DEUTSCHE HYPO
Member of NORD/LB

ANNUAL REPORT 2012

140 years of Deutsche Hypo. A journey through time.

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.- 31.12.2012	01.01.- 31.12.2011	Change (in %)
Business progress figures			
Commercial real estate finance business	2,513	2,769	– 9.3
Capital market business	1,719	1,748	– 0.2
of which public sector loans	1,299	634	> 100
Loans drawdowns	2,683	4,056	– 33.9
Bond sales and loans taken up	4,254	4,940	– 13.9

in € millions	31.12.2012	31.12.2011	Change (in %)
Balance sheet figures			
Commercial real estate finance business	12,381	12,133	2.0
Public sector loans	8,867	8,321	6.6
Securities	10,614	11,876	– 10.6
Borrowed funds	32,779	33,178	– 1.2
Equity*)	1,379	1,320	4.5
Total assets	34,578	34,999	– 1.2

in € millions	01.01.- 31.12.2012	01.01.- 31.12.2011	Change (in %)
Income statement figures			
Net interest income	204.3	191.9	6.5
Net commission income	10.8	10.8	0.0
Administrative expenses**)	73.2	70.6	3.7
Risk result	– 57.6	– 82.7	30.4
Allocation to the funds for general bank risks (§340g HGB)	14.4	0.0	> 100
Income from securities and participatory interests	– 17.1	– 11.3	– 51.3
Result from ordinary business activity	50.4	32.7	54.1
Extraordinary income	– 4.3	– 0.6	> 100
Income transferred for investments by silent partners	17.2	18.5	– 7.0
Net income (after taxes)	15.2	11.0	38.2

in %	31.12.2012	31.12.2011
Other information		
Cost-income ratio	34.4	35.8
Core capital ratio	9.9	8.4

*) including funds for general bank risks, juissance right capital and subordinated liabilities
**) including depreciation on property, plant and equipment and intangible assets

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

ANNUAL REPORT 2012

WE HAVE ESTABLISHED A CENTRE OF COMPETENCE:

Benedikt von Abendroth, Carolin Albers, Ingo Albert, Alois Algermissen, Pascale Angelopoulos, Anne-Kathrin Apel, Elena Argun, Kristina Aselmeyer, Jens Assmann, Wolfgang Aust, Hans-Hermann Baltz, Angela Bank, Malgorzata Barbara Baniecka, Sabine Barthauer, Susie Bassett, Christopher Batke, Isabel Bauke, 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, Gisela Blümm, 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, Iris Brünau, Marc Brune, Volker Brunner, Jochen Bucek, Carsten Bühring, Thomas Stephan Bürkle, Wolf-Günther Burucker, Lars Busch, Janina Butterbrodt, José Luis Calderón Martínez, Anne-Isabelle Carbonnières, Juan Manuel Casas Guillen, Yvonne Coppel-Tamms, Bettina Cramer, Ursula Czech, Dennis Dasselaar, Sandra Debbrecht, Katrin-Genevieve Deitermann, Ulrich Deppe, Carsten Dickhut, Hergen Dieckmann, Frank Dittmann, Daniela Dreier, Reinhard Drexler, Beate Droste, Jürgen Eckert, Nicole Edle von Wölfel, Jens Ehlerding, Ernst-August Endrulat, Carina Engelbrecht, Klaus Engelbrecht, Pervin Evelek, 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, Silvia Golbeck, Susanne Gödecke, Elke Görg, Rüdiger Göricke, Sabine Gößmann, Jutta Graf-Frieling, Katja Gramatte, Claudia Grau, Georg Greive, William Groen, Elke Großer, Detlev Grote, Marc Grote, Christian Gudat, Cristina Guilherme, Petra-Ingeborg Haake, Christina Händel, Lars Haftmann, Ralf Hagendorff, James Robert Aikman Hall, Birger Helm, 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, Dr. Peter Hinze, René Hodko, Achim von Hoegen, Anne-Kathrin Hoepfner, Christoph Hötzel, Nils Hoffmann, Monika Hofschulte, Marcel Holk, Karin Hornbostel, Helmut Hornung, Simone Huch, Klaudia Hüskes, Thomas Hundertmark, Dirk Hunger, Tanja Hußmann, Malte Ilginnis, Axel Intemann, Peter Jabs, Anna-Dorothea Jäger, Amely Jessop, Helmut Jördening, Thorsteinn Jonsson, Ute Jürges, Frank Junge, Georg Kaisler, Dirk Kallikat, Christina Kanning, Gudrun Karges, Brit Kaufmann, Melanie Kautzner, Kerstin Kelm, Dorothea Kind, Kristina Kirchner, Ruth Kirchstein, Andreas Kirschner, Jürgen Klebe, Carsten Kling, 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

OUR STAFF

Lange, Nicole Lange, Sascha Langeheine, Katrin Langer, Annika Leenen, Annemarie Leeuwen, Dr. Pia Leipertz, Stefan Leise, Claudia Leu, Maria Teresa Linares Fernández, Antje Loof, Veit Look, Walter Love, Alexander Ludwig, Karin Ludwig, Nadine Lüder, Hans-Joachim Luther, Dörte Mamber-Pierstorff, Ingo Martin, Manfred Matthies, Edgard Maurette, Albrecht Mayer, Andreas Meiser, Uwe Menninger, Kevin-York Merchel, José Ignacio Merinero Muñoz, Michael Mesenbrink, Dirk Metzner, Björn Meyer, Eleonore Meyer, Jens Meyer, Andreas Michel, Stefan Mikus, Christopher Millington, Sonja Misch, Irina Monsler, Marlis Mügge, Claudia Müller, Frank Müller, Michael Müller, Brigitte Müller-Bühren, Thomas Müser, Simon Munaretto, Jürgen Munke, Marion Muth, Claudia Nacke, Andreas Nagel, Dirk Neugebauer, Evelin Neuhäuser, Josef Niehoff, Uwe Niemann,Michael Niemeyer, Rebecca Nienhaus, Markus Nitsche, Matthias Nittscher, Rico Noack, Ralf Obst, Jana Oliver, Maria Belén Ozcariz Salazar, Jan Christoph Paape, Nelson Ruben Parmigiani, Rainer Passiel, Kornelia Penker, René Penno, Andreas Peter, Meike Peter, Anja Philipps, Sandra Piehl, Liane Pilz, Gudrun Pösger, Andreas Pohl, Nina Poletschny, Arne Preuß, Martin Priesnitz, Torben Pschunder, 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, Jens-Oliver Ruff, Petra Ruff, Annemarie Rumke, Katja Runge, 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, Christof Schönefeld, Dirk Schönfeld, Stefan Schrader, Erik Schramm, Wiebke Schramm, Yannick Schreiber, Karsten Schröter, Stefan Schröter, Matthias Schroff, Heike Schünemann, Heike Schütte, Sandra Schuler, Manuela Schult, Frank Schulte, Frank Schultze, Karsten Schulz-Porth, Katja Schumann, Ralph Schumann, Sabine Schwarz-Möbius, Werner Schwertfeger, Hans-Werner Seidel, Uwe Seifert, Fredrik Serck, Phil Shackleton, Kristof Sidorowicz, Anke Sieber, Cnut Siebert, Britta Siedentopf, Marc Simon, Sandra Simon, Fabian Socha, Petra Söfker, Mirko Sommer, Kerstin Sonntag, Sascha Sonntag, Thomas Staats, Karl H. Stein, Jana Stephani, Thomas Stoklas, Mathias Stolte, Axel Stoppel, Gabriele Strienke, Bianca Ströhla, Paul Sutcliffe, Marc Techtmann, Maren Tegtmeier, Leyla Tekkal, Martina Teutloff, Bettina Thiedtke, André Thürmer, Dirk Töteberg, 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, 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, Markus Wittenberg, Renate Wittkowski, Dirk Wömpner, Frank Wolff, Christopher J. Woodard, Michael Woodgate, Jörn Wrede, Anita Wrosch, Stefanie Wünsch, Martina Wulschläger, Heike Wuttke, Haishu Yu, Özlem Yüksel, Olivier Zapf, Sebastian Ziegler, Frank Zimmermann, Jörg Zimmermann.

CONTENT

Growth
is the result of natural development.

50 mark imperial treasury note
Subject: Two female allegories –
military and agriculture

Deutsche Hypo takes advantage of the brisk demand and is able to sell mortgage certificates for 5 million mark at coupon rates of 4 1/2 and 5 % through its newly opened distributing agencies just two years after its foundation.

FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Customers and Business Partners of Deutsche Hypo,

Relationships change over time. Their intensity rises and falls through the years. For Deutsche Hypo and its parent company, the development is clear: In 2012 – the fifth year after the acquisition by NORD/LB – the collaboration between both banks was more pronounced than ever before. Deutsche Hypo and NORD/LB have grown together over the years and build a strong bond that benefits both Deutsche Hypo and the Group. After all, as a centre of competence for commercial real estate finance, Deutsche Hypo almost exclusively fills out a core business area of the NORD/LB Group.

Since the beginning of the financial crisis, all banks have been required to check the sustainability of their business models and to meet regulatory requirements that have significantly increased in recent years. Early on, the NORD/LB Group set itself the goal of remaining strong in a difficult market environment to meet the challenges of the future. This occurs, among others, thanks to an efficiency improvement programme.

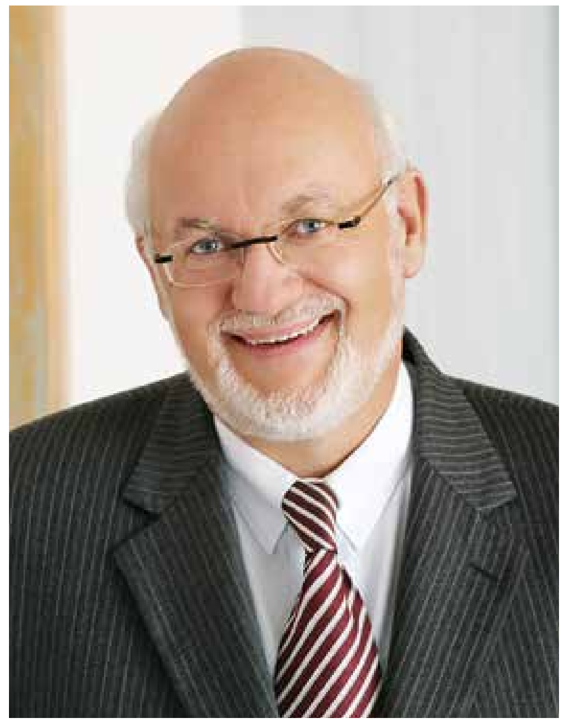
In order to achieve the Group's ambitious goals, subsidiaries such as Deutsche Hypo also have to make contributions. Against this backdrop, a project has been started in 2012 that foresees a significant reduction in Deutsche Hypo's administrative expenses and a closer linkage to NORD/LB by 2016. Just a half year after its start, the Group project has made considerable progress.

The changes have taken place during a phase in which Deutsche Hypo has clearly proven its capability: The financial year 2012 did not only go very well for it in terms of earnings. Again, it was possible to obtain funding at relatively inexpensive conditions. Overall, Deutsche Hypo's reputation on real estate and capital markets improved even more. The brand is well established.

I am confident that the positive development of Deutsche Hypo will also continue in the future and that the relationship between the parent and subsidiary will continue to intensify.

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,

Deutsche Hypo celebrated its 140th birthday in 2012. Formed in 1872, our Bank is one of the longest standing Pfandbrief banks and has given its customers a reliable partner for what is now almost a century and a half. We can be proud of this anniversary. Ultimately, a large quantity of hard and successful work is behind it. The year 2012 is the best proof of this.

We look back again on a financial year that offered many challenges, above all new regulatory requirements and the continuation of the European sovereign debt crisis. Discussions about government budgets again defined the entire year, but became less intense in the fourth quarter – thanks to the ECB. The crises, primarily in a few countries in the south of the continent, also carried over into the real economy. The European economy contracted by 0.4 %, and the unemployment rate rose substantially. Germany managed to buck this trend: Here, not only did the economy grow by 0.7 %, but unemployment also fell to its lowest level in more than two decades.

The German real estate market remained in step with the macroeconomic performance and again presented itself as a safe haven and desired destination for investors. Germany confirmed the good figures from the prior year with a transaction volume of over € 25 billion. Deutsche Hypo's new business was also stable in the past year: At more than € 2.5 billion, we again achieved our target range – despite adjustments to our target markets during the year. While we refrain from doing any new business in Spain or the USA and will reduce our existing portfolios there, we are reviewing Poland to see whether we will ramp up activities in this promising market starting this year. Furthermore, we are focusing even more strongly than before on our home market of Germany.

We can be very satisfied with our performance in 2012. Operating income rose again by more than 6 % as compared to the very good year of 2011. The Bank was also pleased that it was again possible to reduce the risk provisioning despite our ongoing conservative risk assessment, and the level of administrative expenses was relatively low in light of the increase in the number of employees. The bottom line for the 2012 financial year was a very respectable result from ordinary business activity in the amount of roughly € 50 million – an increase of more than 50 % as compared to 2011. The main driver of this was the pleasing performance in commercial real estate finance, but the capital market business also contributed to Deutsche Hypo's good result.

Accordingly, we started 2013 with a strong wind at our backs. Assuming the easing of the European sovereign debt crisis continues, we again anticipate a challenging, but also successful financial year for Deutsche Hypo. Our positive mood is buttressed in particular by the strong performance in our real estate target markets, our ongoing well filled deal pipeline, our

from left: Andreas Pohl, Thomas S. Bürkle, Andreas Rehfus

comfortable level of capitalisation and last but not least our good funding options. Furthermore, we are currently working on ensuring our corporate success over the long term by participating in a Group project that will significantly reduce our costs by 2016 and link us even more closely with our Group parent NORD/LB to generate added value.

The new project is a good example of how Deutsche Hypo acts with farsightedness. Our good business performance at the present time is not a resting place for us, but rather spurs us to achieve ambitious goals in the future, too. We can assure you that we will continue to do everything to earn the confidence of our customers at all times.

Deutsche Hypo's reliability and expertise has been convincing for 140 years. Our main asset is our employees whom we would like to thank heartily. They have made the bank what it is: a successful commercial real estate financer, a renowned Pfandbrief bank and a bank that can look optimistically into the future. A toast to the next 140 years!

Kind regards,

Thomas S. Bürkle | Andreas Pohl | Andreas Rehfus

THE YEAR 2012 AT A GLANCE

11 January 2012

At the beginning of 2012, Deutsche Hypo takes over the publication of the real estate economy index, which is called the Deutsche Hypo Index from this point on. The index comprises a monthly survey of 1,200 professional real estate market experts. Their answers produce a reflection of sentiment in the German real estate industry. The current business situation and the expectations of real estate experts are surveyed. The index exists since 2008 and has been taken and handled by the consulting company BulwienGesa from the beginning.

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26 March 2012

Deutsche Hypo publishes the study “Sustainability in the real estate industry”. It shows that the implementation of the sustainability goals will influence the competitiveness of the real estate industry in the future more than other sectors of the economy. This industry in particular offers enormous potential for the optimisation of sustainable economising. The study underscores the necessity of creating an international standard that is recognised with an international seal of approval. The real estate industry must continue to intensively address the subject of sustainability. Transparency and continuity, particularly for costs and benefits, are a requirement.

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13 June 2012

Deutsche Hypo successfully issues a mortgage Pfandbrief in benchmark format with a volume of € 500 million. The five-year Pfandbrief has a coupon of 1.25 %. The spread is at the lower end of the range and reflects the solid demand for high quality investments. In particular, there was high demand for the Pfandbrief in Germany and the German-speaking area. Roughly 86 % of the orders come from Germany. The other 14 % are divided between capital investors in Switzerland, Great Britain, Austria and Italy.

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1 July 2012

Thomas S. Bürkle becomes chairman of the Board of Managing Directors of Deutsche Hypo. He follows Dr. Jürgen Allerkamp, who departed on 30 June 2012. Bürkle has many years of management experience in the NORD/LB Group, having held positions in the Baltic republics, New York and Copenhagen.

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1 August 2012

On account of increasing demand for high quality investments, Deutsche Hypo taps the mortgage Pfandbrief issued in June 2012 by € 250 million. Despite the holiday time, many orders are placed, and the order book is closed after 30 minutes. The issue is ultimately oversubscribed three times. In comparison to the original issue, it is possible to reduce the spread by five basis points. Investors come from Germany, Asia, Great Britain and continental Europe.

30 August 2012
Deutsche Hypo publishes its semi-annual results. The Bank is able to improve its result from ordinary business activity in the first half of 2012 as compared to the same period from the previous year. Above all in commercial real estate finance, operating income rises significantly. This again underlines Deutsche Hypo's good market position.

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24 September 2012
Deutsche Hypo publishes a study on the German housing market. The Bank sees sharp regional differences with regard to the housing supply. While there is a sufficient supply of rental and residential homes in demographically weak areas with low demand, which are expected to see a fall in price, pent-up demand in large cities and university cities is causing prices to rise. The reasons behind the rising demand for housing in urban centres are, among others, the increases in income and the growing attractiveness of real estate as compared to other capital investments.

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25 September 2012
Deutsche Hypo issues another mortgage Pfandbrief in the benchmark format with a volume of € 500 million. The Pfandbrief has a term of seven years with a coupon of 1.25 %. Savings banks (Sparkassen), landesbanks and central banks, asset managers and insurance companies from Germany or the German-speaking area make up the base of investors. Investors from Asia, Great Britain and continental Europe continue to be interested in the Pfandbrief. Deutsche Hypo has decided, to complement its benchmark curve, to consistently issue a Pfandbrief with a seven-year term.

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5 October 2012
The contract with member of the Board of Managing Directors Andreas Pohl is extended by another five years. Since March of 2008, he has worked as Front Office Managing Director at Deutsche Hypo and also acts as Global Head for the financing of commercial real estate in the NORD/LB Group. In total, Pohl has worked in the NORD/LB Group for 33 years.

OUR REFERENCES

PARIS

As co-arrangers for a club deal, Deutsche Hypo and Helaba France jointly finance the construction of an office park in Vélizy, a municipality 14 kilometres from the city centre of Paris and a popular business location. The financing volume totals € 110 million. The 49,000 square metre large office buildings were purchased by the real estate investment trust Foncière des Régions and the life insurance company Prédica.

BURGHAUSEN

Deutsche Hypothekenbank acts as arranger and sole lender for financing the Salzach centre in Burghausen. The financing volume is € 48 million. The borrower is EKZ Burghausen GmbH. The shopping centre in the Burghausen city centre is currently being redesigned and expanded to accommodate total lease space of 21,140 square metres. Starting in the autum of 2014, the two-storey Salzach centre will offer roughly 50 retail shops and restaurants. There will be just under 400 parking spaces in the underground garage.

LONDON

Deutsche Hypo and HSBC Bank plc finance a property purchase in London’s West End for One Berkeley Investments Unit Trust. The fully-let property comprises a hotel, office and retail space. Deutsche Hypo acted in the deal as facility agent & security trustee as well as club lender. The total loan amount was GBP 82 million, which equates to roughly EUR 100 million. HSBC acted as partner bank. Both banks wrote half of the loan amount each.

FRANKFURT

At the Frankfurt Airport, Deutsche Hypo finances the purchase of logistics real estate. The financing totals € 41 million and has a term of five years. The real estate offers approximately 49,500 square metres of leasable floor space. The property is leased by the borrower Q Logistics 1 Sarl & Q Logistics 2 Sarl to the logistics company Simon Hegele, that provides logistics services at this location to several clients including Dräger, Abbott and Siemens.

AMSTERDAM

Deutsche Hypo finances the purchase of the hotel American in Amsterdam for a special funds of the company WestInvest. The building was originally built in 1880 in the art déco style and is considered one of the most prestigious hotels in the capital of the Netherlands. It benefits from a very good location on Leidse Square on the edge of the historic centre of Amsterdam. The financing volume amounts to roughly € 29 million. Besides a long-term lease agreement, a detailed investment plan for the 4 star hotel was developed in order to secure and expand the hotel's position as a market leader.

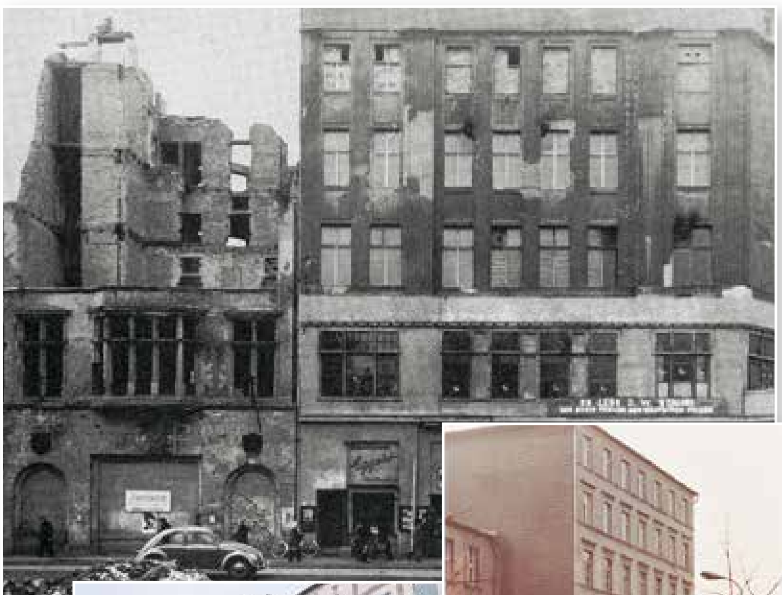
HAMBURG

Deutsche Hypo finances a residential and commercial building in Hamburg-Altona for the joint venture of the real estate company Quantum Group and the Ditting firm. The deal acquired by the Hamburg office amounts to a financing volume of approximately € 30 million. Deutsche Hypo is the sole lender. Besides 164 residential units with a total of 14,006 square metres, there are also three retail shop areas. In advance it was even possible to sell the project 'Wohnen am Suttnerpark' (Living on Suttner Park) to the city's own housing association SAGA.

140 YEARS OF DEUTSCHE HYPO: AN EVENTFUL HISTORY

The decree by His Majesty Wilhelm, King of Prussia, opened the road for Deutsche Hypo to become one of the first German mortgage banks in 1872. The Bank's road was defined for many years – analogous to the German Reich towards the Federal Republic of Germany – by drastic and hard changes, but also historical opportunities. It is primarily thanks to the dedicated employees that Deutsche Hypo exists in its current form today. A small tribute to a long-standing bank that is more modern today than ever before.

Friedrichstraße 171, Berlin with damaged roof truss around 1950



On 13 February 1872, Deutsche Hypothekenbank (Actien-Gesellschaft) was founded by Berlin merchants and bankers, and received the privilege of issuing bearer mortgage bonds. The share capital amounted to 3 million Thaler. The bank's first business activity was to make prepayments in exchange for the pledging of properties for the construction of residential houses in Berlin.

Friedrichstraße 171, Berlin in 1983

Former front at Georgsplatz 8, Hanover

The following years of business were defined by cautious, but pleasing progress. In 1875, the mortgage limits were extended, and the bank was able to do business outside of Berlin, in Prussia and the German Reich. The Hypothekenbriefe (mortgage bonds) were now called Pfandbriefe (covered bonds), and the Hypothekenbankgesetz (Mortgage Bank Act), which took effect on 1 January 1900, created a legal basis for all real estate banks. For the first time, Deutsche Hypo established clear guidelines for the determination of value and the granting of loans. Since the bank's first building on Hegelplatz soon became too small, they moved into a building that is not far from Brandenburg Gate in 1900, which remained the administrative headquarters of the bank until the end of the Second World War.

The beginning of the First World War marked a change in the previously successful history of Deutsche Hypo. The war caused widespread stagnation in the covered bond and mortgage bond market. The bank did not issue any bonds during this period and only awarded mortgage and municipal loans to a small extent. After the end of the war, the collapse of the currency came and eroded the mortgage portfolio. In the report for the 1922 financial year, hope is expressed that "there will be success in pulling the German economy out of the current chaos and leading it to better times, and that the bank will also be given the opportunity to successfully help with the reconstruction of Germany". Unfortunately, Deutsche Hypo's economic situation worsened in the following years.

Business premises at Georgsplatz 8, Hanover in 1989

128 quadrillion Marks (128,174,351,231,306,932) was ultimately Deutsche Hypo's balance sheet total at the end of the inflation on 31 December 1923. Only after currency reform was it possible for the bank to again pursue normal business operations. However, the global economic crisis cast a shadow over the activity of the bank, since the prices of Pfandbriefs were also affected by the emergency decrees, a drop in interest rates, credit restrictions and primarily one-sided protection of debtors. The bank's ability to act was largely hindered as a result. The ascension of the NSDAP to power in 1933 also did not improve the situation. While other branches of the economy were able to participate in the economic recovery, the new government outlawed the issuing of Pfandbriefe. Although this prohibition was loosened in 1939, Deutsche Hypo was given little space to do business until the end of the war.

— 567 —

Gesetz-Sammlung

für die

Königlichen Preußischen Staaten.

Nr. 33.

(Nr. 8062.) Privilegium wegen Ausgabe auf den Inhaber lautender Hypothekenbriefe der Deutschen Hypothekenbank (Aktiengesellschaft) zu Berlin. Vom 3. April 1872.

Wir Wilhelm, von Gottes Gnaden König von Preußen 2c.

Nachdem die Deutsche Hypothekenbank (Aktiengesellschaft) zu Berlin den Nachweis ihrer auf Grund des Statuts vom 13. Februar 1872 erfolgten Eintragung in das bei Unserem Stadtgerichte zu Berlin geführte Handelsregister erbracht haben wird, wollen Wir der genannten Aktiengesellschaft in Gemäßheit des § 2. des Gesetzes vom 17. Juni 1833 wegen Ausstellung von Papieren, welche eine Zahlungsverpflichtung an jeden Inhaber enthalten (Gesetz-Samml. S. 75.), durch gegenwärtiges Privilegium Unsere landesherrliche Genehmigung zur Ausgabe auf den Inhaber lautender, mit Zinskupons versehener Hypothekenbriefe, wie solche in dem anliegenden Statute näher bezeichnet und nach Vorschrift desselben zu verzinsen sind, mit der rechtlichen Wirkung ertheilen, daß ein jeder Inhaber dieser Hypothekenbriefe die daraus hervorgehenden Rechte, ohne die Uebertragung derselben nachweisen zu dürfen, geltend zu machen befugt ist.

Das vorstehende Privilegium, welches Wir vorbehaltlich der Rechte Dritter ertheilen und durch welches für die Befriedigung der Inhaber der Hypothekenbriefe oder Zinskupons eine Gewährleistung Seitens des Staates nicht übernommen wird, ist nebst dem Statute der Gesellschaft durch die Gesetz-Sammlung zur allgemeinen Kenntniß zu bringen. Dasselbe erlischt und die Gesellschaft soll zur Einlösung der von ihr ausgegebenen Hypothekenbriefe gehalten sein, sobald Abänderungen des Statuts ohne zuvor erlangte landesherrliche Genehmigung zur Eintragung in das Handelsregister angemeldet werden.

Urkundlich unter Unserer Höchsteigenhändigen Unterschrift und beigedrucktem Königlichen Insiegel.

Gegeben Berlin, den 3. April 1872.

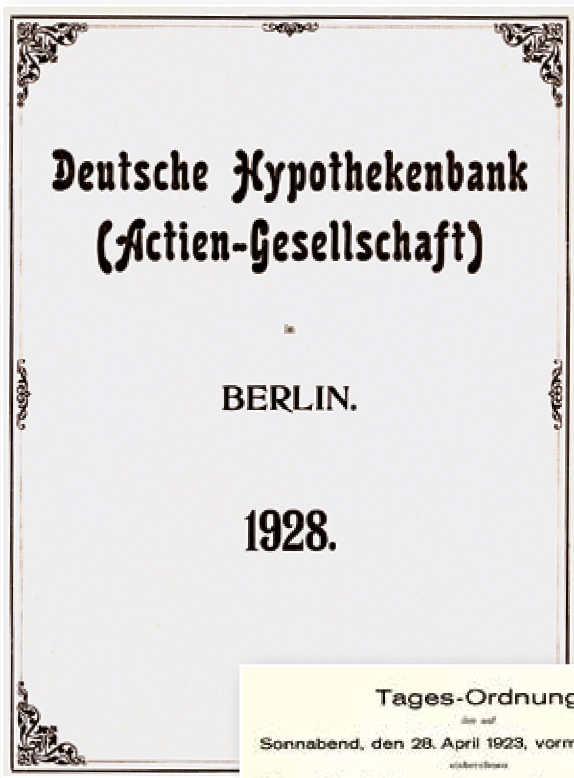
(L. S.) Wilhelm.

Gr. v. Itzenplitz. v. Selchow. Gr. zu Eulenburg. Camphausen.

Jahrgang 1872. (Nr. 8062.) 76 Statut

Ausgegeben zu Berlin den 29. Juli 1872.

Decree: Extract from legal digest for the Royal Prussian States, April 1872



Deutsche Hypothekenbank (Actien-Gesellschaft)

BERLIN.

1928.

Title page for the annual accounts 1928

Tages-Ordnung

Sonnabend, den 28. April 1923, vormittags 11½ Uhr

51. ordentlichen Generalversammlung.

Aufsichtsrat:

Treuhänder:

Vorstand:

Agenda for the 51st Ordinary General Meeting 28 April 1923

Until shortly before the capitulation of Germany in 1945, Deutsche Hypo continued its business operations. Despite massive damage, the bank counters remained open until 21 April 1945. Three days after that, the city was surrounded by Soviet soldiers, and four days later the Russian City Commandant ordered that the owners of the bank institutions and banks were to stop all financial transactions and that all the safes were to be sealed immediately. Despite the lack of all hope, 16 employees met a few days later at their workplace and began to clean up the intentionally ravaged offices. Disregarding all the requirements and putting their lives at risk, the employees ultimately smuggled all the bank's important documents out of the Soviet area at night.

It was this heroic effort that made the start of Deutsche Hypo possible after the war. Since it was feared that the bank could not survive without a headquarters in the zones controlled by the western occupying powers, the headquarters was subsequently moved to Hameln without further ado. The city was chosen because the Board of Managing Directors had received approval there, and a bank was only permitted to engage in new business if at least one board member resided at the location.

With the currency reform in 1948, bank business for Deutsche Hypo normalised, at least on a low level. In those first years, it was still impossible to think about real new business. The permit for new business was delayed until 1953. Finally, the Berlin Old Bank Act released Deutsche Hypo from its forced deep sleep. Having moved to Hanover in the meantime, the bank started anew. The lack of flats in the destroyed cities offered Deutsche Hypo a broad field of operation in the following years, which manifested itself in rapid expansion during the years of the economic miracle. If rental flats were the choice in the 1950s, home ownership loans were in demand to a growing extent in the following decade.

At the end of the 1980s, Deutsche Hypo moved away from retail business. It set DM 400,000 as the minimum level for credit. Within a few years, Deutsche Hypo rose in the segment of construction financing for commercial properties to become a desired provider in Germany. The focus on larger properties made it possible to offer individualised, customer-oriented consulting and support.

The amendment of the Mortgage Bank Act in 1988 was used by Deutsche Hypo to drive its expansion into the European abroad. The license to grant loans for international properties has become a very important pillar of the Bank in the meantime and makes a significant contribution to the Bank's results. In 1989, Deutsche Hypo started its business successfully in the Netherlands.

Company celebrations

Chairman of the board of Managing Directors Dr. Frank Rilinger in 1958

Staff outing to Helmstedt 1955

You will find more details on the roughly 140 year history of Deutsche Hypo under:
http://www.deutsche-hypo.de/en/about-us/history/

Impetus
is the basis for progress.

50 mark imperial treasury note
Subject: Germania sitting beneath an oak tree with symbols of industry, art, science, commerce and agriculture

The mortgage banks act comes into force and Deutsche Hypo moves to a larger office building in Berlin due to an increasing number of employees.

MANAGEMENT REPORT

The figures in the tables and charts in the management report are expressed in thousand euros (€ thousand), million euros (€ millions) or in billion euros (€ billion). 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.

Business and economic environment

Fundamentals of the bank

Deutsche Hypo’s business model

Formed in 1872, Deutsche Hypo is a renowned German Pfandbrief bank. It is a part of the NORD/LB Group and is its centre of competence for the commercial real estate finance business, one of NORD/LB’s core business areas. Deutsche Hypo views itself as a German real estate bank with a European focus and a reliable partner that stands behind its customers. The strategic target markets are Germany, Great Britain, France, Benelux and Poland. It has its headquarters in Hanover and is also present in Hamburg, Frankfurt, Munich, Nuremberg and Dusseldorf as well as Amsterdam, London, Paris and Madrid. The offices in Dusseldorf and the Madrid will be closed in the spring and summer of 2013. Deutsche Hypo is also the expert for the mortgage Pfandbrief business in the NORD/LB Group. It funds its credit business primarily on the basis of the German Pfandbrief Act (Pfandbriefgesetz).

Deutsche Hypo’s business activity can be divided into two significant business areas:

In the Commercial Real Estate Finance Business, Deutsche Hypo comprises the financing for customers that primarily generate their cash flow from real estate or regularly make significant real estate investments.

In the Capital Market Business, it bundles the public sector finance. This is primarily done with top rated counterparties and the primary goal of generating good returns with term-congruent funding. Overall, Deutsche Hypo is striving to reduce the public sector lending portfolio.

In addition to this, the third business area Other Business covers the effects on results from investing the Bank’s equity capital and the contribution of other non-strategic business activities. The external factors that Deutsche Hypo encounters and has to react to are primarily the economic and business environments that will be explained in more detail in the following.

Membership in the Group

Deutsche Hypo is a strategic participatory interest by NORD/LB Anstalt der öffentlichen Rechts (NORD/LB AöR), which holds 100 % of its shares. Deutsche Hypo is included in NORD/LB’s consolidated financial statements. NORD/LB’s consolidated financial statements as of

31 December 2011 were published on 30 April 2012 in the electronic federal gazette. The Board of Managing Directors issued a report on relations with affiliated companies for the period from 1 January 2012 to 31 December 2012 and declared in accordance with Section 312 (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 affected or disadvantaged by any measures taken or performed at the request or in the interest of NORD/LB's or one of its subsidiaries".

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

Deutsche Hypo's goals and strategies

Deutsche Hypo's main corporate goals are to secure and increase corporate value, profitability and returns over the long term. The Bank achieves these goals by ideally serving customer needs, continually improving risk-adjusted profitability and largely decoupling income growth and risk-weighted asset growth. Furthermore, the option to for funding and thus liquidity should also be ensured at all times. This is followed by the further goal of promoting cost-conscious and efficient business operations and using synergies that result from the network of Group companies.

In the Commercial Real Estate Finance Business, Deutsche Hypo will further expand its competitive position in its target markets. In the future, there will be an even more intensive focus on the defined strategic target markets. The real estate finance portfolio in the USA and Spain is being reduced, and the Bank is not pursuing new business there.

In the Capital Market Business, Deutsche Hypo will continue to reduce its public sector lending portfolio. The means for this are, among others, shortening maturities and the focused engagement in cash-flow-based financing. Furthermore, regulatory changes and an increase in the risk assessment as a result of the sovereign debt crisis have led to new requirements. The new business will be pursued restrictively for this reason and will primarily be used for liquidity, cover pool and bank management.

In July 2012, the project SIGN – "Using Synergies in the Group" – was started in Deutsche Hypo. This project's goal was to further improve the Bank's sustainability. It foresees a closer connection to the parent company NORD/LB. All redundancies and double expenses are being examined. This should significantly reduce administrative expenses for Deutsche Hypo by 2016.

Control systems

Deutsche Hypo focuses corporate controlling on a sustainable increase in corporate value. This value-oriented controlling philosophy is an integral part of the controlling and planning processes and is reflected in the central operating key performance indicators that are aimed at the Bank's profitability, productivity and risk profile.

The return on risk-adjusted capital (RoRaC), return on equity (RoE) and cost-income ratio (CIR) show not only the business income and income before taxes, but are also the key performance indicators for controlling.

The cost-income ratio is defined as the ratio of the administrative expenses (including the depreciation of property, plant and equipment) to the total of the following income items: net interest income, net commission income and other operating profit. In the calculation of the return on risk-adjusted capital, the proportionality of the net profit and the risk capital required for its achievement is assumed. The calculation of the return on equity includes the income before taxes and the capital pursuant to commercial law (not including capital of silent partners).

Deutsche Hypo's controlling methodology includes, on the one hand, the preparation of medium-term plans, in which the economic development over a five-year period is simulated. On the other, there are regular plan-actual comparisons as well as projections for the end of the respective financial year and beyond. Both analyses are included in the monthly and quarterly financial reports.

Macroeconomic environment

Economic performance

Germany

The German economy performed significantly better than the rest of the eurozone in 2012. Real gross domestic product (GDP) grew by 0.7 % as compared to the previous year. After a quite strong start to 2012, growth in Germany weakened continuously over the course of the year. According to information from the Federal Office for Statistics, the German economy contracted in the fourth quarter by roughly 0.6 %, the first time in a year it had done so in comparison to the previous quarter.

It is thanks to the strong performance in consumption and ongoing strength in exports that growth was not even weaker in 2012. The relatively good labour market continued to make a positive contribution to the performance in consumption. The unemployment rate may have risen slightly to 6.9 % at the end of the year, but the number of employed persons climbed to a new record.

Exports also made a new record. Foreign trade contributed 1.1 percentage points to the real growth in GDP – despite the sharp drop in demand from the eurozone. The ongoing high level of orders for German export goods from the non-European contries compensated for the decline in the eurozone. Companies acted significantly more cautiously than in 2011 partly due to the European sovereign debt crisis and the recessions in many eurozone countries, which was seen in a noticeable hesitancy to make investments.

Europe

In retrospect, the prediction of a recession in the European currency union proved to be correct. The anticipated – 0.5 % contraction in GDP was in line with expectations. In the last three quarters, the momentum of the German economy was no longer sufficient to prevent a recession in the eurozone as it had been in the first quarter of 2012.

As expected, primarily the austerity measures and the temporarily more stringent funding conditions in crisis countries, along with occasionally tremendous uncertainty about the future course of the European sovereign debt crisis had a detrimental impact. The collapse in the indicators of sentiment was commensurately sharp. Nonetheless, the regional disparities in terms of economic performance remained great in 2012, too. If Germany was removed, there was a significantly sharper year-on-year drop of roughly 1.0 % in GDP for the rest of the eurozone. Besides Germany, however, a few smaller member states also defied the negative impact of the sovereign debt crisis. On the other hand, Spain, Portugal and Italy dipped into deep recessions. Both private consumption and investments suffered from the high and still rising unemployment and the weak economic state of many member countries.

The economy in Great Britain performed poorly in 2012, similar to other European crisis states. Although the base interest rate has been kept at a record low since 2009 and the Bank of England has introduced numerous liquidity measures, there was no significant, identifiable economic recovery there in 2012.

USA

After growing by 2.4 % in 2010 and 1.8 % in 2011, the US economy reported economic growth of slightly more than 2.2 % in 2012. As a result, the largest economy in the world stood in positive contrast to many other regions in the world.

Over the course of the year, it was seen once again that private consumption is an important pillar of the American economy. Consumer confidence increasingly improved in the second half of the year. In particular, the continuous rise in employment, which brought about a reduction in the unemployment rate from 8.5 % to 7.8 %, should be emphasised. Whilst the manufacturing sector started the year quite confidently, increasing uncertainty toward the middle of the year prompted a wait-and-see attitude by companies. The European sovereign debt crisis, the significant slowdown of the Chinese economy and worries about possible forthcoming harm from an adjustment in US fiscal policy were responsible for this. Consequently, in the second half of the year, new orders in the manufacturing sector in particular were limited to what was necessary and production was rolled back somewhat.

Development of real estate markets

Global investments in commercial real estate rose slightly again in 2012, up 36 % since 2010. The real estate asset class continues to be attractive due to the weak prospects for returns in other asset classes and the weaker economic prospects around the world.

Germany

2012 was the third-best transaction year on the German market for commercial real estate. The transaction volume reached just under € 25.6 billion. In part, the sharp rise in investment revenue in the last three months of the year was responsible for the good performance. The share of foreign investors rose over the course of the year to just under 40 % and shows that German real estate is very attractive in turbulent and economically uncertain times. Office real estate contributed just under 42 % to the overall result, whilst the share of retail properties as a percentage of commercial sales revenue was only 30.5 % due to a lack of available properties. Besides the strong demand for office space in 2012, logistics properties also caught up.

The competition between investors for what is perceived to be the safest core properties continued. Since the supply of these properties was significantly lower than demand whilst the volume of new construction remained low, it cannot be expected that there will be a significant recovery in the supply of core products in 2013. The returns for core properties fell across all types of use due to the high demand over the course of the year.

The office lease market was very robust to the end on account of the stable labour market. The sale of floor space in the seven German real estate strongholds reached 3.04 million m² in 2012. This corresponds to a decline of 11 % as compared to the same period in 2011. Due to the moderate new construction activities, the level of vacancies in the seven largest office locations in Germany continued to fall.

In the area of retail, the ongoing high demand since the beginning of 2011 for shop space in the best locations continued to rise. Retail shop sales revenue rose slightly again from 2011 to 2012. The lack of attractive spaces in 1A locations led to an ongoing rise in rent. However, rent growth was less than in 2011.

Europe

The UK was able to maintain its position as the most attractive investment market in Europe. The investment volume may have been somewhat lower overall than the amount in 2011, but London produced the best result in the last four years. Investors continued to be interested in first class real estate in core markets. The rising attractiveness of the London market is due, among others, to the ongoing turbulence in the eurozone.

France, one of the largest European investment markets, had to accept a decline in investment volume in 2012. The weak economic performance and an uncertain financing environment were responsible for this. Whilst the metropolitan area of Paris, which saw the majority of the investment volume, was able to further increase its position as a safe haven in Europe, the other regions suffered significant drops – particularly in the area of retail.

In the Benelux countries, the weak macroeconomic performance was reflected on the real estate market. On the Dutch real estate investment market, there was also no noticeable recovery in 2012 after the significant decline in investment volume in the recession of 2011. The office markets in Brussels and Luxembourg performed well over the course of the year. The Belgian capital is heavily characterised by the EU institutions, which are less affected by the austerity measures in many countries. On account of the revival in demand for office space, the vacancy rate continued to fall there.

In Poland, a dynamic investment market for commercial real estate has developed since the country joined the EU in 2004. Polish commercial real estate is currently seeing by far the greatest investor demand of all countries in central and eastern Europe. Demand for Polish office real estate remained stable over the course of the year. However, the general economic slowdown carried over to the retail market where the vacancy rate has risen slightly.

Development of international financial markets

The European sovereign debt crisis also remained the dominant subject in the eurozone in 2012. Greece was again in focus. The debt haircut for private-sector investors of Greek government bonds took place in March. In the middle of the year, Spain's European partners also guaranteed support for its stressed national banking sector. Furthermore, pressure from Spain and Italy at the EU Summit in June led to a loosening of the conditions connected with the acceptance of financial aid. In order to facilitate the direct recapitalisation of banks, negotiations began on uniform European bank supervision. The first successful consolidation steps and structural improvements in individual countries took place, and the results were reflected in both the development of primary balances and the improvement in trade and current account balances. Furthermore, governance was strengthened in the eurozone through the implementation of the fiscal pact and the start of the permanent European Stability Mechanism (ESM).

The European Central Bank (ECB) again proved to be the only institution capable of acting. At the end of 2011 and the beginning of 2012, it opened the liquidity floodgates and tried to calm the markets with the unconventional measure of twice offering a long term repo for a total of more than one trillion euros. The summit in June and the unusually heterogeneous interpretation of the results did not ensure any calming of the markets – more the reverse. The uncertainties with regard to the future course of the European sovereign debt crisis came to a head in the middle of the year with doubts about the survival of the collective currency. The capital flight from southern euro countries to regions and asset classes viewed as safe was commensurately intense.

In September, a new bond buying programme for European government bonds was launched. Under strict conditions, the ECB is ready to intervene in the markets for government bonds to an unlimited extent if this is required for smooth monetary policy. Alone the announcement by the ECB calmed the markets noticeably. Accordingly, the yield on government bonds in crisis countries fell noticeably, as a result of which the spreads between them and German government bonds fell as well. Over the course of the year, the yield on 10-year German government bonds fluctuated between just under 2.1 % in the middle of March to a new all-time low of 1.17 % in the middle of July. At the end of the year, 10-year government bonds yielded 1.32 %. In the second half of the year, a more optimistic view of stock markets also took hold. The DAX, the main German stock index, climbed from its low of 5,969 at the beginning of June to its high of 7,672 on 20 December 2012.

The ECB continued its expansive monetary policy. In July, it lowered the main refinancing rate to the historic low of 0.75 %. Interest rates for the deposit facility and the marginal lending facility were also reduced by 25 basis points. As a result, the money market rates continued to fall. The 3-month Euribor fell significantly below the tender rate due to the ongoing full allotment policy and dropped below the level of 0.2 % for the first time at the end of October.

Development of the banking sector

The change in the banking sector that had begun in previous years moved ahead more quickly in 2012. On the one hand, the year was defined to a large degree by efforts to make further reforms in the regulatory framework conditions for the banking sector and on the national and European level. These activities led to various provisions that are to be implemented – in part successively – starting in 2013.

The focal points of the new regulations are, on the one hand, an expansion of the requirements placed on the equity capital and liquidity of a bank (e.g. the implementation of the Basel III framework in national law) and, on the other, an increase in the requirements for the organisational structure and the reporting of the banks (e.g. the fourth amendment of MaRisk). Deutsche Hypo has already taken the necessary organisational precautions to implement the new requirements on time.

On the other hand, there was upheaval in the commercial real estate financing market due to the withdrawal of established market players in 2012. For the remaining active real estate financers, this gave them a chance to increase market share and lift margins. However, it does not look like competition will decrease permanently, but rather that it will change. The Pfandbrief banks that left the market are being replaced by insurance companies and pension funds that are forced to finance commercial real estate on account of the currently low interest rates and the new regulatory requirements for insurance companies under Solvency II. Furthermore, credit funds are also increasingly contributing to the stability of the real estate market.

Deutsche Hypo has a positive view of the current change. It addressed the new regulatory requirements early on and has already had positive experiences with insurance companies as finance partners. The new market players will contribute to the stability of the real estate finance market, in Deutsche Hypo's opinion.

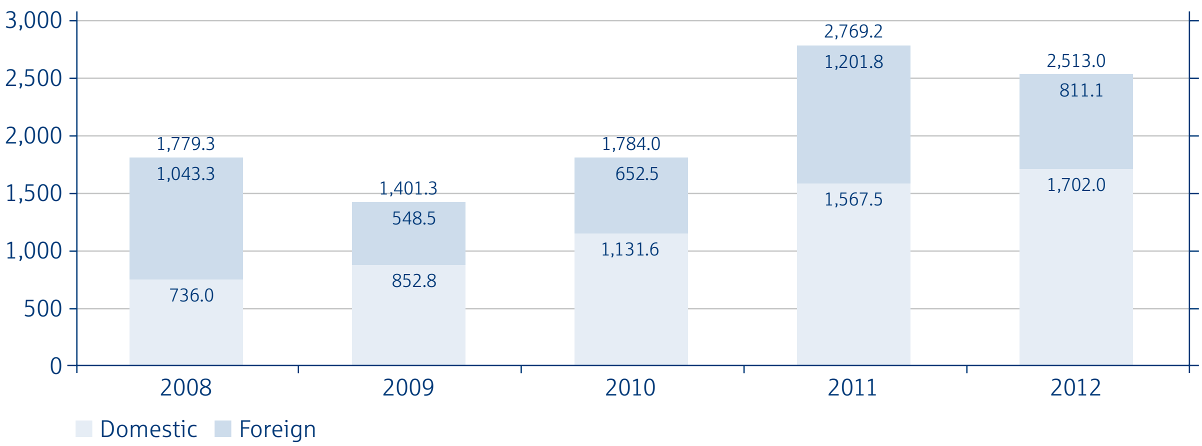
Course of business at a glance

Commercial real estate finance

New business

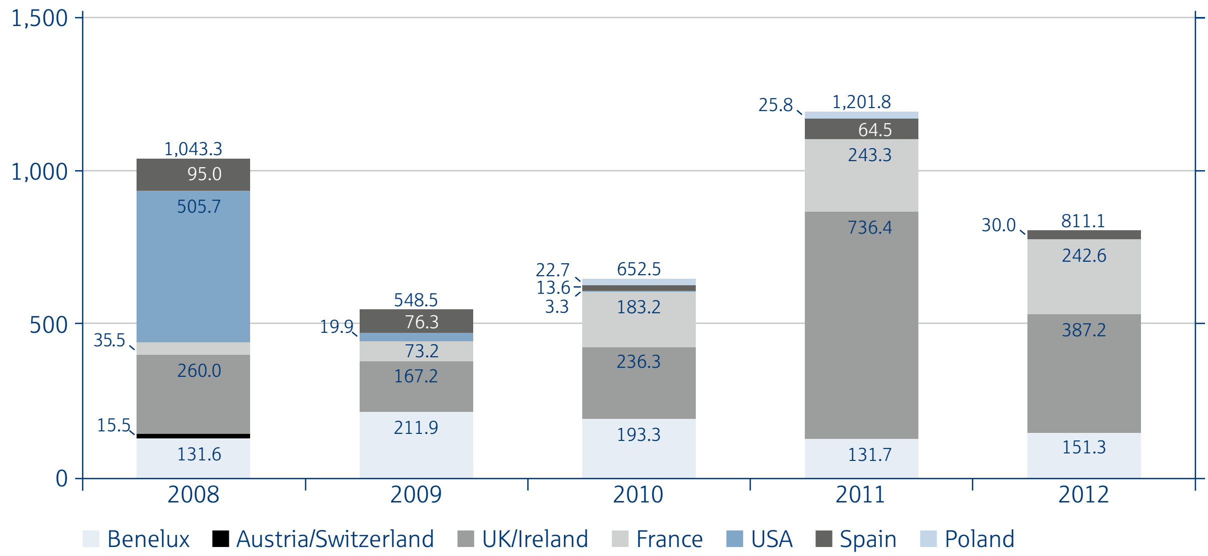
New commitments in 2012 totalled € 2,513.0 million and were thus 9.3 % below the volume of € 2,769.2 million in 2011. In particular, this is due to a significant reduction in the foreign new business, which fell to € 811.1 million (2011: € 1,201.8 million). In contrast, the domestic commitment volume rose by 8.6 % to € 1,702.0 million (2011: € 1,567.5 million) on account of the strong focus on the German market. In total, domestic credit commitments accounted for 67.7 % (2011: 56.6 %) of the new commitments.

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



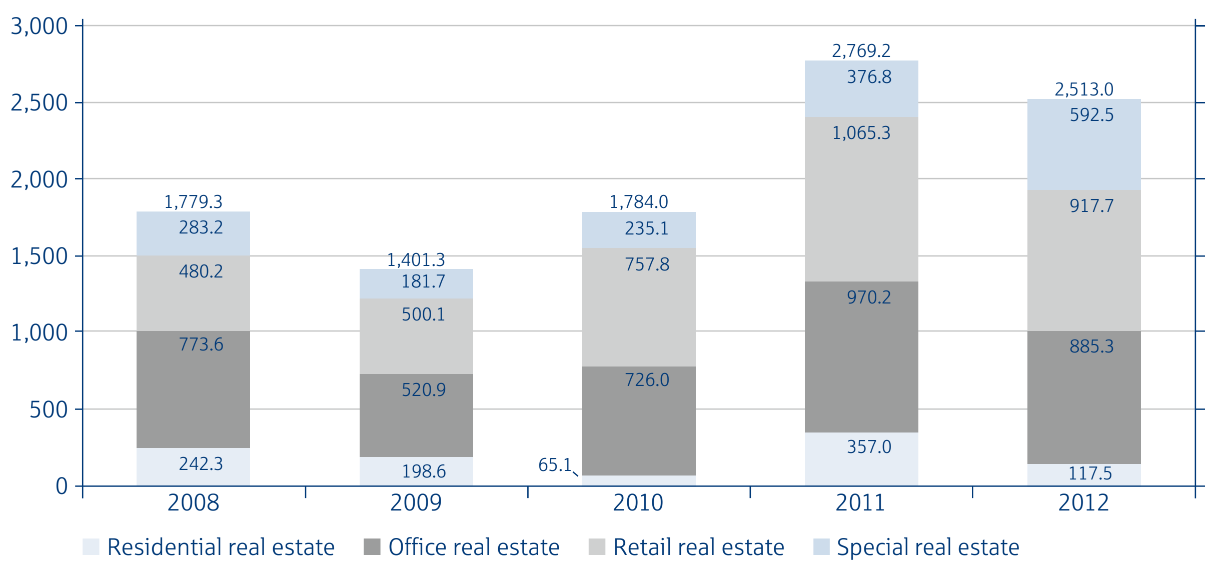
The breakdown by various countries shows the fundamentally heterogeneous analysis and assessment of the various foreign markets. In the foreground is the selective new business with very high requirements for the risk profile and profitability. In the core markets of Benelux and France, it was possible to expand business by a total of 4.8 %, whilst in the UK the commitment volume of € 736.4 million fell to € 387.2 million. On account of the decision in the middle of the year to discontinue business in Spanish real estate, the low commitment volume on the Spanish market declined by 53.5 % to € 30.0 million (2011: € 64.5 million). Against the backdrop of the strategic decision to also discontinue activity in the USA, no new business was pursued there in the past year. With regard to the Polish market, by contrast, Deutsche Hypo is reviewing an expansion of its real estate finance business.

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



Of the new commitments in real estate finance business, commercial credit of € 2,395.5 million (2011: € 2,412.2 million) accounts for a share of 95.3 % (2011: 87.1 %). The residential finance business totalled € 117.5 million (2011: € 357.0 million).

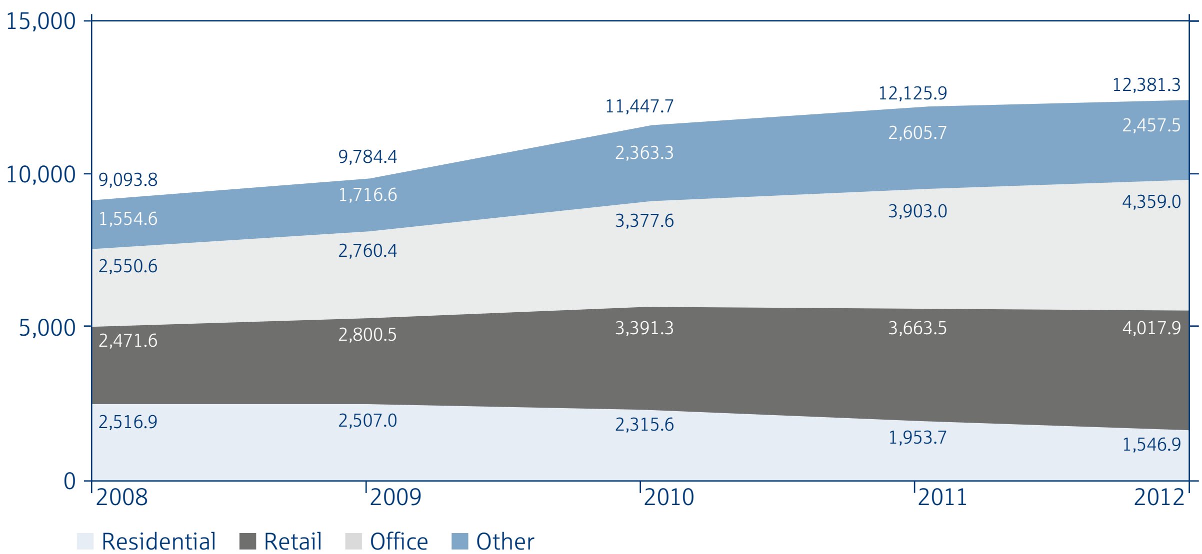
New real estate finance business by property types (in € millions)



Portfolio

The real estate finance portfolio rose by 2.1 % to € 12,381.3 million as compared to the previous year (2011: € 12,125.9 million).

Portfolio development of real estate finance business (in € millions)



There was significant portfolio growth in office real estate (+ € 456.0 million) and retail real estate (+ € 354.4 million). The portfolio for residential financing fell by € 406.8 million, and the portfolio in other real estate business dropped by € 148.2 million. Accordingly, the respective shares of the portfolios continued to shift slightly away from residential real estate.

The volume of domestic finance business totalled € 7,429.2 million (2011: € 7,362.3 million). An amount of € 4,952.1 million was attributable to finance business abroad (2011: € 4,763.5 million). The share of foreign loans increased slightly from 39.3 % to 40.0 % of the entire loan portfolio from the previous year, and was right within the desired range.

Capital market business

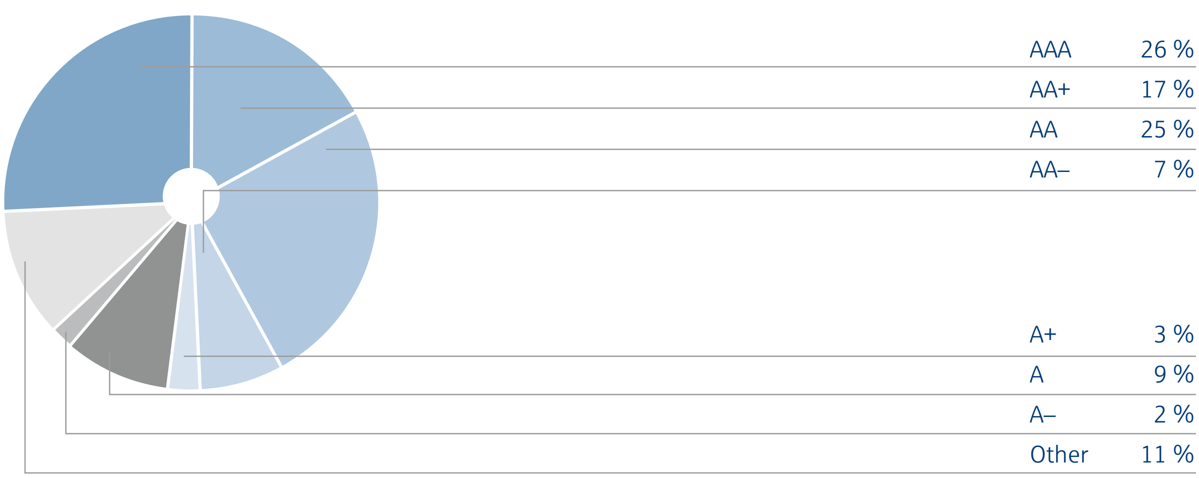
New business

In 2012 Deutsche Hypo solely invested in receivables that served liquidity management and cover pool management. The goal was to equip the bank so that it can meet all the foreseeable, even if partially not yet enforced, regulatory requirements without any difficulty today. This was achieved almost exclusively with domestic issues. The foreign share played a subordinate role, as compared to previous years, amounting to less than 2 %. In the selection of the securities, special attention was paid to high credit quality; the focus was on assets with short to medium terms. The portfolio's average credit quality continued to rise with the new business. The Bank did not conclude strategic public sector business with longer terms. As a result, the Bank is continuing its reduction of the public sector lending portfolio, which it began last year.

New capital market business by rating classification 1.1.–31.12.2012 (€ 1,718.5 million)

Portfolio

Capital market business portfolio by rating classification as at 31.12.2012 (€ 19,608.3 million)



The portfolio in the capital market business fell by 4.9 % to € 19,608.3 million due to the ongoing reduction in the public sector lending business (2011: € 20,618.5 million). Qualitatively, the portfolio continues to be on the level of 2011: 26 % of the portfolio bears a AAA rating, whilst another 49 % has a AA rating.

Income position

Presentation and explanation the bank's overall point of view

in € millions Income statement	31.12.2012	31.12.2011	Relative Change (in %)
Net interest income	204.3	191.9	6.5
Net commission income	10.8	10.8	0.0
Administrative expenses	73.2	70.6	3.7
of which personnel expenses	46.4	41.9	10.7
of which other administrative expenses*)	26.8	28.7	– 6.6
Other operating income	– 2.4	– 5.4	55.6
Risk result	– 57.6	– 82.7	30.4
Addition to funds for general bank risks (Section 340g of the German Commercial Code // HGB)	14.4	0.0	>100
Securities and participatory interest income	– 17.1	– 11.3	– 51.3
Income from ordinary business activity	50.4	32.7	54.1
Extraordinary income	– 4.3	– 0.6	>100
Income transferred on the basis of a profit pooling, a profit transfer or partial profit transfer agreement	17.2	18.5	– 7.0
Income before taxes	28.8	13.6	>100
Taxes	13.6	2.6	>100
Net income for the year	15.2	11.0	38.2

*) Including the amortization of intangible assets and the depreciation of property, plant and equipment

Net interest income

Net interest income was a very positive € 204.3 million in the reporting period and significantly exceeded the level from the previous year (€ 191.9 million) by 6.5 %. The rise is due to the core business area of commercial real estate finance and can be explained by the increase in the average portfolio and the ongoing very positive margins. Furthermore, higher interest-like fee components from the real estate finance business were generated in the net interest income during the past financial year. This was countered by the interest income from fixed-interest bearing securities and debt securities. As a result of the planned decrease in the securities portfolio, interest income fell in accordance with expectations.

Net commission income

Net commission income amounted to € 10.8 million and was on the level of the previous year. Higher one-off charges and processing fees in the area of commercial real estate finance business were offset, in accordance with expectations, by falling service fees on account of the fact that the transfer of the portfolio is already at an advanced stage. These service fees are incurred for the servicing of the real estate financing that is still in the portfolio of NORD/LB and is planned to be transferred to Deutsche Hypo. Commission income rose nonetheless from the previous year to € 15.1 million (2011: € 12.6 million). This was offset by a similar amount of € 4.3 million (2011: € 1.8 million) in increased commission expenses. This rise is primarily due to expenses in connection with sureties and guarantees to third parties.

Net interest and net commission income produced a total positive contribution to income of € 215.1 million. This amount was € 12.4 million above the previous years' level of € 202.7 million.

Administrative Expenses
Administrative expenses, including write-downs and allowances for intangible assets and property, plant and equipment, rose less than the increase in income. The drop in other administrative expenses and write-downs of property, plant and equipment and intangible assets (administrative expenses) were offset by a rise in personnel expenses.

Personnel expenses rose from € 41.9 million to € 46.4 million and corresponded to the increase in the number of employees as compared to the previous year. The was due in particular to 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 specialists from NORD/LB to Deutsche Hypo at the end of 2011.

The development in administrative expenses reflects the success of active cost management in Deutsche Hypo. The cost reduction efforts were felt in all areas of the Bank and led to a decrease of € 1.9 million in administrative expenses compared to the previous year.

In total, the administrative expenses amounted to € 73.2 million (2011: € 70.6 million). The cost-income ratio improved significantly to 34.4 % (2011: 35.8 %).

Other operating income
The result from other operating income and expenses amounted to € – 2.4 million (2011: € – 5.4 million). The negative result was mainly due to the contribution made to the restructuring funds for banks (bank fee) and a positive currency result.

Risk result, including the allocation to the funds for general bank risks
Deutsche Hypo's pleasing development of business can also be seen in the performance of the risk result. Accordingly, net expenses in the credit business fell to € 71.0 million (2011: € 74.8 million), whereby the allocations to individual bad debt allowances related almost exclusively to foreign business. At the same time, there was a significant improvement in the quality of the real estate finance portfolio as measured by indicators such as the volume of defaulting credit investments and the average rating. This is due, on the one hand, to migration effects in the portfolio and, on the other, to active portfolio management measures and lower risk new business.

To strengthen the core capital ratio, the provision reserves in accordance with Section 340f HGB were released and allocated to the funds for general bank risks. Furthermore, the risk result from securities in the liquidity reserve made a slightly positive contribution to the risk result.

Income from securities and participatory interests
Income from securities and participatory interests corresponds to the balance from the income and write-down of participatory interests, shares in affiliated companies and assets treated as securities. The result was € – 17.1 million at the end of 2012 (2011: € – 11.3 million). This is primarily connected with the active reduction in selected risky participatory interests during

the financial year. Furthermore, write-downs on securities held as fixed assets, which are categorised as non-strategic business activities, and the write-down of shares in affiliated companies had a negative impact on the income from securities and participatory interests.

Income from ordinary business activity
Income from ordinary business activity amounted to € 50.4 million. Deutsche Hypo was able to achieve a significant increase in income as compared to the previous year (2011: € 32.7 million). In summary, this positive performance was due in particular to a significant rise in the net interest income connected with an improvement in the risk result.

Extraordinary income
Extraordinary income contains in particular the expenses connected with the SIGN project. This project's goal is, among others, to significantly reduce administrative expenses in the coming years. In connection with this, Deutsche Hypo took the first steps by withdrawing from the previous target markets of Spain and the USA. Restructuring expenses were incurred accordingly for these and other already introduced measures.

Net Income for the year
Despite the described extraordinary expenses from the SIGN project and the increase in tax expenses, net income for the year rose to € 15.2 million as compared to the previous year (2011: € 11.0 million). As opposed to 2011, this net income for the year will initially remain in full as the balance sheet profit, since an advanced assignment to revenue reserves did not take place.

Performance by business area

Performance by business area in € millions	Commercial real estate finance		Capital market business		Other business		Total result	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Net interest and net commission income	176.3	153.2	17.4	23.5	21.4	26.1	215.1	202.7
Administrative expenses	42.7	40.8	6.7	6.1	23.8	23.7	73.2	70.6
Other operating income	0.0	1.4	0.0	0.0	– 2.5	– 6.8	– 2.4	– 5.4
Risk result	– 71.0	– 74.8	– 4.5	– 2.9	17.9	– 5.0	– 57.6	– 82.7
Addition to funds for general bank risks (Section 340g HGB)	0.0	0.0	0.0	0.0	14.4	0.0	14.4	0.0
Securities and participatory interest income	– 3.0	– 4.4	– 3.2	– 6.5	– 10.9	– 0.4	– 17.1	– 11.3
Income from ordinary business activity	59.6	34.5	3.0	7.9	– 12.2	– 9.8	50.4	32.7
Extraordinary income	0.0	0.0	0.0	0.0	– 4.3	– 0.6	– 4.3	– 0.6
Income transferred on the basis of a profit pooling, a profit transfer agreement or a partial profit transfer agreement	0.0	0.0	0.0	0.0	17.2	18.5	17.2	18.5
Income before taxes	59.6	34.5	3.0	7.9	– 33.8	– 28.8	28.8	13.6
CIR*)	24.2 %	26.4 %	38.5 %	25.9 %	>100 %	>100 %	34.4 %	35.8 %
RoRaC / RoE**)	12.0 %	7.1 %	3.4 %	12.0 %	<-100 %	<-100 %	3.9 %	1.9 %

*) CIR = Administrative expenses including depreciation of property, plant and equipment / (net interest income + net commission income + other operating income)
**) RoRaC reported at the business area level, RoE reported for the entire bank
RoRaC for business area = Income before taxes / fixed capital (= 7.0 % of the average risk-weighted assets), amount from the prior year adjusted accordingly
RoE for entire bank = Income before taxes / average capital pursuant to commercial law (= subscribed capital + capital and revenue reserves)

Commercial real estate finance

The result from ordinary business activity in the commercial real estate finance business improved significantly in the past financial year, up 72.8 % to € 59.6 million (2011: € 34.5 million). The main reason for this was an increase in the net interest income with a simultaneous slight improvement in the risk result.

In light of the strategic adjustments in the business area as well as the efforts to optimise the Bank's capital ratios, the real estate finance portfolio rose only slightly from the end of 2011. However, the average real estate finance portfolio saw a significant increase. Together with the positive new business and portfolio margin performance, this led to a significant rise in net interest income as compared to 2011. Furthermore, processing fees to be collected in the interest income also contributed to the positive performance of net interest income. Despite the somewhat low new business in real estate finance, it was possible to increase the volume of processing fees in 2012. The drop in commission income in connection with the servicing of the commercial real estate finance portfolio that remained at NORD/LB as well as expenses for sureties and guarantees led to a slight overall drop in net commission income. In total, net interest and commission income rose by 15.1 % to € 176.3 million (2011: € 153.2 million).

Administrative expenses were slightly above the comparable level from the previous year and totalled € 42.7 million (2011: € 40.8 million). This increase was primarily due to a rise in personnel expenses as a result of an increase in the number of employees. The background for this is the ongoing strengthening of Deutsche Hypo as the centre of competence for the commercial real estate finance business in the NORD/LB Group. By contrast, other administrative expenses fell noticeably from the level of the previous year due to active cost management.

The risk result in the commercial real estate finance business was € – 71.0 million, in accordance with the expected level, and was below the level from 2011 (€ – 74.8 million). Primarily, the risk provisioning for foreign commitments continued to contribute to the risk result. The quality of the real estate finance portfolio continued to improve noticeably in the reporting period. It is referenced to the explanations on credit risks in the risk report of this management report.

The positive performance of the commercial real estate finance business was also seen in the risk-adjusted performance (RoRaC), which rose to 12.0 % in 2012 (2011: 7.1 %).

Capital market business

The capital market business continued to be affected by the European sovereign debt crisis in the reporting period. The reduction in the public sector finance portfolio left traces in the business area and also had an impact on the net interest income, among other items. Net interest income in the capital market business fell substantially on account of overall bank management measures, declining by 25.5 % to € 17.8 million (2011: € 23.9 million).

The risk result amounted to € – 4.5 million (2011: € – 2.9 million) and was below the level from the previous year. Primarily, the negative impact from the repurchase of the Bank's own securities for market support and the capital losses from the closure of derivatives contributed to this result.

The income from securities ans participatory interests was € – 3.2 million, above the level of € – 6.5 million in 2011. The result was mainly due to a reduction in risk for the public sector lending finance portfolio. In total, the capital market business generated income from ordinary business activity of € 3.0 million (2011: € 7.9 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 business or capital market business.

Net interest income totalled € 21.5 million (2011: € 26.7 million). Lower asset returns on equity capital were mainly responsible for the decrease.

The risk result was defined by the release of the provision reserve in accordance with Section 340f HGB. The release is explained in the context of the allocation to the funds for general bank risks in accordance with Section 340g of the German Commercial Code (HGB) and thus the ensuing strengthening of the core capital. Other effects on results related to income in connection with the sale of bonded loans. The sales led to a reduction in risks.

Administrative expenses of € 23.8 million were comparable to the level from the previous year (€ 23.7 million). The contribution to the restructuring funds for credit institutions (bank levy) and the effects from the currency result led to net operating expenses of € – 2.5 million (2011: € – 6.8 million). The income from securities and participatory interests of € – 10.9 million (2011: € – 0.4 million) was affected by write-downs of securities in fixed assets that are assigned to non-strategic business activities.

Other business produced a result from ordinary business activity of € – 12.2 million (2011: € – 9.8 million).

Net assets and financial position

Development of the balance sheet

in € millions	31.12.2012	31.12.2011	Relative Change (in %)
Receivables from financial institutions	4,529.7	3,871.6	17.0
Receivables from customers	19,076.2	18,867.3	1.1
Securities	10,613.7	11,876.2	– 10.6
Other assets	358.6	383.2	– 6.4
Total assets	**34,578.2**	**34,998.3**	**– 1.2**
Liabilities to financial institutions	8,386.6	7,805.5	7.4
Liabilities to customers	9,713.5	10,282.8	– 5.5
Securitised liabilities	14,679.3	15,089.6	– 2.7
Subordinated liabilities	353.0	324.0	9.0
Jouissance right capital	98.0	98.0	0.0
Funds for general bank risks	14.4	–	>100
Shareholders' equity	913.2	898.0	1.7
Other liabilities	420.2	500.4	– 16.0
Total liabilities	**34,578.2**	**34,998.3**	**– 1.2**
Contingent liabilities	864.8	892.7	– 3.1
Other obligations	1,169.4	770.7	51.7

Deutsche Hypo's total assets fell slightly from the previous year, by 1.2 %, to € 34,578.2 million (2011: € 34,998.3 million). The development is due to the decline of € 1,262.5 million in the securities portfolio to € 10,613.7 million (2011: € 11,876.2 million). By contrast, the portfolio of receivables from financial institutions and customers moved in the opposite direction, climbing by 3.8 % year on year to € 23,605.9 million (2011: € 22,738.9 million). These opposite developments clearly show Deutsche Hypo's strategy of strengthening the commercial real estate finance business and reducing the capital market business. The receivables from customers remain by far the largest balance sheet item at a total of € 19,076.2 million (2011: € 18,867.3 million). The share of securities as a percentage of total assets fell from 33.9 % in 2011 to 30.7 % in 2012 due to the described reduction in the securities portfolio.

On the liabilities side, there were minor increases in liabilities to financial institutions. Securitised liabilities of € 14,679.3 million (2011: € 15,089.6 million) and a share of 42.5 % continued to be the largest balance sheet item on the liabilities side.

As of 31 December 2012, the shareholders' equity on the balance sheet totalled € 913.2 million (2011: € 898.0 million). The increase was due to the balance sheet profit from financial year 2012 in the amount of € 15.2 million. A resolution was passed at the Annual General Meeting on 23 May 2012 to have the balance sheet profit for 2011 (€ 6.0 million) allocated to other revenue reserves.

While the jouissance right capital remained unchanged, the subordinated liabilities increased to € 353.0 million due to the new absorption of € 29.0 million (total in 2011: € 324.0 million). Furthermore, an allocation of € 14.4 million to the funds for general bank risks pursuant to Section 340g of the German Commercial Code (HGB) was created through the release of the provision reserves pursuant to Section 340f of the German Commercial Code (HGB).

The total balance sheet equity capital plus the jouissance right capital, subordinated liabilities and the funds for general bank risks in accordance with Section 340g of the German Commercial Code amounted to € 1,378.6 million (2011: € 1,320.0 million). In accordance with the regulatory requirements, a total of € 1,180.7 million (2011: € 1,047.1 million) could be included for regulatory capital backing. This meant a rise of € 133.6 million as compared to 2011. The increase in regulatory capital was offset by a decrease in risk-weighted assets. As a result, the core capital ratio improved to 9.9 % (2011: 8.4 %). Likewise, the total capital ratio improved to 14.0 % (2011: 11.5 %).

Funding

Pfandbriefe and unsecured bonds are the main sources of the Bank's funding. It is the goal of Deutsche Hypo to present funding options with attractive conditions at all times.

Effective 5 July 2012, the ECB set the main refinancing rate in business with banks to 0.75 %. Parallel to this, the deposit rate, at which banks can invest excess liquidity at the central bank as part of the deposit facility, was fixed at 0 %. On the one hand, this should keep the liquidity costs for banks at a reliably low level over the long term, and on the other, it should give them incentives to feed the immense excess liquidity back into the financial system. The low interest rates over the long term should re-establish confidence between the banks and ensure a sufficient supply of liquidity for the economy in order to prevent a 'credit squeeze'. These measures have largely succeeded as desired. Consequently, the general yield for largely risk-free investments and instruments such as German government bonds and Pfandbriefe remained at a historically low level over the course of the year. Somewhat more risky investments such as unsecured bonds from banks were able to benefit from the fact that investors sought assets with higher yields – with a focus on short to medium terms.

Against this backdrop, there was solid demand for Deutsche Hypo issues, as in previous years, so liquidity was ensured at all times. Despite the ongoing, not completely calm markets and in some cases the continued existence of market distortions, the Bank as usual was a reliable finance partner in the commercial real estate finance business.

In 2012, Deutsche Hypo issued securities for a total of € 4,254.1 million, of which mortgage Pfandbriefe made up € 2,311.3 million, public Pfandbriefe € 96.0 million and unsecured bonds € 1,846.8 million, whereby the focus was on private placements as in the previous years. The split between the bearer and registered bonds was 87.0 % to 13.0 %; the share of structured products was neglected on account of the low yields.

Deutsche Hypo placed two benchmark issues in 2012 in order to continue its reliable servicing of this market segment. They consisted of a 5- and 7-year mortgage Pfandbrief with a volume of € 500 million. The former was in such demand that less than two months after the original offering, it was possible to tap it by € 250 million. The ongoing solid domestic demand as well as foreign investors' interest in buying the high quality Pfandbriefe shows that benchmark issues continue to be an important source of refinancing.

In 2012, the Bank also pursued investor relations activities and took part in numerous investor meetings and roadshows to market the issues. These activities – based on the stable and sturdy network of reliable, nationally and internationally active capital market partners – solidified the cost-effective issuing platform for Pfandbriefe compared with the Bank's peers and secured a sustainable and recognisable competitive edge for Deutsche Hypo.

Secondary market activities
In 2012, Deutsche Hypo purchased its own securities with a volume of € 192 million (2011: € 171 million) and thus ensured – as in the years before – permanent secondary market support. The well functioning funding ensured that the outflow of liquidity resulting from the purchases could be replaced at any time without difficulty. At the end of the year, the value of the Bank's portfolio of its own issues was € 156.7 million (2011: € 38.5 million).

Details can be found in the notes to the financial statements and the risk report on the liquidity risks for a further presentation and explanation of the net assets and financial position.

Rating

Deutsche Hypo rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Long-term liabilities	Financial strength
Moody's	Aaa	Aaa	Prime-2	Baa1	D
	Since 8 June 2012: Aa2	Since 8 June 2012: Aa2		Since 6 June 2012: Baa2	Since 6 June 2012: E+

The subject of ratings brought about major changes for German banks in 2012. In December 2011, the rating agency Moody's announced that it was subjecting the ratings of a total of 114 banks in 16 European countries to a detailed review, including the ratings of Deutsche Hypo. The affected German banks received the results of the review on 6 June 2012.

Moody's reduced both the financial strength rating of Deutsche Hypo from D to E+ and the rating for long-term liabilities from Baa1 to Baa2. Moody's justified this decision as follows: The Bank's narrow focus on the capital market business and commercial real estate finance business make it vulnerable in the case of stress tests. Furthermore, the capability to be able to absorb unanticipated losses is fairly low so the Bank could require additional capital in a crisis.

In accordance with the rating methodology applied by Moody's, it was no longer possible to maintain a Aaa rating for the Pfandbriefe of Deutsche Hypo. An Aa1 rating would be possible for the public Pfandbriefe through voluntary excess cover, but for the mortgage Pfandbriefe, this would only be possible through a permanent, contractual overcollateralisation. After intensive consideration of the advantages and disadvantages of the various ratings, the Bank decided – particularly on account of the far-reaching impact on the future business policies – for a uniform rating level and against contractual excess cover. Deutsche Hypo's Pfandbriefe have therefore been rated Aa2 since 8 June 2012.

Deutsche Hypo is convinced that it will continue to be valued as a very renowned issuer on the capital market and that its securities will continue to be in high demand. This can be seen in the successful issues of benchmark mortgage Pfandbriefe in June and September 2012 which already had a Aa2 rating. Irrespective of this, capital markets are in a state of upheaval: According to Deutsche Hypo's assessment, the top rating grades are losing significance as a basis for assessing investments.

Report on subsequent events

There were no events of particular significance that occurred after the end of the financial year and could have a sustained impact on the Bank's risk situation or the net assets, financial position or results of operations.

Risk report

Current developments

The ongoing tense situation with regard to the European sovereign debt crisis and the ensuing high volatility on capital markets had a noticeable impact on Deutsche Hypo's environment during the year under review. In regard to the economic risk in the credit investment portfolio, it was possible to observe an improvement due to the slight weakening of the crisis in the second half of the year. In this connection, the spread-induced changes in value led to a significant improvement in the overall economic performance.

Deutsche Hypo's risk management process in 2012 was particularly defined by numerous adjustments to the altered economic and political conditions and the further development of significant instruments for risk management. A major focal point consisted of the implementation of the refined risk-bearing capacity model (RBC model) for the implementation of the expanded internal and external requirements for the appropriateness and effectiveness of risk management.

Risk management

Risk management – Fundamentals

Deutsche Hypo has implemented an inter-divisional risk management process that meets the conditions stipulated by the German Banking Act (KWG). In this context, the types of risk that are relevant for Deutsche Hypo (overall risk profile) are identified as part of the strategic sub-process for risk identification. These risks then pass through – depending on their materiality – the operating sub-processes of risk assessment, risk reporting and risk management. The sub-processes' content corresponds to the concrete Minimum Requirements for Risk Management (MaRisk), which are made of the risk management and controlling processes in the internal control system (ICS). Against the backdrop of the appropriateness and materiality, Deutsche Hypo's ICS aims not only to meet the external requirements, but also acts as a major component of the risk management process and contributes to systematically identifying and reducing process risks. The superordinate risk management process for the identification, assessment, control and monitoring of risks is subject to continual review and refinement.

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.

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

In observing the previously mentioned regulatory conditions, Deutsche Hypo, as a material subsidiary of the NORD/LB Group from a risk point of view, implemented a risk organisation that meets the risk strategy principles on both the level of the individual institution and on the Group level.

Risk management – Strategies

In compliance with a proper business organisation in terms of Section 25a (1) of the German Banking Act (KWG), Deutsche Hypo's strategic orientation is specified on the basis of consistently developed business and risk strategy. Deutsche Hypo's risk strategy is focused on the overall risk profile and is reviewed and adjusted as warranted, but at least once a year, in accordance with the requirements of the NORD/LB Group. Based on the risk appetite (primary criterion) and the allocation of the risk capital (secondary criterion) as set in the risk strategy, the available risk capital is distributed across the material types of risk in the context of the risk-bearing capacity model. The goals of risk management and the measures for the achievement of these goals are implemented in the risk strategy. The implementation and the determination of the risk strategy is the responsibility of Deutsche Hypo's Board of Managing Directors.

During the overhauling of the strategy documents in 2012, the focus was on the appropriate consideration of the development of the current market environment. In addition to the already established strategic requirement to conduct capital market business selectively and primarily for liquidity management as risk is reduced, the focus of the Bank's policy in the real estate finance business in Germany and Europe was considered. With regard to the risk strategy, there was an adjustment on account of the complete overhaul of the RBC model.

Risk management – Structure and organisation

Deutsche Hypo has implemented a risk organisation that corresponds to the objectives of its risk policy. An efficient risk management process with clearly defined responsibilities and competencies, supported by an adequate IT infrastructure and qualified employees, coordinates the structured interplay between involved divisions and ensures a smooth workflow. The risk-related organisation structure and the functions, responsibilities and competencies of the divisions involved in the risk processes are clearly defined down to the level of individual employees. Furthermore, there is an established organisational separation between the market and risk management functions up to and including the level of management.

On the level of NORD/LB as the parent institution, boards have been established for handling the risk management process on the Group level and exercising the consulting, monitoring, control and coordination functions. This involves the Extended Group Board of Managing Directors (Erweiterter Konzernvorstand), Group Control Committee (Konzernsteuerungskreis) and the Group Risk Committee (GRC).

The process-independent review of the effectiveness and appropriateness of the risk management is handled 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. Deutsche Hypo is integrated in the risk management on the Group level through set controlling steps for its divisions. The background for this is in particular the statutory provisions of Section 25a (1a) of the German Banking Act (KWG) and MaRisk.

Management of risk affecting cover pool

In its capacity as a Pfandbrief bank in terms of Section 1 of the German Pfandbrief Act (PfandBG), Deutsche Hypo is also subject to the rules set out in the German Pfandbrief Act. Against this backdrop, the established risk management system is also focused on appropriately considering the identification, assessment, control and monitoring of all risks connected with the Pfandbrief business.

Deutsche Hypo has established a risk management system specially designed for the Pfandbrief business. Counterparty, market price and liquidity risks are managed at the level of the cover pools in order to guarantee the high quality standards of the cover pool used for public Pfandbriefe and the high quality of the properties serving as collateral in mortgage business. The fact that the 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.

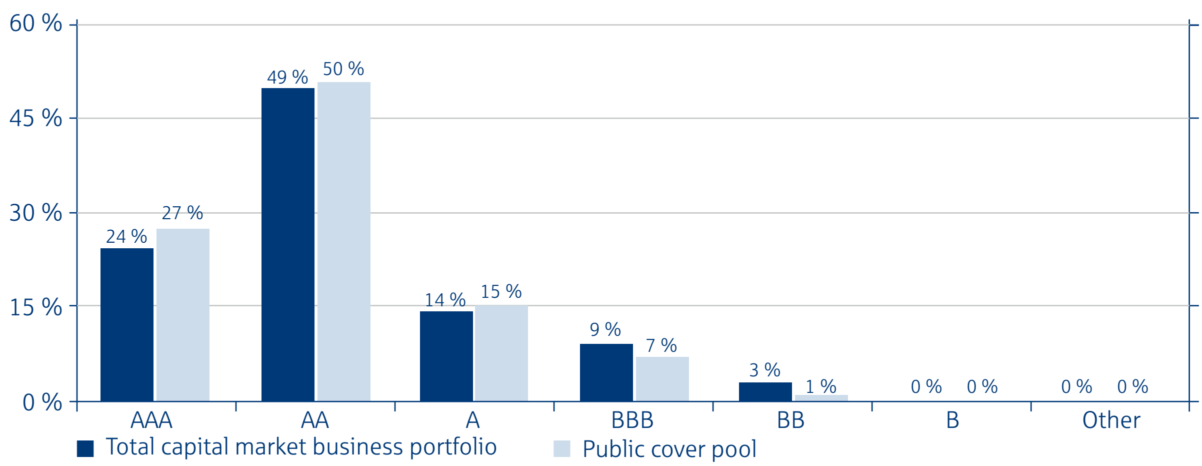
The cover pool is subject to permanent monitoring with respect to the cover principle. To ensure sufficient excess cover measured at net present value (Section 4 (1) of the German Pfandbrief Act), the Bank also regularly analyses the quality of the loan receivables serving as the cover pool. This involves 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.

The Bank is also required to meet existing disclosure requirements pursuant to the transparency rules set out in Section 28 of the Pfandbrief Act. This is achieved through regular 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.

Cover pool for public Pfandbriefe

The proportion of receivables allocated to the cover pool with very good ratings of AAA and AA, at 77 %, was higher as of 31 December 2012 than the corresponding proportion for the total portfolio (73 %). The proportion of very good ratings in the total portfolio slightly improved from the proportion in 2011 (70 %). The average rating amounts to AA- and signals the high quality of the cover pool for issued Pfandbriefe.

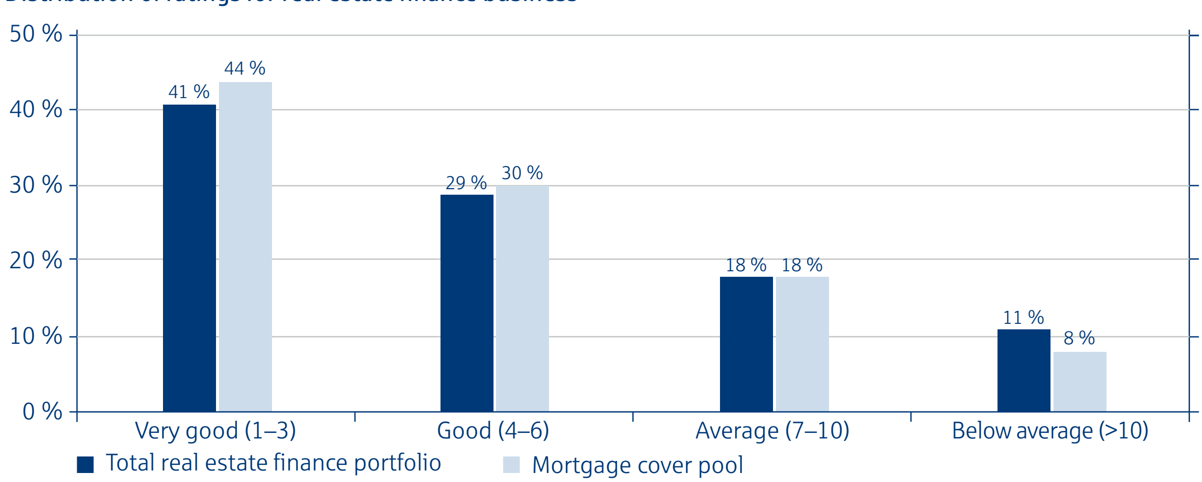
Distribution of ratings in capital market business



Real estate cover pool

The proportion of good and very good credit ratings in the mortgage cover pool amounts to 74 % as of 31 December 2012. With regard to the total portfolio, the proportion is 70 %. The distribution of ratings in the mortgage cover pool reflects the good quality of the Pfandbriefe.

Distribution of ratings for real estate finance business



Risk management – Risk-bearing capacity model

The risk-bearing capacity model (RBC model) constitutes the methodical basis for monitoring compliance with the Deutsche Hypo risk strategy. In this connection, the Bank monitors the ongoing cover for the material risks to the Bank with the risk capital in the context of the risk-bearing capacity.

The aim of the model is to aggregate and duly present the Bank's risk-bearing capacity (RBC) by comparing risk potential resulting from the material risks and the risk capital.

Its membership in the NORD/LB Group means that Deutsche Hypo is closely bound by the basic parameters applicable throughout the Group. The joint RBC model has three main cornerstones – going concern, gone concern and regulatory matters – in which the risk potential from the significant risk types are juxtaposed to the defined available risk capital. The determination of the risk-bearing capacity also includes the risk concentrations, both within a type of risk (intra-risk) and across risk types (inter-risk). Concentrations within a risk type relate largely to credit risks as Deutsche Hypo's most significant risk type. They are integrated in the RBC model through the internal credit risk model. The consideration of inter-risk concentrations takes place on the basis of stress scenarios across risk types.

The first cornerstone of the RBC model, which is represented by the going concern approach, is the most significant for the evaluation of the risk-bearing capacity in terms of the Minimum Requirements for Risk Management (MaRisk) and thus relevant for the management of Deutsche Hypo.

The superordinate model of the going concern approach as the primary control group is the independent continuation of the Bank on the basis of the existing business model, even if the entire available cover pool is used up due to risks that materialised.

In addition to the going concern cornerstone, the gone concern approach is a second cornerstone within the RBC model and represents a secondary condition. The design of the RBC model sets forth that the function of this approach can give impetus for the going concern approach to assess the risk-bearing capacity. Direct control-relevant impetus results from the going concern approach. Due to the more specific regulatory requirements, the gone concern approach involves a complete integration of credit spread risks (CSR) for all asset items on the risk potential side and a complete inclusion of existing hidden charges from securities in fixed assets and credit derivatives on the risk capital side.

Regulatory matters, the third cornerstone of the RBC model, handles the official reporting on the appropriate equity capital resources (SolvV reports) and consequently considers the risk potential determined in accordance with the regulatory requirements. The regulatory consideration is a strict secondary condition within the RBC model.

A significant instrument of risk management in the context of the RBC model consists of the implemented stress tests. Depending on the cornerstones of the RBC model, a difference is made between classical, regulatory and inverse stress tests. For classic stress tests, the stressed parameters have an impact on the supplied risk capital and the economic risk potential determined by means of the respective models in the risk types. In particular, the impact of a serious economic slowdown is analysed in this connection. On the basis of the regulatory stress tests, the impact that the parameters stressed in accordance with the regulatory requirements have on the regulatory capital and the amounts to be considered is reported. As part of inverse stress tests, scenarios where the execution of the Bank's original business model appears to be no longer possible are identified.

Risk management – Development in 2012

The conversion to the refined model approach means that since 2012 the reporting on the risk-bearing capacity is based on a dual control approach. The main subject of the reporting is the going concern approach.

The risk-bearing capacity situation in the controlling-relevant going concern approach continued to improve in 2012. The capacity utilisation degree of the risk capital amounted to 9.7 % as of 31 December 2012 (2011: 16.3 %). The improvement is due to both a decline in the risk potential and a strengthening of the risks capital. In considering the stress of a recession scenario, a utilisation of the risk capital in the amount of 71 % is reported as of 31 December 2012 in the going concern approach. The decline in the risk potential can be explained mainly by the reduction in risk-weighted assets (RWA) through the improved ratings in the credit portfolio of Deutsche Hypo. In the going concern approach, the utilisation of the risk capital by the total risk potential can be seen in the following table on the risk-bearing capacity calculation as of 31 December 2012.

	Risk-bearing capacity (Going concern approach)			
in € millions	**31.12.2012**		**31.12.2011*)**	
Risk capital	**445.6**	**100 %**	**350.3**	**100 %**
Risk potential				
Credit risks	74.5	16.7 %	88.3	25.2 %
Investment risks	0.3	0.1 %	0.5	0.1 %
Market price risks	18.6	4.2 %	36.2	10.3 %
Liquidity risks	20.0	4.5 %	16.2	4.6 %
Operational risks	4.1	0.9 %	4.1	1.2 %
Other**)	– 77.2		– 108.1	
Total risk potential	43.1		57.0	
Excess cover	402.5		293.3	
Degree of capacity utilisation		**9.7 %**		**16.3 %**

*) To ensure that the data is comparable, the amounts as of 31 December 2011 were retroactively recalculated on the basis of the current design of the RBC model.
**) The item Other does not represent another type of risk, but rather includes corrective items from juxtaposing the regulatory and economic loss expectations. The maximum amount of their inclusion here as determined by the model is up to the amount of the credit risk.

In the secondary condition of the gone concern approach, the hidden charges from securities in fixed assets and credit derivatives in 2012 were significantly reduced. The internal target requirements with regard to the risk capital utilisation in the secondary condition have still not yet been met despite the positive change in hidden charges. The risk potential exceeds the risk capital. The current market developments and the implemented measures for strengthening the risk-bearing capacity in the secondary condition confirm, however, the results of the regularly conducted internal scenario analysis by the bank on the basis of which the over-subscription of the risk potential in the context of the risk-bearing capacity model is categorised as a temporary effect. Material, implemented measures include the reduction in the credit spread risks by pursuing selective new business, which was solely done for liquidity management and the successful successive reduction in securities items that were identified as primary risk drivers.

Credit risk

The credit risk is a part of the counterparty risk. It refers to the possibility that a loss may be incurred that is not covered by securities 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 collateral in the event of realisation. Counterparty risk is included under the generic term of credit risk 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 (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.

The investment risk is another component of the counterparty risk. This includes losses that are incurred as a result of the fact that a financial investment that the Bank holds in another business or companies drops in value. The orientation of Deutsche Hypo's business policies fundamentally does not foresee participatory interests. If participatory interests are made, they solely serve to support the actual business goals in the finance business. The investment risks are treated analogously to the credit risks, monitored continuously on the basis of the interim and annual financial statements and included in the assessment of the risk-bearing capacity. Significant events are reported to the Board of Managing Directors immediately.

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 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.

Deutsche Hypo's risk strategy in connection with its entry into credit risks can be described by the following statements:

- The content of the credit risk strategy is developed for the respective business divisions in harmony with the existing credit principles, the marketing strategy and with consideration given to the market circumstances and the current credit portfolio structure.
- 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.
- For early detection and prompt avoidance or 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 regulatory 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 continually to ensure that they are up-to-date – at least once a year – and are updated where necessary.
- In order to meet the specific requirements for each business area, the Bank has drawn up financing principles that take the form of binding guidelines for new business for each market area in the strategic business area that was classified as relevant for risk. The risk-related assessment of the commitments was handled on the basis of a procedure specifically developed for the business areas (e.g. rating module).
- Deutsche Hypo's aim is to achieve a competitive level of profitability and take into account efficiency and flexibility in terms of active management of the credit risk items in order to minimise the unanticipated losses. 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

Appropriate management of the credit risk is mainly ensured by the following organisational structure:

- strict division between front office and back office
- allocation of roles and authority
- permanent monitoring of the loan portfolio
- 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 back 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. In the credit decision 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 the commercial real estate finance deal. 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 with a rating score above 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 given to the aim of being able to take appropriate rescue measures in good time. With regard to the 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 consistent 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 loans, 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, two additional votes, namely one vote from the front and one from the back offices must first be present.

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 and monitoring

Deutsche Hypo's credit risk is controlled and monitored 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 cooperation projects 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 Managing 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 the 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 the 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, as explained above. 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. In addition to sector limits, sovereign limits are also in place, limiting the maximum amount of finance for 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 the borrower level, limits are in place for economic units which extend beyond the borrower unit as defined in Section 19 (2) of the German Banking Act (KWG) and which also take into account secondary risks such as e.g. tenant liabilities.

Limiting of project developments:
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.

Limiting of 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 public institutions 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 monitored intensively on an ongoing basis with the aim of reducing it at appropriate market opportunities.

Credit risk – Collateral

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 collateral can omit. A requirement for this is a good credit rating and the observance of the limit for financing not collateralised by mortgages.

The value of the property and thus the value of the related securities 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).

Mortgages, 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 (SolvV).

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 equivalent to 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 probability of default (PD) and loss given default (LGD) ratio 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. It 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 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 2012

Deutsche Hypo's credit exposure as of 31 December 2012 was € 37,175.2 million, up € 155.7 million or 0.4 % as compared to the end of 2011. The real estate finance business grew by € 376.3 million or 2.8 %. This is also partially due to the transfer of the real estate finance business from NORD/LB's portfolio.

There was an overall decline of € 220.6 million in the capital market business and other financing products. The focus of the portfolio continued to be on 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 compared with the previous year's structure.

Breakdown of credit exposure by rating category

in € millions	Loans	Securities	Derivatives	Other products	Total exposure 31.12.2012	Total exposure 31.12.2011
Very good to good	15,689.8	9,236.3	1,880.9	1,312.0	28,118.9	28,751.8
Good/satisfactory	2,950.8	689.0	392.7	92.0	4,124.6	3,344.4
Still good/sufficient	1,959.4	388.3	57.6	66.4	2,471.7	1,970.6
Elevated risk	802.3	157.5	0.0	15.5	975.3	1,033.0
High risk	364.9	0.0	0.0	7.0	372.0	626.7
Very high risk	530.1	0.0	0.0	0.0	530.1	586.3
Default (=NPL)	573.1	9.5	0.0	0.0	582.6	706.8
Total	**22,870.5**	**10,480.6**	**2,331.2**	**1,492.9**	**37,175.2**	**37,019.5**

The proportion of total exposures in the rating class "very good to good" is practically unchanged at 75.6 %, roughly on the high level of the previous year of 77.7 %. A high proportion of loans continues to be to sovereigns, public authorities and financing institutions. These counterparties have very good credit ratings.

There was also a pleasing development with regard to the proportion of non-performing loans, which fell from 1.9 % to 1.6 %. The absolute volume fell by € 124.1 million to € 582.6 million. This development is – as well as in the previous year – due to progress made in dealing with ailing exposures and also to a fall in the number of new additions to the NPL portfolio.

The Bank's credit exposure in the commercial real estate finance business of roughly € 13,950.5 million (2011: € 13,574.1 million) consisted at the year-end of 84.1 % (2011: 78.8 %) of financing for customers that have a rating of at least satisfactory.

The positive performance of NPLs is solely influenced by the performance in the real estate finance portfolio. The volume of the financing fell again and is now 4.1 % of the portfolio of real estate financing. The overwhelming majority of roughly 90 % of the NPL portfolio is filled by foreign financing, largely in the USA and UK. This shows a continuation of the trend already observed last year that the high point of the real estate crisis has passed.

Breakdown of credit exposure in commercial real estate finance business by rating and region

	Domestic		Foreign		Total exposure	
in € millions	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Very good to good	3,953.9	3,693.6	2,890.5	2,589.5	6,844.4	6,283.1
Good/satisfactory	2,291.4	2,109.8	639.3	541.6	2,930.7	2,651.4
Still good/sufficient	1,579.6	1,478.0	379.7	282.9	1,959.4	1,760.9
Elevated risk	534.7	828.4	213.1	198.0	747.8	1,026.4
High risk	85.9	46.5	279.0	518.1	364.9	564.7
Very high risk	16.3	24.0	513.8	562.3	530.1	586.2
Default (=NPL)	58.4	109.7	514.8	591.7	573.1	701.5
Total	**8,520.2**	**8,289.9**	**5,430.3**	**5,284.2**	**13,950.5**	**13,574.1**

Breakdown of the credit exposure by classes and regions

					Total exposure	
in € millions	Loans	Securities	Derivatives	Other	31.12.2012	31.12.2011
Eurozone	19,630.7	8,677.2	1,425.0	1,406.3	31,139.2	29,983.5
of which, Germany	15,724.3	3,056.9	748.1	1,320.5	20,849.7	19,868.4
Other EU	2,119.8	414.6	98.9	0.0	2,633.3	2,438.1
Other Europa	215.7	89.9	15.8	0.0	321.4	375.0
North America	904.4	808.2	791.4	13.8	2,517.8	2,738.9
Central America	0.0	6.1	0.0	0.0	6.1	6.0
Middle East/Africa	0.0	0.0	0.0	0.0	0.0	0.0
Asia	0.0	484.6	0.0	0.3	484.9	488.5
Other	0.0	0.0	0.0	72.5	72.5	989.5
Total	**22,870.5**	**10,480,6**	**2,331.2**	**1,492.9**	**37,175.2**	**37,019.5**

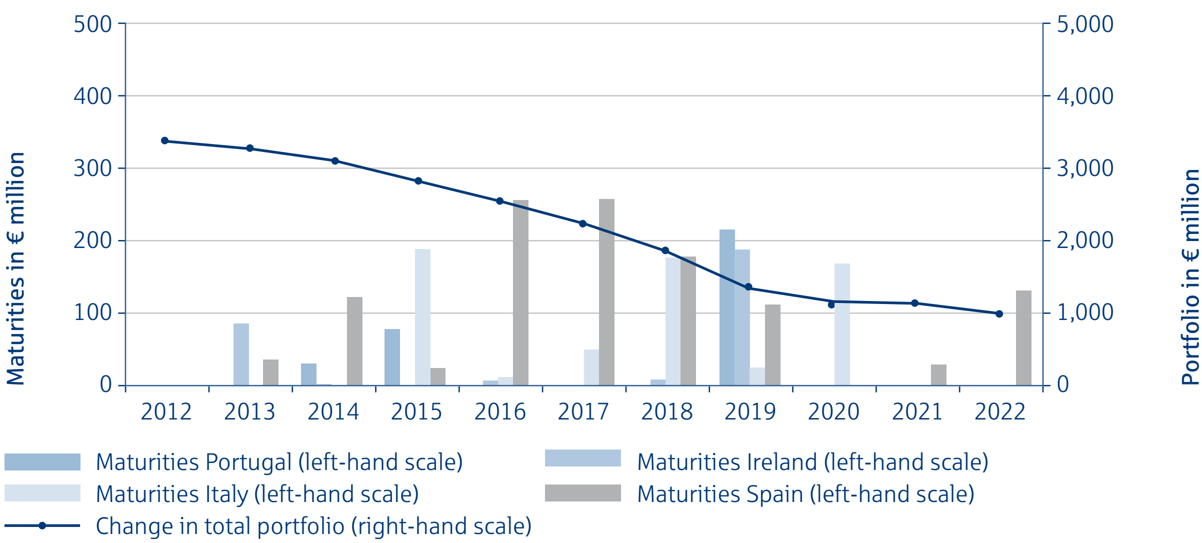
The breakdown of the credit exposure by classes and regions shows that 91.7 % (2011: 88.6 %) of the entire exposure is in the eurozone. Germany accounted for 56.1 % (2011: 53.7 %) of the total exposure.

The Bank's exposure to countries referred to as the PIIGS countries amounts to € 3,382.6 million (2011: € 3,751.7 million). The exposure term in the presentation of the commitments in the PIIGS countries includes the credit claims plus complete inclusion of all existing payout obligations. The Bank's aforementioned exposure in the PIIGS countries does not include the existing real estate finance business in these countries with a volume of € 389.3 million (2011: € 389.6 million). The exposure of € 3,382.6 million is divided between € 2,152.4 million for governments, public authorities and municipalities and € 1,230.2 million for credit institutions and other institutions.

Portugal accounts for € 322.9 million (2011: € 355.1 million), Ireland for € 299.5 million (2011: € 268.3 million), Italy for € 1,471.7 million (2011: € 1,640.9 million), Spain for € 1,288.5 million (2011: € 1,487.3 million). In Italy, € 83.0 million is attributable to corporate loans and € 1,388.7 million to public debtors. In Spain, the Bank has exposure to companies (not including real estate financing) of € 413.2 million, to public debtors of € 272.0 million and credit institutions of € 603.3 million. Given the general European support measures, 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 € 2,376.1 million to € 1,006.5 million over the next ten years.

Portfolio performance of PIIGS countries



Non-performing loans

Where there are objective indications of acute default risks affecting the balance-sheet lending business, Deutsche Hypo establishes specific bad debt allowances. 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 the 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 the lending business fell by € 16.9 million as compared with the previous year, totalling € 165.2 million in 2012. € 94.7 million, the overwhelming majority (57.3 %) of the existing bad debt allowances, continues to be attributable to the risk provisioning for real estate financing in the USA and Great Britain. The amount of specific bad debt allowances and provisions as a proportion of the total credit exposure as of 31 December 2012 was 0.44 % (2011: 0.49 %).

The table below shows a comparison of the credit exposure of impaired credit and the total impairments, consisting of specific bad debt allowances and provisions for loan losses (jointly: impairments):

	Credit exposure of impaired loans		Total impairments	
in € millions	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Eurozone	192.5	193.3	70.5	54.2
Other EU	169.5	144.4	61.3	66.1
Other Europe	0.0	0.0	0.0	0.0
North America	143.0	242.5	33.4	61.9
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	**505.1**	**580.2**	**165.2**	**182.1**

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

	Delayed by up to 90 days	Delayed by more than 90 days	Total exposure	
in € millions	31.12.2012	31.12.2012	31.12.2012	31.12.2011
Eurozone	16.4	8.7	25.0	37.4
Other EU	0.0	0.0	0.0	0.0
Other Europe	0.0	0.0	0.0	0.0
North America	0.0	52.6	52.6	89.1
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	**16.4**	**61.2**	**77.6**	**126.6**

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 33 % of the total amount without including security and for the full amount after including security that can be valued.

Credit risk – Outlook

The Bank assumes that the trend toward the normalisation of the real estate markets which was observed in the past year will continue. Accordingly, it is anticipated – as occurred in the past financial year – that there will be an ongoing reduction in the risk provisioning required for this business area.

In the capital market and public sector lending business, the future performance depends heavily on the measures that the eurozone countries take to support and consolidate the finances of countries finding themselves in difficulty. These measures have had a positive impact according to the initial findings. It must be waited and seen with regard to the future developments. Despite the initially positive signals, it is too early at the present time to assume a fundamental change of direction. In particular, it is not currently clear to what extent other countries or their banking systems, which have not been in focus so far, will need support measures in the future. This has been revealed, for example, in the current developments in Cyprus.

Depending on the specific general conditions of the individual countries, this can lead to substantially different developments with regard to country-specific credit risks. Deutsche Hpyo will monitor the performance of real estate and capital markets attentively and take suitable measures, if need be.

Market price risk

Market price risk refers to the potential losses that could be incurred following changes in the market parameters.

Market price risk – Management

Market price risk – Strategy

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 money market, currency and capital markets corresponds to the Bank's significance and size in accordance with the risk strategy requirements and is primarily geared toward the customers' requirements as well as being designed to support the front-office sections and management of the Bank as a whole. Further speculative positions are not taken. Deutsche Hypo's activities connected with market price risks are focused on selected markets, customers and product segments.

Market price risk – Structure and organisation

Against the background of the risk-related organisational structure, it is primarily the departments Treasury, Treasury Operations, Controlling and Credit Risk Controlling that are involved in the management of market price risks.

The operational management (controlling) of the market price risks is the responsibility of Treasury. In the context of the requirements laid down by the Board of Managing Directors and in accordance with the market price risks and counterparty limits as well as the risk strategy requirements, Treasury decides on and manages the business activities in the capital market business. Treasury Operations, which also belongs to the back office departments, ensures the correctness of the transaction data in the data processing systems within the scope of the market price risk management process.

The Controlling department is organisationally independent of the Treasury and Treasury Operations areas in accordance with MaRisk, and it carries out the tasks related to risk assessment, the controlling and monitoring processes as well as the reporting. The Credit Risk Controlling department fulfils the external reporting obligations in terms of the requirements of the German Solvency Ordinance (SolvV).

Market price risk – Controlling and monitoring

The market price risks are fundamentally controlled by Treasury. The monitoring and controlling function is handled by Controlling. A significant part of the monitoring process is to review the observance of the required limits (e.g. risk, sensitivity, loss and volume limits). In this connection, the regular and event-related validation of used methods, models and parameters takes place along with analysis and commenting within the scope of the risk reporting.

The controlling tasks related to the proper entry and processing of the financial market business are handled by Treasury Operations. The systematic limitation of market price risks is ensured by an implemented limit system. The limit system takes into consideration the risk strategy requirements in the context of the risk-bearing capacity and includes the derivation of an upper loss limit valid for the net present value result from interest term transformation and a consistent value-at-risk (VaR) risk limit. To limit market price risk, there are other limits along with the VaR limits.

The VaR figures are calculated on the basis of an historical simulation process. The portfolio is valued on the basis of the historical changes in the market price. Deutsche Hypo performs the daily calculation of the VaR for internal limiting and controlling purposes, including credit spread risks from securities in current assets, with a holding period (forecast horizon) of one trading day. Longer holding periods are used for the economic calculation of the risk-bearing capacity.

Parallel to the VaR limits, the interest rate risk is limited with the basis point value limits. The credit spread risks and hidden charges from securities in fixed assets, credit derivatives and market-valued bonded loans are calculated in the risk-bearing capacity context and reported monthly. Furthermore, stress tests are conducted on a weekly basis. The implementation of the risk strategy requirements for credit spread risks takes place through stress and volume limits.

The management of currency risks is primarily handled by minimising currency profits in the income statement in accordance with the German Commercial Code (HGB). To achieve these goals, the open nominal overhangs per currency are closely controlled. The Controlling department monitors the degree of limit utilisation in the currency risks. Clear escalation mechanisms will be initiated for exceeding limits.

To control or reduce risks, positions are hedged in order to counter the impact of disadvantageous market movements (e.g. in interest rates, currency exchange rates) concerning the Bank's own positions. Primarily derivatives such as interest and currency swaps as well as forwards are used as hedging instruments. Additional information is provided in Note 31 of the notes to the financial statements.

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. Daily reports on foreign currency risks are also sent to Treasury.

The risk figures are calculated independently of the areas responsible for the control of the market price risk. The full Board of Managing Directors is also informed about the impact of stress scenarios weekly, the development of hidden charges monthly and the results of the backtesting 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 through a standardised reporting process in the case of significant events relevant to market price risk.

Market price risk – Development in 2012

The development of Deutsche Hypo's market price risk was at a moderate level, as expected, in 2012 with regard to the allocated risk capital and the derived limit. In the third and fourth quarter, the credit spread risks fell substantially for normal and stress scenarios on account of the abatement of the European sovereign debt crisis.

The following table shows the development of the Bank's market price risks in comparison to the previous year.

Market price risks	Year-end values	
in € thousands	31.12.2012	31.12.2011
VaR*) Interest rate risks for portfolio of "entire bank"	916	2,443
Standard risk**) Interest rate risks for the operating portfolio	13,238	4,758
Normal scenario***) Credit spread risks	69,748	102,828
Nominal volume credit spread risks	11,372,489	12,475,441

*) Confidence level 95 %, 1 day holding period **) Parallel shift 100 BP ***) Adjusted total portfolio, 10 % shift in credit spreads, exclusive municipality risks

The nominal volume of the foreign securities in fixed assets that have a credit spread risk fell from € 12,475.4 million as of 31 December 2011 to € 11,372.5 million as of 31 December 2012 due to maturities, selective new business and the active reduction in positions.

The daily calculated Value-at-Risk (VaR) for the interest rate risk fluctuated in the reporting period between € 3.0 million and € 0.8 million in 2012. The average value of € 1.6 million for the year confirms Deutsche Hypo's low risk appetite. The interest rate risk is almost exclusively related to the investment of perpetual equity. The utilisation of the VaR limit for interest rate risks averaged a mere 30 % over the year (2011: 48 %). The Bank did not exceed this limit at any time.

The development of the value at risk in 2012 (95 % confidence level, 1 day holding period) is shown in the chart below. This chart does not include the credit spread risks.

Change in value-at-risk interest rate risks (95 %, 1 day) in € millions
Portfolio of "entire bank"

The presentation of the value-at-risk for the interest rate risk in the context of the risk-bearing capacity model (cf. table on risk-bearing capacity as of 31 December 2012) differs in terms of method from the above value-at-risk figures in that the credit spread risks of assets in circulation are incorporated and in that the risk parameters are calibrated differently (confidence level of 95 % and a holding period of 250 days). The credit spread risks for securities in fixed assets and credit derivatives in the gone concern approach have been completely integrated as planned in the context of the RBC model.

The simulation of an interest rate shock in accordance with the requirements of the Solvency Ordinance (SolvV) and with a share of the liable capital in the amount of 5.33 % as of 31 December 2012 showed that the Bank was clearly below the regulatory threshold of a maximum of 20 % (level as of 31 December 2011: 5.93 %).

Market price risk – Outlook

Deutsche Hypo will continue to monitor market developments in 2013. The conservative risk policy and the successive refinement of the risk models and the risk management process are important starting points for the appropriate management of risk in volatile market phases.

To increase the harmonisation of the risk management process with regard to the NORD/LB Group's standards, the Bank is planning the further methodological overhauling of the used controlling instruments in individual cases. Against this backdrop, the adjustment of the limit for credit spread risks in fixed assets is planned with the refined risk-bearing capacity model.

The strategy of reducing high risk positions to protect the income statement will continue.

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 (funding 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 strategic necessity for Deutsche Hypo, and is also a requirement imposed on it by regulatory law. The holding of sufficiently liquid assets – particularly central bank eligible securities – serves to hedge the classic liquidity risk. The goal is to avoid the classic liquidity risk. In this connection, cover-eligible receivables in accordance with the requirements under the Pfandbrief Act (PfandBG) play an important role.

In the funding of the business activities in the market areas, Deutsche Hypo pursues the strategy of term-congruent funding. The funding risk lies specifically in a structural liquidity transformation to take advantage of opportunities for a contribution to profits from bank-typical profit sources based on liquidity spreads. In both cases, the risk are kept in check by imposing limits. The business policy principles for the management of liquidity are set in Deutsche Hypo's liquidity policy. The liquidity policy provides the strategic guidelines for maintaining sufficient liquidity at all times and is developed in accordance with Deutsche Hypo's risk culture, its role on financial markets and its business and risk strategy.

In the case of a liquidity crisis, the management of the liquidity risk is assumed by an independent team in close coordination with the Board of Managing Directors and – depending on the type of crisis – with crisis managers from NORD/LB.

Structure and organisation

The process of liquidity risk management must include the entire Board of Managing Directors and the Treasury and Controlling departments. In order to ensure objectivity and transparency and to avoid conflicts of interest, it is necessary to ensure the principle of a functional separation between the area to be controlled and the risk controlling function up to and including the management level.

The Board of Managing Directors sets framework conditions, jurisdictions, processes and risk tolerance for the liquidity risk and is responsible for the design of the liquidity risk strategy and for the effective implementation of the liquidity risk management.

The Treasury department handles the operating liquidity risk management. It is also responsible for the management of the intraday liquidity positions. As an independent monitoring unit, the Controlling department defines the applied processes for measurement, limiting and monitoring liquidity risks and carries out monitoring and reporting functions. The Reporting department is responsible for the determination, monitoring and reporting of key liquidity indicators to the regulators.

Liquidity risk – Controlling and monitoring

For the controlling and monitoring of the funding risk, Deutsche Hypo uses volume structure limits and net present value limits for funding risks. They are derived from the risk strategy capital allocation for liquidity risks in the RBC model. The Bank monitors the utilisation of the limits on the basis of the liquidity outflow statement for the entire position. The calculated balances for the individual maturity bands from one month to 30 years may not exceed the approved volume structure limits.

They are reported to the Board of Managing Directors if limits are exceeded. The net present value calculation, which shows the change in net present value from potential funding costs, consolidates the risks over the individual maturities in a key indicator. The net present value calculation is primarily used for the quantification of the liquidity risk as part of the risk-bearing capacity concept for the entire bank. Furthermore, the funding risks from significant foreign currencies are determined in the context of the risk-bearing capacity calculation and restricted through volume structure limits.

The classic liquidity risk is limited and controlled by a dynamic stress test scenario. The scenario describes the most likely crisis situation from an expert's point of view. A difference is made between deterministic payment flows and variable or unforeseeable payment flows. The amount and maturity of the deterministic payment flows is known at the time of the report, whilst the amounts and/or maturities of the variable payment flows are unknown and modelled by using suitable stress assumptions. The classic liquidity risk for significant foreign currencies is also limited. In addition, there are further static stress tests. They model both the institution's own and the market's crisis scenarios. The goal is to avoid liquidity shortages in cases of crises.

For the planning of a liquidity crisis, the Bank considers the dynamic and static liquidity scenarios for the simulation of possible impacts from the crisis. In each of the scenarios, the possible changes in the assets and liabilities as well as the off-balance sheet transactions are analysed with regard to the liquidity situation.

Additional liquidity may be secured in the case of stress by maintaining a liquidity buffer consisting of free, highly liquid securities in accordance with regulatory requirements. Deutsche Hypo uses a modified version of the Group's coordinated dynamic liquidity stress test (LST) as the basis for determining the minimum amount for the liquidity buffer.

Liquidity risk – Reporting

The report on the dynamic stress scenario is sent to the Treasury and members of the Board of Managing Directors responsible for Treasury and Controlling on a daily basis and also to the full Board of Managing Directors on a weekly basis. A report on the results of dynamic stress testing, with comments, is forwarded to the Bundesbank every week. The use of the required liquidity buffer is reported to Treasury on a daily basis.

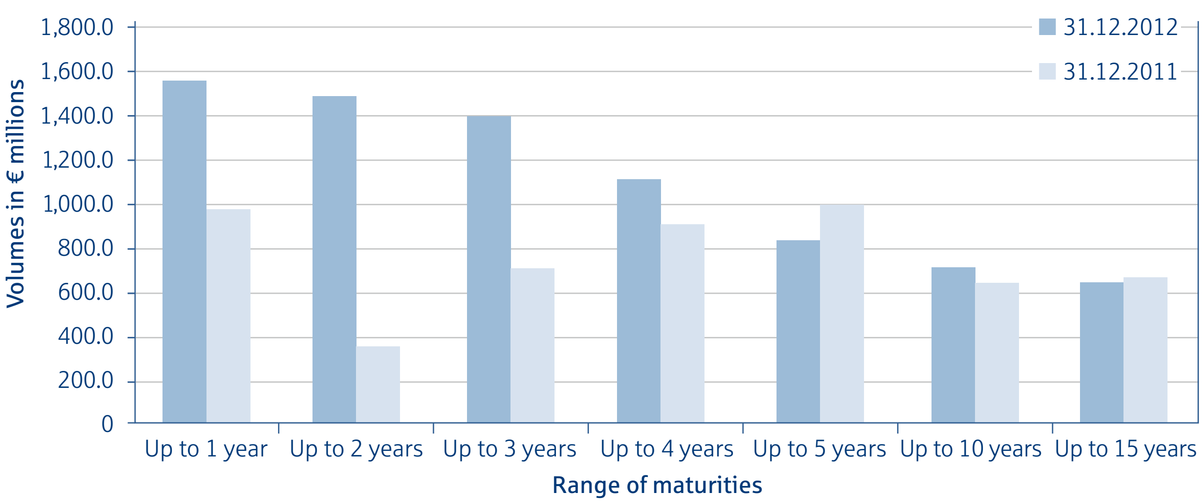
The liquidity outflow statement and the net present value funding risk calculated according to the risk-bearing capacity model are provided to Treasury every day. The report on the funding risk is sent to the Board of Managing Directors on a monthly basis as part of the risk-bearing capacity report.

Furthermore, the quarterly MaRisk reporting includes the summary report on the classic liquidity risk, the liquidity outflow statements of the RBC stress scenario and concentration risks.

Liquidity risk – Development in 2012

The liquidity situation on the markets was defined by uncertainties in 2012 on account of the possible impact of the European sovereign debt crisis. Irrespective of this, Deutsche Hypo had sufficient access to the money market and capital market at all times in 2012. The total issue volume recorded was € 4,254.1 million (2011: € 4,940.4 million) and made it possible to place sufficiently covered and unsecured issues on the market at acceptable conditions. The Bank's cumulative liquidity outflow statement shows liquidity surpluses for the entire maturity band.

Cumulative liquidity outflows in € millions



There was no unsecured funding requirement as of 31 December 2012, as in the previous year, on account of the forward-looking liquidity management and the largely term-congruent funded new business. The ratio of cumulative US dollar outflows in relation to the available potential foreign currency derivatives over the next 90 days was 30.8 % as of 31 December 2012 (2011: 6.8 %).

The dynamic liquidity stress test (LST) used for internal controlling and limiting showed a consistently positive liquidity surplus for at least 365 days as of 31 December 2012. The requirement for the green phase in the traffic light system is to maintain a minimum value of 180 days, which was clearly met over the entire year. Likewise, the Bank met the requirements for the maintained liquidity buffer in accordance with the minimum requirements placed on risk management. At the end of 2012, Deutsche Hypo had a sufficient portfolio of highly liquid securities to cover the buffer requirements. The utilization was at 2 %.

The active management of liquidity and careful observation of the markets meant that Deutsche Hypo's liquidity was ensured at all times in 2012. The liquidity performance indicator in accordance with the German Liquidity Regulation (LiqV) was always significantly above the required regulatory minimum amount of 1.00 and amounts to 1.49 as of 31 December 2012.

In total, the measurement and controlling procedure in the area of the liquidity risk continued to be increased in 2012. In this connection, one of the focal points was the implementation of the substantially higher requirements made of management and external reporting, particularly the requirements in accordance with Basel III regarding the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity risk – Outlook

No significant increase in the liquidity risks is anticipated for 2013. The expansion of liquidity controlling will continue in 2013, particularly with regard to the consideration of the material relevance of the liquidity costs. The background for this consists of the requirements imposed by national and international regulatory authorities in relation to controlling liquidity spread risks and funding risks in risk management. Of particular significance to the Bank in this context are the requirements for the settlement systems for liquidity costs from the fourth amendment of MaRisk.

Operational risk

Operational risks in the narrow sense are the risks associated with damage that could be incurred due to the inappropriate nature or failure of internal workflows, employees or technology, or as a result of external influences. The definition includes legal risks and reputation risks as well as consequential risks. Deutsche Hypo understands the compliance risk, the outsourcing risk, the dilution risk and the fraud risk to be components of the operational risk.

Operational risk – Management

Strategy

The guidelines for dealing with operational risks are formulated in Deutsche Hypo's business and risk strategy. Fundamentally, operational risks should be avoided if this is economically sensible. The Bank protects itself from operational risks if the costs of the protection do not exceed the amount of the expected damage or if there may be significant reputation effects. Furthermore, there are framework conditions in the form of technical and organisational measures, contractual provisions and working instructions to reduce the operational risk as much as possible. Not only specific contingency plans and appropriate insurance coverage, but also every employee's sensibility for risks play a key role here.

The causes of risks and the concentration of risk should be identified through a continuous analysis of cases involving losses and risk indicators as well as the application of the risk assessment methods, and prevented in terms of a functional internal control system (ICS) The appropriateness and effectiveness of the ICS is checked with regard to risk at regular intervals.

Deutsche Hypo makes use of the possibility of outsourcing processes. The outsourced functions should continue to meet the Bank's performance and quality standards. The primary goal in this connection is the leveraging of synergies, an increase in efficiency and the optimisation of processes as well as the avoidance of risk potential.

Processes that represent strategic core competencies remain within Deutsche Hypo in compliance with the regulatory requirements for outsourcing in accordance with MaRisk. The goal is to keep the risk of outsourcing as low as possible by taking suitable measures.

Structure and organisation

The Board of Managing Directors, the Risk Controlling department, Internal Audit and other areas are included in the process of managing operational risks. The Board of Managing Directors determines the fundamental treatment of operational risks in light of the risk situation on the entire bank level. Within the set framework conditions, responsibility for the controlling of the operational risks is decentralised and lies with the individual departments.

Risk Controlling handles the central tracking of operational risks and the independent reporting. Internal Audit has the job of independently checking the correct implementation and execution of the methods and processes in its general audit activities.

Operational risk – Controlling

Deutsche Hypo is closely integrated in the standardised Group methods as a subsidiary of NORD/LB. NORD/LB's developed methods and processes for the management of operational risks are applied to Deutsche Hypo. The methods and processes are adjusted to the extent that they are appropriate with regard to the type and scope of Deutsche Hypo's structure and operational risk situation. The internal model used at the Group level is closely based on the regulatory requirements for internal models in the advanced measurement approach (AMA).

The management of operational risks is supported in this connection by a methodological framework for risk assessment. The constantly updated assessment of the risk situation entails the evaluation of ongoing extensive information such as cases of loss, risk indicators and the results of scenario analyses. Suitable measures are taken by the responsible departments if the occasion requires it. The plans for continuing business, the emergency plans and the appropriateness of the insurance coverage are checked at regular intervals. Escalation processes have been set to ensure the prompt introduction of countermeasures. The risk manual contains a detailed description of the goals and content of the individual methods.

Accounting-related internal control system (ICS) and risk management system

The accounting-related internal control system (ICS) is a part of Deutsche Hypo's overall ICS concept. This is based on the requirements of the internationally recognised COSO framework for ensuring an appropriate and effective ICS. Controls in the form of key controls and simple controls have been implemented in all the accounting relevant processes. These controls are to be performed periodically or on certain occasions, their results documented and their appropriateness checked at regular intervals. They include ongoing manual control work within the work process and 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 and between the Bank's IT system. This ensures that the clearly defined specifications of the Accounting department within the accounting process are implemented.

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

- Deutsche Hypo's Accounting department is responsible for the preparation of the annual financial statements and the Management Report. The accuracy and completeness of the obligatory accounting circumstances from supplying divisions is handled there and subject to adequate controls. The functions of the Bank's departments involved in the accounting process are separated. Areas of responsibility are clearly allocated.
- The IT systems and files used in the accounting process are protected against unauthorised access, manipulation and loss by means of regular data backups and corresponding access restrictions.
- The permanent monitoring of the IT systems by appropriately trained employees of the Bank and external systems partners reduces the risk of downtime and ensures high availability.
- The Bank has implemented an appropriate system of guidelines and instructions by means of an organisational manual that takes the form of an organised structure and workflows.
- All accounting processes are subject to consistent manual and automated 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.
- Deutsche Hypo's Internal Audit checks the observance of the ICS independently of processes.

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.

Operational risk – Measurement

Deutsche Hypo uses NORD/LB's internal model to measure the operational risk. Internal data, scenario analyses from the risk assessment and external data from the DakOR syndicate are included in this model; furthermore, correlation effects are taken into consideration. A loss distribution approach is also used in which elements from extreme value theory are considered. Starting with historical or synthetically generated loss case data from the NORD/LB Group, the Bank models the amount of the loss and the frequency of the loss separately with suitable distributions.

In the context of the risk-bearing capacity, quantiles of the loss distribution aggregated in this way are reported as the operational value at risk (Op VaR) with a holding period of one year for the going concern case and the gone concern case. The capital requirement in accordance with the standard approach is used for the regulatory capital adequacy.

Operational risk – Reporting

The continuous risk management process means that the results from the loss case collection, risk indicators and risk assessment are analysed and communicated to the Board of Managing Directors as a rule at least quarterly and to the responsible divisions if there is a reason, but at least once a year. The regular reporting includes information from the loss case database, the risk assessment and the internal model for operational risks. The reporting is handled in the NORD/LB Group within the scope of a Group OP Risk Report in aggregate form and also outlined in the individual institutions through the risk-bearing capacity reporting.

The quarterly ORC meetings report on and discuss the current state of operational risks. The quarterly ORC report includes information on current cases of losses and ad-hoc reports with operational background on the loss, overdue findings by 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 aggregate form on the status of operational risks facing Deutsche Hypo.

Operational risk – Developments in 2012

In the previous financial year Deutsche Hypo was able to harmonise the controlling of risks even more. The risk identification system was refined with regard to the established early warning system for the identification of potential risks and the prompt introduction of suitable countermeasures.

An improvement in the reporting of operational risks also took place as planned in the overhauling of existing control instruments. The refinement of the internal control system in the reporting period also focused on the initial inclusion of additional main processes at the Bank.

Operational risk – Outlook

In 2013 the Bank plans to expand the early warning system. In this connection, it plans the introduction of additional risk indicators to customise the indicator system for the Bank.

Summary and outlook

Deutsche Hypo took all the known risks into account through effective precautionary measures. It fulfilled the regulatory requirements on appropriate equity and liquidity at all times in 2012. Similarly, the Bank consistently adhered to the statutory provisions on large exposure limits pursuant to Sections 13 and 13b of the German Banking Act (KWG) and to the terms of the Pfandbrief Act, which is binding for Deutsche Hypo.

The degree of utilisation in the controlling-relevant going concern approach for the risk-bearing capacity calculation shows that there was risk cover at all times in 2012. The regulatory requirements and the applicable framework conditions were observed at all times. The observable market developments over the course of the year constantly improved with regard to the meeting of internal targets in the secondary condition of the risk-bearing capacity calculation. This development benefited from the abating European sovereign debt crisis and the successfully implemented measures for strengthening the risk-bearing capacity.

In 2013, a central objective will be a further increase in the risk-bearing capacity. In this connection, the Bank will be actively meeting in particular the increased requirements from Basel III with regard to capital and liquidity within the scope of various projects.

In order to react to changes in the economic and political conditions at short notice, Deutsche Hypo will observe and analyse the development of the economic situation in Germany and the development of the euro countries in the future, too.

Forecast

Development of business and general conditions

Economic development

The prospects for global growth improved recently. The development of the early indicators and the increased dynamics in China speak for an improvement in the weak global economy soon. Nonetheless, risks from the financial and sovereign debt crisis remain in many industrialised countries. In particular, the course of the structural adjustments in the euro countries is being observed closely by the capital markets.

The outlook for the German economy is thoroughly optimistic. The signs that the economic downturn in the winter half of the year has already bottomed are increasing. It may still be too early to proclaim a change of direction, but the development of the order portfolio should have had a positive impact on sentiment. Furthermore, exports are profiting from the more dynamic global economy. In total, a moderate GDP growth in Germany of 0.8 % as compared to the previous year is anticipated for 2013.

In the euro countries, the prospects for their economies recently improved somewhat. The most important indicators of sentiment rose at the end of the year – however from a very low level. Despite the recently calm markets, the debt crisis remains the greatest economic risk for euro countries.

Both in euro countries and in Germany, the inflation pressure will be low in the following year. Over the course of the year, the inflation rate for consumer prices in Germany and the euro countries is forecast to be below the level of 2 % as compared to the prior year.

In the USA, solid GDP growth of a good 2 % is anticipated for 2013 if there is a compromise on the budget dispute.

Development of real estate markets

In 2013, similar to the years before, Deutsche Hypo expects a slight rise in global investments in commercial real estate. In Europe, the cooling of the economy hurts the prospects for the commercial real estate markets. This results in an ongoing mixed picture: While the northern European real estate markets have enjoyed a largely stable development, the forecasts for the southern European markets are significantly more pessimistic.

Germany

In Europe, the German real estate market will also remain a safe haven for investors in 2013. The prospects for the current year are therefore still positive. Since no clear increase in yields for government bonds is evident in the near term, there is still an attractive spread for safe real estate investments. If investors' appetite for value-added and opportunistic investments grows again, one can also expect a transaction volume of € 22 billion to € 25 billion in 2013. The top returns should stabilise on a low level in 2013 after declining in 2012 in office, retail and logistics real estate.

Europe

In the UK, the slowly emerging economic recovery will have a positive impact on the real estate markets. The slight economic growth as forecast will bring about an increase in employment and stimulate demand for office space over the course of the year. Retail will also profit from increasing consumer demand over the course of the year, due to the rise in available income.

France will also have to struggle with the weak economic prospects and a high level of debt. There will be no noticeable recovery of the economy there before 2014. Consequently, weak private consumption coupled with falling retail sales is expected in 2013. Retailers will continue to concentrate on prime locations in inner-cities, which ensure sales. Due to the strong demand for top locations along with a shortage of supply, it is likely that high-end rents will continue to rise.

The real estate investment market in the Netherlands will only recover slowly due to the high level of government debt and the ongoing uncertainty among consumers. The still subdued demand on the office market is not sufficient to reduce the vacancy rate on account of the overhang in supply that built up over the last decade. In Belgium and Luxembourg, no noticeable upturn in demand for office space is expected. As a result, demand for retail space will also remain weak.

2013 economic growth in Poland will slow somewhat from 2012 due to the weakening of domestic demand. The continuing structural change in the service sector will increase demand for office space in large cities, especially Warsaw, in the coming years. The retail market will only experience a significant recovery in 2014. Over the medium to long term, this segment holds a lot of potential for growth on account of the expected rise in per capita income.

Development of international financial markets

Currently the first signs of success from the restructuring in countries such as Ireland, Portugal or Italy can be seen. Coupled with the promise by the European Central Bank (ECB) to buy an unlimited amount of bonds, there is now enough leeway to overcome the sovereign debt crisis. It is not yet clear what additional measures will be taken, but the Bank remains confident that the current relative calm on the markets will also continue in 2013.

Since many countries in the EU are currently in a recession, it can be assumed that the ECB will continue its low interest policy. This will continue to have a positive impact on the economic development. Banks as well as industrial companies and private households can fund at good conditions and the banks are fulfilling their role of financing the economy.

Deutsche Hypo will again focus its new business on the management of liquidity and cover assets, whereby the selection of securities will continue to be based on the applicable and foreseeable regulatory and statutory requirements. Since new business will be less than in the previous years, the Bank anticipates a further reduction in its portfolio.

The issuing business will not encounter any difficulties in 2013, according to the Bank's assessment. It also continues to be confident with regard to the demand for Pfandbriefe. Significant maturities and declining issue volumes in the overall market cause investors to search for replacement investments. Deutsche Hypo will continue to act as a regular issuer of large-volume benchmark transactions and will also serve the segment of private placements. This will let it appeal to a broad basis of investors. The continual expansion of this remains a primary goal in 2013. The very stable refinancing basis overall will also make it possible to pursue competitive commercial real estate business in the coming year.

Development of the banking sector

The scenario calculations and the planning process have showed that an increase in regulatory requirements does not lead to a long-term reduction in business opportunities or the anticipated revenue and income at Deutsche Hypo. If additional regulatory requirements are imposed over the course of the year, Deutsche Hypo is confident it will be able to prepare for them quickly in the future and implement the requirements at short notice.

With regard to competitors, Deutsche Hypo expects that the consolidation of market participants will not continue at the same rate as in previous years. However, the emergence of other participants such as insurance companies, pension funds and other funds is anticipated. Deutsche Hypo assumes that it will act not only in its classic function as a lender, but also more than before as an organiser of financing and arranger of other financial resources in the future. While the new market participants are expected to concentrate more on portfolio financing in the core segment, real estate financers such as Deutsche Hypo who have been active on the market for many years will increasingly seek more complex financing where they can use their structuring know-how. Examples include project development and refurbishments.

Earnings forecast

Significant assumptions in the forecast

The Bank's multi-year plan, which is compiled annually, provides the basis for the earnings forecast. A planning model is used that enables Deutsche Hypo to model the results expected in future. This includes factors such as new business, the 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 sovereign debt crisis and its potential impact on economic performance in the eurozone. Furthermore, regulatory requirements – including Basel III – as well as the EU's requirements on the level of the NORD/LB Group are taken into account.

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

- The way in which commercial real estate markets develop has a material impact on new business and on risk provisioning in the credit business.
- 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, funding options, liquidity management and the need for write-downs in relation to the capital market portfolio are affected in this regard.
- Another increase in the regulatory requirements could have a negative impact on income.

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.

It is expected that the good condition of the real estate markets and the ensuing increase in the demand for credit will lead to a rise in potential new business. The costs for the increase in the capital requirements (Basel III) could continue to be compensated by rising margins.

The income forecast also takes into account Deutsche Hypo's structural and business policy measures for strengthening its position over the long term:

- Implementation of the measures that were developed as part of the SIGN project. Intensification of the optimisation of processes and structures as well as the leveraging of synergies in the NORD/LB Group.
- The strategic orientation as a German real estate financer with a focus on German and European core countries, including the discontinuation of the real estate finance business in the USA and Spain, and an increase in selective new markets (e.g. Poland).
- Continuation of the project development business and strengthening of the business in real estate investment banking (special and structured financing).
- Intensification of syndication to support projects with attractive margins and a comparatively high financing volume.
- Meeting the requirements for additional securitisation transactions for the risk-weighted assets and the segment volume management.
- Customer selection with respect to the cross selling potential connected with a focus on target customers.
- Strong focus on new business that is eligible as cover asset.
- Phasing out of the capital market portfolio to reduce the hidden charges and credit spread risks for solely selective new business activity with a focus on cash flow-based assets.

Development of commercial real estate finance

Looking to the upcoming financial years, Deutsche Hypo expects its volume of new business to be comparable to the previous year. The business strategy plans to do two-thirds of this business in the home market of Germany. The remaining new business volume will be distributed across the Bank's strategically relevant foreign markets. Particular attention is given to structured real estate financing and project developments. Ongoing, comparatively high new business margins will lead overall to slightly rising margins on the level of the total portfolio. Over the next few years, there will be a continuous increase in the portfolio of commercial real estate finance. In connection with the improving margins, Deutsche Hypo assumes increasing net interest income in the coming years. Additionally, the Bank continues to anticipate adequate processing fees from new business. They are largely reported separately over the term of the credit, in the subsequent period, under net interest income.

Against the backdrop of increasing net interest income and falling risk provisioning, Deutsche Hypo expects a result for commercial real estate finance business in 2013 that is slightly above the contribution in the past financial year. For 2014, the Bank anticipates an improvement in earnings as compared to 2013.

Development of capital market business

Against the background of the ongoing European sovereign debt crisis, it is currently difficult to forecast performance in capital market business. The Bank assumes the progressing continuation of the already observed calming and stabilisation of the financial markets. However, in the short term, Deutsche Hypo continues to expect sharp fluctuations.

In the context of the business strategy, the ongoing reduction in the capital market portfolio will be pursued in order to achieve an ongoing reduction in the hidden charges and credit spread risks. Furthermore, Deutsche Hypo solely pursued selective new business that primarily serves the management of liquidity and cover assets. Instead, the Bank plans to see generally falling net interest income as compared to the previous year.

Taking into account slightly declining administrative expenses, Deutsche Hypo anticipates a slightly positive pre-tax result roughly at the level of the previous year for the capital market business in 2013 and 2014.

Other business

Taking into account the interest expenses for capital from silent partners and the restructuring expenses, Deutsche Hypo expects a negative pre-tax result from other business in 2013 and 2014.

Outlook

With regard to the 2013 financial year, Deutsche Hypo expects positive results overall, which should lead to a further increase in the net income for the year. This will also continue in 2014. In the coming years, the Bank assumes an ongoing improvement in the commercial real estate finance business and rising net interest and commission income as a result. Deutsche Hypo expects its risk provisioning to move downwards and ever closer to their historical aver-age. In contrast to the development of income, Deutsche Hypo also anticipates a decrease in administrative expenses through the implementation of the SIGN project in the coming years. Accordingly, a further rise in results will be seen in future years.

The prevailing uncertainties in the context of the ongoing European sovereign debt crisis and its potential impact on the economic performance in the eurozone are however difficult to forecast.

Opportunities and risks

A reduction in the capital market business for the benefit of the commercial real estate finance and the focus on the target regions of Germany, Benelux, France, Great Britain and Poland since the middle of 2012 will lead to increases in income on account of the deeper penetration of the markets. At the same time, the Bank will maintain a sufficient diversification that minimises the danger of creating cluster risks.

Deutsche Hypo see opportunities in the possibility that the already mentioned real estate markets – unimpacted by the European sovereign debt crisis – will continue to be strong and consistently rise in value, connected with an ongoing rise in margins. The Bank is striving to pursue the project development business and the real estate investment banking in its core markets. The financing is to be increasingly syndicated and structured with a higher amount of collateral; both reduce the credit risk. Besides the direct business with customised financing, Deutsche Hypo primarily aims for an expansion of business in the saving banks (Sparkassen) network.

Generally, Deutsche Hypo faces the risk of not being able to generate the expected level of new business at the planned margins on its target markets, whereby a reduction in income in one market may be offset to a certain extent by additional income in another market, particularly as the Bank is also well positioned according to property groups on account of the diversified credit portfolio.

Overall, Deutsche Hypo expects moderate risks from changes in interest rates and exchange rates; particularly, credit spread risks can lead to a further increase in hidden charges. The ongoing resolution to the European sovereign debt crisis offers good opportunities for a reduction in the previous charges. Pfandbriefe and unsecured bonds are the Bank's main sources of funding; in particular, the issuing of mortgage Pfandbriefe is the basis for the fact that the Bank can provide its customers with attractive conditions and reduces liquidity risk.

Operational risks are checked at all times and largely eliminated through emergency plans. The Bank's customers and investors value primarily its many years of continuous activity on the market and the high level of expertise and reliability. This is due to the growing relationships and well educated, motivated employees.

The integration of Deutsche Hypo in the NORD/LB Group offers numerous opportunities for synergies that will also have an impact on the procedural and methodological adjustments. Furthermore, the SIGN project will contribute to improving the Bank's profitability.

Another important cornerstone for Deutsche Hypo's good starting point is its comfortable equity ratio, which ensures its solid risk-bearing capacity in ongoing business operations. Regulatory requirements such as e.g. Basel III, however, contribute to the fact that the requirements made of equity and also the risk-bearing capacity are constantly increasing. Furthermore, external shocks such as a significant intensification of the sovereign debt crisis may lead to higher hidden charges and thus to a possible reduction in the risk-bearing capacity.

Overall, Deutsche Hypo – under the assumption that its core markets develop as planned – sees a realistic opportunity of stabilising and further expanding its good market position and its competitiveness.

Hanover, 26 February 2013

The Board of Managing Directors

Bürkle

Pohl

Rehfus

Balance
is the result
of a strong
foundation.

10 German mark
Subject: Allegorical group symbolizes work, justice and construction

After the currency reform Deutsche Hypo re-enters the banking business and grants loans for the reconstruction of war-damaged residential buildings.

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2012

ASSETS

	€	€	€	31 December 2011 (€ thousand)
1. Cash reserve				
a) Cash on hand		1,449.41		3
b) Credit with central banks		32,285,838.11		105,671
of which:				
with the German Central Bank				
32,285,838.11 € (PY € 105,671 thousand)				
			32,287,287.52	105,674
2. Receivables from financial institutions				
a) Mortgage loans		34,365,481.45		7,381
b) Loans to local authorities		2,417,064,314.84		1,991,612
c) Other receivables		2,078,276,458.63		1,872,565
of which:				
due daily				
€ 1,179,245,358.83 (PY € 1,136,351 thousand)				
			4,529,706,254.92	3,871,558
3. Receivables from customers				
a) Mortgage loans		12,346,904,547.89		12,125,860
b) Loans to local authorities		6,450,078,129.18		6,328,894
c) Other receivables		279,219,970.72		412,524
			19,076,202,647.79	18,867,278
4. Bonds and other fixed interest securities				
a) Money market instruments				
ab) from other issuers	0.00			548,973
		0.00		
b) Bonds and debentures				
ba) from public issuers	4,989,893,184.63			4,951,346
of which:				
borr. from Ger. Central Bank				
€ 3,116,884,199.19 (PY € 2,928,767 thousand)				
bb) from other issuers	5,460,296,628.66			6,286,806
of which:				
borr. from Ger. Central Bank				
€ 4,791,006,353.90 (PY € 5,438,274 thousand)				
		10,450,189,813.29		
c) Own bonds		163,462,390.11		38,446
Nominal amount				
€ 156,731,000.00 (PY € 38,482 thousand)				
			10,613,652,203.40	11,825,571
5. Shares and other variable-interest securities			0.00	50,628
6. Participatory interests			76,949.43	77
7. Shares in affiliated companies			7,080,341.05	8,804
8. Trust assets			1,624.78	4,842
of which:				
Loans on a trust basis				
€ 1,624.78 (PY € 4,842 thousand)				
9. Intangible Assets				
b) Purchased licenses, industrial property, as well as licenses to those rights and assets		486,578.00		275
d) Payments made on account		481,950.00		320
			968,528.00	595
10. Tangible assets			3,815,909.49	4,276
11. Other assets			156,548,485.18	180,485
12. Accrued and deferred items				
a) from the issue and loan transaction		134,824,880.21		52,048
b) others		23,017,356.18		26,509
			157,842,236.39	78,557
Total assets			34,578,182,467.95	34,998,345

LIABILITIES

	€	€	€	31 December 2011 (€ thousand)
1. Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		247,370,955.44		257,548
b) Issued registered public Pfandbriefe		574,410,901.46		617,481
c) Other liabilities		7,564,803,415.82		6,930,469
of which:				
due daily				
€ 640,723,299.31 (PY € 498,511 thousand)				
			8,386,585,272.72	7,805,498
2. Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		862,839,655.28		931,664
b) Issued registered public Pfandbriefe		7,644,058,253.06		7,900,413
d) Other liabilities		1,206,614,314.27		1,450,712
with which:				
due daily				
€ 34,778,314.05 (PY € 2,605 thousand)				
			9,713,512,222.61	10,282,789
3. Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,187,668,664.34			6,290,566
ab) public Pfandbriefe	4,000,936,435.74			5,454,851
ac) other bonds	3,490,721,237.76			3,344,170
		14,679,326,337.84		
			14,679,326,337.84	15,089,587
4. Trust liabilities			1,624.78	4,842
of which:				
Loans on a trust basis				
€ 1,624.78 (PY € 4,842 thousand)				
5. Other liabilities			241,755,061.82	381,097
6. Accrued and deferred items				
a) from the issue and loan transaction		103,124,527.97		53,997
b) other		18,142,186.13		17,991
			121,266,714.10	71,988
7. Provisions				
a) Provisions from pensions and similar obligations		31,914,479.00		29,101
b) Tax provisions		9,750,444.54		1,000
c) Other provisions		15,498,687.35		12,493
			57,163,610.89	42,594
8. Subordinated liabilities			353,000,000.00	324,000
9. Jouissance right capital			98,000,000.00	98,000
10. Funds for general bank risks			14,400,000.00	0
11. Shareholders' equity				
a) Subscribed capital		80,640,000.00		80,640
Capital held by silent partners		150,000,000.00		150,000
b) Capital reserve		406,313,877.23		406,314
c) Profit reserve				
ca) statutory reserve	18,917,799.60			18,918
cd) other profit reserve	242,077,931.62			236,077
		260,995,731.22		
d) Balance sheet profit		15,222,014.74		6,001
			913,171,623.19	897,950
Total liabilities			34,578,182,467.95	34,998,345
1. Contingent liabilities				
b) Liabilities arising from sureties and guarantee agreements		864,795,376.57		892,693
			864,795,376.57	892,693
2. Other obligations				
c) Irrevocable credit commitments		1,169,449,031.75		770,651
			1,169,449,031.75	770,651

INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2012

	€	€	€	01 January 2011 – 31 December 2011 (€ thousand)
1. Interest earnings from				
a) Credit and money market transactions	861,561,736.92			870,580
b) Fixed interest bearing securities				382,379
and book-entry securities	350,495,200.23			
		1,212,056,937.15		1,252,959
2. Interest expenses		1,007,728,307.96		1,062,532
			204,328,629.19	190,427
3. Current income from				
a) Shares and other variable				
interest bearing securities		0.00		1,500
b) Participatory interests		1,001.50		1
c) Shares in affiliated companies		0.00		0
			1,001.50	1,501
4. Commission income		15,135,311.99		12,553
5. Commission expenses		4,332,656.31		1,767
			10,802,655.68	10,786
6. Other operating income			4,396,325.64	2,884
7. General administrative expenses				
a) Personnel expenses				
aa) wages and salaries	37,974,887.04			32,469
ab) social security and expenses for pension				
plans and for support	8,386,482.66			9,430
of which:				
from pension plans				
€ 2,787,215.60 (PY € 4,446 thousand)				
		46,361,369.70		
b) Other administrative expenses		26,049,481.11		27,926
			72,410,850.81	69,825
8. Write-downs and value adjustments of intangible assets and tangible fixed assets			797,637.62	786
9. Other operating expenses			6,817,083.74	8,294
10. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business		57,574,231.75		82,720
			57,574,231.75	82,720
11. Allocation to the funds for general bank risks			14,400,000.00	0
12. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securites treated as fixed assets		17,128,711.25		11,289
			17,128,711.25	11,289
13. Result from normal operations			50,400,096.84	32,684
14. Extraordinary expenses		4,329,494.10		570
15. Extraordinary result			– 4,329,494.10	– 570
16. Taxes on income		13,585,542.71		2,565
17. Other taxes not included under item 12		22,790.29		77
			13,608,333.00	2,642
18. Profit surrendered under a profit-pooling, surrender or partial surrender agreement			17,240,255.00	18,471
19. Profit/loss for the year			15,222,014.74	11,001
20. Transfer to profit reserves				
d) to other profit reserves			0.00	– 5,000
21. Balance sheet profit			15,222,014.74	6,001

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in € thousands	Subscribed capital	Silent deposits	Capital reserve	Profit reserve	Balance sheet profit	Total share-holders' equity
As of 31 December 2011	**80,640**	**150,000**	**406,314**	**254,995**	**6,001**	**897,950**
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	0	0	0	6,001	– 6,001	0
Pre-allocations to the profit reserves	0	0	0	0	0	0
Income for the period	0	0	0	0	15,222	15,222
As of 31 December 2012	**80,640**	**150,000**	**406,314**	**260,996**	**15,222**	**913,172**

in € thousands	Subscribed capital	Silent deposits	Capital reserve	Profit reserve	Balance sheet profit	Total share-holders' equity
As of 31 December 2010	**80,640**	**194,000**	**406,314**	**233,342**	**16,653**	**930,949**
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	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
Income for the period	0	0	0	0	11,001	11,001
As of 31 December 2011	**80,640**	**150,000**	**406,314**	**254,995**	**6,001**	**897,950**

CASH FLOW STATEMENT

in € thousands		2012	2011
1.	**Net result before extraordinary items**	**19,552**	**11,571**
	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	95,464	111,419
3.	Increase/decrease in reserves	2,126	7,554
4.	Other non-cash expenses/income	14,400	0
5.	Profit/loss from the disposal of financial assets	3,575	– 590
6.	Other adjustments (balance)	– 174,525	– 170,488
7.	Subtotal	– 39,408	– 40,534
	Change in assets and liabilities from current operations		
8.	Receivables		
	a. from banks	–740,948	1,002,017
	b. from clients	– 301,328	– 560,187
9.	Securitities (if not financial assets)	481,269	76,640
10.	Other assets from current operations	– 116,828	– 18,386
11.	Liabilities		
	a. to banks	667,164	– 486,956
	b. to clients	– 556,152	246,578
12.	Securitised liabilities	– 359,379	– 797,224
13.	Other liabilitites from current operations	– 1,573	138,740
14.	Interest and dividends received	1,271,895	1,270,799
15.	Interest paid	– 1,068,108	– 1,050,384
16.	Extraordinary deposits	0	0
17.	Extraordinary disbursements	– 636	0
18.	Income tax payments	– 3,551	– 6,597
19.	**Cash flow from current operations**	**– 767,583**	**– 225,494**
20.	Proceeds from disposal of		
	a. financial assets	1,198,052	1,030,933
	b. tangible fixed assets	12	11
21.	Disbursements for investments in		
	a. financial assets	– 443,233	– 629,179
	b. tangible fixed assets	– 147	– 1,012
22.	Proceeds from the disposal of consolidated companies and other business units*)	0	0
23.	Disbursements for the acquisition of consolidated companies and other business units*)	0	0
24.	Changes in funds from other investment activities (balance)*)	– 1,874	– 2,767
25.	**Cash flow from investment activities**	**752,810**	**397,986**
26.	Proceeds from equity allocations (capital increases, disposal of own shares, etc.)	0	0
27.	Disbursements to company owners		
	a. dividend payments	0	0
	b. other disbursements	– 43,614	– 40,077
28.	Changes in funds from other capital (balance)	– 15,000	– 59,300
29.	**Cash flow from financing activities**	**– 58,614**	**– 99,377**
30.	Cash change in finance funds	– 73,387	73,115
31.	Exchange-rate and valuation-related changes in finance funds	0	0
32.	Finance funds at the start of the period	105,674	32,559
33.	**Finance funds at the end of the period**	**32,287**	**105,674**

*) In deviation to the previous year, the amounts disclosed in item 22 (€ 150 thousand) and 23 (€ – 2,415 thousand) have been reclassified to item 24.

NOTES FOR THE FINANCIAL YEAR 2012

The figures in the tables in the notes are expressed in thousand euros (€ thousands) or million euros (€ millions). It should be noted that the amounts quoted in the tables and text are rounded figures, resulting in rounding differences in some cases.

General information

1. Accounting regulations

The annual financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, (Deutsche Hypo) for the 2012 financial year have been prepared in accordance with the provisions of the German Commercial Code (HGB) as amended by the German Accounting Law Modernisation Act (BilMoG) in conjunction with the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (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. The breakdown of the balance sheet and the income statement is based on forms 1 and 3 of the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV).

2. Accounting and valuation principles

The receivables from financial institutions and customers are reported at their nominal value according to Section 340e (2) HGB. Any differences between the nominal value and the payout value are reported under accrued and deferred items, which are released as planned. In deviation from 2011, the accrued and deferred items from the transfer of the real estate finance of NORD/LB to Deutsche Hypo are reported as a gross amount on account of a change in assessment with regard to the application of Section 246 (2) of the German Commercial Code (HGB).

Appropriate specific bad debt allowances and provisions according to cautious criteria stand in relation to identifiable risks in the credit business. Uncollectable receivables are written off. Account is taken of contingent credit risks in the form of a lump-sum bad debt allowance. The calculation of the lump-sum bad debt allowance is handled in accordance with the requirements of the Federal Ministry of Finance Circular (BMF) dated 10 January 1994.

Precautionary reserves in accordance with Section 340f HGB as of the previous balance sheet date were released in the past financial year and added to the funds for general bank risks in accordance with Section 340g HGB.

Securities are reported in the balance sheet under bonds and other fixed interest securities, as well as under shares and other variable-interest securities. If there are securities transferred under repurchase agreements, this will take place as part of real securities repurchase transactions which are reported in accordance with the requirements of Section 340b (4) HGB.

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 are reported in accordance with Section 253 (3) HGB. Write-ups are performed pursuant to Section 253 (5) HGB in cases where the reasons for an unscheduled write-down cease to apply. Securities from the liquidity reserve are valued in accordance with the lower of cost or market principle in accordance with 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 there is no active market or exchange for financial instruments, other price references are relied on (e.g. prices from market makers) that determine the fair value on the basis of the discounted cash flow models (DCF models) with parameters mainly observable on the market. If the markets are completely inactive and no sufficient market-observable parameters for the determination of the fair value are available, DCF models are also used to determine the fair value. In this case, parameters mainly not observable on the market are included in the models. As of 31 December 2012, there were no securities in the portfolio for which there were inactive markets.

For the determination of the anticipated ongoing impairment of the MBS securities, conventional models were used to estimate the expected defaults on the tranches held by Deutsche Hypo over the long term. The models take into account the critical risk indicators for the determination of the default risk structure.

Participatory interests and shares in affiliated companies are measured at the lower of cost or market value. Write-ups will be performed pursuant to Section 253 (5) HGB 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 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 on the income statement. In the application of Section 34 (3) of the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV), there is no individual table of write-ups and write-downs on participatory interests, shares in affiliated companies and securities treated as fixed assets.

Property, plant and equipment and intangible fixed assets are carried at their acquisition cost less the straight-line, scheduled depreciation over their ordinary 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 net present value applying an interest rate of 3.9 %. The payout commenced in 2008, with ten equal annual instalments to be paid.

Liabilities, as a general rule, are reported at their settlement amount. Any difference between the nominal value and payout amount is reported under accrued and deferred items, 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 net present 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 rising pay or pension adjustments. The net present value of the obligation is calculated by discounting the expected future benefits (settlement value pursuant to Section 253 (1), Clause 2 HGB) in accordance with Section 253 (2), Clause 1 HGB at the average market rate of interest over the past seven years. Use is made of the simplification rule set out in Section 253 (2), Clause 2 HGB, in that the interest rate is applied on a flat-rate basis for a residual term of fifteen years.

The higher obligation net present 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) of the Introductory Act to the German Commercial Code (EGHGB) by no later than 31 December 2024 in instalments of at least one fifteenth each financial year. This is reported in the income statement under extraordinary expenses. The calculations for the period to 31 December 2012 are based on the following actuarial assumptions:

	31.12.2012	31.12.2011
Actuarial interest	5.04 %	5.14 %
Mortality tables	Heubeck RT 2005 G	Heubeck RT 2005 G
Expectancy dynamics	2.00 % p.a.	2.00 % p.a.
Pension dynamics	2.75 % / 2.87 % / 1.00 %	2.75 % / 2.87 % / 1.00 %
Fluctuation	3.00 %	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) Clause 1 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. The applicable discount interest rate is determined by the German Central Bank (Deutsche Bundesbank) in accordance with the German Provision Discounting Ordinance (RückAbzinsV) and announced monthly. Interest expenses contain € 1.9 million from the accrual of provisions.

Contingent liabilities and other liabilities are reported at their nominal amounts in the balance sheet. Identifiable risks lead to the creation of provisions if the emergence of a loss is estimated to be likely.

In accordance with the requirements of IDW RS BFA 3 “Individual questions on the loss-free measurement of interest-related transactions for the banking book (interest book)”, a calculation from the income statement point of view verifies that the creation of a provision in accordance with Section 340a in conj. with Section 249 (1) Clause 1 or 2 HGB is not required for excess liability from the business with interest-related financial instruments in the banking book as of the reporting deadline. The entire banking book was included in the calculation for the balancing – in accordance with the context of funding. In the calculation, future results of the banking book for subsequent periods are determined from the contributions to income of the closed and open fixed-interest positions as are the anticipated risk and administrative costs. The periodic impact on income from the open fixed-interest positions was calculated via fictitious closing transactions on the basis of the current money and capital market interest rates. In the process, Deutsche Hypo’s individual funding surcharge is taken into account in the determination of the anticipated expenses still to be incurred.

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 German 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. 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.

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

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 and 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.

4. Derivatives

The Bank uses derivative financial instruments to manage the general interest rate risk (overall 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 with regard to the banking book on the respective reporting date.

Accrued or deferred interest from derivatives is reported under receivables from financial institutions or liabilities to financial institutions. Upfronts from derivatives are reported under accrued and deferred items.

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.

Deutsche Hypo provides the security for the total return swaps (TRS) contained in the portfolio. The issuers of reference are US regional authorities. TRS are not reported as pending transactions.

Previously collected premiums in connection with the conclusion of CDS and TRS are reported in interest income.

Notes on the balance sheet

5. Receivables from financial institutions and customers

in € thousands	31.12.2012	31.12.2011
Receivables from financial institutions		
Breakdown of residual maturities		
- up to three months	1,820,915	1,378,767
- more than three month and up to one year	434,162	180,587
- more than one year and up to five years	1,299,381	1,063,296
- more than five years	511,794	702,645
- total pro-rata interest	463,454	546,263
Balance sheet item	**4,529,706**	**3,871,558**
of which to affiliated companies*)	556,008	115,762
Receivables from customers		
Breakdown of residual maturities		
- up to three months	1,131,409	780,143
- more than three month and up to one year	1,683,447	1,934,436
- more than one year and up to five years	6,536,378	5,752,723
- more than five years	9,570,910	10,235,531
- total pro-rata interest	154,059	164,439
	19,076,203	18,867,272
- claims without an agreed term	–	6
Balance sheet item	**19,076,203**	**18,867,278**
- of which subordinate	5,618	5,618
- of which due from affiliated companies	5,618	5,618
- of which due from investors and investees**)	2,763	3,295

*) In deviation from the previous year, the figures include pro-rata interest. Likewise in deviation to the previous year, receivables from a certain bank are no longer classified as such with respect to affiliated companies. This leads to a total adjustment in the previous year's amount by € – 25,009 thousand.

**) In deviation from the previous year, the figures include pro-rata interest. Furthermore, a certain receivable is not reported in this item. The amount from the previous year was adjusted by € – 678 thousand as a result.

6. Debenture bonds and other fixed-interest securities

in € thousands	31.12.2012	31.12.2011
Debenture bonds and other fixed-interest securities Balance sheet item	**10,613,652**	**11,825,571**
- of which due from affiliated companies	302,014	851,620
- due in the following year*)	1,312,106	1,730,780
- of which marketable and listed on exchanges**)	9,248,928	9,760,544
- of which marketable and not listed on exchanges ***)	1,364,724	2,065,027

*) In deviation from the previous year, figures include pro-rata interest and an adjustment of the figure from the previous year by € 158,619 thousand.
**) In deviation from the previous year, figures include pro-rata interest and an adjustment of the figure from the previous year by € 119,795 thousand.
*** In deviation from the previous year, figures include pro-rata interest and an adjustment of the figure from the previous year by € 38,824 thousand.

For securities in fixed assets with a carrying value of € 3,928.4 million (2011: € 5,693.6 million) and a fair value of € 3,670.2 million (2011: € 5,218.4 million), a write-down to the lower value of € 258.2 million (2011: € 475.2 million) was not applied. In these cases, the Bank does not anticipate a long-term impairment, since a review of the credit rating of the issuer in question in the individual case did not reveal any signs that a long-term impairment was justified.

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

The NORD/LB AM 9 funds included under shares and other variable-interest securities was sold in the past financial year. As of 31 December 2012, there were no more positions in this balance sheet item. Shares and other variable-interest securities, participatory interests and shares in affiliated companies did not contain any marketable securities as of balance sheet date or on the corresponding reference date.

8. Fiduciary transactions

in € thousands	31.12.2012	31.12.2011
Trust assets		
Receivables from financial institutions	–	–
Receivables from customers	2	4,842
Total assets (balance sheet item)	**2**	**4,842**
Trust liabilities		
Liabilities to financial institutions	2	2
Liabilities to customers	–	4,840
Total liabilities (balance sheet item)	**2**	**4,842**

9. Fixed-asset movement schedule

	Historical costs			Depreciation		Book value on	Book value on
in € thousands	01.01.2012	Additions	Disposals	Accumulated	in 2012	31.12.2012	31.12.2011
Intangible assets	7,217	592	–	6,840	218	**969**	**595**
Property, plant and equipment	15,478	113	361	11,414	545	**3,816**	**4,276**
of which							
leased property and buildings						719	720
bank's own property and buildings						1,504	1,519
business and office equipment						1,593	2,037
Securities in fixed assets*)						**10,450,190**	**11,233,151**
Participactory interests						**77**	**77**
Shares in affiliated companies						**7,080**	**8,804**

*) In deviation from the previous year, figures include pro-rata interest and an adjustment of the figure from the previous year by € 155,613 thousand.

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

10. Other assets

Other assets totalled € 156,548 thousand (2011: € 180,485 thousand) and primarily include adjustment items from foreign currencies in the amount of € 142,926 thousand (2011: € 166,487 thousand) and claims against the tax authorities in the amount of € 5,749 thousand (2011: € 6,811 thousand).

11. Accrued and deferred items

in € thousands	31.12.2012	31.12.2011
Assets		
Issuing discount from bonds	25,557	22,608
Premium on claims*)	109,267	29,440
Swap upfront payments	22,970	26,103
Other	48	406
Balance sheet item	**157,842**	**78,557**
Liabilities		
Discount from claims	24,241	32,802
Premium on bonds*)	56,305	3,120
Processing fees and interest compensation	22,579	18,075
Swap upfront payments	18,142	17,991
Balance sheet item	**121,267**	**71,988**

*) In deviation from the previous year, the presentation of accrued and deferred items from the transfer of the real estate finance business from NORD/LB to Deutsche Hypo increased both the accrued and deferred items by € 52,335 thousand as of 31 December 2012 .

12. Deferred taxes

The Bank's deferred tax liabilities, which are very low, have been netted against deferred tax assets. Additional deferred tax assets of € 8,883 thousand (2011: € 9,242 thousand) were not carried as assets due to use of the option provided under Section 274 (1) Clause 2 HGB.

The deferred taxes for the head office in Germany were calculated applying an income tax rate of 31.93 %, with a rate of 24.5 % applied in the case of the UK branch. The German tax rate arises from the prevailing 15.0 % corporate tax rate in Germany, along with a 5.50 % solidarity surcharge and a trade tax of 16.10 %.

13. Liabilities to financial institutions or customers as well as securitised liabilities

in € thousands	31.12.2012	31.12.2011
Liabilities to financial institutions		
Breakdown of residual maturities		
- up to three months	4,626,602	3,458,334
- more than three month and up to one year	663,218	857,494
- more than one year and up to five years	2,235,385	2,015,907
- more than five years	469,503	995,809
- total pro-rata interest	391,877	477,954
Balance sheet item	8,386,585	7,805,498
of which to affiliated companies*)	3,975,972	3,313,600
Liabilities to customers		
Breakdown of residual maturities		
- up to three months	249,519	457,150
- more than three month and up to one year	321,835	216,795
- more than one year and up to five years	1,811,165	1,587,413
- more than five years	7,122,771	7,800,013
- total pro-rata interest	208,222	221,418
Balance sheet item	9,713,512	10,282,789
of which to affiliated companies	276	181
Securitised liabilities		
- due in the following year**)	3,784,582	4,130,604
- of which to affiliated companies	2,325,681	2,050,844

*) The amount from the previous year was adjusted by € 12,154 thousand on account of pro-rata interest from derivatives.
**) In deviation from the previous year, figures include pro-rata interest and an adjustment of the figure from the previous year by € 235,341.

14. Other liabilities

Other liabilities totalled € 241,755 thousand (2011: € 381,097 thousand) and primarily include adjustment items from foreign currencies in the amount of € 207,136 thousand (2011: € 304,587 thousand) and pro-rata interest on subordinated liabilities in the amount of € 23,371 thousand (2011: € 25,077 thousand).

15. Pension provisions

The measurement of pension provisions produced a shortfall of € 8,551 thousand at the time of initial application of the German Accounting Law Modernisation Act (BilMoG). The shortfall will be made up by the contribution of one-fifteenth of the amount (€ 570 thousand per annum) until 2024 in accordance with Art. 67 (1) Clause 1 of the Introductory Act to the German Commercial Code (EGHGB). As of 31 December 2012, the shortfall was € 6,841 thousand (2011: € 7,411 thousand*) at the time of initial application of the German Accounting Law Modernisation Act (BilMoG).

*) The amount from the previous year was adjusted by € 83 thousand.

16. Subordinated liabilities

Subordinated liabilities increased during the year under review from € 324.0 million to € 353.0 million. They are subject to nominal rates of interest from 4.0 % to 6.75 % and fall due from 2013 to 2027. Early repayments and conversions are excluded. One subordinated liability exceeds 10.0 % of the total amount reported. It is a liability of € 90.0 million subject to an interest rate 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 to the requirements of Section 10 (5a) of the German Banking Act (KWG).

The sum of € 27.0 million of subordinated liabilities (2011: € 28.0 million) shall fall due within the next two years. Interest expenses in the year under review amounted to € 19.2 million (2011: € 20.0 million). This slight fall in 2012 is attributable to the lower portfolio of subordinated liabilities on average in comparison to the previous year. As of balance sheet date, there are subordinated liabilities to affiliated companies in the amount of € 95.1 million (2011: € 95.1 million).

17. Jouissance right capital

The reported jouissance right capital amounts to € 98.0 million, as in 2011. 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.

18. Notes on the development of equity capital

Subscribed capital

Deutsche Hypo held subscribed capital of € 80.6 million on 31 December 2012, which is divided into 13,440,000 individual shares and is the same as in 2011. 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 (AktG). The right was not exercised in the year under review.

Capital held by silent partners

Since 2010, there have been two contracts with an indefinite term, each of € 75.0 million and subject to an interest rate of 10.00 % and 11.2 % 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.

Capital reserve

The capital reserve did not change from 2011 and amounts to € 406.3 million.

Profit reserves

The profit reserves increased by € 6.0 million to € 242.1 million on account of additions to other profit reserves from the balance sheet profit as of 31 December 2011.

19. Contingent liabilities

in € thousands	31.12.2012	31.12.2011
Liabilities arising from sureties and guarantee agreements	**864,795**	**892,693**
- of which credit default swaps	580,674	608,893
- of which sureties in the mortgage business	284,121	283,800

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.

20. Other obligations

Other obligations consist only of irrevocable credit commitments from mortgage loans.

21. Transactions not included on the balance sheet and other financial obligations

Deutsche Hypo is a member of the security reserve of Landesbanks and giro centres. The membership amounts are measured on the basis of the risk-oriented principles in accordance with the Articles of Association. Reserve liabilities of roughly € 27.0 million result. If a case of support occurs, the reserve liability can be requested.

Deutsche Hypo concluded rental and lease agreements for buildings the Bank uses and the fleet of vehicles and certain business and office equipment. There are no significant risks with an impact on the assessment of the Bank's financial position. All agreements concluded by the Bank in this form fall within the norm both individually and collectively.

22. Foreign currency positions

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

in € thousands	31.12.2012	31.12.2011
Fixed assets	5,166,193	5,525,659
Liabilities	1,245,203	1,522,870
Other commitments	68,595	131,705
Contingent liabilities	199,241	173,893

23. Securities repurchase transactions

As of the reporting date, 72 (2011: 48) securities with a book value of € 3,219.0 million (2011: € 2,295.5 million*) were the subject of repo transactions. The securities are used to hedge liabilities to financial institutions .

*) The figures from the previous year were adjusted by € 23.3 million due to pro-rata interest.

24. Open market transactions

As of 31 December 2012, there were securities with a nominal value of € 990.8 million (2011: € 1,255.1 million*) for overdraft facilities and open market transactions with the German Central Bank (Bundesbank). They are used to hedge liabilities to financial institutions. As of the reporting date, use had been made of open market loans worth a total of € 372.4 million (2011: € 477.9 million**). As in the previous year, no own bonds were pledged as collateral for transactions on EUREX.

*) The amount from the previous year was corrected by € 234.8 million.
**) The amount from the previous year was corrected by € 177.9 million.

Notes on the income statement

25. Other operating income

Other operating income totalled € 4,396 thousand (2011: € 2,884 thousand) and primarily includes income from the translation of foreign currencies (including one-off effects) of € 3,382 thousand (2011: € 0 thousand), income from the release of provisions of € 310 thousand (2011: € 617 thousand), ongoing income from leases in the amount of € 244 thousand (2011: € 248 thousand), and cost reimbursements of € 111 thousand (2011: € 1,088 thousand).

26. Other operating expenses

Other operating expenses of € 6,817 thousand (2011: € 8,294 thousand), mainly include the contribution to the restructuring funds for banks (bank levy) of € 6,175 thousand (2011: € 6,554 thousand). Expenses from the translation of currency are not included in this year (2011: € 1,393 thousand).

27. Extraordinary expenses

Extraordinary expenses of € 4,329 thousand (2011: € 570 thousand) are mainly due to the implementation of measures in connection with the SIGN project started in the past financial year. This project's goal is, among others, to significantly reduce administrative expenses in the coming years. In connection with this, Deutsche Hypo took the first steps by withdrawing from the previous target markets of Spain and the USA. Restructuring expenses incurred accordingly for these and other already introduced measures.

Due to the change in the German Accounting Law Modernisation Act (BilMoG), € 570 thousand was added to pension provisions (2011: € 570 thousand) in accordance with Article 67 (1) Clause 1 of the Introductory Law to the German Commercial Code (EGHGB).

Other disclosures

28. Services rendered to third parties

Deutsche Hypo renders services in particular in connection with the management of loans. This relates mainly to the servicing of the real estate finance business that is still in the portfolio of NORD/LB and is planned to be transferred to Deutsche Hypo. For the loan management, the Bank receives the service fees and processing fees that are reported in the net commission income.

29. Cover analysis in accordance with Section 28 of the German Pfandbrief Act (PfandBG)

Revolving Pfandbriefe and the cover assets used for them with disclosure of the maturity structure (Section 28 (1) PfandBG):

Mortgage Pfandbriefe

	Nominal		Net present value		Risk net preset value*)	
in € millions	2012	2011	2012	2011	2012	2011
Mortgage Pfandbriefe	8,157	7,337	8,802	7,909	8,197	8,065
of which **derivatives**	–	–	55	52	– 2	– 6
Cover pool	9,747	8,400	10,661	9,021	9,966	9,027
of which **derivatives**	–	–	32	15	63	132
Excess cover	**1,590**	**1,063**	**1,859**	**1,112**	**1,769**	**962**

*) For the calculation of the risk net present value, the dynamic approach in accordance with the Regulation on Adequate Cover for Pfandbriefe (PfandBarwertV) is used.

	2012						
in € millions	up to and including one year	over one year and up to and including two years	over two years and up to and including three years	over three years and up to and including four years	over four years and up to and including five years	over five years and up to and including ten years	more than ten years
Mortgage Pfandbriefe	2,209	899	1,183	1,555	965	1,059	287
Cover pool	2,653	1,437	1,513	972	810	2,169	193

	2011						
in € millions	up to and including one year	over one year and up to and including two years	over two years and up to and including three years	over three years and up to and including four years	over four years and up to and including five years	over five years and up to and including ten years	more than ten 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

Public Pfandbriefe

in € millions	Nominal 2012	Nominal 2011	Net present value 2012	Net present value 2011	Risk net present value*) 2012	Risk net present value*) 2011
Public Pfandbriefe	11,995	13,683	14,104	15,413	15,265	16,112
of which derivatives	–	–	11	14	– 3	– 7
Cover pool	12,587	14,419	14,952	16,621	16,195	17,171
of which derivatives	–	–	–	–	–	–
Excess cover	592	736	848	1,208	930	1.059

*) For the calculation of the risk net present value, the dynamic approach in accordance with the Regulation on Adequate Cover for Pfandbriefe (PfandBarwertV) is used.

in € millions	2012 up to and including one year	over one year and up to and including two years	over two years and up to and including three years	over three years and up to and including four years	over four years and up to and including five years	over five years and up to and including ten years	more than ten years
Public Pfandbriefe	1,081	2,157	1,329	1,100	930	2,367	3,031
Cover pool	2,304	1,317	1,510	1,301	1,214	2,232	2,709

in € millions	2011 up to and including one year	over one year and up to and including two years	over two years and up to and including three years	over three years and up to and including four years	over four years and up to and including five years	over five years and up to and including ten years	more than ten 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

Disclosures in connection with receivables used as cover for mortgage Pfandbriefe
(Section 28 (2) Clause 1 PfandBG):

Breakdown by size

in € millions	31.12.2012	31.12.2011
up to and including € 300,000	138	306
between € 300,000 and including € 5 million	1,448	1,446
more than € 5 million	6,545	5,671
Total	8,131	7,424

Breakdown of receivables by areas and type of use

in € millions	Germany 2012	Germany 2011	UK 2012	UK 2011	Netherlands 2012	Netherlands 2011	France 2012	France 2011
Apartments	33	66	–	–	32	33	–	–
Detached family homes	95	205	–	–	1	1	–	–
Multifamily homes	764	740	1	–	121	122	61	59
Office buildings	1,161	923	610	422	380	363	332	244
Commercial buildings	1,809	1,676	332	293	86	80	151	98
Industrial buildings	14	12	13	12	1	–	–	–
Other commercially used buildings	588	577	229	224	176	103	–	–
New buildings, not yet completed or not yet a source of income	270	249	35	3	–	–	4	3
Building sites	33	24	16	1	–	–	–	–
Total	**4,767**	**4,472**	**1,236**	**955**	**797**	**702**	**548**	**404**

in € millions	Austria 2012	Austria 2011	Spain 2012	Spain 2011	Belgium 2012	Belgium 2011	USA 2012	USA 2011
Apartments	–	–	–	–	–	–	–	–
Detached family homes	–	–	–	–	–	–	–	–
Multifamily homes	–	–	–	–	–	–	53	83
Office buildings	–	–	59	41	12	2	309	322
Commercial buildings	–	–	163	123	–	–	37	74
Industrial buildings	–	–	–	–	–	–	–	–
Other commercially used buildings	13	13	26	33	–	–	85	136
New buildings, not yet completed or not yet a source of income	–	–	–	10	–	–	17	40
Building sites	–	–	–	–	–	–	10	14
Total	**13**	**13**	**248**	**207**	**12**	**2**	**511**	**669**

Total amount of payments overdue by at least 90 days (Section 28 (2) Clause 2 PfandBG)

in € millions	31.12.2012	31.12.2011
Germany	1.1	1.0
Netherlands	0.4	1.5
Spain	5.2	5.1
USA	2.1	2.8
UK	0.2	–
Total	**9.0**	**10.4**

Foreclosure / sequestration (Section 28 (2) Clause 3 PfandBG)

	As of 31 December 2012					
	Foreclosures pending		Sequestration pending		Foreclosures executed	
	2012	2011	2012	2011	2012	2011
Properties used for living	24	28	3	12	6	11
Properties used for commercial purposes	12	17	9	15	4	4
Total	**36**	**45**	**12**	**27**	**10**	**15**

In the financial year 2012, Deutsche Hypo did not acquire any property (2011: 0) to rescue existing mortgages.

Total overdue interest (Section 28 (2) Clause 3 PfandBG)

in € millions	2012	2011
Properties used for living	1.5	2.8
Properties used for commercial purposes	6.3	4.8
Total	**7.8**	**7.6**

Disclosures in connection with receivables used as cover for public Pfandbriefe (Section 28 (3) Clause 1 PfandBG)

	Germany		Belgium		Eur. Union		Finland	
in € millions	2012	2011	2012	2011	2012	2011	2012	2011
Central state	221	101	–	65	92	144	–	–
Regional authority	3,699	3,485	232	403	–	–	15	61
Local authority	139	133	–	–	–	–	–	–
Other	3,506	3,992	140	140	337	446	–	–
Total	**7,565**	**7,711**	**372**	**608**	**429**	**590**	**15**	**61**

	France		UK		Ireland		Italy	
in € millions	2012	2011	2012	2011	2012	2011	2012	2011
Central state	–	–	–	–	–	–	370	508
Regional authority	89	90	–	–	–	–	457	465
Local authority	–	–	–	–	–	–	–	–
Other	83	261	61	60	20	20	83	84
Total	**172**	**351**	**61**	**60**	**20**	**20**	**910**	**1,057**

	Japan		Canada		Latvia		Luxemburg	
in € millions	2012	2011	2012	2011	2012	2011	2012	2011
Central state	–	–	–	–	–	–	–	–
Regional authority	159	159	140	143	20	20	–	–
Local authority	–	–	–	–	–	–	–	–
Other	26	155	68	70	–	–	–	99
Total	**185**	**314**	**208**	**213**	**20**	**20**	**–**	**99**

	Netherlands		Norway		Austria		Poland	
in € millions	2012	2011	2012	2011	2012	2011	2012	2011
Central state	–	–	–	–	663	687	113	118
Regional authority	160	160	–	–	47	49	–	–
Local authority	–	–	–	–	–	–	–	–
Other	290	299	40	40	278	639	–	–
Total	**450**	**459**	**40**	**40**	**988**	**1,375**	**113**	**118**

	Portugal		Sweden		Switzerland		Slovenia	
in € millions	2012	2011	2012	2011	2012	2011	2012	2011
Central state	–	30	–	–	–	–	30	30
Regional authority	–	–	67	67	115	137	–	–
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	100	100	25	25
Total	**–**	**30**	**67**	**67**	**215**	**237**	**55**	**55**

	Spain		Hungary		USA		Other*)	
in € millions	2012	2011	2012	2011	2012	2011	2012	2011
Central state	–	–	69	84	–	–	–	–
Regional authority	109	190	–	–	314	304	–	–
Local authority	–	–	–	–	–	–	–	–
Other	57	205	–	–	–	–	152	154
Total	**166**	**395**	**69**	**84**	**314**	**304**	**152**	**154**

*) Other supranational organisations

Payments for public receivables that were overdue by at least 90 days amounted to € 1 thousand (2011: € 0 thousand).

30. Cover analysis in accordance with Section 35 (1) Clause 7 RechKredV

Cover for bonds in circulation

	for mortgage Pfandbriefe		for public Pfandbriefe	
in € millions	2012	2011	2012	2011
Ordinary cover				
Receivables from financial institutions				
Mortgage loans	3	7	–	–
Public sector loans	–	–	2,363	2,000
Receivables from customers				
Mortgage loans	8,128	7,417	–	–
Public sector loans	–	–	6,415	6,191
Bonds of public sector issuers	–	–	3,809	6,178
	8,131	7,424	12,587	14,369
Substitute cover				
Other receivables from financial institutions	450	185	–	50
Debt securities and other fixed-interest securities	1,166	791	–	–
	1,616	976	–	50
Total value of cover	9,747	8,400	12,587	14,419
Total amount in circulation requiring cover	8,157	7,337	11,995	13,683
Surplus cover amounts to	1,590	1,063	592	736

31. Derivatives

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 transactions include forward exchange transactions used to hedge against positions in GBP, USD, JPY and CHF and due to expire on 22 August 2016 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, Clause 19 HGB.

2012 in € millions	Nominal amount / Residual term < = 1 year	 1–5 years	 > 5 years	 Total	 Fair values	 Book value	Balance sheet item
Currency-related transactions							
Forward exchange transactions	1,289	25	–	1,314	11	1	Asset 2; Liability 1
Cross-currency swaps	396	1,805	1,177	3,378	– 326	1	Asset 2 and 12; Liability 1 and 6
Interest rate-related transactions							
Interest rate swaps	4,033	14,311	16,738	35,082	– 156	– 42	Asset 2 and 12; Liability 1 and 6
Credit derivatives							
Total return swaps	–	44	649	693	– 20	– 10	Asset 2; Liability 1
Credit default swaps	–	581	–	581	– 54	–	

2011 in € millions	Nominal amount / Residual term < = 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	Asset 2 and 12; Liability 1 and 6
Interest rate-related transactions							
Interest rate swaps	3,343	14,269	17,313	34,925	– 247	– 45	Asset 2 and 12; Liability 1 and 6
Credit derivatives							
Total return swaps	–	17	690	707	– 33	– 10	Asset 2; Liability 1
Credit default swaps	–	–	609	609	– 161	–	

The netted fair values of € – 544.9 million (2011: € – 782.7 million), split by counterparties, give rise to positive fair values of € 2,863.2 million (2011: € 2,327.4 million) and negative market values of € 3,408.1 million (2011: € 3,110.1 million).

To hedge the derivative risks after netting, Deutsche Hypo enters into security agreements with most of its business partners. As of 31 December 2012, Deutsche Hypothekenbank had provided security of € 1,161.7 million (2011: € 1,100.4 million), and received security of € 658.6 million (2011: € 452.7 million).

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

THOMAS STEPHAN BÜRKLE
Chairman
(since 1 July 2012)

DR. JÜRGEN ALLERKAMP
Chairman
(until 30 June 2012)

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

INDUS Holding AG, Bergisch Gladbach / Vice-Chairman of the Supervisory Board

LHI Leasing GmbH, Munich / Member of the Supervisory Board

Neue Dorint GmbH, Cologne / Chairman of the Supervisory Board

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ANDREAS POHL

ANDREAS REHFUS

33. Member of the Supervisory Board

DR. GUNTER DUNKEL
Chairman of the Board of Managing Directors of Norddeutschen Landesbank Girozentrale
– Chairman –

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

DR. JOHANNES-JÖRG RIEGLER
Member – since 10 December 2012 Vice-Chairman – of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

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DIRK METZNER
Bank employee

FRANK WOLFF
Bank employee

WILHELM ZELLER (until 31 December 2012)
Former Chairman of the Board of Hanover Re Group

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

The emoluments paid to the Board of Managing Directors for the 2012 financial year totalled € 1,180 thousand (2011: € 1,158 thousand*). Former members of the Board of Managing Directors and their surviving dependents received € 2,142 thousand (2011: € 891 thousand**). Provisions for pension obligations owed to this group of people totalled € 10,729 thousand as of 31 December 2012 (2011: € 10,524 thousand***). The measurement of pension provisions produced a shortfall of € 2,020 thousand) at the time of the initial application of the BilMoG (German Accounting Law Modernisation Act). The shortfall will be made up by the contribution of one-fifteenth of the amount (€ 135 thousand) every year until 2024 in accordance with Art. 67 (1) Clause 1 of the Introductory Act to the German Commercial Code (EGHGB). As of 31 December 2012, the shortfall was € 1,616 thousand (2011: € 1,751 thousand****). The Supervisory Board received a fixed payment of € 133 thousand (2011: € 126 thousand, including VAT).

*) The amount from the previous year was adjusted by € 36 thousand due to additional benefits.
**) The amount from the previous year was adjusted by € 124 thousand due to additional benefits.
***) The amount from the previous year was adjusted by € 887 thousand.
****) The amount from the previous year was adjusted by € – 900 thousand.

35. Size of workforce on average over the year

	2012	2011
Female employees	178	172
Male employees	242	226
Total	**420**	**398*)**

*) The amount from the previous year was corrected.

36. Auditor’s fees

in € thousands	2012	2011
Audit of financial statements	601	1,007*)
Other confirmations	188**)	380
Other services	–	47
Total	**789**	**1,434**

*) The amounts for the 2011 audit of the financial statements include subsequently billed amounts from 2010 of € 98 thousand.
**) This amount does not include confirmation services of € 78 thousand which were performed in the 2012 financial year by the previous auditor and were not reported due to the change in the auditor.

In 2012, provisions of € 110 thousand for the 2011 annual audit were released.

37. Group affiliation

According to Section 271 (2) of the German Commercial Code (HGB), Deutsche Hypothekenbank (Actien-Gesellschaft) is a company affiliated with Norddeutsche Landesbank Girozentrale (Anstalt öffentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB) and is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as of 31 December 2011 were published in the electronic federal gazette on 30 April 2012.

38. Shareholdings

Name/Location	Share	Shareholders' equity	2012 result
Terra Grundbesitzgesellschaft am Aegi mbH, Hanover*) (in € thousands)	100.0 %	442	96
Deutsche Hypo Delaware Blocker Inc., Wilmington / Delaware, USA**) (in USD thousands)	100.0 %	9,735	– 3,397

*) As in the previous year, the information on equity takes account of the annual results for the last financial year (2012).
**) Deutsche Hypo Delaware Blocker Inc. prepares its year-end figures exclusively according to IFRS.

Hanover, 26 February 2013

The Board of Managing Directors

Bürkle

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 Bank and that the management report presents the business development, including the Bank’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 Bank.”

Hanover, 26 February 2013

The Board of Managing Directors

Bürkle Pohl Rehfus

AUDITOR'S REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement, the notes to the financial statements, the cash flow statement and statement of changes in equity – together with the bookkeeping system, and the management report of the Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover, for the business year from 1 January to 31 December, 2012. 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 § 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Deutsche Hypothekenbank (Actien-Gesellschaft) 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, 26 February 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz
Wirtschaftsprüfer

Schröder
Wirtschaftsprüfer

Stability
is the result of sustainable customer relations.

50 German mark
Subject: Holsten Gate in Lübeck

Deutsche Hypo specializes in wholesale banking and raises the minimum level for granting loans to 400.000 DM.

PERSONNEL REPORT

Personnel Report

Deutsche Hypo is a reliable and attractive employer that offers its employees interesting responsibilities and exceptional social benefits. Its employees value the international, but simultaneously almost family-like working environment and, despite the Bank's ambitious cost targets, are looking positively into the future.

The Human Resources department provides the employees with support services so they will also be enthusiastic about working for the Bank in the future. The attractiveness of the employer should be a critical factor for the employees in order to cultivate Deutsche Hypo as their preferred employer.

At the same time, however, the Human Resources department is also an active partner for management and thus contributes to securing the future of the Bank. Examples of this in 2012 include the start of the pre-retirement programme, support for the SIGN project by discussing it with the employee representatives, and the preparing of conditions for the planned introduction of temporary work in the Group.

Salary system

Deutsche Hypo's salary system is focused on sustainable corporate success and uses strategy-related incentives in terms of appropriate and effective risk management. Its appropriateness is checked annually. The goal of the salary system is to provide Bank employees with both an appropriate and attractive salary.

Deutsche Hypo is bound to the collective bargaining agreement as a member of the Association of Employers in Private Banking so collective bargaining agreements for the private banking sector and public banks apply. Besides a fixed salary with twelve equal parts, employees under the collective bargaining agreement receive a fixed special payment in the amount of an additional month's salary. There is a uniform system for the variable component of remuneration for all employees. Fundamentally, a total bonus pool measured on the basis of the Bank's performance is divided by individual measurement of performance as a personal variable component for the employees. By limiting the variable remuneration, negative incentives to avoid disproportionately high risks are avoided.

Personnel and organisation development

Deutsche Hypo attaches great importance to the systematic development of personnel. In this connection, planning meetings with managers to develop a regular exchange as well as to clarify existing needs for human resources were launched in 2012. Furthermore, a departmental personnel development concept for the credit area was created and is currently being implemented.

On account of the international orientation of Deutsche Hypo, foreign language courses have been an important part of the personnel development for many years. To optimise the use of resources and quality, the courses were redesigned in the year under review. Furthermore, the registration process for language courses was standardised.

To give the Bank's managers the qualifications to handle their current and future challenges well, a modular management development series was drafted. It will be implemented for the first time in 2013.

For the development of high potentials, the Bank strives to work more closely with NORD/LB. Here, the focus is on a joint orientation centre. Furthermore, two employees from Deutsche Hypo have been working on the qualification programme for risk management at NORD/LB since 2012.

In the SIGN project, a change management concept was developed, and individual elements were implemented in 2012. The value of the change management will rise significantly, in part due to the constantly increasing speed of change.

Encouraging/attracting the next generation

Deutsche Hypo has always been involved in classic banking training. This training has been expanded to include an international Bachelor of Arts course of study, which is offered in cooperation with Leibniz University (Fachhochschule). The Bank had 13 trainees and work-study students in 2012.

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. The content of these programmes was redesigned in the year under review. 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 students 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. If need be, Deutsche Hypo also offers cooperation with students for Bachelor's theses. The Bank provided a total of seven work placements in the year under review.

Work-life balance and social matters

Deutsche Hypo considers the combination of family and work to be very important. This attitude is backed up by the Company Agreement to 'Promote the Combination of Family and Work'. Since 2008, the Bank has offered nursery places in combination with an external service provider, holiday childcare, emergency care facilities and elderly care for its employees.

Another step taken to promote a work-family balance was negotiated between the bank and the Works' Council and took the form of a Company Agreement on alternating telework. As of 2013, employees will have the opportunity of doing a portion of their work at home under certain conditions.

Besides the combination of family and work, health management for its employees is important for the Bank. A building block here is the Bank's health advisory service. In this area, the Bank has been working with an external service provider since 2009. In the year under review, a service provider offered seminars on the subject of 'Developing Stress Expertise' to all employees. Furthermore, the Bank offers all employees above the age of 45 a medical check-up and health coaching every three years for preventive purposes.

Cooperation with the Works Council

In 2012 there were many subjects that were negotiated between the Bank and the Works Council. They included, among others, the overhauling of the company agreements "Performance Bonus" and "Annual Meeting", the negotiations on a new company agreement for alternating working hours and finally negotiations on the SIGN project. We would like to thank the Works Council for what has always been a constructive and trust-based working relationship as well as its professional cooperation on various subjects.

	31.12.2012	31.12.2011
Employees		
Number	420	398*)
of which trainees	13	13
Other		
Average age (in years)	43	42
Illness ratio (in days)	3.17	2.54
10-year service anniversary	11	18
25-year service anniversary	7	10
40-year service anniversary	3	3

*) The amount from the previous year was corrected.

CORPORATE GOVERNANCE REPORT

The Government Commission for the German Corporate Governance Code made a few material adjustments and amended laws in the Code on 15 May 2012, after seeing no need for amendments in 2011. The focus was on code recommendations for the independence of supervisory board members and for the remuneration structure of the supervisory board members. The subject of the remuneration structure for members of the board of managing directors should be discussed in the future.

Furthermore, ideas were collected from code users and a series of previous formulations were made more precise. The Commission completed a consultation process for the first time in 2012. In this way, more than 70 statements from code users, associations, lawyers and business were included in the consultation on the final resolutions passed by the Commission.

On the cluster of subjects related to the "independence of supervisory board members on the shareholder side", the code now recommends that the supervisory board should disclose the personal and business relationships of each candidate recommended for election at the Annual General Meeting with respect to the business, boards of the company and a shareholder with a material investment in the company.

The code's recommendation to report conflicts of interest involving supervisory boards (Section 5.5.2) was also changed. Each member of the supervisory board should now report conflicts of interest, particularly those that could result on account of advising or exercising a board position with respect to customers, suppliers, creditors or other third parties. Furthermore, the Commission changed the recommendation for the remuneration structure for supervisory board members (Section 5.4.6). Accordingly, besides a fixed component, there will also be a variable component that is focused on the sustainable development of the business. The respectively valid version of the German Corporate Governance Code can be found on the homepage of the Bank.

The commission recommends that the supervisory board's specific goal for its composition and in general the state of implementation for its recommendations are published in the corporate governance report in the annual report.

The goal of Deutsche Hypo's Supervisory Board in the election of new supervisory board members is set in the bye-laws for the Supervisory Board: In its recommendations for the election of members of the Supervisory Board, the Supervisory Board shall make sure that they have the required knowledge, skills and experiences, and are sufficiently independent. The Bank's international activity and diversity will also be taken into account. The recommended persons should not have passed the age of 66 at the beginning of their term of office and should provide a sufficient guarantee that there are no conflicts of interest.

It is also naturally in the interests of the Supervisory Board to increase the number of female members. One woman had already joined the board at the end of the 2010 financial year; the Bank will also endeavour to facilitate the appropriate inclusion of female supervisory board members in the future.

The status for the implementation of the recommendations in the German Corporate Governance Code can be seen in the Declaration of Conformity. The Board of Managing Directors and the Supervisory Board agreed on the annually issued Declaration of Conformity on 13 December 2012. The Declaration of Conformity has been published at Deutsche Hypo's website on-line. The text is worded as follows:

Declaration of Conformity 2012

on the part of Deutsche Hypothekenbank (Actien-Gesellschaft) Hannover 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) Hannover herewith declare the following:

1. Since the last declaration of conformity dated 16 December 2011, Deutsche Hypothekenbank (Actien-Gesellschaft) Hannover/Berlin has implemented the recommendations of the Government Commission on the German Corporate Governance Code dated 15 May 2012 with the following exceptions:

a) 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);
b) The members of the Supervisory Board were covered by D&O insurance without an appropriate deductible (Code section 3.8);
c) 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);
d) The financial statements for financial year 2011 were published on 19 April 2012; the publication of the half-yearly financial report took place on 30 August 2012. 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).

2. Deutsche Hypothekenbank (Actien-Gesellschaft) Hannover herewith declares that it will in future fulfil the recommendations of the Government Commission on the German Corporate Government Code in their version dated 15 May 2012, doing so with the exception of the aforementioned instances referred to in sections 1.a) – 1.d) above.

Explanations:

Code section 2.3

The shares in Deutsche Hypo are held in their entirety (100 %) 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.

Codes 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, 13 December 2012

The Supervisory Board The Board of Managing Directors

Emoluments for the members of the Board of Managing Directors
The emoluments paid to the Board of Managing Directors for the 2012 financial year totalled € 1,180 thousand (2011: € 1,158 thousand*). Deutsche Hypothekenbank does not have a stock option programme.

Emoluments for the members of the Supervisory Board
The Supervisory Board received a fixed payment of € 133 thousand (2011: € 126 thousand including VAT).

*) The amounts from the previous year were adjusted by € 36 thousand due to additional benefits.

DEUTSCHE HYPO SUPPORTS...

Johann Georg Zimmermann Association

Since 1972, Deutsche Hypo has sponsored two awards for cancer research in Germany, which rank among the oldest and best endowed prizes. The Johann Georg Zimmermann research prize, worth € 10,000, is bestowed on a young physician who can demonstrate particular achievements in his current scientific work. The other awarded Johann Georg Zimmermann Medal, endowed with € 2,500, goes to an acclaimed scientist who has distinguished himself by fighting cancer for many years. The circle of distinguished physicians and scientists already includes a number of German and international researchers. The Nobel Laureate in Medicine, Prof. Dr. Harald zur Hausen, for example, received the Johann Georg Zimmermann Medal in 2006/2007.

(Prize recipients on the occasion of the ceremony (from left to right:) Prof. Dr. Michael Peter Manns, Chairman of the Jury for the Johann Georg Zimmermann Prize, Prof. Dr. Charlotte Niemeyer, Dr. med. Michael Heuser, Prof. Dr. Dieter Bitter-Suermann, President of the Hanover Medical University until 31 March 2013, Carsten Dickhut, Head of Corporate Communications for Deutsche Hypo)

Deutsche Hypo assumes social responsibility and is interested in constantly improving health care in Germany. The subject of cancer research is especially important to the Bank.

The prize ceremony on 5 February 2013 took place for the 40th time. Private Lecturer Dr. med. Michael Heuser (38) from the Clinic for Haematology, Haemostaseology, Oncology and Stem Cell Transplantation at the Hanover Medical University received the Zimmermann Prize as recognition of his important and internationally exceptional work on the significance of gene mutation in the development of acute myeloid leukaemia (AML). For the first time, he explained the influence of the MN1 gene on the aggressiveness of acute leukaemia and explained the molecular connections. Professor Dr. Charlotte Niemeyer, Medical Director of the Clinic for Pediatric Oncology and Haematology at the Centre for Children and Youth Medicine of Freiburg was awarded the Johann Georg Zimmermann Medal in 2012/2013. The focus of Professor Niemeyer's work is the research of the genetic basis of rare leukaemia in children and adolescents. Her research work contributed, among others, to a better understanding of the development of myelodyplastic syndromes.

"We would also like to praise the two prize recipients this year. Their exceptional research work, along with that of many others around the world, contribute to achieving gradual progress in the fight against cancer", said Thomas S. Bürkle, Chairman of the Board of Managing Directors at Deutsche Hypo. "For this reason, it is also especially important to support cancer research and to continue to remain true to this social commitment".

Christmas Wishing Tree

Deutsche Hypo's employees once again organised a Christmas Wishing Tree, enabling them to buy the perfect gifts for 72 children and young people from the "Güldene Sonne", an educational and therapeutic residential centre in Rehburg-Loccum.

from left: Barbara Weber-Wende, Dirk Metzner

The wishlists from the children and young people were hung on two Christmas trees in Deutsche Hypo's Hanover offices. Employees could then choose a child, buy a present and package it in Christmas wrapping paper. 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.

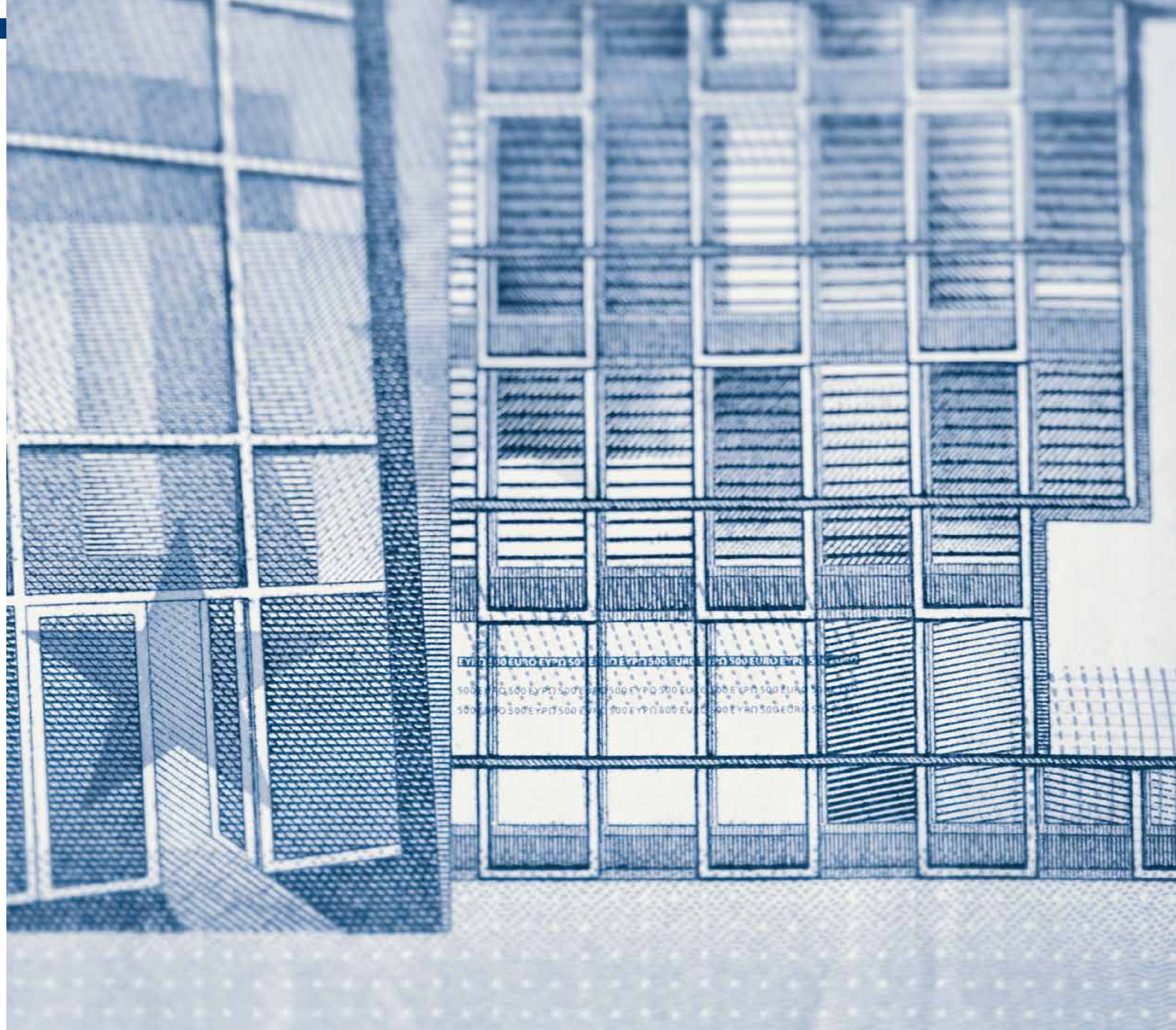
Dirk Metzner, Chairman of the works council, highlighted the Bank employees' initiative and willingness to get involved as he handed the presents over: "It is a very natural thing for us at Deutsche Hypo to assume social responsibility. The Christmas Wishing Tree project is a very successful example of this. It is lovely to see how much it means to our staff to help children and young people in need".

Barbara Weber Wende, teacher at "Güldene Sonne" 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 2012. Every year the children look forward to the presents from the Christmas Wishing Tree". 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.

Innovation
is the art of shaping
the future.

500 euros
Subject: Architecturial style of the end
of the 20th century

Today Deutsche Hypo is one of the leading
German real estate banks and present in major
national and European real estate locations.



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 2012. For the purposes of 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 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 discussed fundamental subjects such as the adjustment of the business and risk strategy as well as the SIGN project created in 2016 with the Board of Managing Directors in detail. The Supervisory Board and its committees advised and monitored management and passed resolutions on the issues which were presented to them and which require a decision by these boards in accordance with the articles of association and the rules stipulated within their framework.

The Supervisory Board held four ordinary meetings in 2012, each of which was attended by all of the members, with the exception of two absences. At the meetings, the respective chairs of the committees briefed the Supervisory Board in turn on the work of their committees. Between the meetings, the Board of Managing Directors informed the Supervisory Board of all important issues in writing.

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 as well as the reviews by Internal Audit. The Human Resources committee met on two occasions. The Appointments committee did not meet.

Mr. Wilhelm Zeller resigned from the Supervisory Board as of 31 December 2012 for personal reasons. The Supervisory Board would like to thank him, after his second term, for his many years of commitment to Deutsche Hypo and the constructive working relationship. The Supervisory Board will decide on a replacement for the vacant position in 2013.

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, elected by the Annual General Meeting and subsequently appointed by the Supervisory Board, audited the financial statements for the 2012 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 audit report was discussed in full by the members of the Supervisory Board. The Supervisory Board agreed to the findings of the auditor's report. At its meeting held on 14 March 2013, the Supervisory Board approved the Management Report and the annual financial statements as of 31 December 2012, 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 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 in 2012.

Hanover, 14 March 2013

The Supervisory Board

Dr. Gunter Dunkel
Chairman of the Supervisory Board

CORPORATE BODIES

Supervisory Board

DR. GUNTER DUNKEL
Hanover
Chairman of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale
– Chairman –

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

DIRK METZNER
Hanover
Bank employee

DR. JOHANNES-JÖRG RIEGLER
Hanover
Member – since 10 December 2012 Vice Chairman – of the Board Managing Directors of Norddeutsche Landesbank Girozentrale

FRANK WOLFF
Hanover
Bank employee

WILHELM ZELLER (until 31 December 2012)
Burgwedel
Former Chairman of the Board of Hannover Re Group

Lending committee

DR. JOHANNES-JÖRG RIEGLER
– Chairman –

DR. GUNTER DUNKEL

ECKHARD FORST

WILHELM ZELLER (until 31 December 2012)
– Substitute Member –

Audit committee

DR. JOHANNES-JÖRG RIEGLER
– Chairman –

FRANK WOLFF

WILHELM ZELLER (until 31 December 2012)

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
until 30 June 2012
– Chairman –

THOMAS STEPHAN BÜRKLE
Hanover
since 01 July 2012
– 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

Public trustees

DR. GUNTHER KRAJEWSKI
Hanover
Ministerialdirigent a. D.
– Trustee until 31 March 2012 –

WOLFDIETRICH KÜHNE
Hanover
Degree in business, auditor, tax advisor
– Deputy trustee until 31 March 2012 –
– Trustee since 1 April 2012 –

Burkhard Scherrer
Hanover
Retired lawyer and notary public
– Deputy trustee since 1 April 2012 –

ORGANISATIONAL STRUCTURE

- **Dr. Jürgen Allerkamp (Chairman) until 30 June 2012**
  Thomas S. Bürkle (Chairman) since 1 July 2012
  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
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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 (CIR)
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 of potential changes in value that arises if the individual credit spread of the issuer, borrower or debtor, which is used in the context of a market assessment of the position, changes.

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 (EL)
Calculated loss of a financing or a customer within one year. The EL is an expected value that results from exposure at default (EAD), probability of default (PD) and loss given default (LGD) calculated, and specifies the standard risk costs of a loan.

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
To safeguard the risk-bearing capacity within a credit institution, all significant risks must be covered at all times by the risk coverage potential (capital that is actually available).

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
Future analysis that institutions apply in addition to the regular risk control mechanisms and with which they simulate the impact of shock-like developments.

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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