to ensure that the rise in general administrative expenses is disproportionately low. Consequently, there are signs of a clear improvement in Deutsche Hypo's result over the next few years. However, the current uncertainties due to the ongoing European government debt crisis and its potential impact on economic development in the eurozone make forecasting future developments more difficult.

Opportunities and risks

Deutsche Hypo believes that it remains well positioned to master the challenges that lie ahead. The Bank will continue in future to rely on the successful interaction between the two pillars that make up its proven business model, namely commercial real estate finance and capital market business. The combination of these divisions should secure a long-term and consistent development in income and profitability, and reduce the Bank's susceptibility to individual market fluctuations, with the weighting being shifted in favour of commercial real estate finance. In its capacity as a renowned Pfandbrief bank, Deutsche Hypo has a stable funding basis.

Given its business activities and underlying business model, Deutsche Hypo faces the following risks:

The ongoing uncertainty in conjunction with the current government debt crisis in Europe may be a trend that impacts on the Bank's risk position. In the event of a renewed exacerbation of the situation, 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. As far as Deutsche Hypo is concerned, the uncertainties on the capital markets present a potential risk of a rating downgrade, as is also the case for other banks. This could lead to widening spreads or higher demands for excess cover.

Generally, Deutsche Hypo faces the risk of not being able to generate the expected level of new business on the basis of the planned margins on its target markets. Additionally, any delays in the continued transfer of NORD/LB's commercial real estate portfolio to Deutsche Hypo would disrupt the Bank's plans and expected income levels. The changes in the basic economic parameters and the stricter nature of the regulatory environment are increasing the pressure of competition and could in some cases result in the loss of long-term customers or investors. Changes in the regulatory environment could increase the equity demands made of banks, influence lending and, ultimately, impact negatively on profitability. More difficult refinancing conditions can, in particular, have an unfavourable effect on competitiveness with regard to long-term products that are not secured by a mortgage. A further risk lies in the fact that the state of the economy as a whole could increasingly filter through to the currently stable real estate markets, with a negative impact on for example price trends and vacancy rates. Customers' failure to make scheduled and unscheduled loan payments as planned, as well as unexpectedly poor performance from lending and bond portfolios, are general risks to the Bank's operating income.

Generally, there is also the risk that changes in market conditions or technical advances will alter demand for products, with the result that Deutsche Hypo's range of products is no longer as attractive. Any failure to perform business operations properly or, indeed, any suspension of operations and potential damage to the Bank's reputation could result in the loss of customers to rival institutions. Ultimately, all of these risks, were they to occur in practice, could have a negative impact on the Bank's ability to reach its targets and on its income position.

These risks exist alongside many opportunities for Deutsche Hypo. The first of these is the possibility that the real estate markets could well ignore the government debt crisis and remain robust and resistant to crisis, combined with the continuation of a gratifying trend in margins. The Bank is striving to drive forward on its core markets with its project development operations as well as with its real estate investment banking and cross-selling operations combined with the expansion of the share of commission income. It is also increasingly looking to syndicate finance deals and to structure transactions with a larger covered component. The Bank has already created the organisational requirements needed to strengthen its operations. Shorter processing times thanks to process optimisation and agreed in-house service level agreements will lead to further increases in customer satisfaction levels and to greater competitive advantages. Reticence on the part of the Bank's competitors has already been used to build up new customer relationships, the further development of which will help raise earning power in the future. At the same time, the expansion of joint business with the savings banks offers consider potential in terms of gaining new customers.

The cornerstones of Deutsche Hypo's good starting position are its good equity ratio and its solid refinancing basis. The Bank's customers and investors place particular value on our long-term and consistent market presence, as well as on the Bank's high degree of expertise in national markets and its reliability. Against this background, Deutsche Hypo is confident, assuming that its core markets develop as planned, that it has a realistic opportunity to further expand its good market position and its competitive strength in both of its business divisions.

Hanover, 2 March 2012

The Board of Managing Directors

Dr. Allerkamp Pohl Rehfus

Material: polished granite

TRADITION IS THE ART OF ALWAYS STAYING TRUE TO ONESELF

As an expert in commercial real estate financing, we focus on what we do best. This allows us to unite expertise with perspective.

Your success : our benchmark

ANNUAL FINANCIAL STATEMENTS

Balance sheet

Income statement

Statement of changes in shareholders' equity

Cash flow statement

Notes

BALANCE SHEET

ASSETS

		€	€	€	31.12.2010 €k
1. Cash reserve					
a) Cash on hand			2,812.81		3
b) Credit with central banks			105,671,049.53		32,556
of which:					
with the German Central Bank	105,671,049.53 (PY 46,719 €k)				
c) Credit at postal giro offices			0.00		0
				105,673,862.34	32,559
2. Debt certificates from public authorities and bills of exchange eligible 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			7,381,503.80		8,054
b) Loans to local authorities			1,991,611,746.21		2,664,930
c) Other receivables			1,872,564,594.13		2,231,874
of which:				3,871,557,844.14	4,904,858
due daily	1,136,350,803.74 (PY 882,232 €k)				
against pledging securities as collateral	0.00 (PY 0 €k)				
4. Due from clients					
a) Mortgage loans			12,125,859,906.38		11,447,739
b) Loans to local authorities			6,328,893,677.43		6,662,603
c) Other receivables			412,524,103.23		298,718
of which:				18,867,277,687.04	18,409,060
against pledging securities as collateral	0.00 (PY 0 €k)				
5. Bonds and other fixed interest securities					
a) Money market instruments					
aa) from public issuers		0,00			
ab) from other issuers		548,973,034.42	548,973,034.42		299,693
b) Bonds and debentures					
ba) from public issuers		4,951,346,388.70			
of which:					
borr. from Ger. Central Bank	2,928,767,498.12 (PY 3,352,922 €k)				
bb) from other issuers		6,286,805,898.47	11,238,152,287.17		11,939,271
of which:					
borr. from Ger. Central Bank	5,438,274,193.89 (PY 5,788,730 €k)				
c) Own bonds			38,445,811.06		76,408
Nominal amount	38,482,000.00 (PY 76,262 €k)			11,825,571,132.65	12,315,372
6. Shares and other variable-interest securities				50,628,345.26	51,129
7. Participatory interests				76,949.43	227
of which:					
In banks	0.00 (PY 0 €k)				
In financial services institutions	0.00 (PY 0 €k)				
8. Shares in affiliated companies				8,804,209.03	10,807
of which:					
In banks	0.00 (PY 0 €k)				
In financial services institutions	0.00 (PY 0 €k)				
9. Trust assets				4,841,553.16	5,006
of which:					
Loans on a trust bais	4,841,553.16 (PY 5,006 €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 an similar rights and assets			0.00		
b) Purchased licenses, industrial property, as well as licenses to those rights and assets			274,851.00		
c) Goodwill			0.00		
d) Payments made on account			320,110.00	594,961.00	292
12. Tangible assets				4,275,697.49	3,910
13. Outstanding deposits on the subscribed capital				0.00	0
of which:					
Called up	0.00 (PY 0 €k)				
14. Other assets				180,485,094.73	183,531
15. Accrued and deferred items					
a) from the issue and loan transaction			52,048,144.09		53,900
b) others			26,509,571.30		27,616
				78,557,715.39	81,516
16. Active deferred taxes				0.00	0.00
17. Assets arising from the overfunding of pension obligations				0.00	0.00
Total assets				**34,998,345,051.66**	35,998,267

BALANCE SHEET

LIABILITIES

		€	€	€	31.12.2010 €k
1. Bank loans and overdrafts					
a) Issued registered mortgage Pfandbriefe			257,547,932.22		305,918
b) Issued registered public Pfandbriefe			617,481,567.23		679,108
c) Other liabilities			6,930,468,630.53		7,310,566
of which:				7,805,498,129.98	8,295,592
due daily	498,510,538.21 (PY 557,748 €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			931,664,213.68		949,121
b) Issued registered public Pfandbriefe			7,900,412,555.27		8,039,930
c) Savings deposits					
ca) with an agreed period of notice of three month		0.00			
cb) with an agreed period of notice of more than three month		0.00	0.00		
d) Other liabilities			1,450,712,080.29		1,052,382
with which:				10,282,788,849.24	10,041,433
due daily	2,605,444.07 (PY 40,218 €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		6,290,565,628.77			5,461,872
ab) public Pfandbriefe		5,454,850,681.06			7,177,466
ac) other bonds		3,344,170,670.53			3,276,711
			15,089,586,980.36		15,916,049
b) Other securitised liabilities			0.00		0
of which:				15,089,586,980.36	15,916,049
money market papers	0.00 (PY 0 €k)				
4. Trust liabilities				4,841,553.16	5,006
of which:					
Loans on a trust basis	4,841,553.16 (PY 5,006 €k)				
5. Sundry liabilities				381,096,930.00	217,651
6. Accrued and deferred items					
a) from the issue and loan transaction			53,997,440.93		50,855
b) other			17,991,050.09		20,584
				71,988,491.02	71,439
6a. Passive deferred taxes				0.00	
7. Provisions					
a) Provisions from pensions and similar obligations			29,101,192.00		23,743
b) Tax provisions			1,000,095.80		5,379
c) Other provisions			12,493,221.65		9,727
				42,594,509.45	38,849
9. Subordinated liabilities				324,000,000.00	383,300
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			150,000,000.00		194,000
b) Capital reserve			406,313,877.23		406,314
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		236,076,545.78			214,424
			254,994,345.38		233,342
	Profit carried forward		0.00		
d) Balance sheet profit			6,001,385.84		16,652
			6,001,385.84	897,949,608.45	930,948
Total liabilities				34,998,345,051.66	35,998,267
1. Contingent liabilities					
a) Contingent liabilities from settled bills of exchange with have been rediscounted			0.00		0
b) Liabilities arising from sureties and guarantee agreements			892,693,084.92		842,981
c) Liability from the provision of collateral for third-party liabilities			0.00	892,693,084.92	0
					842,981
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			770,651,038.92	770,651,038.92	719,456
					719,456

INCOME STATEMENT

				31.12.2010
	€	€	€	€k
1. Interest earnings from				
a) Credit and money market transactions	870,580,242.32			819,556
b) Fixed interest bearing securities and book-entry securities	382,379,025.59			381,348
		1,252,959,267.91		1,200,904
2. Interest expenses		1,062,532,146.56		1,029,898
			190,427,121.35	171,006
3. Current income from				
a) Shares and other variable interest bearing securities		1,500,000.00		1,667
b) Participatory interests		725.00		1
c) Shares in affiliated companies		0.00		0
			1,500,725.00	1,668
4. Income from profit pooling, surrender or partial-surrender agreements			0.00	0
5. Commission income		12,552,705.63		16,230
6. Commission expenses		1,766,518.20		2,813
			10,786,187.43	13,417
7. Net income or net expenses from the trading portfolio			0.00	0
8. Other operating income			2,884,151.66	2,315
10. General administrative expenses				
a) Personnel expenses				
aa) wages and salaries	32,468,910.30			31,163
ab) social security and expenses for pension plans and for support	9,430,533.72	41,899,444.02		6,197
of which: from pension plans 4.445.745,03 (PY 1.791 €k)				37,360
b) Other administrative expenses		27,926,011.11		31,303
			69,825,455.13	68,663
11. Write-downs and value adjustments of intangible assets and tangible fixed assets			786,231.45	737
12. Other operating expenses			8,293,576.15	1,809
13. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business		82,719,547.19		78,758
14. Income from writing up receivables and specific securities as well as from the release of provisions in credit business		0.00		0
			82,719,547.19	78,758
15. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securites treated as fixed assets		11,289,329.89		0
16. Income from writing up participatory interests, shares in affiliated companies and securities treated as fixed assets		0.00		6,588
			11,289,329.89	6,588
17. Expenses from pooled losses			0.00	0
19. Result from normal operations			**32,684,045.63**	**45,027**
20. Extraordinary income		0.00		10
21. Extraordinary expenses		570,081.00		570
22. Extraordinary result		**– 570,081.00**	**– 570,081.00**	**– 560**
23. Taxes on income		2,565,140.43		5,027
24. Other taxes not included under item 12		76,429.25		– 182
			2,641,569.68	4,845
25. Income from pooled losses			0.00	0
26. Profit surrendered under a profit-pooling, surrender or partial surrender agreement			18,471,009.11	8,445
27. Profit/loss for the year			**11,001,385.84**	**31,177**
28. Profit/loss brought forward from previous year			0.00	476
30. Transfer to profit reserves d) other profit reserves			– 5,000,000.00	– 15,000
34. Balance sheet profit			**6,001,385.84**	**16,653**

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 2010	80,640	194,000	406,314	233,342	16,653	930,948
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Additional payments acc. to S.272(2) No.4 HGB	0	0	0	0	0	0
Allocations to the profit reserves acc. to S.272(3) HGB	0	0	0	16,653	– 16,653	0
Pre-allocations to the profit reserves	0	0	0	5,000	– 5,000	0
Maturity of contributions of silent partners	0	– 44,000	0	0	0	– 44,000
2011 annual result	0	0	0	0	11,001	11,001
As of 31 December 2011	80,640	150,000	406,314	254,994	6,001	897,950

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	654,771
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	930,948

CASH FLOW STATEMENT

in € thousands		2011	2010
1.	Net result before extraordinary items	11,571	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	111,419	107,573
3.	Increases/decreases in reserves	7,554	– 6,779
4.	Other non-cash espenses/income	0	0
5.	Profit/loss from the disposal of financial assets	– 590	– 12,517
6.	Other adjustments (balance)	– 170,488	– 160,539
7.	**Subtotal**	**– 40,534**	**– 40,524**
	Change in assets and liabilities from current operations		
8.	Receivables		
8a.	from banks	1,002,017	– 237,733
8b.	from clients	– 560,187	– 1,902,180
9.	Securitities (if not financial assets)	76,640	– 173,915
10.	Other assets from current operations	– 18,386	– 30,659
11.	Liabilities		
11a.	to banks	– 486,956	1,088,354
11b.	to clients	246,578	– 65,256
12.	Securitised liabilities	– 797,225	501,606
13.	Other liabilitites from current operations	138,740	105,374
14.	Interest and dividends received	1,270,799	1,242,568
15.	Interest paid	– 1,050,384	– 1,053,087
16.	Extraordinary deposits	0	0
17.	Extraordinary disbursements	0	0
18.	Income tax payments	– 6,597	1,245
19.	**Cash flow from current operations**	**– 225,494**	**– 564,206**
20.	Proceeds from disposals of		
20a.	financial assets	1,030,933	1,198,780
20b.	tangible fixed assets	11	31
21.	Disbursements for investments in		
21a.	financial assets	– 629,179	– 990,066
21b.	tangible fixed assets	– 1,012	– 539
22.	Proceeds from the disposal of consolidated companies and other business units	150	0
23.	Disbursements for the acquisition of consolidated companies and other business units	– 2,415	– 11,855
24.	Changes in funds from other investment activities (balance)	– 502	– 236
25.	**Cash flow from investment activities**	**397,986**	**196,116**
26.	Proceeds from equity allocations (capital increases, disposal of own shares, etc.)	0	95,000
27.	Disbursements to company owners		
27a.	dividend payments	0	0
27b.	other disbursements	– 40,077	– 20,848
28.	Changes in funds from other capital (balance)	– 59,300	279,774
29.	**Cash flow from financing activities**	**– 99,377**	**353,926**
30.	Non-cash change in finance	73,115	– 14,165
31.	Exchange-rate, consolidation group and valuation-related changes in valuation funds	0	0
32.	Finance funds at the start of the period	32,559	46,724
33.	**Finance funds at the end of the period**	**105,674**	**32,559**

NOTES

General information

1. Accounting Regulations

The annual financial statements for the 2011 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) and Pfandbrief Act (PfandBG).

The annual financial statements comprise the balance sheet, the income statement, the cash flow statement, the statement of 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-income 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 impairment 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. Securities held as fixed assets are written up or down to the nominal value in a straight-line manner by the end of their term. Securities held as fixed assets that have been written down due to a permanent impairment will no longer be written up or down in a straight-line manner from the time of depreciation. Securities that 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 reserve 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 in previous years, a discounted cashflow model (DCF model) is used to determine the fair value, especially in the event of abnormal bid/ask spreads and the absence of representative sales volumes. 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. Furthermore, spread mark-ups are also taken into account during discounting for the claimed rate of return in 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.

Where the market is inactive, MBS bonds have also been valued as a general rule in accordance with the valuation model described above for securities. Given the irregular structure of interest 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 are based on the current assessments of the credit rating agency Moody's. In calculating the risk-dependent return for maintaining equity capital reserves, the quality of the MBS tranche is also taken into account in addition to the probability of the issuer defaulting. In order to make additional allowance for uncertainty in estimating the WAL in active markets, the WAL has also been extended by one year in these cases. This leads to a lower value and, thus, to a cautious valuation.

Standard market models have been used to determine impairments that are likely to be permanent in US RMBS securities. These models are used to estimate the expected long-term defaults on the tranches held by Deutsche Hypo. The models allow for the decisive risk data for determining the default risk structure and have already been applied over the past three financial years. Credit analysis is used to determine impairments, which are likely to be permanent in other securitisation tranches, with due regard for the performance reports which are regularly provides 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 are measured at the lower of cost or market in accordance with the rules governing fixed assets. Write-ups are performed in cases where the reasons for a write-down cease to apply. Applying Section 340c (2) HGB, the expenses arising from write-downs on participatory interests, shares in affiliated companies and securities that are treated as fixed assets are offset against write-ups on these assets, and the resulting income or expense is reported under income from financial assets.

Tangible assets and intangible fixed 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 for reasons of materiality in accordance with Section 6(2a) of the 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 commenced in 2008, with ten equal annual instalments to be paid.

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. Zerobonds 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 being paid on the reporting date and the portion of the expectancies accruing (or earned) during the service period at the reporting date are evaluated. Allowance is also made for increases expected in the future as a result of pay rises or pension adjustments. The cash value of the obligation is calculated by discounting the expected future benefits (settlement value pursuant to Section 253 (1), second sentence HGB) in accordance with Section 253 (2), first sentence HGB at the average market rate of interest of the past seven years. Use is made of the simplification rule set out in Section 253 (2), second sentence HGB, in that the interest rate is applied on a flat-rate basis for a residual term of fifteen years.

The higher obligation cash value arising from the first-time application during the previous year of the German Accounting Law Modernisation Act (BilMoG) compared with the rules that previously applied under commercial law is to be collected in application of Section 67 (1) EGHGB by no later than 31 December 2024 in respect of at least one fifteenth in each financial year and is reported in the income statement under “extraordinary expenses”.

The calculations for the period to 31 December 2011 are based on the following actuarial assumptions:

Actuarial interest	5.14 %
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 that 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 at the 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.

In accordance with the principle of caution as defined under commercial law, the Bank conducted a test to establish whether there is an excess liability from the measurement of the overall interest position of the banking book and thus whether the creation of a provision pursuant to Section 249 HGB (provision for contingent losses) is required (proof of loss-free valuation of the banking book). The banking book encompasses all of the Bank’s interest-bearing transactions and is managed on a uniform basis. The Bank does not maintain a trading book.

The Bank uses the periodic (income statement-based) approach for the test. Future results of the banking book for subsequent periods are determined from the contributions to income of the closed and open fixed-income positions. The impact on income from open fixed-income positions is calculated by closing these positions using fictitious forward rates calculated from money and capital market interest rates. Equity is reported as a liability using the rates applied to management of the interest-rate book.

As at 31 December 2011 there was no requirement for provisions.

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 (HGB).

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 of 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 a lack of matched maturities can be remedied by appropriate follow-up transactions. Assets and liabilities in a foreign currency are converted at the mean spot exchange rate on the reporting date. 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 and forward exchange transactions at current rates are reported separately under other assets or other liabilities as appropriate.

Expenses arising from currency conversion are included in the income statement. Income arising from the currency conversion is taken into consideration insofar as it is based on specially covered transactions, or if 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 provisions for contingent losses for the banking book on the respective reporting date.

Accrued or deferred interest from derivatives is reported under monies due from banks or monies due to banks. 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. Reference is also made in this regard to Note 23 in respect of contingent liabilities.

Notes on the balance sheet

5. Breakdown of residual maturities

in € thousands	31.12.2011	31.12.2010
Monies due from banks		
- up to three months	1,378,767	1,645,194
- between three months and one year	180,587	780,786
- between one and five years	1,063,296	873,190
- more than five years	702,645	1,028,142
- total pro-rata interest	546,263	577,546
Balance sheet value	**3,871,558**	**4,904,858**
Due from clients		
- up to three months	780,143	1,140,801
- between three months and one year	1,934,436	1,553,583
- between one and five years	5,752,723	5,645,091
- more than five years	10,235,531	9,896,744
- total pro-rata interest	164,439	172,841
	18,867,272	18,409,060
Claims without an agreed term	6	–
Balance sheet value	**18,867,278**	**18,409,060**
Debenture bonds and other fixed-income securities		
- due in the following year	1,572,161	1,651,666
Bank loans and overdraft		
- up to three months	3,458,334	4,206,556
- between three months and one year	857,494	1,436,619
- between one and five years	2,015,907	1,331,829
- more than five years	995,809	839,496
- total pro-rata interest	477,954	481,093
Balance sheet value	**7,805,498**	**8,295,593**
Amounts owed to other depositors		
- up to three months	457,150	79,945
- between three months and one year	216,795	205,339
- between one and five years	1,587,413	1,043,552
- more than five years	7,800,013	8,485,992
- total pro-rata interest	221,418	226,606
Balance sheet value	**10,282,789**	**10,041,433**
Securitised liabilities		
- due in the following year	3,895,263	3,761,794

6. Amounts 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	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Due from						
banks	3,871,558	4,904,858	140,771	730,283	–	–
clients	18,867,278	18,409,060	5,618	8,718	3,973	4,595
of which: subordinated	5,618	8,718	5,618	8,718	–	–
Debenture bonds and other fixed-income securities	11,825,571	12,315,372	851,620	811,256	–	–
Bank loans and						
overdraft	7,805,498	8,295,593	3,301,446	2,343,025	–	–
clients	10,282,789	10,041,433	181	132	–	–
Securitised liabilities	15,089,587	15,916,048	–	–	–	–
Subordinated loans (external)	324,000	383,300	–	–	–	–

7. Securities held as fixed assets

Under bonds and other fixed-income securities, securities with a volume of € 11,077.5 million (2010: € 11,485.6 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.

Income from write-ups/downs in the amount of € + 544,000 (2010: € – 1,195,000) is reported under the income statement item interest income from fixed-income 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 impairments were reported under the income statement item write-downs on participatory interests, shares in affiliated companies and to securities which are treated as fixed assets in the amount of € – 8,607,000 (2010: € – 6,758,000). In the case of the other securities, the good credit rating indicates no fundamental risks. Write-ups pursuant to Section 253 (5) HGB were made in the amount of € 1,098,000 (2010: € 3,635,000) during the reporting year.

Securities held as fixed assets are valued at their historical costs if there is no permanent impairment. Depreciation to the lower of cost or market was not applied to these securities for holdings with a book value of € 5,694 million (2010: € 4,327 million) and a fair value of € 5,218 million (2010: € 4,166 million).

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

NORD/LB AM 9 (book value € 50.6 million, market value € 50.6 million), which is included under shares and other variable-income securities, shows no undervaluation as at the 2011 year-end. Rather, a write-down of € 501,000 was required. 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. A distribution of € 1,500,000 was collected in 2011.

With regard to participatory interests, the Cologne-based Risk Management Solutions GmbH was sold at its book value. There was no need for write-downs during the year.

Write-downs of € 2,417,000 and € 2,000,000 respectively were made in relation to the associated companies Deutsche Hypo Delaware Blocker Inc., Wilmington, Delaware/USA and Terra Grundbesitzgesellschaft am Aegi mbH, Hanover.

9. Marketable securities and participatory interests

	Balance sheet disclosure		of which:		of which:			
			marketable*)		marketable*)		not-listed on the stock market*)	
in € thousands	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Debenture bonds and other fixed-interest securities	11,825,571	12,315,372	11,666,952	12,151,872	9,640,749	10,462,320	2,026,203	1,689,552
Shares and other variable-interest securities	50,628	51,129	–	–	–	–	–	–
Investments in subsidiaries	77	227	–	–	–	–	–	–
Shares in affiliated companies	8,804	10,807	–	–	–	–	–	–

*) excluding pro-rata interest

10. Fiduciary transactions

in € millions	31.12.2011	31.12.2010
Trust assets		
Monies due from banks	–	–
Due from clients	4,842	5,006
Total assets	**4,842**	**5,006**
Trust liabilities		
Bank loans and overdraft	2	2
Amounts owed to other depositors	4,840	5,004
Total liabilities	**4,842**	**5,006**

11. Fixed-asset movement schedule

in € thousands	Historical costs 01.01.2011	Additions	Disposals	Depreciation accumulated	in 2011	Book value on 31.12.2011	Book value on 31.12.2010
Intangible assets	6,715	502	–	6,622	199	595	292
Property, plant and equipment	14,766	1,006	294	11,202	582	4,276	3,909
			Change*)				
Securities held as fixed assets			– 408,081			11,077,538	11,485,619
Investments in subsidiaries			– 150			77	227
Shares in affiliated companies			– 2,003			8,804	10,807

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

12. Intangible assets

Intangible assets exclusively include software licences acquired at cost and advance payments towards such licences.

13. Property, plant and equipment

Property, plant and equipment include the land and property used by the Bank worth € 1,519,000 (2010: € 1,534,000) and plant and equipment totalling € 2,037,000 (2010: € 1,665,000) are contained under tangible assets.

14. Own shares

The employees of Deutsche Hypo were not offered any share-purchase options during the reporting year. As at the balance sheet date, the Bank held none of its own shares in its portfolio.

15. Other assets

Other assets totalled € 180,485,000 (2010: € 183,531,000) and primarily include balancing items from foreign currencies in the amount of € 166,487,000 (2010: € 169,638,000), claims against the tax authorities in the amount of € 6,811,000 (2010: € 7,187,000, and the surrender values from reinsurance policies of € 4,388,000 (2010: € 4,340,000).

16. Prepaid and deferred items

in € millions	31.12.2011	31.12.2010
Assets		
Issuing discount from bonds	22.6	27.4
Premium on claims	29.4	26.5
Swap upfront payments	26.1	26.9
Liabilities		
Discount from claims	32.8	33.3
Premium on bonds	3.1	9.7
Processing fees and interest compensation	18.1	7.9
Swap upfront payments	18.0	20.6

17. Taxes

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

b) Deferred taxes:
The Bank's deferred taxes liabilities, which are very low, have been netted against active deferred taxes, which largely result from fiscal losses carried forward. Additional active deferred taxes of € 9,242,000 were not carried as assets, making use of 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 31.93 %, with a rate of 26.5 % applied in the case of the UK branch. The German tax rate arises from the prevailing 15.0 % corporation tax rate in Germany, along with 5.50 % solidarity surcharge and trade tax of 16.10 %.

18. Other liabilities

Other liabilities total € 381,097,000 (2010: € 217,651,000) and mainly include balancing items from foreign currencies in the amount of € 304,587,000 (2010: € 189,550,000).

Other liabilities also include capital from silent partners of € 44.0 million to be repaid in 2012 (2010: € 0), pro-rata interest on subordinated liabilities in the amount of € 25.1 million (2010: € 21.1 million) and on the jouissance right capital in the amount of € 5.5 million (2010: € 5.5 million).

19. Provisions

The application of Article 67 (1), first sentence of the Introductory Law to the German Commercial Code (EGHGB) resulted in an off-balance sheet pension provision of € 7.3 million as at 31 December 2011. This amount is to be allocated to the provisions by 31 December 2024 at the latest.

20. Subordinated liabilities

Subordinated liabilities fell during the year under review as a result of amounts falling due, down from € 383.3 million to € 324.0 million. They are subject to nominal rates of interest of between 4.0 % and 6.75 % and fall due from 2012 to 2027. Early repayments and conversions are excluded.

One subordinated liability exceeds 10.0 % of the total amount reported. It is a liability of € 90 million subject to a rate of interest of 6.12 % and due on 27 January 2020. Early repayment will only be possible in the event of additional payments to the lender or its legal successor due to changes in taxation.

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

The sum of € 28.0 million (2010: € 70.3 million) shall fall due within the next two years. Interest expenses in the year under review amounted to € 20.0 million (2010: € 20.7 million). This slight fall is attributable to amounts falling due over the course of the reporting year, as referred to above.

21. Jouissance right capital

The nominal jouissance right capital reported is € 98.0 million. The jouissance rights meet the requirements of Section 10(5) of the German Banking Act (KWG). The terms run to 31 December 2015 (nominal amount of € 23.0 million), 31 December 2016 (nominal amount of € 40.0 million) and 31 December 2017 (nominal amount of € 35.0 million). As in the previous year, no jouissance rights will fall due within the next two years. There continues to be no approved jouissance right capital.

22. Notes on the development of equity capital

The statement of 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 € 80.64 million on 31 December 2011, which is divided into 13,440,000 individual shares.

The Board of Managing 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 € 40.2 million 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 € 44 million had been made. These contributions are subject to interest at the following rates: 8.10 % / 8.16 % or the 12-month EURIBOR + 2.6 percentage points. With the term of these contributions expiring on 31 December 2011, the undisclosed contributions were reclassed under other liabilities as at the balance sheet date.

Two new contracts with an indefinite term were concluded during 2010, each for € 75 million and subject to an interest rate of 10.00 % and 11.20 % respectively. In accordance with Section 10 (4) of the German Banking Act (KWG), deposits from silent partners are allocated to the Bank's liable equity capital.

23. Contingent liabilities

in € millions	31.12.2011	31.12.2010
Liabilities arising from sureties and guarantee agreements	892.7	843.0
of which payable to affiliated companies	–	–
Composition:		
Credit default swaps	608.9	604.4
Guarantees in mortgage business	283.8	238.6

Contingent liabilities will lead to possible disbursements in future, 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 stated 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 reporting date.

24. Other obligations

Irrevocable credit commitments in the amount of € 770.7 million (2010: € 719.6 million) relate exclusively to mortgage loans.

25. Foreign-currency positions

The foreign-currency amounts reported in the balance-sheet and off-balance sheet positions can be broken down as follows:

in € millions	31.12.2011	31.12.2010
Fixed assets	5,525.7	5,705.5
Liabilities	1,522.9	1,628.4
Other commitments	131.7	155.8
Contingent liabilities	173.9	169.4

26. Securities repurchase transactions

As at the reporting date 48 securities with a book value of € 2,272 million (2010: € 2,577 million) were the subject of repo transactions. The securities are used to hedge bank loans and overdrafts.

27. Open market transactions

As at 31 December 2011, securities with a nominal value of € 1,020.3 million (2010: € 1,177.7 million) were blocked for overdraft facilities and open market transactions with the German Central Bank. They are used to hedge bank loans and overdrafts. As at the reporting date, use had been made of open market loans worth a total of € 300 million (2010: € 500 million).

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

Notes on the income statement

28. Other operating income

Other operating income totals € 2.9 million (2010: € 2.3 million) and primarily comprises cost reimbursements and income from the reversal of provisions.

29. Other operating expenses

Other operating expenses total € 8.3 million (2010: € 1.8 million). The rise in this item is mainly due to the bank levy of € 6.5 million and losses from foreign-exchange transactions in the amount of € 1.4 million.

30. Extraordinary expenses

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

Other disclosures

31. Information on the cover analysis

Publication in accordance with Section 28 (2) No. 1a of the German Pfandbrief Act (PfandBG)
Claims used to cover mortgage Pfandbriefe by size (Mortgage loans serving as cover):

in € millions	31.12.2011	31.12.2010
up to and including € 300,000	306	645
over € 300,000 up to and including € 5 million	1,446	1,429
more than € 5 million	5,671	5,241
Total	**7,424**	**7,315**

Publication in accordance with Section 28 (2) and (3) of PfandBG
Total amount of payments overdue by at least 90 days

in € millions	31.12.2011	31.12.2010
Germany	1.0	0.8
Netherlands	1.5	0.9
Spain	5.1	3.0
USA	2.8	3.1
Total	**10.4**	**7.8**

Publication in accordance with Section 28 (2) Nos. 1b and 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	2011	2010	2011	2010	2011	2010	2011	2010
Apartments	66	144	–	5	33	17	–	1
Detached family homes	205	418	–	–	1	1	–	–
Multifamily homes	740	890	–	–	122	98	59	59
Office buildings	923	741	422	299	363	453	244	192
Commercial buildings	1,676	1,490	293	142	80	64	98	72
Industrial buildings	12	13	12	13	–	–	–	–
Other commercial use	577	416	224	207	103	130	–	23
New buildings, not yet completed or not yet a source of income	249	146	3	22	–	–	3	–
Building sites	24	25	1	1	–	–	–	–
Total	**4,472**	**4,283**	**955**	**689**	**702**	**763**	**404**	**347**

	Austria		Spain		Belgium		USA	
in € millions	2011	2010	2011	2010	2011	2010	2011	2010
Apartments	–	–	–	–	–	–	–	12
Detached family homes	–	–	–	–	–	–	–	–
Multifamily homes	–	–	–	–	–	–	83	122
Office buildings	–	–	41	61	2	2	322	407
Commercial buildings	–	–	123	134	–	–	74	155
Industrial buildings	–	–	–	–	–	–	–	–
Other commercial use	13	13	33	42	–	–	136	194
New buildings, not yet completed or not yet a source of income	–	–	10	5	–	–	40	71
Building sites	–	–	–	4	–	–	14	11
Total	**13**	**13**	**207**	**246**	**2**	**2**	**669**	**972**

New buildings that are not yet completed or not yet a source of income have been reported separately since the 2011 financial year. To this extent, the prior-year figures have been adjusted, with incomplete new buildings previously reported under the other categories being moved to this new separate category.

Publication in accordance with Section 28 (3) Nos. 1 and 2 PfandBG

Claims used to cover public Pfandbriefe (collateral assets):

	Germany		Belgium		European Union		Finland	
in € millions	2011	2010	2011	2010	2011	2010	2011	2010
Central state	101	151	65	25	144	149	–	–
Regional authority	3,485	3,691	403	348	–	–	61	62
Local authority	133	115	–	–	–	–	–	–
Other	3,992	5,588	140	140	446	368	–	–
Total	**7,711**	**9,545**	**608**	**513**	**590**	**517**	**61**	**62**

in € millions	France 2011	France 2010	Greece 2011	Greece 2010	United Kingdom 2011	United Kingdom 2010	Ireland 2011	Ireland 2010
Central state	–	–	–	62	–	–	–	–
Regional authority	90	70	–	–	–	–	–	–
Local authority	–	–	–	–	–	–	–	–
Other	261	262	–	–	60	74	20	20
Total	**351**	**332**	**–**	**62**	**60**	**74**	**20**	**20**

in € millions	Italy 2011	Italy 2010	Japan 2011	Japan 2010	Canada 2011	Canada 2010	Latvia 2011	Latvia 2010
Central state	508	654	–	–	–	–	–	–
Regional authority	465	590	159	159	143	140	20	18
Local authority	–	–	–	–	–	–	–	–
Other	84	82	155	313	70	68	–	–
Total	**1,057**	**1,326**	**314**	**472**	**213**	**208**	**20**	**18**

in € millions	Luxembourg 2011	Luxembourg 2010	Netherlands 2011	Netherlands 2010	Norway 2011	Norway 2010	Austria 2011	Austria 2010
Central state	–	–	–	–	–	–	687	785
Regional authority	–	–	160	90	–	–	49	23
Local authority	–	–	–	–	–	–	–	–
Other	99	225	299	189	40	25	639	664
Total	**99**	**225**	**459**	**279**	**40**	**25**	**1,375**	**1,472**

in € millions	Poland 2011	Poland 2010	Portugal 2011	Portugal 2010	Sweden 2011	Sweden 2010	Switzerland 2011	Switzerland 2010
Central state	118	113	30	30	–	–	–	–
Regional authority	–	–	–	–	67	50	137	134
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	100	140
Total	**118**	**113**	**30**	**30**	**67**	**50**	**237**	**274**

in € millions	Slovenia 2011	Slovenia 2010	Spain 2011	Spain 2010	Hungary 2011	Hungary 2010	USA 2011	USA 2010
Central state	30	30	–	–	84	96	–	–
Regional authority	–	–	190	393	–	–	304	319
Local authority	–	–	–	–	–	–	–	–
Other	25	25	205	205	–	–	–	–
Total	**55**	**55**	**395**	**598**	**84**	**96**	**304**	**319**

in € millions	Other supranational institutions 2011	2010
Central state	–	–
Regional authority	–	–
Local authority	–	–
Other	154	203
Total	**154**	**203**

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

As in the previous year, there were no payments overdue by at least 90 days for public claims.

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

Pfandbriefe in circulation and the related collateral assets:

a) Total amount of outstanding mortgage Pfandbriefe

	Nominal		Net present value		Risk net present value *)	
in € millions	2011	2010	2011	2010	2011	2010
Mortgage Pfandbriefe	7,337	6,576	7,909	7,024	8,065	7,288
of which derivatives	–	–	52	24	– 6	– 25
Cover pool	8,400	8,046	9,021	8,601	9,027	8,671
of which derivatives	–	–	15	15	132	144
Surplus cover	**1,063**	**1,470**	**1,112**	**1,577**	**962**	**1,383**

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

re a) maturity structure (residual maturity)

	2011						
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	over 5 years and up to and including 10 years	more than 10 years
Mortgage Pfandbriefe	1,491	2,179	539	832	1,445	459	393
Cover pool	2,480	1,156	1,008	1,087	701	1,748	220

	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	over 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

b) Total amount of outstanding public Pfandbriefe

in € millions	Nominal 2011	Nominal 2010	Net present value 2011	Net present value 2010	Risk net present value *) 2011	Risk net present value *) 2010
Public Pfandbriefe	13,683	15,576	15,413	16,701	16,112	17,875
of which **derivatives**	–	–	14	8	– 7	– 4
Cover pool	14,419	16,886	16,621	18,403	17,171	19,416
of which **derivatives**	–	–	–	9	–	9
Surplus cover	**736**	**1,310**	**1,208**	**1,702**	**1,059**	**1,541**

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

re b) maturity structure (residual maturity)

	2011						
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	over 5 years and up to and including 10 years	more than 10 years
Public Pfandbriefe	1,758	1,080	2,148	1,335	1,104	2,827	3,430
Cover pool	1,911	1,567	1,352	1,628	1,457	3,435	3,070

	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	over 5 years and up to and including 10 years	more than 10 years
Public 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

Development of the portfolio of loans

(excluding interest and costs claims)

in € millions	Mortgage loans	Public-sector loans
Portfolio as at 31.12.10	**11,602.1**	**9,108.1**
Additions		
New loans	**+ 3,816.0**	**+ 773.5**
Disposals		
Scheduled redemptions	**– 667.8**	**– 1,532.0**
of which used for residential purposes	– 103.3	– 1,568.4
of which commercial	– 564.5	36.4
Non-scheduled redemptions	**– 2,186.1**	**– 225.0**
of which used for residential purposes	– 737.9	– 225.0
of which commercial	– 1,448.2	–
Regroupings and valuation adjustments	**264.7**	**5.8**
Portfolio as at 31.12.11	**12,299.5**	**8,130.4**

Cover for bonds in circulation:

in € millions	2011	2010
Bonds issued	24,347	25,406
plus registered Pfandbriefe issued to lenders as security		
registered Pfandbriefe	–	–
registered public Pfandbriefe	–	–
Bonds in circulation	24,347	25,406
plus certificates issued but not yet sold (treasury paper)	–	–
less bonds which do not require cover (formerly Section 5 (1) No. 4c Mortgage Bank Act)	– 3,327	– 3,254
Total amount in circulation requiring cover	**21,020**	**22,152**

This compares with the following cover assets:

in € millions	for mortgage Pfandbriefe 2011	2010	for public Pfandbriefe 2011	2010
Ordinary cover				
Monies due from banks				
Mortgage loans	7	8	–	–
Public-sector loans	–	–	2,000	2,640
Due from clients				
Mortgage loans	7,417	7,307	–	–
Public-sector loans	–	–	6,191	6,510
Bonds of public-sector issuers	–	–	6,178	7,081
	7,424	**7,315**	**14,369**	**16,231**
Substitute cover				
Other monies due from banks	185	–	50	655
Debenture bonds and other fixed-income securities	791	731	–	–
	976	**731**	**50**	**655**
Total value of cover	**8,400**	**8,046**	**14,419**	**16,886**
Total amount in circulation requiring cover	**7,337**	**6,576**	**13,683**	**15,576**
Surplus cover	**1,063**	**1,470**	**736**	**1,310**

Foreclosures/sequestrations

	As at 31 December					
	Foreclosures pending		Sequestrations pending		Foreclosures executed	
	2011	2010	2011	2010	2011	2010
in residential properties	28	43	12	16	11	11
in commercial properties	17	13	15	17	4	9
Total	**45**	**56**	**27**	**33**	**15**	**20**

Properties taken over

During the 2011 financial year Deutsche Hypo did not take over any property (2010: 1) for the purposes of protecting mortgage charges.

Value-adjusted interest in arrears

in € millions	2011	2010
in residential properties	2.8	1.5
in commercial properties	4.8	2.4
Total	**7.6**	**3.9**

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 is shown in the tables below in accordance with Section 36 RechKredV (German ordinance regulating the financial reporting of banks and credit institutes).

Forward translations include forward exchange transactions used to hedge against positions in GBP, USD, JPY and CHF and due to expire on 2 July 2012 at the latest. The remaining positions shown are all OTC products used to hedge against interest rate and currency risks and to improve and/or safeguard margins in loan business and investments in foreign securities. Market values represent the current value of the derivatives at market conditions (yield curves, forex rates etc.) including accrued interest. The book values are comprised of pro-rata interest and upfronts.

The figures determined in this way are summarised in the following tables by product group. This is in line with the requirements of Section 285, No. 19 HGB. The market values calculated in this way are required for the purposes of the Solvency Ordinance (SolvV), taking into account netting as recognised by the supervisory authority.

2011	Nominal amount/residual term						
in € millions	< = 1 year	1-5 years	> 5 years	Total	Fair values	Book value	Balance sheet item
Currency-related transactions							
Forward exchange transactions	1,013	19	–	1,032	– 27	–	
Cross-currency swaps	548	1,568	1,457	3,573	– 314	– 3	Assets 3, Assets 15 Liabilities 1, Liabilities 6
Interest rate-related transactions							
Interest rate swaps	3,343	14,269	17,313	34,925	– 247	– 45	Assets 3, Assets 15 Liabilities 1, Liabilities 6
Credit derivatives							
Total return swaps	–	17	690	706	– 33	– 10	Assets 3, Liabilities 1
Credit default swaps	–	–	609	609	– 161	–	

2010	Nominal amount/residual term						
in € millions	< = 1 year	1-5 years	> 5 years	Total	Fair values	Book value	Balance sheet item
Currency-related transactions							
Forward exchange transactions	2,108	–	–	2,108	3	–	
Cross-currency swaps	595	1,173	1,333	3,101	– 112	– 1	Assets 3, Assets 15 Liabilities 1, Liabilities 6
Interest rate-related transactions	8,079	12,722	19,127	39,928	– 177	– 59	Assets 3, Assets 15 Liabilities 1, Liabilities 6
Interest rate swaps							
Credit derivatives	–	16	672	688	– 49	– 10	Assets 3, Liabilities 1
Total return swaps	–	–	604	604	– 125	–	
Credit default swaps							

The netted fair values of € – 783 million, split by addresses, give rise to positive fair values of € 2,327 million and negative fair values of € 3,110 million.

To hedge the derivative risks after netting, Deutsche Hypo enters into security agreements with some of its business partners. As at 30 December 2011, Deutsche Hypothekenbank had provided security of € 1,100 million and received security of € 453 million.

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

DR. JÜRGEN ALLERKAMP
Hanover
– Chairman –

GAGFAH S. A., Luxembourg
Member of the Board of Managing Directors

INDUS Holding AG, Bergisch-Gladbach
Stv. Vorsitzender des Aufsichtsrats

LHI Leasing GmbH, Munich
Member of the Supervisory Board

Neue Dorint GmbH, Cologne
Chairman of the Supervisory Board

ANDREAS POHL
Hanover

ANDREAS REHFUS
Hanover

RMS GmbH RISK MANAGEMENT SOLUTIONS, Cologne
Member of the Supervisory Board until 30 June 2011

34. Members of the Supervisory Board

DR. GUNTER DUNKEL
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

DIRK METZNER
Bank employee

FRANK WOLFF
Bank employee

WILHELM ZELLER
Former Chairman of the Board
of Hanover Re Group
as of 25 May 2011

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35. Emoluments of the Board of Managing Directors and Supervisory Board

The emoluments paid to the Board of Managing Directors for the 2011 financial year totalled € 1,121,900 (2010: € 1,132,800).

Former Board members and their surviving dependents received € 767,400 (2010: € 681,000). Provisions for pension obligations owed to this group of people total € 9,637,100 (2010: € 8,542,600); of this the amount of € 2,650,900 was not provisioned.

The Supervisory Board received a fixed payment of € 125,900 (2010: € 105,000), including VAT.

36. Size of workforce on average over the year

	2011	2010
Female employees	177	160
Male employees	242	208
Total	**419**	**368**

37. Auditor's fees

in € thousands	2011	2010
Audit of financial statements *)	1,007	823
Other confirmations	380	269
Other services	47	0
Total	**1,434**	**1,092**

*) The figure for the audit of the financial statements for 2011 includes a charge of € 98,000 relating to the 2010 financial year.

38. Participatory interests subject to reporting

As formally stated, Norddeutsche Landesbank Girozentrale, Hanover, has been the sole shareholder since 9 December 2008.

39. Group affiliation

According to Section 271 (2) of the German Commercial Code (HGB), Deutsche Hypo (Actien-Gesellschaft) is a company affiliated to NORD/LB and is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as at 31 December 2010 were published in the electronic federal gazette on 13 May 2011.

40. Shareholdings

Name/Location	Share	Shareholders' equity	2011 result
Terra Grundbesitzgesellschaft am Aegi mbH, Hanover *) (in € thousands)	100.0 %	346	– 1,910
Deutsche Hypo Delaware Blocker Inc., Wilmington / Delaware, USA **) (in USD thousands)	100.0 %	11,246	– 2,894

*) As in the previous year, the information on equity takes account of the annual results for the last financial year (2011).
**) Deutsche Hypo Delaware Blocker Inc. prepares its year-end figures exclusively according to IFRS.

41. Off-balance sheet transactions and other financial obligations

As in the previous year, there are no off-balance sheet transactions as defined in Section 285 No. 3 HGB and that are required for assessing the financial position, and no other financial obligations as defined in Section 285 No. 3a HGB that could 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 statement

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

Hanover, 2 March 2012

The Board of Managing 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, 2 March 2012

The Board of Managing Directors

Dr. Allerkamp Pohl Rehfus

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), Hanover/Berlin, for the fiscal year from 1 January to 31 December 2011. 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 accountingrelated 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."

Hanover, 2 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Hultsch	Sterz
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Material: expanded metal (support grid in composite materials)

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With our knowledge and attention to detail we are able to keep track of even the most dynamic markets.

Your success : our benchmark

PERSONNEL REPORT

The 2011 financial year made tough demands of Deutsche Hypo's employees, particularly in terms of their willingness to embrace change. The "PRIMA 2011" (Prozesse im Aufbruch 2011) project and the realignment of the Group-wide risk management system were particular challenges faced by staff over the year.

The Bank's key personnel processes were incorporated into the internal control system (IKS), which requires that processes be clearly documented. The inclusion of the personnel processes is due to be completed in 2012.

Deutsche Hypo's employees have driven forward these change processes in 2011, ensuring that the Bank is well equipped to face the demands of the future.

Salary system

In 2011 the company agreement "Salaries" was agreed with the Works Council on the basis of a constructive working relationship. The agreement sets out the remuneration system applicable to contractual staff, whilst also fleshing out and adding to the collective agreements. The result is that changes to salary have been made even more transparent and even easier to understand, with clear process flows. The changes required as a result of the company agreement were implemented in 2011.

The management tools of setting targets and employee appraisals were linked to the payment of a variable payment or bonus for the first time in 2011, based on the "Annual appraisal" and "Performance bonus" company agreements. The bonus for the 2011 financial year will be paid in June 2012.

Additionally, Deutsche Hypo worked intensively on the requirements resulting from the Institution Remuneration Ordinance (InstitutsVergV) during the 2011 reporting year, ensuring that these were implemented within the Bank.

Encouraging/attracting the next generation

Deutsche Hypo has always been involved in classic banking training. This training has been expanded to include the international Bachelor of Arts course of study, which is offered in association with Leibniz Fachhochschule. The Bank increased its number of vocational trainees by 44 % during the year under review to a current level of 13 trainees.

The training cooperation project with NORD/LB, which was launched in 2009, was continued and enhanced in the reporting year. For the first time, Deutsche Hypo trainees were deployed in NORD/LB's private banking department in Braunschweig.

Alongside traditional vocational training, Deutsche Hypo also offers university graduates the opportunity of participating in graduate training programmes, which are to be redesigned during the first two quarters of 2012. By means of this relaunch, the Bank is hoping to develop an even more attractive training package for up-and-coming staff, introducing them in a targeted and practical way to challenging tasks.

In addition, the Bank offers interested school pupils the chance to complete work placements at Deutsche Hypo, providing them with their first insight into the workings of a real estate and Pfandbrief bank.

Personnel development

The managerial principles drawn up by the group and departmental heads together with a member of the Works Council were introduced in the context of the annual managers meeting. All measures for the development of executive staff will be tailored to these principles in future.

The personnel development concept for the Bank as a whole is based on the following pillars: “Systematic training for vocational and graduate trainees”, “systematic employee training”, “identification and systematic development of employees with potential”, and “systematic development of executive staff”.

A detailed staff development plan has been prepared for the specialist functions in the lending department as part of the “systematic employee training” pillar. As well as encompassing the standard components defined in the Bank’s minimum training standards for each function, it also includes additional optional components for further training/specialisation.

Family and work

Demand for the crèche places provided by the Bank remained high in 2011. All of the three available places have been taken up. Employees may also apply for financial assistance that can be used to pay for a nursery place elsewhere or for a childminder. Additionally, Deutsche Hypo also offered health check-ups for the over-50s during the year under review.

Facts and figures

The number of employees rose during the reporting year, totalling 419 at the year-end (2010: 368). The average age of the Bank’s employees fell slightly. As at 31 December 2011, the average age of a Deutsche Hypo employee was 42 (compared with 42.7 in 2010). Staff absences caused by illness were down from a rate of 2.75 % in 2010 to 2.54 % in the reporting year.

Deutsche Hypo is pleased to note that numerous employees celebrated an anniversary with the Bank in 2011. Three employees celebrated 40 years’ service, with a further 10 employees reaching their 25th anniversary and 18 employees reaching 10 years’ service.

Cooperation with the Works Council

The 2011 financial year was another year of change for the Bank. Examples of this include the PRIMA 2011 and Group-wide risk management projects, both of which involved the Works Council from an early stage. We would like to thank the Works Council for what has always been a constructive and trust-based working relationship over the course of the year.

CORPORATE GOVERNANCE REPORT

The Government Commission for the German Corporate Governance Code saw no need for amendments in 2011 and therefore left the Corporate Governance Code unchanged.

The Commission issued a press release on 4 May 2011 stating that the current Code provided German companies with a flexible framework for good company management that stood up well to comparisons with international rules. There was no particular or urgent need for any changes to the Code. In the Commission's view, it remains fundamentally important that companies are given a suitable and realistic period of time to implement new requirements. This was particularly true of the recommendation that the proportion of women in supervisory boards be increased. The Commission recommends that the specific objectives of the Supervisory Board with regard to its composition and the status of the implementation of the recommendations be published in the Corporate Governance report of the Annual Report.

The objectives of the Supervisory Board of Deutsche Hypo with regard to the appointment of new members are defined in its rules of procedure. When proposing the election of members to the Supervisory Board, the Board shall ensure that the nominated candidates 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 candidates should not be older than 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 have a higher proportion of female members. By the end of the 2010 financial year, the Board already had one woman among its members.

Progress made in implementing the recommendations of the German Corporate Governance Code is detailed in the declaration. The Board of Managing Directors and Supervisory Board agreed on the annual declaration on 16 December 2011, publishing the up-to-date version on the Bank's website. It is worded as follows:

Declaration of Conformity 2011

on the part of Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin in respect of the recommendations of the Government Commission on the German Corporate Governance Code

In accordance with Article 161 of the German Stock Corporation Act (Aktiengesetz), the Board of Managing Directors and the Supervisory Board of Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin herewith declare the following:

Since the last declaration of conformity dated 16 December 2010, Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin has implemented the recommendations of the Government Commission on the German Corporate Governance Code dated 26 May 2010 with the following exceptions:

The Code's recommendations on the topics of invitation to the Annual General Meeting, postal votes and proxies have not been implemented (Code section 2.3);

The members of the Supervisory Board were covered by D&O insurance without an appropriate deductible (Code section 3.8);

The compensation for the members of the Board of Managing Directors and of the Supervisory Board as well as the essential content of commitments of benefits to be granted in the event of termination of the function of member of the Board of Managing Directors were not disclosed on an individualized basis in the annex to the consolidated financial statements (Code sections. 4.2.4, 4.2.5 and 5.4.6);

The financial statements for financial year 2010 were published on 12 April 2011; the publication of the half-yearly financial report took place on 31 August 2011. This meant that the respectively recommended periods of 90 days as from the end of the financial year and 45 days as from the end of the reporting period (Code section 7.1.2) were not met. However, the publication of said reports took place in compliance with the statutory deadlines stipulated in Section 325 of the German Commercial Code (HGB) and Articles 37v and 37w of the German Securities Trading Act (WpHG).

Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin herewith declares that it will in future fulfil the recommendations of the Government Commission on the German Corporate Government Code in their version dated 26 May 2010, doing so with the exception of the aforementioned instances referred above.

Explanations:

Code section 2.3

The shares in Deutsche Hypo are held in their entirety (100 per cent) by NORD/LB, with the consequence that there are no “free” shareholders. The recommendations set down in Code section 2.3 are based on the holding of Annual General Meetings of stock corporations which have various different shareholders. This is not the case where Deutsche Hypo is concerned, for which reason said recommendations will not be implemented.

Code section 3.8

As already in the past, Deutsche Hypo will not be implementing this recommendation:

In accordance with the principles of equal treatment, a deductible ought to be identical for all members of the Supervisory Board in terms of its economic effects. The Code recommends that the regulation on deductibles for the Board of Managing Directors in accordance with Article 93 Paragraph 2 of the German Stock Corporation Act (AktG) be correspondingly applied in respect of the members of the Supervisory Board. However, this would affect the members of the Supervisory Board to varying degrees, depending on their personal economic circumstances. In extreme cases, it could be, for example, that less well financially situated members of the Supervisory Board might find themselves in existential difficulties. With account being taken of the equal degrees of responsibility concerned, this regulation does not therefore appear fair.

Code sections 4.2.4, 4.2.5 and 5.4.6

The compensation of the members of the Board of Managing Directors and of the Supervisory Board has not been disclosed on an individualized basis in the past, and Deutsche Hypothekenbank will not do so in the future either:

The Extraordinary General Meeting of Deutsche Hypothekenbank held on 13 November 2006 adopted a resolution with the requisite majority as per Article 286 Paragraph 5 of the German Commercial Code (HGB) to the effect that individualized disclosure of the compensation of members of the Board of Managing Directors would not be undertaken. At the Annual General Meeting of Deutsche Hypothekenbank held on 25 May 2011, a resolution was adopted to the effect that the details on the compensation of each individual member of the Board of Managing Directors as required by section 4.2.4 of the German Corporate Governance Code will not be disclosed in the company’s annual financial and consolidated statements.

In accordance with Deutsche Hypothekenbank's articles of association, the Annual General Meeting passes resolutions on the compensation of the members of the Supervisory Board. The Supervisory Board's overall compensation is reported in the annual report. There is no further identifiable benefit from any individualized disclosure by name of said compensation.

Code section 7.1.2

As result of its affiliation to the NORD/LB Group, Deutsche Hypo is incorporated into the group procedure in terms of the publication of interim reports, financial reports and annual accounts; this group procedure ensues in accordance with the statutory time limits.

Hanover, 16 December 2011

The Supervisory Board
The Board of Managing Directors

Emoluments of the members of the Board of Managing Directors

The emoluments paid to the Board of Managing Directors for the 2011 financial year totalled € 1,121,900 (2010: € 1,132,800).

Emoluments of the members of the Supervisory Board

The Supervisory Board received a fixed payment of € 125,900 (2010: € 105,000), including VAT.

DEUTSCHE HYPO SUPPORTS...

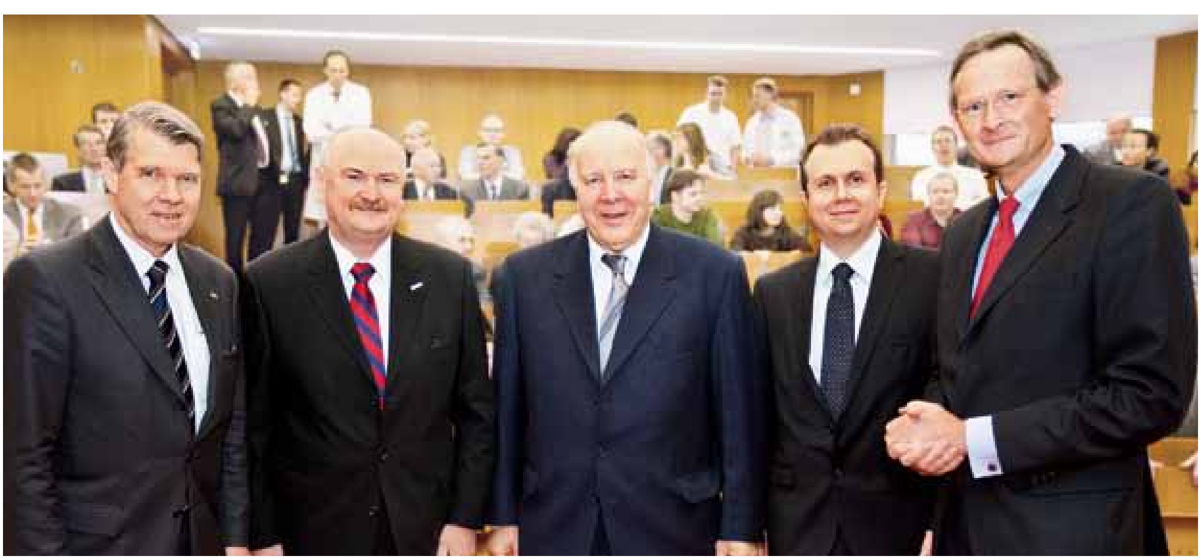
Johann Georg Zimmermann Association

For the 40th time, the Johann Georg Zimmermann Association awarded two prestigious prizes in January 2012, namely the Johann Georg Zimmermann Research Prize and the Johann Georg Zimmermann Medal. Both of these are awarded annually in recognition of special achievements in the field of cancer research.

The two awards have been funded by Deutsche Hypo since 1972 and rank among the oldest and most valuable cancer research prizes in Germany. With the aim of extending knowledge about cancers and arriving at improvement treatment methods, young up-and-coming researchers are awarded the annual Research Prize in recognition of their current academic work. Scientists who have made an outstanding contribution to the fight against cancer are awarded the Medal. To date, many German and international researchers have figured among the recipients, including Prof Dr. Harald zur Hausen, the Nobel Laureate in Medicine, who was awarded the Johann Georg Zimmermann Medal in 2006/2007.

The jury of the Johann Georg Zimmermann Association is composed of high-calibre, prominent academics from Hanover Medical School (MHH) and of external academics. University faculties in German, Austria and Switzerland submit a list of outstanding cancer researchers, from which the jury selects the prize-winners. This year, the award ceremony was held on 16 January 2012 in Hanover. The Johann Georg Zimmermann Research Prize for 2011/2012 went to Prof. Dr. Lars Zender, with the Johan Georg Zimmermann Medal for 2011/2012 being awarded to Prof. Dr. Peter Krammer.

Prof. Dr. Lars Zender received the Research Prize, worth € 10,000 in recognition of his research into the formation of tumours. Zender's research has produced findings on the development of liver cancer, which can also be more prevalent following viral infections and disruption to the body's own immune response.



from left: Prof. Dr. Dieter Bitter-Suermann, Prof. Dr. Michael Peter Manns, Prof. Dr. Peter Krammer, Prof. Dr. Lars Zender, Dr. Jürgen Allerkamp

Prof. Dr. Zender heads a working group at the Helmholtz Centre for Research into Infections in Braunschweig and is the Professor for Experimental Gastrointestinal Oncology at the MHH. His research work involved the development of the latest methods of RNA interference screening using molecular biology.

RNA interference is a complex mechanism in molecular biology, using which genes are "shut down". This mechanism essentially determines which genes out of the wealth of available genetic information are actually used and thus offers completely new ways of interfering with genes without changing them. Together with only a few other groups elsewhere in the world, Zender has developed the technical expertise needed to carry out particular RNA interference tests on tumours grown on mice and thus to find new therapeutic target structures directly in living organisms. In this way, problems that can arise when implementing the RNA interference screen in cell cultures in human tumours can be avoided. Consequently, new therapeutic target structures identified using this method offer huge potential in terms of improving the treatment and prognosis for liver cancer patients.

The Johann Georg Zimmermann Medal, awarded at the same time and including prize money of € 5,000, went to Prof. Dr. Peter Krammer from the German Cancer Research Centre (DKFZ) in Heidelberg. Prof. Dr. Krammer received the Medal in recognition of his pioneering work in the field of programmed cell death, apoptosis, which is the most frequent form of natural cell death in living organisms. Cells that have fulfilled their task, have become superfluous during embryonic development or that constitute genetic errors are eliminated. If this protection mechanism fails, and if there is too much or too little programmed cell death as a result, illnesses can ensue. Too little apoptosis, for example, is a central problem in relation to cancers and auto-immune diseases. Prof. Dr. Krammer's work is key in understanding the signals that control this cell death mechanism. He is the spokesman of the Tumour Immunology research group and heads the Immunogenetics department at DKFZ.

Deutsche Hypo is delighted to have been able to support the Johann Georg Zimmermann Research Prize and Medal in their 40th year. Nowadays, there are not so many examples of companies remaining loyal to their social commitments for four whole decades. Yet for Deutsche Hypo, supporting cancer research has always been important. "The awards express the huge value that we attach to the successful work of individual researchers and can help to sustain motivation levels in relation to cancer research throughout the entire medical sector," stressed Chairman of the Board of Managing Directors of Deutsche Hypo, Dr. Allerkamp, speaking at this year's award ceremony.

KinderHerz Foundation

Assuming social responsibility is second nature to Deutsche Hypo, and improving the provision of health care in Germany is an area that is very important to the Bank. This is why Deutsche Hypo supports medical research. In addition to its involvement with the Johann Georg Zimmermann Association, the Bank also works with the KinderHerz Foundation.

The aim of this Foundation is to provide every child with heart problems with optimum care in a specialist cardiac centre close to their home. Around 1 % of all newborn babies in the world are born with a heart defect. Alongside medical care, improving these children's quality of life is one of the key priorities. Deutsche Hypo would like to help ensure that these young patients are given the best possible care.

Dr. Jürgen Allerkamp, Chairman of the Board of Managing Directors of Deutsche Hypo, has been supporting the Kinderherz Foundation for many years now: "Anyone who has a heart for children must be interested in children's hearts. This is such a worthwhile cause. I am therefore delighted to be able to provide the KinderHerz Foundation with advice on business areas in my capacity as a member of the foundation's board." Deutsche Hypo is considering ways of expanding its involvement in the Foundation in 2012.

Christmas Wishing Tree

Once again in 2011 Deutsche Hypo employees organised a Christmas Wishing Tree, enabling them to buy the perfect gifts for 75 children and young people from the "Güldene Sonne", an educational and therapeutic residential centre in Rehburg-Loccum. Dirk Metzner, Chairman of Deutsche Hypo's Works Council, handed the gifts over to Barbara Weber-Wende, one of the centre's staff, on 19 December 2011 on behalf of the Bank's employees.

The wishlists from the children and young people were hung on two Christmas trees in Deutsche Hypo's Hanover offices in Georgsplatz and Joachimstraße. Employees could then choose which child to buy a present for. All of the presents cost approximately € 20 and this year ranged from toys and MP3 players to perfume and cuddly toys. Overall, employees spent around € 1,500 of their own money on these gifts.

Dirk Metzner highlighted the initiative and willingness to get involved of the Bank's employees as he handed the presents over: "It is a very natural thing for us at Deutsche Hypo to assume social responsibility. The Christmas Wishing Tree project is a very successful example of this. It is lovely to see how much it means to our staff to help children and young people in need. Perhaps we will be able to extend this project even further over the coming years."

Barbara Weber Wende thanked Deutsche Hypo saying "We would like to thank you on behalf of all of the children and young people for once again buying Christmas presents for our residents in 2011." The "Güldene Sonne" works in close cooperation with the children and young people's psychiatric unit at Hanover Children's Hospital. The children and young people who live at the centre have often had to leave their home after experiencing domestic violence, problem relationships or even alcohol and drug abuse.

from left: Dirk Metzner, Barbara Weber-Wende

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Your success : our benchmark

Material: bare concrete

REPORT BY THE SUPERVISORY BOARD

The Supervisory Board and its committees performed the tasks required of them by law, under the Bank's Articles of Association and in accordance with the German Corporate Governance Code during 2011. For the purposes of its fulfilling its tasks and in accordance with the statutory requirements, the Supervisory Board has set up a Lending Committee, Audit Committee, Personnel Committee and Appointments Committee.

The Board of Managing Directors provided the Supervisory Board with regular, timely and comprehensive updates on the Bank's business performance, risk situation, strategic direction and economic position. Regular information was also provided outside of the Supervisory Board's meetings, in the form of the quarterly risk reports prepared in accordance with the provisions of MaRisk and monthly reports on the Bank's performance and income situation. 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.

The Supervisory Board held four ordinary meetings in 2011, each of which was attended by all of the members with the exception of one absence due to illness. At the meetings, the respective chairs of the committees briefed the Supervisory Board in turn on the work of their committees. The Lending Committee, which mainly deals with lending policy issues, met four times during the past year. The Audit Committee met twice, with its meetings focusing on the annual financial statements and interim financial statements respectively. The Appointments committee met on one occasion in order to prepare its nomination for the appointment of a new member of the Supervisory Board. Its proposal was submitted to the Annual General Meeting on 25 May 2011.

This new appointment was needed following the resignation of Dr. Elke König with effect from 31 December 2010. The Supervisory Board would like to thank Dr. König for her huge commitment to the Bank and for the constructive working relationship enjoyed over the years. The Annual General Meeting appointed Mr Wilhelm Zeller as a new ordinary member of the Supervisory Board. Mr Zeller was additionally appointed as a member of the Audit Committee and deputy member of the Lending Committee by the Supervisory Board. Mr Eckhard Forst was also made a deputy member of the Audit Committee.

The auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, elected by the Annual General Meeting and subsequently appointed by the Supervisory Board, audited the financial statements for the 2011 financial year and issued an unqualified audit certificate. This confirms that the bookkeeping and annual financial statements comply with the statutory requirements. The audit did not lead to any objections.

The auditor was available to the members of the Supervisory Board and of the Audit Committee to take questions and provide additional information. Additionally, the auditor took part in the meetings of the Audit Committee and in the meeting held to discuss the annual financial statements, reporting on the findings of the audit during these sessions.

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 21 March 2012, the Supervisory Board approved the management report and the annual financial statements as at 31 December 2011, which are thereby adopted.

Pursuant to Section 312 of the Joint Stock Companies Act (AktG), the Board of Managing Directors is required to prepare a report on relations with affiliated companies. This was also audited by the auditor and given an unqualified audit certificate. The Supervisory Board endorses this dependence report and the related audit report. The Supervisory Board further confirms that there are no objections to the declaration by the Board of Managing Directors at the end of this report.

The Supervisory Board would like to thank the Board of Managing Directors and Deutsche Hypo's employees for their hard work and dedication to the Bank during 2011.

Hanover, 21 March 2012

The Supervisory Board

Dr. Gunter Dunkel
Chairman of the Supervisory Board

CORPORATE BODIES

Supervisory Board

DR. GUNTER DUNKEL
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 –

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

WILHELM ZELLER
Burgwedel
Former Chairman of the Board
of Hanover Re Group
since 25 May 2011

Lending committee

DR. JOHANNES-JÖRG RIEGLER
– Chairman –

DR. GUNTER DUNKEL

ECKHARD FORST

WILHELM ZELLER
– Substitute member –
since 25 May 2011

Audit committee

DR. JOHANNES-JÖRG RIEGLER
– Chairman –

FRANK WOLFF

WILHELM ZELLER
since 25 May 2011

ECKHARD FORST
– Substitute member –

Personnel committee

DR. GUNTER DUNKEL
– Chairman –

ECKHARD FORST

DR. JOHANNES-JÖRG RIEGLER

Appointments committee

DR. GUNTER DUNKEL
– Chairman –

ECKHARD FORST

DR. JOHANNES-JÖRG RIEGLER

Board of managing directors

DR. JÜRGEN ALLERKAMP
Hanover
– Chairman –

ANDREAS POHL
Hanover

ANDREAS REHFUS
Hanover

Executive manager

Michael Müller

Departmental managers

Sabine Barthauer
Gunter Bierwisch
Joachim Bloß
Carsten Dickhut
Raimund Ferley
Marc Grote
Markus Heinzel
Dirk Hunger
Dieter Koch
Wolfgang Koppert
Albrecht Mayer
Uwe Menninger
Dirk Schönfeld
Stefan Schrader
Thomas Staats
Ralf Vogel
Dr. Wulfgar Wagener
Paul Weber
Hendrik Weis

Public trustees

Dr. Gunther Krajewski
Hanover
Ministerialdirigent a. D.
– Trustee –

Wolfdietrich Kühne
Hanover
Degree in business, auditor, tax advisor
– Deputy Trustee –

SUCCESS IS THE RESULT OF PERFECT TEAMWORK

Project-oriented thinking and regular communication make us a flexible partner for our customers.

Your success : our benchmark

Material: glass fibre mat

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
  Carsten Dickhut
  Head of Department
- Business Development
  Dirk Hunger
  Senior Manager
- Personnel/Administration/Service
  Paul Weber
  Senior Manager
- Operations and IT
  Dr. Wulfgar Wagener
  Senior Manager

Andreas Pohl
Business Division 2

- Domestic Property Finance 1
  Ralf Vogel
  Senior Manager
- Domestic Property Finance 2
  Michael Müller
  Executive Manager
- International Property Finance
  Thomas Staats
  Senior Manager
- Real Estate Structured Finance
  Sabine Barthauer
  Senior Manager
- Real Estate Investment Banking
  Dieter Koch
  Senior Manager
- Real Estate Group Finance
  Wolfgang Koppert
  Senior Manager
- Market Analysis
  Prof. Dr. Günter Vornholz
  Head of Department

Andreas Rehfus
Business Division 3

- Treasury Operations
  Gunter Bierwisch
  Senior Manager
- Credit Risk Management
  Raimund Ferley
  Senior Manager
- Credit Risk Controlling
  Uwe Menninger
  Senior Manager
- Credit Risk Management Special Loans
  Stefan Schrader
  Senior Manager
- General Credit Department
  Markus Heinzel
  Senior Manager
- Accounting
  Joachim Bloß
  Senior Manager
- Controlling
  Hendrik Weis
  Senior Manager
- Real Estate Valuation and Consulting
  N.N.

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State Supervisory Body	Bundesanstalt für Finanzdienstleistungsaufsicht Graurheindorfer Straße 108 53117 Bonn

GLOSSARY

Backtesting
Process to monitor the quality of value-at-risk models, which retrospectively compares losses calculated using the value-at-risk approach with the losses actually recorded.

Cost-income ratio
Ratio that puts administrative expenses in relation to net interest and commission income. The cost-income ratio provides quantitative information regarding the efficiency in the operative banking business. In principle, the lower the value of the cost-income ratio, the more efficient the Bank's economic management.

Credit Default Swap (CDS)
CDSs belong to the group of credit derivatives. In this case, the secured party transfers only the isolated credit default risk to the party granting security.

Credit spread risk
The risk that a portfolio will generate a loss originating from a negative development of the credit spreads, i.e. the spreads for various asset classes compared to the risk-free interest.

Derivative or derivative financial instrument
Derivatives or derivative financial instruments are financial assets and liabilities the value of which changes depending on a defined underlying asset (interest, currency, share, etc.). Derivatives require no or very little initial investment and will be discharged in the future.

Expected Loss
This is calculated on the basis of the statistically expected loss, taking into consideration failure analyses and the statistically determined utilisation and contribution rates of securities and/or loan receivables. Standard default costs to be covered through future income from margins.

ICAAP
(Internal Capital Adequacy Assessment Process)
Requirement of banking supervision relating to the process for capital adequacy to cover all significant risks.

IFD risk class default (Non performing loans – NPL)
This refers to loans for which the debtors have already fallen into arrears in fulfilling their contractual obligations.

Confidence level
Within the context of the value-at-risk model, the confidence level describes the likelihood that a potential loss will not exceed the loss threshold defined by the value-at-risk.

Deferred taxes
If the amounts stated in the tax balance sheet differ from the book values for the assets and liabilities in the balance sheet pursuant to the Code of Commercial Law and these differences are not permanent from a fiscal perspective, income taxes to be paid or obtained in future will be applied as deferred taxes.

Liquidity Coverage Ratio
The liquidity index is an expression of the Bank's short-term solvency. Highly-liquid assets (liquidity buffer) are assessed in relation to the net outgoings for the next 30 days.

Net Stable Funding Ratio
The second liquidity index is used for optimisation of liquidity over a time frame of one year. It should be ensured that assets can be refinanced, depending on their liquidity, with funds secured for the long term.

PfandBarwertV
Pfandbrief Net Present Value Regulation: Regulation on the safeguarding at all times of the cover for Mortgage Pfandbriefe, Public Pfandbriefe and Ship Pfandbriefe according to the net present value and the calculation of the same in the case of Pfandbrief banks.

Rating
Standardised assessment of the credit-worthiness of a security or debtor by means of a detailed internal risk assessment (internal rating) or by independent rating agencies (external rating).

Risk-bearing capacity
Within a credit institution, all significant risks must be covered at all times by what is known as the aggregate risk cover (capital that is actually available), also taking into account any interdependencies. This is illustrated in the bank's risk-bearing capacity.

Scoring procedure
Deutsche Hypo's internal rating procedure to determine the credit-worthiness of a debtor in the capital market business.

Spread
In exchange and off-exchange trading, a spread (also known as bid-ask spread) is defined as the margin between the bid price (market demand) and the offer price (market supply).

Stress testing
Methods that attempt to simulate the effects of unusual but plausible potential events.

Swap
In economics, a swap is an agreement between two contracting parties that provides for the future exchange of payment flows.

Total Return Swap (TRS)
In a Total (Rate of) Return Swap (TRORS or TRS), the return from the underlying financial instrument is exchanged for a different return. This is a credit derivative.

Unexpected Loss
Quantification of the credit risk as the potential difference between the actual and expected loss.

Value-at-risk (VaR)
The value-at-risk designates the potential future loss that will not be exceeded within a certain period and with a certain probability.

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