

# Green Value Chain

Annual Report 2017



Your success is : our benchmark

# DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.- 31.12.2017	01.01.- 31.12.2016	Change (in %)
<b>New business figures</b>			
Commercial real estate finance business	3,798.3	4,540.7	- 16.3
Domestic finance	2,180.9	2,832.1	- 23.0
Foreign finance	1,617.4	1,708.6	- 5.3
Funding volume	3,526.3	3,938.2	- 10.5
Mortgage Pfandbriefe	1,328.0	1,800.0	- 26.2
Unsecured	2,198.3	2,138.2	2.8

in € millions	31.12.2017	31.12.2016	Change (in %)
<b>Portfolio figures</b>			
Commercial real estate finance business	12,077.1	11,977.0	0.8
Domestic finance	7,079.6	7,156.0	- 1.1
Foreign finance	4,997.5	4,821.0	3.7
Loans to local authorities	3,892.5	4,815.5	- 19.2
Securities	5,489.9	6,720.3	- 18.3
Funding capital	22,254.0	23,493.4	- 5.3
Mortgage Pfandbriefe	8,414.1	8,286.9	1.5
Public Pfandbriefe	4,490.4	5,378.5	- 16.5
Unsecured	2,677.4	2,740.5	- 2.3
Other liabilities	6,672.1	7,087.5	- 5.9
Equity *)	1,252.1	1,382.6	- 9.4
Balance sheet total	23,698.3	25,202.6	- 6.0

in € millions	01.01.- 31.12.2017	01.01.- 31.12.2016	Change (in %)
<b>Income figures</b>			
Net interest income	193.4	202.1	- 4.3
Net commission income	0.3	3.7	- 91.9
Administrative expenses **)	83.8	76.4	9.7
Risk result	- 41.3	- 66.6	38.0
Income from securities and participatory interest	- 10.2	55.7	<- 100.0
Result from normal operations	62.7	115.0	- 45.5
Extraordinary result	0.7	- 1.6	> 100.0
Interest on investments by silent partners	3.5	8.4	- 58.3
Profit before taxes and profit and loss transfer agreement	59.9	104.9	- 42.9

in %	31.12.2017	31.12.2016
<b>Other information</b>		
Cost-Income-Ratio	42.3	37.8

\*) including funds for general banking risks, jouissance right capital and subordinated liabilities

\*\*) including write-downs and value adjustments of intangible assets and tangible fixed assets

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

# **ANNUAL REPORT 2017**

# WE HAVE A CENTRE OF COMPETENCE:

Benedikt von Abendroth, Carolin Albers, Ingo Albert, Alois Algermissen, Antje Amelsberg, Anne-Kathrin Apel, Elena Argun, Daniela Assing, Jens Assmann, Hans-Hermann Baltz, Angela Bank, Philipp Bank, Nicole Barnert, Sabine Barthauer, Susie Bassett, Isabel Bauke, Jürgen Becksvoort, Bernd Behling, 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, Carsten Bläck, Markus Block, Martina Blum, Cornelia Bock, Dirk Böhm, Sven Böhmer, Marianne Böx, Stefanie Bojahr, Ines Bornemann, Oliver Boser, Lisa Bosetzky, Jasmin Bothe, Michael Brämer, Kirsten Brandt, Alexander Braun, Jens Breithecker, Brigitte Brenning, Jeremy Bretherton, Alexandra Bronstein, Florian Brückner, Iris Brünau, Marc Brune, Volker Brunner, Jochen Bucek, Carsten Bühring, Jessica Burgdorf, Holger Busch, Lars Busch, José Luis Calderón Martínez, Anne-Isabelle Carbonnières, Juan Manuel Casas Guillen, Detlev Coenen, Yvonne Coppel-Tamms, Hendrik Cornelius, Claus-Halvard Cors, Bettina Cramer, Ursula Czech, Dennis Dasselaar, Sandra Debbrecht, Katrin-Genevieve Deitermann, Ulrich Deppe, Carsten Dickhut, Andrea Dietsch, Frank Dittmann, Malte Dittrich, Beate Droste, Anika Eberhardt, Jürgen Eckert, Nicole Edle von Wölfel, Michael Eich, Ernst-August Endrulat, Carina Engelbrecht, Tobias Faust, Matthias Feifer, Alexander Firsching, Christian Fischer, Kai Fischer, Arabell Foth, Eric Mark Fowell, Jörg Franz, Michael Frech, Christine Frenzen, Oliver Frerking, Andreas Froebus, Björn Fuhr, Britta Gabriel, Christian Gail, Nikola Gaulke, Michael Gehrig, Melanie Geldmacher, Christoph Gennsrich, Maria Germann, Annett Gierschner, Larissa Gien-selmann, Michael Glatzer, Malgorzata Glazek, Melanie Glende, Kristoffer Globig, Rüdiger Göricke, Sabine Gößmann, Silvia Golbeck, Lennart Graf, Sylvia Grahn, Claudia Grau, Georg Greive, William Groen, Elke Groß- Detlev Grote, Christian Gudat, Cristina Guilherme, tra-Ingeborg Haake, Christina Haendel, Lars Haftmann, Ralf Hagendorff, James Hall, Thomas Hansen, Kevin Harmer, Axel Harms, Jan Hartmann, Tina Hartmann, Iris Hauser, Marc Hegeler, Albrecht Heinecke, Stefan Heinitz, Markus Heinzel, Christian Hellwinkel, Birger Helm, Heini Katariina Hemminki, Janina Herrmann, Janos Hielscher, Dr. Peter Hinze, René Hodko, Achim von Hoegen, Anne-Kathrin Hoepfner, Raimo Höpfner, Christoph Hötzel, Nils Hoffmann, Monika Hofschulte, Marcel Holk, Jule Hoppe, Karin Hornbostel, Simone Huch, Klaudia Hüskes, Thomas Hundertmark, Dirk Hunger, Tanja Hußmann, Sandra Idel, Malte Ilginnis, Axel Intemann, Peter Jabs, Anna-Dorothea Jäger, Amely Jessop, Thorsteinn Jonsson, Ute Jürges, Frank Junge, Kerstin Kahle, Georg Kaisler, Dirk Kallikat, Christina Kanning, Gudrun Karges, Moafak Kata, Brit Kaufmann, Melanie Kautzner, Maureen Keenan, Kristina Kirchner, Andreas Kirschner, Til Kittkowske, Jürgen Klebe, Peter Kleinhütten, Lutz Klinkmann, Florian Knaul, Tobias Knoche, Detlef Koch, Dieter Koch, Gerald Kölle, Georg Richard König, Gordon Kolbinger, Heiko Kollmann, Jörg Kopp, Jutta Carola Kopp, Renate Koppitz, Gabriele Kornweih, Stefanie Kortmann, Carmen Kost, Anna Carina Kostrzewa, Janina Krapp, Stefan Kriegs, Ulrich Krogmeier, Hartmut Krüger, Sarah Krüger, Regina Kubina, Elke Kücken, Frank Kühne, Silke Kues, Marcel Kujawski, Larissa Kurz, Andrea Kuschel, Ralph Kutschki, Eike Oliver Laase, Bernd Lademann, Roswitha Laidorf, Thomas Lang, Cornelia Lange, Sascha Langeheine,



# OUR STAFF

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## FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Customers  
and Business Partners of Deutsche Hypo,

The real estate sector is one of the largest economic fields in Germany. It accounts for one of ten workers and one of four companies in the country. Its importance for the German business location is immense – as is its connection with the financial sector: real estate serves as collateral for more than 50 % of all loans.

Real estate financing has always been an integral part of the NORD/LB Group. As a strategic business area, it helps ensure that our Group has a broadly diversified and proven business model that is capable of surviving and thriving in a variety of economic cycles from both an earnings and risk perspective.

“Deutsche Hypo  
is there to help you”

The strategic participatory interest Deutsche Hypo has been a part of the NORD/LB Group for exactly ten years now and continues to make stable contributions to income. As one of the leading providers of commercial real estate financing in Germany, and as a successful Pfandbrief issuer, it is highly esteemed by the real estate and capital market.

Deutsche Hypo's good standing is also reflected in the business figures for 2017. In a highly competitive environment, the Bank succeeded in holding its ground in the market and once again achieving a good result. At the same time, the Bank was able to add a significant amount in the millions of euros to its reserves. The quality of the financing portfolio, which remains high, is also worth mentioning. As a result, Deutsche Hypo has confirmed its years of positive business development and underscored its tremendous significance for the NORD/LB Group. It will therefore continue to be an important pillar of the NORD/LB business model in the future.





Foreword by the Chairman of the Supervisory Board | Interview with the Board of Managing Directors | 2017 at a glance | Sustainability | Green Bonds | References



Dear Customers and Business Partners, with its financing and structuring expertise, Deutsche Hypo is there to help you and professionally support you in making your projects and real estate visions a reality. The Bank will continue to do everything it can to justify your trust through excellence in service.

Best regards,

A handwritten signature in blue ink, consisting of stylized initials and a long horizontal stroke.

Thomas S. Bürkle  
Chairman of the Board of Management of NORD/LB and  
Chairman of the Supervisory Board of Deutsche Hypo

# INTERVIEW WITH THE BOARD OF MANAGING DIRECTORS

In an interview, Board of Managing Directors Members Andreas Pohl, Sabine Barthauer and Andreas Rehfus take a look back at the very positive financial year 2017 and a look forward at the rest of 2018.

## How will you remember the financial year 2017?

**Pohl:** In a positive light. We again held our ground in our target markets. With a result of around € 63 million, we also exceeded our target. The extraordinary previous-year result of around € 115 million is not a benchmark, since it was due to a special effect: the reversal of value adjustments related to the Heta exposure.

**Rehfus:** We need to keep in mind that expenses associated with the implementation of regulatory requirements increased once again in 2017. In addition, we made highly targeted investments in infrastructure and in strengthening our sales activities. Still, we succeeded in exceeding our results target and further strengthening our precautionary reserves. All the indicators also point to a consistently good risk position. We did not stray from our risk-conscious approach to lending – not one bit.

**Barthauer:** For us, the quality of our new business is far more important than the quantity. That allows us to keep our financing portfolio at a constantly high level of quality. Despite our high standards, we attracted good new business in all our target markets. At around € 3.8 billion, we once again generated respectable new business volume overall, even in view of increasingly intense competition.

## Which transaction stands out for you in particular in the financial year 2017?

**Pohl:** Along with many interesting portfolio financing transactions on the asset side, a flagship project on the liabilities side comes to mind: the issue of our first Green Pfandbrief. As a result, we are the second bank in Germany – after Berlin Hyp – to issue a product of this nature. The combination of the Pfandbrief, a quality product, and the financing of energy-efficient real estate is a successful model and fits in seamlessly with our sustainable business model. The issue also expanded our investor base considerably.

## What are your expectations for 2018?

**Rehfus:** The current financial year is off to a good start for us. Providers of real estate financing, like us, continue to benefit from the stable economic conditions in our target markets and the consistently high demand for commercial real estate. As a result, we expect a result approximately on par with the previous year.

**Barthauer:** Especially in the current market phase, it is important to make sure we keep the quality of our financing portfolio high and only add sustainably good properties to our financing portfolio. In addition to low risks, our focus is on stable income and efficient structures. Against this backdrop, we have strengthened our sales force and opened new offices in Berlin and Madrid. We are currently also advancing the digitalisation of our processes in a focused manner.



## “Holding our ground”



from left: Andreas Pohl, Sabine Barthauer, Andreas Rehfus

### **A personal question for you at the end, Mr Pohl: How sad are you to be leaving Deutsche Hypo after ten years?**

**Pohl:** It is not a step I take easily, I can tell you that. I can look back on ten intense, successful years. Together with my fellow Board of Managing Directors Members and all our employees, we have positioned Deutsche Hypo well. Today, it is one of Germany's leading providers of real estate financing. I would like to take this opportunity to thank all our customers and business partners for a wonderful working relationship stretching back many years in some cases. Please continue to place your trust in Deutsche Hypo and work with the Bank as successfully as you have in the past. Deutsche Hypo will continue providing you with expert, professional support for your financing transactions in the future.

# 2017 at a glance

## 10 January 2017

Deutsche Hypo finances a real estate portfolio in the cities of Hyères, Glisy and Chasse-sur-Rhône consisting of two shopping galleries, a shopping and retail park, as well as a residential and commercial building complex for the shopping centre specialist Eurocommercial Properties France SAS. The financing volume totals € 84 million and is made available over a term of 15 years.

## 1 March 2017

Deutsche Hypo releases a study on the development of Berlin's real estate market. The study concludes that the market's dynamic development is set to continue, with growth focused on the office, residential and hotel asset classes. A positive trend can also be seen in the retail property market.

## 8 May 2017

Deutsche Hypo releases a new study on the residential property market. The study indicates that the price increases seen in the German residential property market can largely be explained by fundamental influential factors and therefore do not currently indicate the formation of a speculative price bubble. Accordingly, the demand for residential real estate is influenced by demographic and economic developments as well as financial factors, such as the significant drop in interest rates.

## 14 June 2017

The Bank issues its first benchmark mortgage Pfandbrief of 2017. With a term of eight years, the issue has a volume of € 500 million and a coupon of 0.375 %. The issue price of 99.639 % corresponds to a yield of 0.421 % – which means a discount of minus ten basis points to mid swap.

## 6 July 2017

Deutsche Hypo finances the purchase of property for the € 250 million Nikolai Insel project in Hamburg for two special-purpose vehicles belonging to Procom Invest GmbH & Co. KG. The financing will be provided over a term of around three years. The "Nikolai Insel" is one of the last properties in the "Nikolai Quartier" business improvement district.

**6 September 2017**

Deutsche Hypo opens a new office in Berlin. The office space is located in the Kranzler Eck on Kurfürstendamm. The office manager is Alexander Firsching (50), who served as the head of real estate financing for Germany at SEB AG before joining Deutsche Hypo. In total, the Berlin native has more than 20 years of professional experience in the real estate and real estate financing business.

**11 September 2017**

Deutsche Hypo releases study about the retail property market. The German retail sector is benefiting from the favourable economic developments and has been able to consistently raise revenue in recent years. Rental demand for retail property is also rising, which makes the asset class extremely interesting for investors. Although e-commerce still accounts for a small share of overall retail revenue, digitalisation is already changing the sector's business models and processes dramatically.

**13 September 2017**

Deutsche Hypo opens a new office in Madrid on Calle Goya, in the heart of the city. The office manager is Maria Teresa Fernández Linares (45), who has worked for Deutsche Hypo since 2009 and has been responsible for managing and supporting the Bank's portfolio in Spain ever since. Thanks to her many years of professional experience in Spain and Germany, the lawyer by training has a high level of expertise in both real estate finance markets.

**2 November 2017**

Deutsche Hypo finances the Phoenixhof retail park in Hamburg for the Essen-Gruppe. The total financing volume amounts to € 44 million. The Phoenixhof complex is located in the Ottensen district of Hamburg. In addition to the portfolio financing, two other office buildings are to be built on the site as part of a project development programme.

**1 December 2017**

Andreas Pohl, Chairman of the Board of Managing Directors of Deutsche Hypo, decides not to extend his expiring contract. Therefore, he will leave the Bank on 28 February 2018. Pohl (60) has been working for the NORD/LB Group since 1979. In 2008, Pohl switched to Deutsche Hypo and was responsible for commercial real-estate financing on the market side of the Board of Managing Directors. After functioning as speaker of the Board of Managing Directors between 2014 and 2016, he has been serving as Deutsche Hypo's Chairman of the Board of Managing Directors since 1 July 2016.

# SUSTAINABILITY

As one of Germany's most renowned Pfandbrief banks, Deutsche Hypo combines decades of tradition and experience in the field of real estate financing with responsible corporate governance and a strategy squarely focused on the future. Sustainability is therefore one of the Bank's key fields of action, which is why Deutsche Hypo strives for a set-up that facilitates lasting profitability. This, in turn, will ensure the Bank's future earning power and secure jobs for the generations to come. With regard to real estate finance, the Bank serves as a partner whose financing has an impact on the physical design of many cities. Quality, professionalism and sustainability of the properties financed are key factors in lending decisions.

Deutsche Hypo has identified a total of five fields of action for sustainability and backed them with strategic priorities: governance, customers and investors, employees, environment and society. Deutsche Hypo provides insight into its sustainability measures through the information on the Bank's website and in the 2016 Sustainability Report. Details are available at [www.deutsche-hypo.de](http://www.deutsche-hypo.de) and <http://www.deutscher-nachhaltigkeitskodex.de>.

## Governance

Corrupt or unethical conduct, as well as violations of the law by individual persons or companies, harms society and its members in many ways. As a member of society, Deutsche Hypo sees avoiding and preventing this type of harm to the best of its ability as an important duty.

Deutsche Hypo combines the Bank's efforts to comply with the law and statutory requirements with ethically correct conduct, thereby linking its success as a business with social responsibility. The Bank has therefore published ethics principles and a corresponding policy for gifts and benefits, which are available for review by all employees in German and English in the organisation manual. These documents create a framework for fair conduct guided by integrity and values. They are also binding for members of the Board of Managing Directors, managers and employees. Every single employee should act in the interests of Deutsche Hypo by complying with applicable laws and environmental protection measures. Legal prohibitions and obligations must be strictly observed, even if doing so may appear inexpedient or unfavourable from a business perspective in the eyes of an individual person or the company. When in doubt, individuals and the company should always act in compliance with the law.

## Customers and investors

Deutsche Hypo has anchored aspects of sustainability in its relevant business areas, thereby ensuring an approach to doing business that includes economic, environmental and social aspects, as well as governance (ESG). Business and reputational risks are minimised by paying attention to aspects of sustainability. A lastingly successful customer strengthens itself and Deutsche Hypo's risk position.



As part of its business activities, Deutsche Hypo assesses certain exposures and commitments according to ESG criteria to identify business and reputational risks in the best interests of customers and the Bank at an early stage. Like other risks, potential ESG risks are evaluated as part of the lending process and are factored into the final vote on the transaction once they become apparent or arise.

The following sustainability policies are currently in place at Deutsche Hypo:

- Policy for environmental impact of business activities
- Human rights and labour standards policy
- Policy for dealing with tax law requirements
- Policy for responsible marketing
- Policy for sustainable real estate financing
- Financing policies regarding controversial areas of business

## Employees

Its employees are the future of Deutsche Hypo and ensure the company's long-term success. The Bank aims to promote diversity and foster the conditions for employees' optimal development. One area of focus is the promotion of gender equality in professional and managerial tasks. In addition, various seminars are offered to support employees in their professional and personal development.

By signing the Charta der Vielfalt (diversity charter), Deutsche Hypo strives to promote the recognition, appreciation and inclusion of diversity in corporate culture in Germany. For example, all job evaluations are performed based on work responsibilities rather than on the individual, so that an industry-standard minimum remuneration is ensured based on the employees' qualifications, scope of responsibilities, functions and professional experience regardless of race, ethnic background, gender, religion or world view, disability, age or sexual orientation.

Personnel policies with a focus on increasing potential make valuable contributions to ensuring the future sustainability of Deutsche Hypo. The management of personnel quality, i.e. enabling staff to undergo necessary changes as well as increasing the willingness to lead and perform through appropriate personnel development measures, characterised the personnel development policy of the Bank in 2017.

## Environment

Deutsche Hypo identifies the environmental impact of its business activities and strives to systematically lessen it moving forward. Cutting the consumption of resources and energy, as well as reducing emissions, is intended to consistently raise the Bank's ecological efficiency. Special attention is paid to energy efficiency. By saving on costs, Deutsche Hypo also improves the company's balance sheet.

Employees moved into the new building, in which Deutsche Hypo rents space, in November 2014. In 2015, the building received platinum certification – the highest property rating – from the German Sustainable Building Council (DGNB). For example, the building saved 15 % more energy than required in the Energy Savings Ordinance (Energiesparverordnung) of 2011, the year in which the building was planned. Furthermore, the building fulfilled the highest standards with regard to environmental and economic quality. The offices were designed and decorated in line with modern technical standards that ensure a good cost-benefit ratio. They have been engineered to ensure an optimal indoor climate, both in summer and in winter. The cooling and heating system is centrally managed and controlled so as to ensure, for energy and efficiency reasons, that the systems do not work against each other. In addition, many different steps are taken to provide employees with a pleasant working environment.

## Society

Commitment to society in the business environment is an important topic for Deutsche Hypo. A bank's region is more than a location where it does business. It is the place where its employees and many of its customers live and work, and it is essential for attracting new staff and talents. In addition, the Bank sources a significant share of the services it purchases from the region. Deutsche Hypo therefore focuses on the following areas in its efforts to contribute to an attractive region with a high quality of life:

- by promoting science and research
- by supporting social projects
- by acting as a donor and sponsor
- through its employees' volunteer work

In its commitment, Deutsche Hypo focuses on stability, continuity and reliability. As a result, the projects it makes possible are usually long term in nature, in line with principles such as the compliance guidelines, the ethics principles and the rules of responsible corporate governance.





Foreword by the Chairman of the Supervisory Board | Interview with the Board of Managing Directors | 2017 at a glance | [Sustainability](#) | Green Bonds | References

### Johann Georg Zimmermann-Prizes

Deutsche Hypo donates the prize money for the renowned award for merits in cancer research since 1972. The Johann Georg Zimmermann Research Prize for 2017/18 went to Dr. med. Thomas Oellerich from Medical Clinic II – Hematology/Oncology at University Hospital Frankfurt. Dr. med. Michael Hallek – a university professor, the director of the clinic for internal medicine (Klinik I für Innere Medizin) at University Hospital Cologne and the director of the Center for Integrated Oncology (CIO Köln-Bonn) – also received this year's Johann Georg Zimmermann Medal.



from left: Dr. Andreas Tecklenburg, Sabine Barthauer, Dr. med. Thomas Oellerich, Univ.-Prof. Dr. med. Michael Hallek, Prof. Dr. Michael Manns.

### Christmas wishing tree

Deutsche Hypo employees once again helped make many Christmas wishes of the children and adolescents at Güldene Sonne, an educational and therapeutic residential centre in Rehburg-Loccum, come true. The company donated gifts with a total volume of around € 2,300.



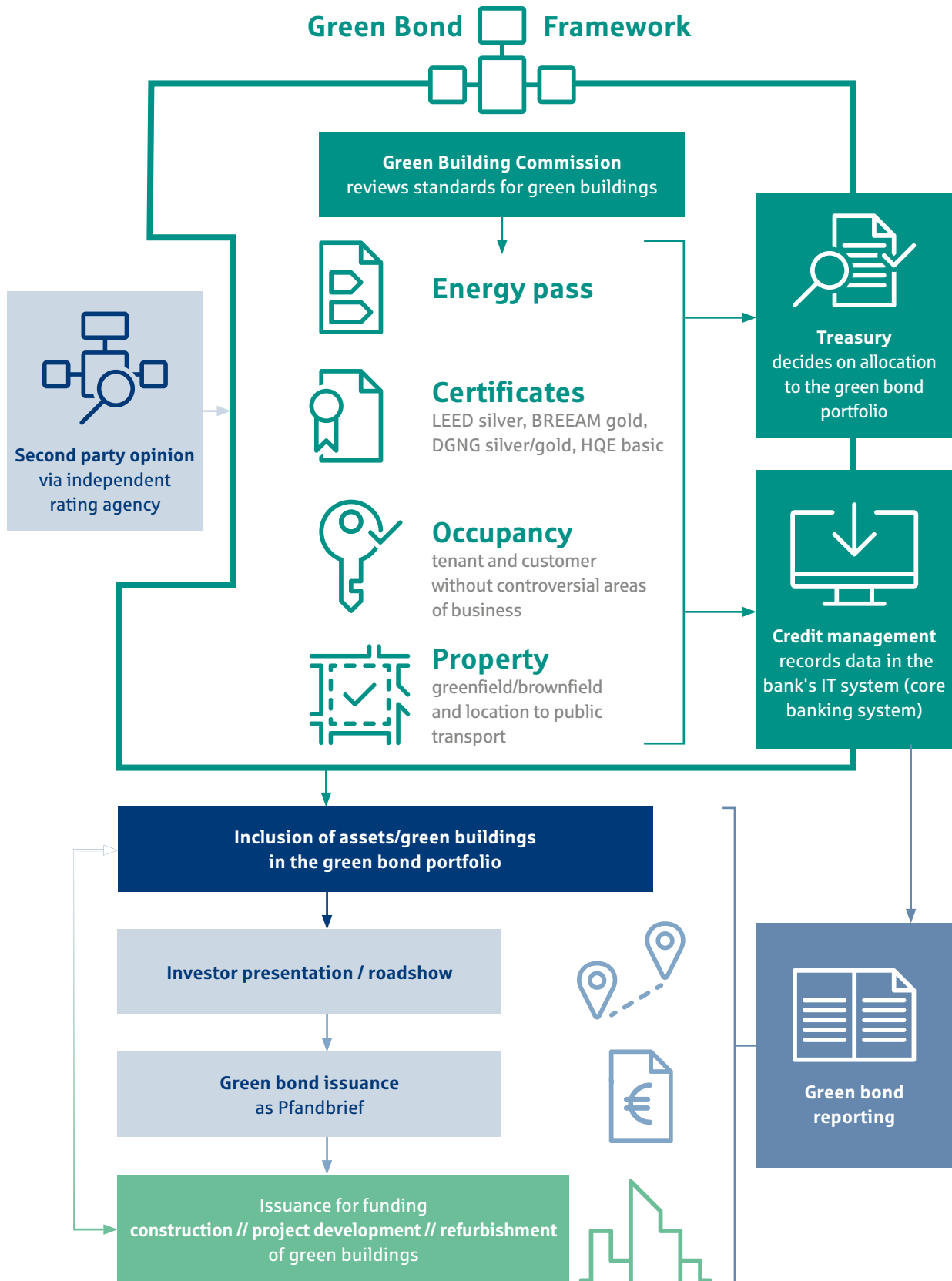
from right: Meike Peter, Vice Works Council Chairwoman at Deutsche Hypo, presents the gifts to Cicek Koyun and Philipp Gehlhaar, counsellors at the centre.

# Green Bonds

Deutsche Hypo issued its first Green Pfandbrief in November 2017. This successful lighthouse project was preceded by intensive preparation, in which numerous processes in the bank were adapted to the green buildings in the portfolio.



# Our green value chain





## “Well received by investors”

Some two years ago, **Dirk Schöfeld**, Head of Treasury, presented the topic of green bonds at Deutsche Hypo within the Bank for the first time. Even back then, he could already see that this topic would become increasingly important for Pfandbrief banks. All divisions and departments at Deutsche Hypo that were involved subsequently worked constantly to promote and advance the green bond project, which was successfully completed when the first Green Pfandbrief was issued in November 2017. Time to take a brief look back, Mr Schöfeld!

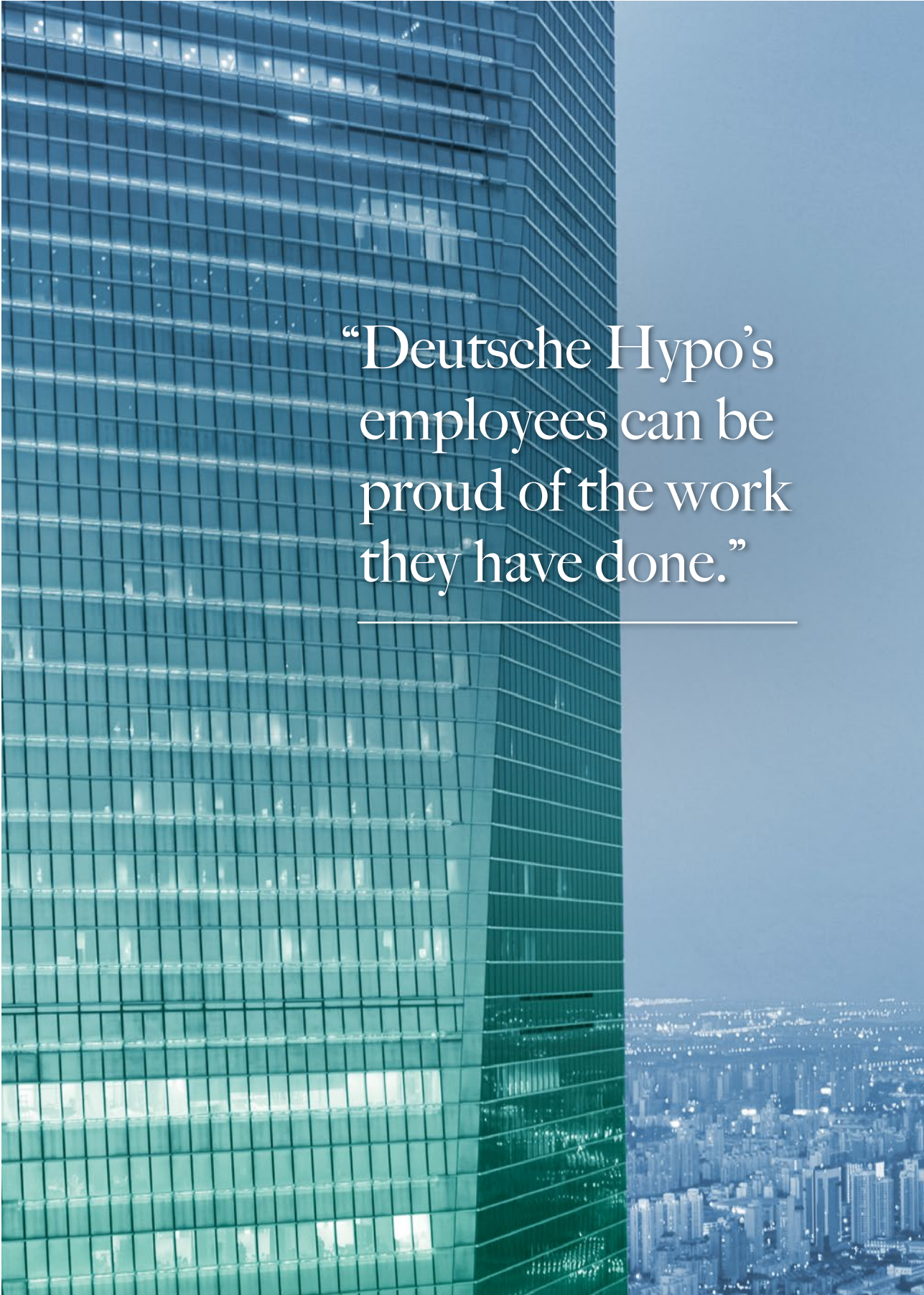
### **Many months of intensive preparations are behind you now. Where did the greatest challenges lie?**

We were confronted with one major challenge right from the start. From talking to our colleagues in the market departments, we knew that we already had a rather large number of loans with green buildings on our books. The trick was to identify them and flag them in the Bank's systems. At the same time, the task at hand was to pave the way for new business. Our aim here was to fine-tune lending processes, from acquisition and payment through to funding. To do so, we launched a new product process (NPP), in which a total of 15 colleagues were involved. We all faced a steep learning curve here. What stands out in my mind as particularly positive is that a tremendous enthusiasm for the topic emerged and caught on throughout the Bank. Deutsche Hypo's employees can therefore rightfully be proud of the work they have done.

### **That is a lot of effort for a “green hallmark”. In your opinion, what is the advantage of a green issue?**

Yes, the period of preparation was indeed associated with a great deal of effort. But it was worth it. We see a genuine added value, although we were initially unable to achieve an advantage when it comes to funding costs. The topic of sustainability in commercial real estate financing is growing ever more important, which is why Deutsche Hypo is focusing more and more on green loans. They allow us to make an important contribution to promoting the concept of sustainability. As a sustainable company, Deutsche Hypo would first and foremost like to act sustainably in its core business and drive forward the ecologically sound development of cities. Through the Green Pfandbrief, we are now giving investors the opportunity to invest consciously in sustainability products. In the long term, we expect the high demand for sustainable products to generate price advantages, of course. >>>





“Deutsche Hypo’s  
employees can be  
proud of the work  
they have done.”

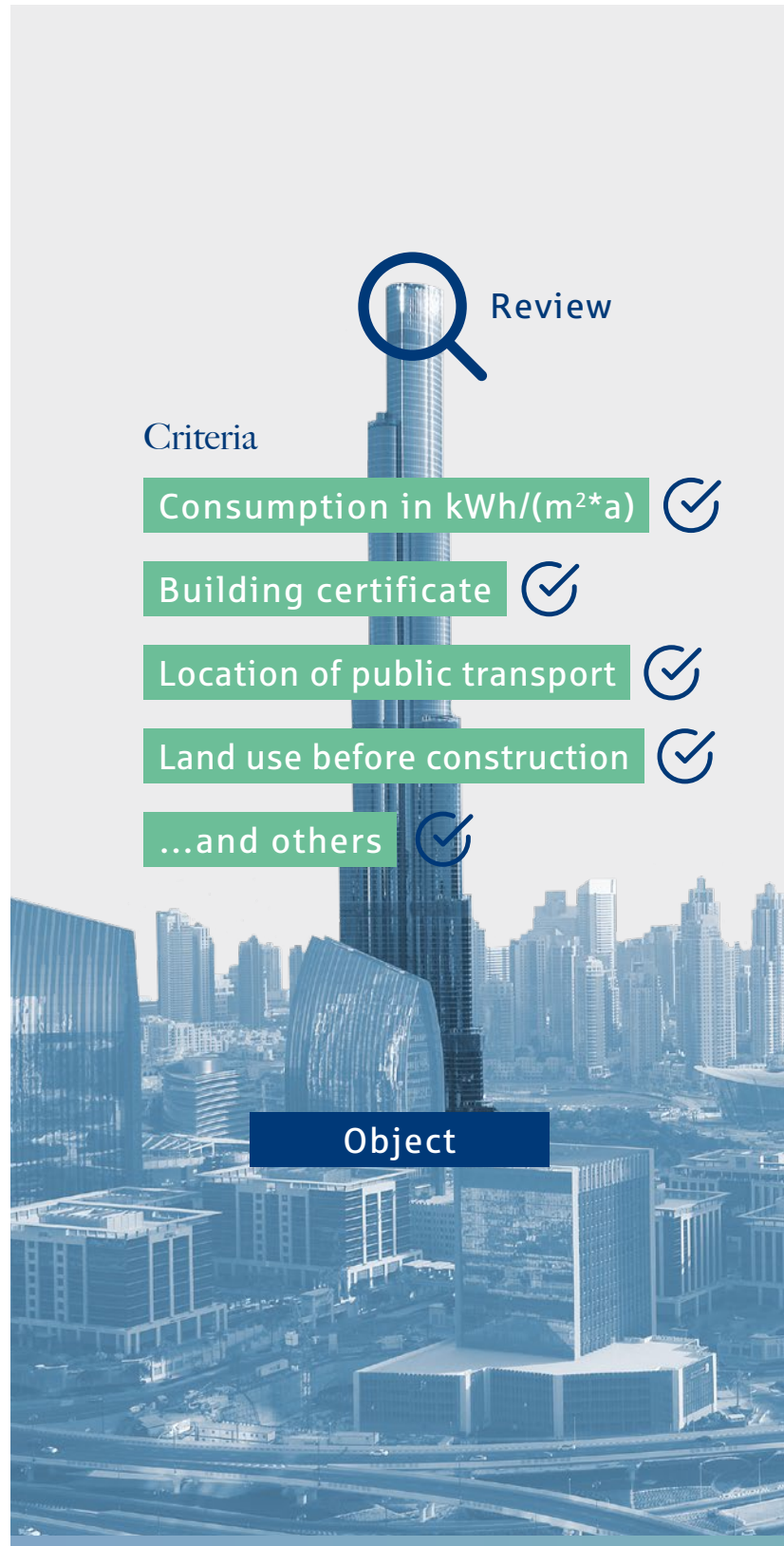
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**How have you structured the programme?**

Our focus is on energy efficiency, which is real estate’s main contribution to achieving climate targets. Modern buildings usually have significantly better energy performance than old ones. Our programme only considers those properties that meet our minimum green bond standards. Right now, energy efficiency is determined by property class based on energy certificates using the maximum energy demand or consumption in kWh/(m<sup>2</sup>\*a). Alternatively, a building certificate may also be taken into consideration. Once a year, an internal Green Building Commission reviews and defines all criteria. The funds acquired through an issue are then used solely to finance or fund energy-efficient buildings, such as project developments, existing properties or buildings that have been renovated to be more energy efficient. As a result, we gradually expect to see an increasingly sustainable real estate portfolio.

**What other criteria are taken into consideration?**

Despite the clear focus on energy efficiency, we would like to offer our bond investors additional transparency regarding our portfolio. Regional diversification is nothing unusual in this context. We take things a step further by also showing the distance to public transport or land use prior to the construction of each property. Our framework also governs clear exclusion criteria with regard to controversial business areas, such as the defence industry.





Green building

### **Did you see increased investor interest after you announced the issue?**

Definitely. Because we wanted to present Deutsche Hypo as a sustainable bank, we organised an extensive road show in Germany, the Netherlands, Luxembourg, France, Denmark, Sweden, Norway, Finland and Austria ahead of the issue. We hit the road in two two-person teams and held more than 50 investor meetings in this time. Each of the two teams featured experts on capital markets as well as on real estate financing – something that was met with particularly positive feedback by investors. We were therefore able to provide information about every property in our portfolio and every location. As it turns out, investors who focus on sustainability ask very detailed questions about the portfolio, resulting in very lively discussions. Investors were very receptive to the fact that being “green” plays an instrumental role throughout our entire value chain.

### **What was the day of issue like?**

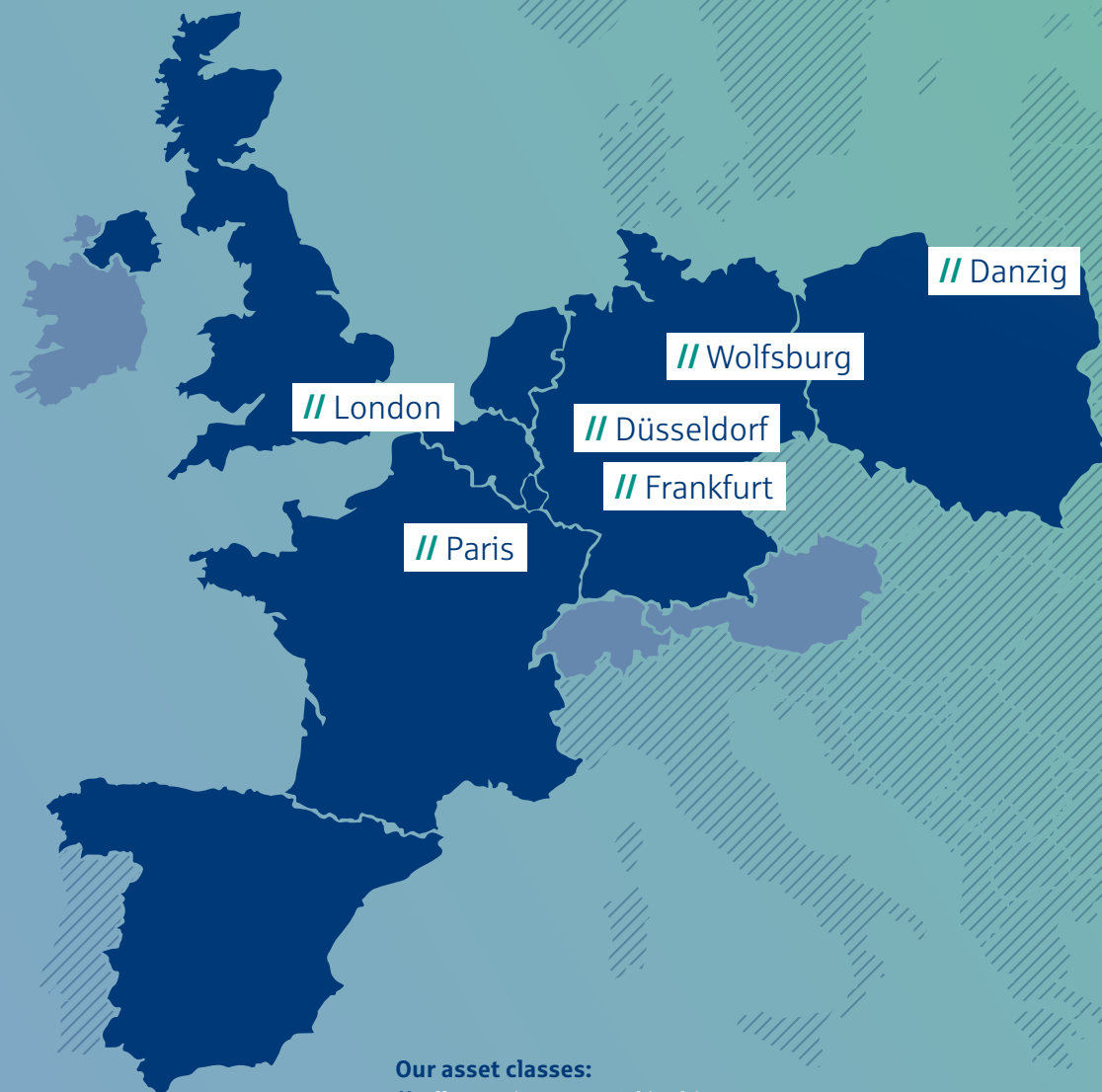
There was also a hint of tension in the air on the day of the issue, of course. But that sort of thing is normal with a premiere of this nature. We received more than 50 orders within the offer period, meaning the issue was more than two times oversubscribed. Many of the investors have a very strong focus on sustainability, allowing Deutsche Hypo to further expand its investor base. That in itself made the project worthwhile.

### **It has been a few months since the issue. What are the next steps right now?**

Right now, we are putting the final touches on our new green bond report as at 31 December 2017. The report is a service for our investors to help them get a wide range of interesting facts about the portfolio. For example, they can read about how much CO<sub>2</sub> emissions were saved thanks to their investment in the Green Pfandbrief. In terms of issuing activities, we are currently planning to issue one benchmark green bond a year. We have also already been able to sell smaller private placements. Maybe one day we will even be able to issue a high-volume green bond as an unsecured bond, allowing us to cover the entire product range here too.

# Our references

Deutsche Hypo's green bond portfolio offers a wide variety of interesting financing options across all of the bank's target markets and object classes. Below is an exemplary list of six sustainable references.



#### Our asset classes:

- // Office and commercial buildings
- // Retail
- // Hotels
- // Multi-storey residential
- // Logistics





## Galeria Baltycka

**Type of property:** Shopping centre | **Location:** Danzig

**Financing volume:** € 81 million

**Customer:** A real estate company managed by Deutsche EuroShop AG

**Green building capability:** The shopping centre received a certificate of the German Sustainable Building Council (DGNB) in gold and the CU Award "Best Shopping Centre Development" in 2007.



## 33 Central

**Type of property:** Office building

**Financing partners:** pbb Deutsche Pfandbriefbank and Deutsche Hypothekenbank

**Location:** London

**Financing volume:** GBP 127 million

**Customer:** TRITRI House S.a.r.l.  
(a HB Reavis Subsidiary)

**Green building capability:** The building has received a BREEAM Excellent rating for its sustainable design and has received numerous awards, such as "Best Office Architecture London" at the UK Property Awards 2015.

## Marieninsel

**Type of property:** Office building

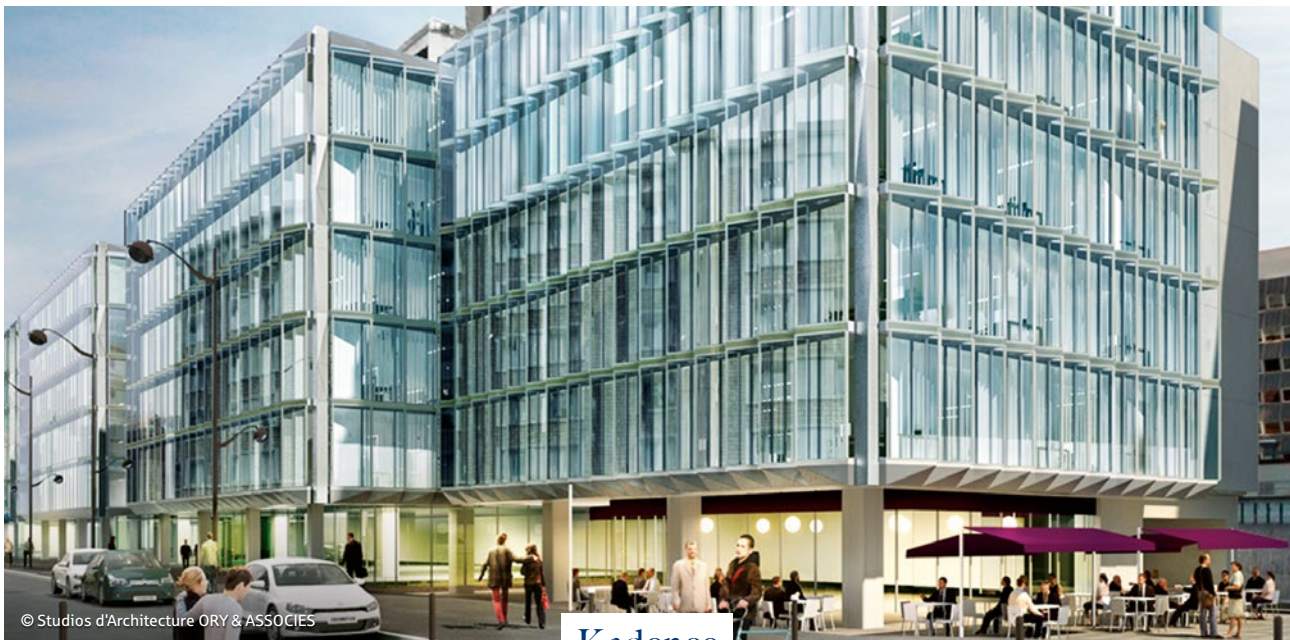
**Location:** Frankfurt/Main

**Financing volume:** € 133 million

**Customer:** Two project companies of "Perella Weinberg Real Estate Fund II LP"

**Green building capability:**

The aim is to achieve LEED platinum certification, although the properties are still under construction. According to the last LEED status report from September 2017, both objects will receive platinum.



## Kadence

**Type of property:** Office building | **Location:** Paris

**Financing volume:** € 72 million

**Customer:** PRIMONIAL REIM

**Green building capability:** The project development aims to receive the certifications HQE Excellent, BREEAM Very Good and the French label BBC Effinergie.

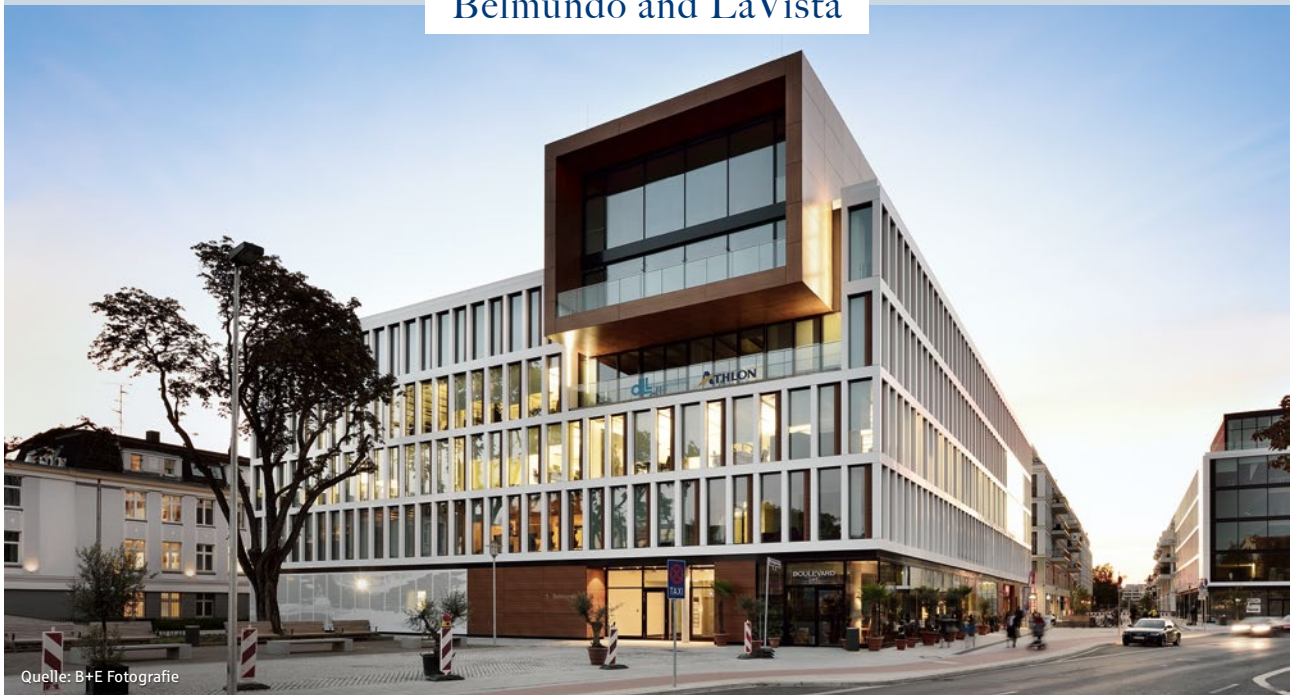


**Type of property:** Office building (incl. retail space on the ground floor) | **Location:** Düsseldorf  
**Financing volume:** € 32 million

**Customer:** CA Immo Düsseldorf Belsenpark MK 2.1 Projekt GmbH & Co. KG and CA Immo Düsseldorf Belsenpark MK 3 Projekt GmbH & Co. KG

**Green building capability:** The two office properties have been certified as green buildings according to DGNB and feature, among other things, an efficient, sustainable energy and climate concept with heating and cooling ceilings.

## Belmundo and LaVista



Quelle: B+E Fotografie

## Logistics portfolio

**Type of property:** Logistics centre  
**Location:** Seven locations in German logistics clusters

**Financing volume:** € 64 million

**Customer:** RLI Logistics GmbH

**Green building capability:**  
 Energy certificates are available for all objects that meet the requirements for green bond capability.





# MANAGEMENT REPORT

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

## Fundamentals of the Bank

### Deutsche Hypo's business model

Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (Deutsche Hypo or the Bank) was formed in 1872 and is one of the most renowned Pfandbrief banks in Germany. The Bank is a German real estate bank with a European focus and supports its customers in the strategic target markets of Germany, the UK, France, Benelux, Spain and Poland as a professional and strategic finance partner. The headquarters of Deutsche Hypo are in Hanover. It also has offices in Berlin, Düsseldorf, Frankfurt, Hamburg and Munich, as well as Amsterdam, London, Madrid, Paris and Warsaw.

As a company of the Norddeutsche Landesbank Girozentrale (Anstalt des öffentlichen Rechts), Hanover, Braunschweig, Magdeburg, (NORD/LB), Deutsche Hypo is the centre of competence for commercial real estate finance business in the Group. This also includes being the main issuer of mortgage Pfandbriefe in the NORD/LB Group. In addition to this, the Bank funds itself by issuing unsecured bonds. The goal is to have the possibility to fund at competitive conditions at any time. This will be achieved through the quality of the cover pools and the associated rating of the Pfandbriefe, and through the credit rating and standing of Deutsche Hypo in the area of unsecured bonds.

Deutsche Hypo's main business activities are divided into two areas. Commercial real estate finance is the core business area. It centralises all real estate financing for customers that primarily generate their cash flow from real estate or regularly make significant real estate investments. Commercial real estate finance produces roughly 90 % of the Bank's total net interest and net commission income. Deutsche Hypo centralises the public sector finance business in the second business area, capital market business. Furthermore, this area handles business in securities, money markets, derivatives with banks as well as funding.

Deutsche Hypo's business is aligned with numerous external influential factors. This is mainly due to the economic and sector-specific framework conditions that have a direct impact on the development of business in the business areas and thus the Bank's net assets, financial and income position. Furthermore, a number of customer-specific factors have a significant influence on the Bank's real estate finance portfolio, an aspect that is particularly relevant to the bank's development, including changes in redemption or extension behaviour, the holding period of real estate or the time of a sale in project developments. In addition, regulatory framework conditions should be named as an external influential factor for the development of Deutsche Hypo's business and income. The various funding options are, among other things, also influenced by developments on international financial markets and Deutsche Hypo's ratings, and they have an influence on the management of liquidity and the valuation of the public sector finance portfolio.

Deutsche Hypo's main corporate goals are to secure and increase corporate value, profitability and returns over the long term. The Bank thereby plans to further expand the significance of commercial real estate finance in the future. The Bank aims to continue to be perceived as an attractive competitor with interesting finance offerings. It is also engaged in the selective and risk-appropriate strengthening of its market position in Germany and abroad. The strategic target markets are characterised by high target-customer concentration, a large portfolio of real estate and long-term positive development. Financing in its home market, Germany, also continues to account for the largest share of the commercial real estate finance portfolio.

In addition to the intensive support of customers on the financing side, the Bank is pursuing close collaboration with institutional investors, as well as insurance companies and pension funds that have an interest in investments involving real estate finance. The real estate know-how built up at Deutsche Hypo should be employed even more to serve the interests of institutional investors in future.

Deutsche Hypo strives to reduce its public sector finance portfolio in the capital market business. New business continues to be conducted solely on a restricted basis in this business area and primarily serves the purpose of liquidity and cover pool management.

The Bank's economic success must go hand in hand with an intact natural environment and in a society with stable social relationships. Sustainable corporate governance is therefore very important for Deutsche Hypo. The Bank's sustainability report is available on its website. The current declaration of conformity according to the German Sustainability Code is also available from the Bank's website and at <http://www.deutscher-nachhaltigkeitskodex.de>. The sustainability report and the declaration of conformity pursuant to the German Sustainability Code are not part of the present management report.

### **Group affiliation**

Deutsche Hypo is a strategic participatory interest of NORD/LB, which holds 100 % of its shares, and is included in its consolidated financial statements. The consolidated financial statements as at 31 December 2016 were published on 19 April 2017 in the federal gazette. There is a control and profit and loss transfer agreement with an unlimited term between Deutsche Hypo and NORD/LB. This agreement requires that Deutsche Hypo transfers its profits to NORD/LB. NORD/LB is, in turn, required to compensate for any loss that may arise at Deutsche Hypo. The control and profit and loss transfer agreement means that there is a fiscal tax unit. By transferring profits or losses, Deutsche Hypo reports an annual result of zero.

### **Controlling system**

Deutsche Hypo's controlling system starts with the business and risk strategy and focuses on a sustainable increase in the corporate value. This value-oriented controlling philosophy is reflected in the central operating key performance indicators that are aimed at the Bank's profitability, productivity and risk profile.



Deutsche Hypo's controlling methodology includes the preparation of a medium-term plan in which the economic development is considered over a five-year period. There are also regular plan/actual comparisons as well as projections for the end of each financial year and beyond.

Aside from the result from normal operations (result), the key financial performance indicators are the Return on Equity (RoE) and Cost-Income Ratio (CIR). The RoE is defined as the quotient of the result before taxes and the Bank's capital pursuant to commercial law (not including investment by silent partners). The CIR is defined as the ratio of the administrative expenses (including the depreciation and amortisation on tangible fixed and intangible assets) to the total from the net interest income, net commission income and other net operating income. On account of their particular influence on the Bank's income performance, the development of new business and the portfolio in the core business area of commercial real estate finance are used as supplementary central performance indicators in the Bank.

In addition, the development of risk weighted assets (RWA), margins in the new business and portfolio of commercial real estate finance and, due to inclusion in the external reporting of the NORD/LB Group, the development of results according to IFRS serve as supplementary performance indicators for the Bank. RoRaC is also used as a supplementary performance indicator for business area management. Compliance with external requirements for regulatory performance indicators, in particular in the context of risk measurement for credit, market, liquidity and operational risks, is ensured in the form of supplementary constraints. Additional economic performance figures and risk limits also apply.

The controlling system is rounded out by non-financial performance indicators. Among other things, the supplementary performance indicators include the development of employee capacities and the sustainability rating, which underlines the importance of sustainable corporate governance.

### **Non-financial statement**

Due to its number of employees, Deutsche Hypo is not required to issue a non-financial statement in accordance with Section 289a of the German Commercial Code (HGB). However, the Bank's sustainability report includes significant non-financial information. The report for financial year 2017 should be published on the Bank's website, <http://www.deutsche-hypo.de>, by 30 June 2018 at the latest. As a group company, Deutsche Hypo should also be included in NORD/LB's non-financial statement. NORD/LB's sustainability report and non-financial statement are not part of this management report.

### **Corporate Governance Statement**

As in previous years, Deutsche Hypo has voluntarily published a Declaration of Conformity with respect to the Corporate Governance Code for financial year 2017 on the Bank's website, <http://www.deutsche-hypo.de>. The legally required information about the proportion of women on the Supervisory Board, Board of Managing Directors and the two levels of management below the Board of Managing Directors is also provided on the Bank's website at the above address. Further information about the management of the company is included in the Corporate Governance Report in the Bank's annual report. The publications on the Bank's website listed above (Declaration of Conformity, disclosures on the percentage of women in management, Corporate Governance Report) are not part of this management report.

## Economic report

### Macroeconomic and sector environment

#### Economic performance in Germany and Europe

The economic upturn in the eurozone increased its strength and breadth in 2017. Real gross domestic product grew by 2.5 % in the single currency area in 2017, the largest increase in a decade. As a result of positive economic development, the unemployment rate decreased to 8.7 % at the end of the year. Despite normalisation to an annual average of 1.5 %, the inflation rate remained below the ECB target of just less than 2.0 % for the fifth consecutive year.

In Germany, economic performance increased at a similar high rate to the eurozone. Real gross domestic product increased by 2.2 % for the year as a whole, and the growth rate adjusted for calendar effects was 2.5 %. Economic growth in the previous year was therefore significantly higher than the potential growth curve. However, that has so far failed to result in excessive inflationary pressure, with the inflation rate increasing to 1.8 % in the previous year as expected. Domestic demand remained an important pillar of growth, while exports also profited from increasing global dynamism. Growth in employment accelerated again, with the number of people in employment increasing by 1.5 %. At the end of 2017, 44.6 million people were employed (seasonally adjusted).

#### Development of real estate markets

In reporting year 2017, the positive macroeconomic environment supported the robust development of global investment activity. An increase of approximately 6 % in global transaction volumes, to € 582.7 billion, was recorded in 2017.

#### European real estate markets

In Europe, the strong performance of the real estate sector continued, with market activity influenced by political events. The ongoing Brexit negotiations and the intensification of the political conflict regarding Catalanian independence in Spain at the close of the year, in particular, led to uncertainty in the European real estate market. However, commercial transaction volumes in Europe continued to develop positively to € 250.4 billion (2016: € 204.5 billion).

In the UK, the transaction volume in the commercial real estate market in 2017 was approximately € 66.0 billion, which represented a considerable year-on-year increase of 36.6 %. The commercial real estate market therefore recovered noticeably, although uncertainty regarding the upcoming Brexit remained. The devaluation of the British pound drew more foreign tourists in 2017, which had a positive effect on both the retail and hotel property markets. Office rents in the City of London displayed stable development. The development of the residential property market was ambivalent: While national house price growth remained stable, weaker growth meant the London region recorded its worst performance since 2005.





In 2017, the French real estate market once again achieved third place in terms of commercial transaction volumes in Europe, after the UK and Germany, with growth of 12.4 % and a volume of € 27.1 billion. Following three weak quarters – particularly due to uncertainty regarding the result of the presidential election – that was primarily the result of the fourth quarter. Overall, the supply shortage in the French real estate market increased. Core properties were extremely scarce, particularly in the office property market, leading to increased focus on core-plus and value added properties. Vacancies in the Paris' CBD decreased further. Overall, the office rental market was robust. In the retail property market, peak rents in premium locations displayed stable development. And peak rents in the logistics property market also maintained their past level.

In the Benelux states, the real estate market in 2017 achieved year-on-year growth of 57.0 % in commercial transaction volumes. The market in the Netherlands, in particular, developed positively. Commercial transaction volumes almost doubled to € 17.5 billion, with equal contributions from domestic and international investors. Rents in the office property rental market in the Netherlands were stable overall. The scarcity of space in premium locations continued to increase. In the retail property market in the Netherlands, peak rents also remained at the level seen in the previous year.

In Spain, transaction volume increased by 22.7 % to approximately € 10.8 billion. Demand for commercial property remained high, with the result that the supply of premium properties decreased further and peak rent increased. Overall, the Spanish real estate market showed signs of growth, although the development of Barcelona's important real estate market has been restrained since the outbreak of the Catalonia crisis.

Commercial transaction volumes in Poland increased significantly in 2017, by 11.0 % to approximately € 5.0 billion. On the office market in Warsaw, the volume of new construction continued to be high with an increased speculative element, while Warsaw's vacancy rate was the highest in Europe at 11.2 %. Revenue in the Polish retail property market developed positively. The logistics property market was also characterised by largely stable peak rents.

### German real estate market

In view of the good economic framework conditions, the positive development of the German investment market for commercial property continued in reporting year 2017. The low level of interest rates resulted in a high level of investor interest in real estate. With a year-on-year increase of 7.4 %, the commercial transaction volume remained above € 50 billion for the third consecutive year. At € 56.8 billion it exceeded expectations and set a new record. While there was a further decrease in available property, prices continued to rise.

The German office property market also developed dynamically in 2017. With a transaction volume of € 24.9 billion (2016: € 23.8 billion) and a share of 43.8 %, office properties remained the most popular asset class. In the big 7 – Berlin, Hamburg, Munich, Cologne, Frankfurt am Main, Stuttgart and Düsseldorf – space turnover increased by 6.5 % compared to 2016, to approximately 4.2 million m<sup>2</sup>. With a turnover volume of approximately 995,000 m<sup>2</sup> and 955,000 m<sup>2</sup> respectively, Munich and Berlin were the markets with the highest turnover. As a result of undiminished high demand, together with very scarce supply, peak rents increased in the big 7, with the exception of Cologne. The average increase was 4.1 %. The vacancy rate of the big 7 decreased further in 2017, to 4.7 % (2016: 5.5 %).

Retail properties were in second place with a decreased transaction volume of approximately € 11.4 billion (2016: € 12.7 billion) or a share of approximately 20.1 %. Space turnover in the German retail property market decreased by 8.0 % to approximately 448,200 m<sup>2</sup> (2016: 487,400 m<sup>2</sup>). Among the big 10 (big 7 plus Leipzig, Nuremberg and Hanover), Berlin once again achieved the highest space turnover of 24,100 m<sup>2</sup>, but revenue was 30.5 % lower than in the previous year. While the peak rents in the ten most important retail locations decreased year-on-year by an average of 1.0 %, the average decrease in peak rents in markets outside the big 10 was 2.6 %.

There was a further significant increase in interest in logistics properties in the reporting year. This asset class continued to profit from the growth in online retail and achieved a record transaction volume of approximately € 8.7 billion (2016: € 4.8 billion), or a share of 15.3 %. The German logistics property market recorded space turnover of approximately 6.5 million m<sup>2</sup> – which equates to a year-on-year decrease of 2.8 %. Among the big 5 – Berlin, Düsseldorf, Frankfurt, Hamburg, Munich – Düsseldorf developed particularly positively, with year-on-year revenue growth of 48.8 %. Frankfurt achieved the highest space turnover, with an increase of 14.4 % to 652,700 m<sup>2</sup>. As in the previous year, the highest rent of € 6.75 per m<sup>2</sup> and month was achieved in Munich.

The German hotel property market achieved a transaction volume of just under € 4.2 billion in 2017. Due to a decrease in the number of large volume transactions in particular, the 2016 level of over € 5.2 billion was not reached. Unlike in the previous year, the share of domestic investors compared to foreign investors increased slightly to 52.0 % (2016: 43.0 %). Among the major cities, Munich achieved the strongest growth in investment volume with an increase of 121.9 %.

### Development of international financial markets

Compared to the turbulent previous years, the international financial markets were significantly calmer in 2017. They increasingly came to accept the surprising results of the Brexit vote and the US presidential election in 2016. They were supported by continuing positive economic development in all the major economies. That environment led to lower volatility on interest rate markets. Announcements by the US Federal Reserve regarding increasing interest rates and the reduction of its balance sheet were met with a relaxed response and did not result in erratic movements. The European Central Bank (ECB) largely continued its policies. While a change of direction began in October with the decision to reduce monthly bond purchase volumes from € 60 billion to € 30 billion, the ECB remained an active buyer and absorbed significant issue volumes. That meant interest rates in the eurozone remained at a low level. The yields for ten-year German federal bonds therefore trended between 0.2 % and 0.5 % in 2017.

Meanwhile, compared to the EUR, the USD almost exclusively trended in one direction in 2017. While, in January, a EUR cost approximately USD 1.07, by the end of the year that price had risen to USD 1.20. The election of French president Emmanuel Macron was also considered a positive sign for Europe and increased expectations that the ECB would slowly end its ultra-loose fiscal policies.

Covered issues, including Pfandbriefe, were placed effortlessly throughout 2017. The ECB's purchase programme supported that market, which led to continuing low returns. However, there was still demand for the Pfandbrief asset class, in particular, from numerous investors thanks to its high quality and higher returns compared to German federal bonds.



## Development of the banking sector

Commercial real estate finance continued to be very competitive in 2017. A large number of real estate financiers were active in the important European target markets, which continued to display stability. In particular, the continuing low-interest environment led to a high level of interest in commercial real estate on the part of investors. However, the supply of attractive properties was limited, so investors increasingly shifted their focus to properties outside the A locations. A growing number of banks also expanded their financing portfolios to include special-purpose properties, such as multi-storey car parks, logistics properties, nursing care properties or student accommodation. It should, however, be noted that such special-purpose properties differ from widely held asset classes in terms of their transaction volumes, cash flows and risk profiles. Excessive price developments were observed in some market segments, but no bubble developed in the real estate sector as a whole. The trends towards internal financing and subscriptions for large transaction volumes seen in recent years strengthened, while yields remained under pressure.

With regard to international regulatory requirements, two key topics dominated in 2017. On the one hand, finalisation of the Basel III reforms and, on the other, discussion of the draft revision of the EU Capital Requirements Regulation presented in November 2016 (CRR-E). At the national level, the final version of the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk) was published in October 2017. The implementation of all the necessary measures led to greater resource requirements on the part of the banks, and will continue to do so in the future.

## Course of business at a glance

### Significant influential factors and developments in financial year 2017

In the core business area, the financial year 2017 was characterised by the continuing positive external framework conditions. In this environment, despite further very intense competition and against a background of continued clear internal lending requirements with area to risk and return parameters, Deutsche Hypo was able to generate new business volume of € 3.8 billion. Detailed information is presented in the following.

The Bank opened a new branch in Berlin to strengthen its future domestic sales activities. Towards the end of the year, to further diversify the portfolio, business was resumed in Spain and a new branch was opened in Madrid.

The favourable external conditions continued to have a positive influence on the Bank's key risk figures. In terms of its average rating, the quality of the real estate finance portfolio was very high, and the proportion of financing in default in the overall portfolio remained significantly below the expected long-term average. Accordingly, the risk result in the core business area developed positively in the past financial year.

The effect of political developments in the Bank's individual foreign markets during the financial year required very differentiated assessment. While the election results in the Netherlands and France were largely seen as positive, in the past financial year there was uncertainty about the form in which the 2016 Brexit decision is to be legally executed. Against the backdrop of these uncertainties, Deutsche Hypo has considered various Brexit scenarios and prepared a range of options for action. No direct negative effects on Deutsche Hypo's net assets, financial and income position resulting from Brexit were determined as of the reporting date. Based on what the Bank regards as good key risk figures with regard to the finance portfolio, the Bank considers itself well positioned in the UK, both currently and for the future. Since Deutsche Hypo does not expect any large-scale and permanent negative developments in Great Britain's real estate markets, the Bank will continue to selectively take advantage of attractive new business opportunities there, taking into account its own conservative risk policy and with particular attention paid to monitoring market developments.

The ECB's ongoing expansive monetary policy measures continued to result in a stable capital market environment. In the public sector finance business, the Bank made selective use of the market conditions to accelerate portfolio reduction over and above the planned phase out. That resulted in further improvements in portfolio quality. On the funding side, the Bank was able to secure the necessary funding at all times, with particularly high demand for secured funding. Above all, that also applied to the first green Pfandbrief, which Deutsche Hypo issued in November. It allowed the Bank to attract numerous new investors, who mostly have strong focus on sustainability. The funds raised by the issue will be exclusively used to finance energy-efficient properties.

The Bank's business development also continued to be affected by developments in the industry's regulatory environment. Increased implementation costs resulting from new or amended regulatory requirements had a significant effect on Deutsche Hypo's administrative expenses. Initial planned investments were also made in the further strengthening of the Bank's brand identity, along with organisational and technical infrastructure. As expected, that also led to higher administrative expenses.

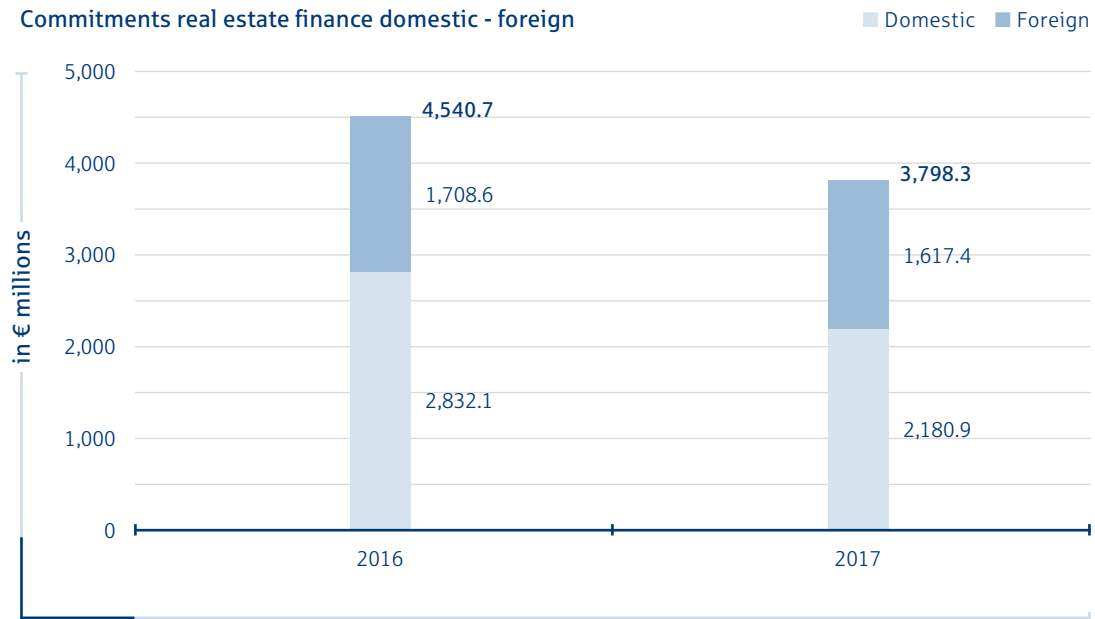
In the view of the Board of Managing Directors, the disclosed developments led to a good result in the past financial year. After strengthening of precautionary reserves it amounted to € 62.7 million (2016: € 115.0 million). That significant decrease was expected and forecast by the Bank. It was due, in particular, to the very good result in the previous year, which resulted from one-off effects.



### Development of new business in commercial real estate finance

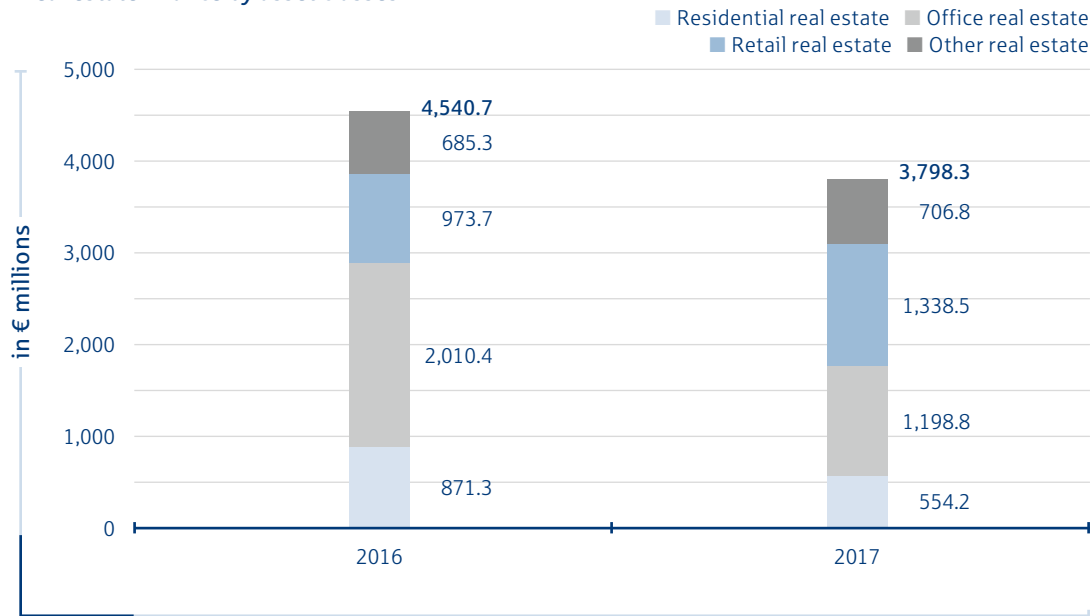
Deutsche Hypo's new business development was again defined by strong competition. However, the Bank continued to have a clear focus on exclusively concluding new business with a sufficiently good risk profile. The average rating therefore remained at the low level seen in the previous year and was approximately equal to the low average rating of the overall existing real estate finance portfolio. In this highly competitive environment, Deutsche Hypo generated new business volume of € 3,798.3 million in the past financial year (2016: € 4,540.7 million). As expected, the unusually high value from the previous year was not reached. However, in its last management report the Bank forecast only a slight decrease in new business volume. New business was therefore lower than expected.

#### Commitments real estate finance domestic - foreign



Despite a significant decrease to € 2,180.9 million (2016: € 2,832.1 million), the focus of new business continued to be domestic. In the foreign markets, new business volume decreased slightly to € 1,617.4 million (2016: € 1,708.6 million). The majority of foreign new business related to the target markets Benelux, the UK and France. However, there was a significant year-on-year decrease in new business volume in Benelux and the UK. Following a very high figure in the previous year, lending of € 488.6 million (2016: € 652.5 million) in Benelux only approached the level seen in previous years. Meanwhile, there was a very significant decrease in new business volume in the UK, to € 466.1 million (2016: € 749.3 million), which was significantly lower than in the preceding years. That reflected the cautious lending policies of the Bank in the UK as described above. On the other hand, there were significant increases in new business volume in the target markets France and Poland during the financial year. Following a weak previous year, new business of € 399.7 million (2016: € 113.3 million) was generated in France. In Poland new business volume totalled € 193.7 million (2016: € 79.3 million).

### Real estate finance by asset classes



There were significant shifts in the financed property types. With a total volume of € 1,338.5 million (2016: € 973.7 million), retail real estate was the property type that accounted for the most new business. On the other hand, the financing volume for office real estate fell significantly compared to the previous year, to € 1,198.8 million (2016: € 2,010.4 million). Approximately three quarters of new office real estate business was concluded in Germany. Following a significant increase in the previous year, the volume of residential real estate finance decreased again to € 554.2 million (2016: € 871.3 million). A large proportion of that new business was again concluded in the Netherlands. Other real estate related, in particular, to hotels and logistics companies. The focus of new business with these property types was on the home market of Germany.

Project developments also continued to represent a significant proportion of new business, with almost 80.0 % concluded domestically.

### Funding activity

In the reporting year, Deutsche Hypo issued own securities with a volume of € 3,526.3 million (2016: € 3,938.2 million), of which € 1,328.0 million (2016: € 1,800.0 million) were mortgage Pfandbriefe and € 2,198.3 million (2016: € 2,138.2 million) were unsecured bonds. The unsecured bonds were, in turn, consistently brought to market as private placements. There was a continued preference for registered bonds on the part of investors.

Pfandbriefe were issued in the scope of two benchmark transactions and some private placements. The two benchmark transactions each had a volume of € 500.0 million and saw positive demand from investors. The second issue on 17 November 2017 took the form of Deutsche Hypo's first green Pfandbrief. The Bank was the second German issuer to place a product of this type. It thereby implemented a green value chain from the provision of energy-efficient commercial real estate finance to funding by means of a sustainable issue product. The issue was more than two times oversubscribed with strong domestic

and foreign demand. Deutsche Hypo attracted numerous new investors, many of whom are very concerned about sustainability, so the transaction made a significant contribution to the expansion of the investor base.

As in previous years, Deutsche Hypo consistently attracted the required liquidity for the funding of commercial real estate finance at competitive prices in line with the market. The required funding volume was raised according to plan, particularly in the area of secured funding.

As usual, Deutsche Hypo was engaged in secondary market servicing for its own securities. The portfolio totalled € 26.5 million (2016: € 39.2 million) at the end of the year. Cash outflows could be replaced at all times, especially as there was no recognisable selling pressure on the part of investors at any time.

## Net assets, financial and income position

### Income position

in € millions	Total result		Commercial real estate finance		Capital market business		Other business	
	2017	2016	2017	2016	2017	2016	2017	2016
Net interest income	193.4	202.1	173.6	168.6	8.1	17.2	11.7	16.2
Net commission income	0.3	3.7	1.0	4.3	-0.7	-0.6	0.0	0.0
Administrative expenses	-83.8	-76.4	-42.4	-40.0	-6.7	-6.0	-34.7	-30.4
Other operating income	4.2	-3.5	0.2	0.0	0.0	0.0	4.0	-3.5
Risk result	-41.3	-66.6	-5.7	2.8	-5.6	-37.4	-30.0	-32.0
Income from securities and participatory interest	-10.2	55.7	0.0	0.7	-10.2	55.0	0.0	0.0
Result from normal operations	62.7	115.0	126.7	136.5	-15.1	28.3	-48.9	-49.8
Extraordinary result	0.7	-1.6	0.0	0.0	0.0	0.0	0.7	-1.6
Interest on investment by silent partners	-3.5	-8.4	0.0	0.0	0.0	0.0	-3.5	-8.4
Profit before taxes and profit and loss transfer	59.9	104.9	126.7	136.5	-15.1	28.3	-51.7	-59.8
CIR	42.3 %	37.8 %	24.2 %	23.1 %	91.1 %	35.8 %	> 100.0 %	> 100.0 %
RoRaC / RoE *)	7.0 %	12.3 %	25.1 %	27.7 %	-13.2 %	18.8 %	<- 100.0 %	<- 100.0 %

\*) on business area level disclosure of RoRaC, on level of whole bank disclosure of RoE

RoRaC business area = Profit before taxes and profit and loss transfer / fixed capital (= 11.5 % of yearly average risk-weighted assets).

In contrast to the previous annual report, the previous year's figures are also shown at 11.5 % of the annual average risk-weighted assets.

RoE whole bank = Profit before taxes and profit and loss transfer / yearly average of capital under commercial law (=subscribed capital + capital and profit reserves)

Deutsche Hypo generated a result from normal operations of € 62.7 million in the financial year 2017 (2016: € 115.0 million). That good result was achieved, and even slightly exceeded the Bank's internal planning, while, at the same time, its precautionary reserves were strengthened. The reduction of the capital market portfolio while preserving value also continued. However, overall, as expected, it was not possible to reach the previous year's result of € 115.0 million, which was strongly influenced by one-off effects. The result in the previous year was due, on the one hand, to a very positive risk result in the core business area and, on the other, to write-ups in the capital market business relating to the receivables and securities of Heta Asset Resolution AG (Heta).

The forecast for 2017 assumed that the Bank would fall significantly short of the exceptionally strong result in the previous year, and with it the previous year's RoE. With a stable income situation in the core business, a slight overall decrease in income was expected due to the further decline of the portfolio in the public sector finance business and lower investment income from equity. Compared to financial year 2016, higher net additions to risk provisions in the core business area were predicted. Against the backdrop of investments to strengthen Deutsche Hypo's market image, and in its organisational and technical infrastructure, increasing administrative expenses and a corresponding rise in the CIR were expected.

As expected, the net interest income at the overall bank level, € 193.4 million, fell slightly short of the previous year's result of € 202.1 million. Meanwhile, in the core business area the net interest income was slightly higher than in the previous year. Among other things, that development was due to the collection of prepayment penalties and a higher average loan portfolio with slightly lower margins. Overall, as expected, the net interest income in the core business area gave Deutsche Hypo the foundation for stable development of its income situation. As predicted, there was a year-on-year decrease in the contributions of the capital market and other business areas to the net interest income. That was due to the continuing reduction of the capital market portfolio, higher funding costs and lower investment income from the Bank's equity.

Net commission income in the past year was at the low level of € 0.3 million (2016: € 3.7 million). The change compared to the previous year resulted from the further successful placement of risks, which led to an increase in guarantee fees. Meanwhile, in the previous year, fees were received from a major transaction.

As expected, despite strict cost management, administrative expenses of € 83.8 million exceeded the figure from the same period in the previous year (€ 76.4 million) and reflected the start of investment in the further strengthening of Deutsche Hypo's market image and its organisational and technical infrastructure. The implementation of regulatory requirements also continued. The bank levy of € 10.0 million represented a significant element of administrative expenses. As expected, the resulting CIR of approximately 42.3 % was higher than in the previous year (2016: 37.8 %). The continuing low level of this key figure underlined Deutsche Hypo's existing cost discipline.

Other operating income of approximately € 4.2 million reflected one-off effects. They included income relating to amended tax assessments, additions to provisions due to legal uncertainty over existing credit contracts and interest-related additions to provisions.

In the commercial real estate finance business, the risk result of € – 5.7 million (2016: € +2.8 million) remained at a very good level. That result is proof of the Bank's consistently quality-oriented lending policies, in combination with continued stable real estate markets. The very good risk result in the core business area, which was significantly below its expected long-term level, was used to further expand precautionary reserves. Meanwhile, the risk result allocated to the capital market was slightly negative. In the previous year the risk result was characterised by write-ups on the exchange of Heta securities and offsetting effects from the repurchasing of public Pfandbriefe.





The active reduction of the Italian exposure resulted in costs that had a significant negative impact on income from securities and participatory interest but further improved the risk profile of the capital market portfolio. At € – 10.2 million (2016: € 55.2 million), income from securities and participatory interest was significantly lower than its high level in the previous year, which resulted from one-off effects.

Costs for the in the financial year repaid investment by silent partners of € 3.5 million in the financial year (2016: € 8.4 million) were incurred for the last time in 2017. The solid profit before taxes and profit and loss transfer of € 59.9 million resulted in RoE of 7.0 %, which was lower than in the previous year as expected. In the previous year, profit before taxes amounted to € 104.9 million and was influenced by one-off effects, which resulted in RoE of 12.3 %. The profitability of the core business area was reflected by RoRaC, which remained very good at 25.1 % (2016: 27.7 %).

## Net assets

### Development of the balance sheet

in € millions	31.12.2017	31.12.2016
Receivables		
Mortgage loans	12,077.1	11,977.0
Loans to local authorities	3,892.5	4,815.5
Other receivables	1,392.2	1,457.3
Securities	5,489.9	6,720.3
Other assets	846.6	232.5
<b>Total assets</b>	<b>23,698.3</b>	<b>25,202.6</b>

Deutsche Hypo's balance sheet total fell again slightly compared to the previous year, to € 23,698.3 million (2016: € 25,202.6 million). As of the balance sheet date, more than half of the asset portfolio related to commercial real estate finance. The developments presented therefore very clearly reflected the strategic focus of the Bank on its core business area, which has been pursued for a number of years. While the commercial real estate finance portfolio grew slightly, the capital market business portfolio decreased significantly in the past financial year. In line with the strategic orientation of the Bank – which aims to further reduce its public sector finance portfolio – as in previous years that decrease related to reductions in the portfolio of loans to local authorities and securities.

### Development of the commercial real estate finance portfolio

In line with the previous year's forecast, Deutsche Hypo was able to slightly increase its portfolio in the core business area in the past financial year, to € 12,077.1 million (2016: € 11,977.0 million). Despite the decrease in the volume of new business and further early repayments, the Bank was thereby able to achieve its predicted slight increase. However, among other things, that was due to the payout of loans agreed at the previous year's balance sheet date.

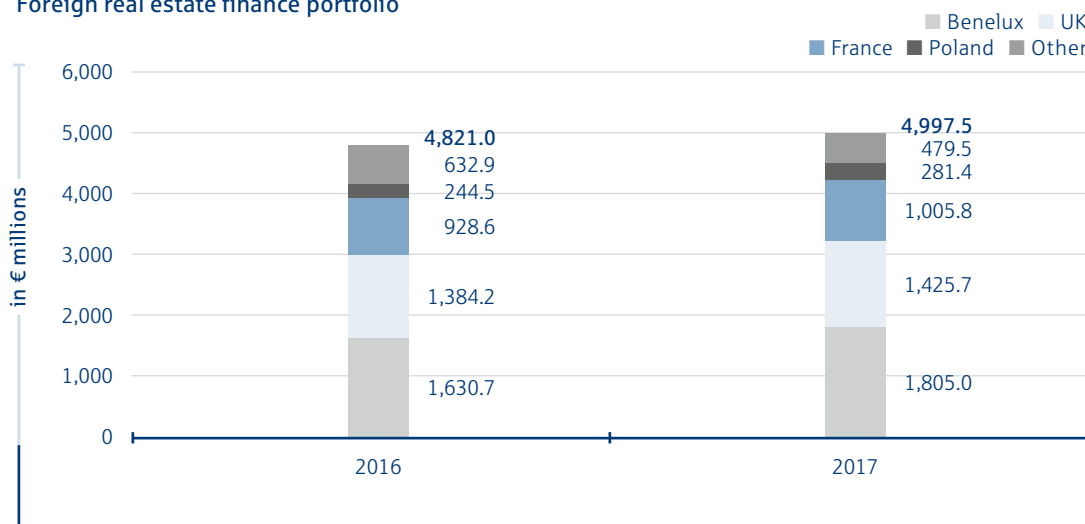
Deutsche Hypo continued to focus on maintaining what the Board of Managing Directors regards as the good risk parameters of the loan portfolio. Against the backdrop of quality-oriented lending policies, and supported by the continuing positive external conditions, the average rating of the real estate finance portfolio was maintained at its very good level. Financing in default as a proportion of the overall portfolio remained significantly below the expected long-term average. Detailed information on the distribution

of ratings is provided in the presentation of the analysis of credit risk in the expanded risk report. Due to reliance on the nominal volume including the share of loan commitments, the credit exposures mentioned there are not exactly comparable to the balance sheet portfolios of real estate finance presented here.

With a portfolio of € 7,079.6 million (2016: € 7,156.0 million) the core business area continued to have a domestic focus. However, there was a slight shift towards foreign markets in the past financial year, with the portfolio increasing to a total of € 4,997.5 million (2016: € 4,821.0 million).

That increase in the foreign portfolio primarily related to the marked expansion of the finance portfolio in the Benelux target market. At € 1,805.0 million (2016: € 1,630.7 million) just less than a third of foreign financing related to Deutsche Hypo's largest foreign market according to the balance sheet. That increase was due to the ongoing expansion of residential real estate finance in the Netherlands for the further diversification of the overall portfolio. Despite the uncertainty described above as a result of Brexit, as of the balance sheet date the Bank continued to hold a strongly diversified portfolio in the UK. At € 1,425.7 million (2016: € 1,384.2 million), this important real estate market continued to represent a large proportion of the overall portfolio in the core business area. There were also small increases in the portfolios in the target markets of France and Poland. Meanwhile, the portfolios in the regions outside the direct target markets were reduced significantly.

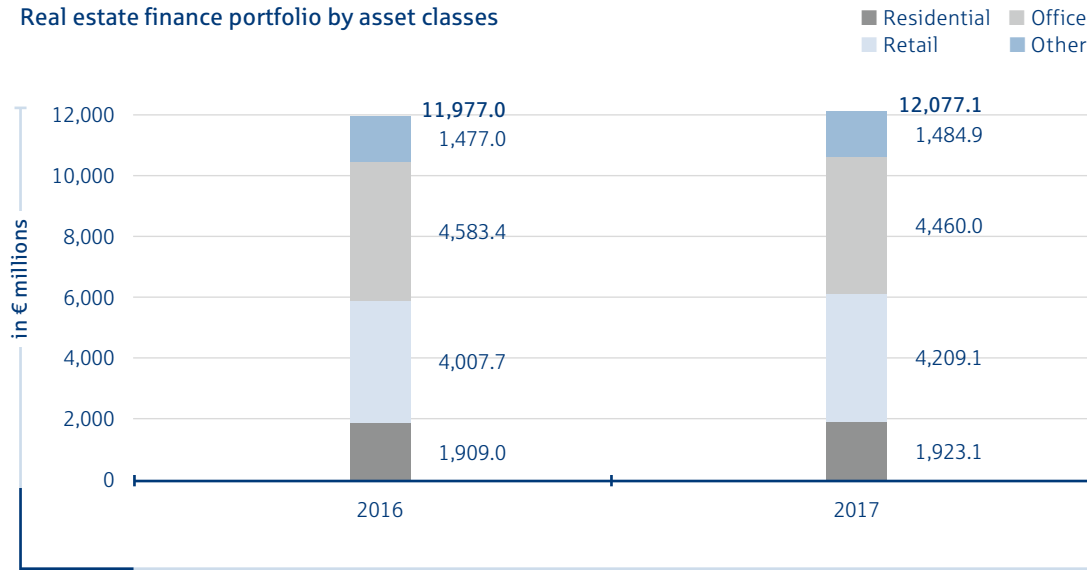
**Foreign real estate finance portfolio**



With regard to the segmentation of the financed property types, in the past financial year new business resulted in a slight shift away from office properties and towards other property types. Despite the decrease to € 4,460.0 million (2016: € 4,583.4 million), office properties continued to represent the largest proportion of the portfolio. Meanwhile, retail property financing increased slightly to € 4,209.1 million (2016: € 4,007.7 million). There were only slight changes to the portfolio with regard to residential and other property. Other real estate related, in particular, to hotels and logistics properties, which were primarily financed in Germany. With regard to residential financing, the majority of the properties financed were located in the Netherlands and Germany.



### Real estate finance portfolio by asset classes



In addition to the portfolio of commercial real estate finance, as of the reporting date 31 December 2017, there was also a comparatively large portfolio of irrevocable loan commitments, which totalled € 1,378.7 million (2016: € 1,809.7 million). Guarantee facility agreements with a volume of € 346.8 million (2016: € 167.4 million) were also reported.

A noteworthy proportion of the portfolio, irrevocable loan commitments and guarantee facility agreements in the core business area continued to relate to project developments. In the Bank's view, based on the current key risk figures, they continue to be of high quality.

### Development of portfolio in capital market business

Deutsche Hypo's active dealings in the capital market business relate to public sector finance and its business in securities, money markets and derivatives with banks.

In line with the strategic orientation of the Bank, the public sector finance portfolio decreased again significantly, by more than € 2 billion, in the past financial year. The majority of the decreases in the portfolio with regard to loans to local authorities, which fell to € 3,892.5 million (2016: € 4,815.5 million), and securities, which fell to € 5,489.9 million (2016: € 6,720.3 million), related to scheduled maturities. The portfolio was also selectively reduced by means of disposals. As in the previous year, the Bank thereby made use of market opportunities, particularly to reduce exposure to individual high-risk counterparties in Spain and Italy. The very small volume of new public sector finance business, approximately € 102.8 million (2016: € 623.4 million), was conducted for the purposes of liquidity and cover pool management.

All credit derivatives in the portfolio are also allocated to the capital market business. All credit default swaps were disposed of in the past financial year due to their maturities. There were also significant decreases in the total return swap portfolio as a result of maturities, premature terminations and currency developments.

The developments presented led to a further improvement in the average rating for the capital market portfolio. For further detailed information regarding the division of the portfolio by rating category and region, reference is made to the descriptions on the analysis of credit risk in the counterparty risk section of the expanded risk report. The explanations of the cover pool for public Pfandbriefe in the descriptions of risk management in the expanded risk report also includes a breakdown of the overall capital market portfolio by rating.

## Financial position

in € millions	31.12.2017	31.12.2016
Liabilities		
Mortgage Pfandbriefe	8,414.1	8,286.9
Public Pfandbriefe	4,490.4	5,378.5
Unsecured bonds	2,677.4	2,740.5
Other liabilities	6,672.1	7,087.5
Subordinated liabilities	379.5	395.0
Jouissance right capital	20.0	60.0
Funds for general banking risks	14.4	14.4
Equity	838.2	913.2
Other liabilities	192.2	326.6
<b>Total liabilities</b>	<b>23,698.3</b>	<b>25,202.6</b>
Contingent liabilities	502.2	1,029.3
Other obligations	1,378.7	1,809.7

In line with the strategic aims of the Bank, the further reduction in the balance sheet total included a significant decrease in public Pfandbriefe currently in circulation to € 4,490.4 million (2016: € 5,378.5 million). The focus on commercial real estate finance as the core business area in the lending business was therefore also visible on the Bank's funding side. The decrease was largely due to maturities. As in the past, the Bank selectively repurchased own public Pfandbriefe before they matured in the course of regular secondary market servicing. The result was a slight year-on-year increase in the portfolio of current mortgage Pfandbriefe to € 8,414.1 million as of the reporting date (2016: € 8,286.9 million) and a decrease in the portfolio of unsecured bonds to € 2,677.4 (2016: € 2,740.5 million).

Please see the cash flow statement for further information on the development of the Bank's financial position. Regarding the terms and maturities of the liabilities, please refer to the maturity breakdown for liabilities in sections 15 and 16 of the notes. The expanded risk report also includes discussions of the Bank's liquidity situation. Information about Deutsche Hypo's funding activity in the past financial year is found in the descriptions of the course of business.

The Bank's balance-sheet equity declined to € 838.2 million year on year (2016: € 913.2 million). That was due to the repayment of the previously terminated investment held by silent partners in the previous financial year as at the reporting date in the nominal amount of € 75.0 million. There was also a decrease in jouissance rights to € 20.0 million (2016: € 60.0 million) due to maturities. The remaining jouissance rights were fully due as of the balance sheet date and will also be repaid in the course of the 2018 financial year. As of the balance sheet date there was also a decrease in subordinated liabilities to € 379.5 million (2016: € 395.0 million) due to maturities. Please see the explanations in the expanded risk report of this management report regarding the Bank's regulatory equity resources.



There was a year-on-year decrease in off-balance-sheet obligations in the form of irrevocable loan commitments to € 1,378.7 million (2016: € 1,809.7 million) due to disbursements. That resulted in a continued high level of agreed loans not yet included in the portfolio. Contingent liabilities decreased very considerably, to € 502.2 million (2016: € 1,029.3 million). That was due, above all, to the development of credit derivatives as described with regard to the development of the capital market business. Off-balance-sheet obligations from credit derivatives decreased to € 155.5 million (2016: € 861.9 million). Meanwhile, contingent liabilities from sureties in the real estate finance business increased significantly to € 346.8 million (2016: € 167.4 million). That was due to an increase in guarantee facilities.

## Rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Long-term liabilities	Baseline Credit Assessment (BCA)
Moody's	Aa1	Aa2	Prime-2	Baa3 Outlook: negative	b2
		until 7 July 2017 Aa1		until 30 June 2017 Baa2 until 18 April 2017 Baa1	until 30 June 2017 b1 until 18 April 2017 Ba3

The rating agency Moody's made two adjustments to Deutsche Hypo's rating in the reporting year. Since 30 June 2017 the rating for unsecured bonds has been Baa3 with a negative outlook. That was due to the close relationship between Deutsche Hypo and NORD/LB, which was subject to decreases in its ratings, especially as a result of the shipping crisis. Deutsche Hypo took this opportunity to adjust the surplus cover of the public cover pool and thereby accept a rating of Aa2 for public Pfandbriefe. The rating for mortgage Pfandbriefe remained unchanged at Aa1. The rating agency continued to recognise the Banks' positive income development, high asset quality and sustained low NPL ratios in the real estate finance business.

## Sustainability ratings

	imug	Oekom research
Uncovered Bonds	positive BBB	Overall score C+
Mortgage Pfandbriefe	positive BB	Investment status „Prime“
Public Pfandbriefe	very positive A	„Industry Leader“

Deutsche Hypo was assessed by two sustainability rating agencies in the reporting year. In January 2017, imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH gave the Bank a rating of "positive (BBB)" for uncovered bonds. At that time, that put Deutsche Hypo in second place among all rated financial institutions (or development banks).

The rating agency oekom research AG, which issues ratings with an interval of two years, gave Deutsche Hypo a prime rating in April 2016. Such ratings are given to the companies that meet the sector-specific requirements regarding sustainability management in a particular industry. With its "C+" rating, at that time Deutsche Hypo was one of the top three companies in its industry.

### **Overall statement on the course of business and the Bank's situation**

In the view of the Board of Managing Directors, Deutsche Hypo can look back on a good 2017 financial year. Thanks to a further strong risk result and stable income in its core business area, the Bank was able to achieve a positive annual result in line with the forecast. The good development of the result was again used to strengthen precautionary reserves.

Portfolio development can again be assessed as positive. While the loan portfolio in the core business area of commercial real estate finance increased slightly, in line with the forecast, and maintained its high quality, the capital market portfolio decreased significantly ahead of the planned phase out. A large proportion of the credit derivatives in the portfolio matured as planned. In terms of earnings, the offsetting portfolio developments presented in the business areas resulted in a further shift towards the core business area.

In an environment that remains intensely competitive, the new business volume achieved by the Bank in its core business area was slightly lower than its own expectations. On the funding side, the Bank was consistently able to obtain the required liquidity from the market at prices in line with the market. In November the Bank successfully issued its first green Pfandbrief. Overall, business development in the past financial year, 2017, can therefore be considered positive.



## 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 net assets, financial or income position.

## Forecast, opportunity and risk report

### Forecast report

The following section should be read in the context of the remaining sections of this management report. The future-oriented statements in this forecast report are based on estimates and conclusions on the basis of the information that is currently available. These statements are supported by a number of assumptions regarding future events that were included in Deutsche Hypo's corporate planning. There are uncertainties and risks related to the occurrence of future events, including many factors that the Bank is unable to influence. Actual events may therefore deviate from the predictions that follow. The assumptions made in the course of planning are described in greater detail in the forecast report.

Developments in past years have shown that the ability to make predictions in a volatile environment is limited. Deutsche Hypo discusses key opportunities and risks for central management in detail in this section. Opportunities are defined here as possible future developments or events that may lead to positive forecast or target deviations for Deutsche Hypo. Risks, on the other hand, are defined for the purpose of the forecast report as possible future developments or events that may lead to negative forecast or target deviations for Deutsche Hypo. Bank-specific risk types are separately explained in the expanded risk report.

### Development of business and framework conditions

#### Forecast for economic development

The German economy continues to experience a strong upswing. Having achieved a high GDP growth in the second half of 2017 similar to the first half of the year, growth rates higher than the potential signal a good start to 2018 too. In view of the strong dynamics of incoming orders for industrial production, the trend is likely to continue to remain on an upward course. In addition to that, the sentiment in German businesses remained euphoric right through to the end of 2017. The ifo Business Climate recently climbed to an historic record level of 117.6 points. In view of the high overall economic capacity utilisation, investments are continuing with their dynamic development. This acts as an important pillar of growth for private consumption together with the sustained high consumer confidence and the very positive labour market trend. NORD/LB expects growth of 2.6 % for the current year, according to its economic growth forecast for this year.

The overall economic perspectives remain outstanding for the eurozone. The very positive recent figures from the sentiment indicators survey signal a continuation of the strong upturn, especially when the economic situation and the other economic prospects have also stabilised in France and Italy. Unemployment will continue to fall in 2018. NORD/LB expects real economic growth of 2.5 % for the year overall in comparison with the previous year, followed by around 2 % in the coming year.

Monetary policy will remain extremely expansive to begin with, creating a favourable monetary environment. The downside risks facing the forecast include above all geopolitical conflicts, the Brexit negotiations and the Italian election in the spring. Sustained turbulence in the financial markets and an overly sharp revaluation of the euro could also slow down the upturn.

#### Forecast for the development of the target real estate markets

The development of transaction volumes in global commercial real estate is also set to be solid in 2018. However, the increasing shortage in supply means that the transaction volume is expected to be lower than it was in 2017. In view of geopolitical or macroeconomic uncertainties, the market environment remains challenging overall.

A continuing dynamic forecast for economic development is expected in Europe even though other political uncertainties persist. European office space turnover is forecast to fall slightly to 12.3 million m<sup>2</sup> for financial year 2018. Overall the demand for European real estate will remain robust and will gain momentum thanks to the low interest rates. A significant reversal of the trend is not expected. The shortage of prime properties is likely to continue. In the UK, the continuing Brexit negotiations are a cause of uncertainty when considering the European target markets specifically. The British office real estate market is likely to enjoy stable development overall, whereby a fall in rents cannot be ruled out in certain locations. A moderate rise in rents is expected for French office real estate, in the larger Paris area in particular. In the Netherlands, the number of vacant offices should continue to fall, particularly in Amsterdam, which means rising peak rents can be expected. In Spain, uncertainty over the further development of Catalonia remains in 2018, which represents a risk factor for the Barcelona real estate market in particular. In addition, the political uncertainty in Poland caused by the PiS government is likely to continue. A large number of new builds can also be expected on the Polish office real estate market. Rents are likely to remain under pressure.

In Germany, the positive economic situation will have a favourable effect on the real estate market throughout 2018 too. The low interest rate will continue to keep the demand for real estate investments high. However, the continued worsening of the supply shortage will limit the volume of commercial transactions, meaning that a similar level is expected for 2018 as in 2017. The residential property market of the big 7 will remain strained in 2018. In view of the fact that prices are already high, particularly in the new build segment, the drive behind the increase in prices is expected to abate slightly.

The office real estate market is expected to continue to enjoy a dynamic rental market in 2018, though the lack of available space could weaken the development of turnover. An increase is expected for peak rents, albeit a lower increase than in 2017. Demand for retail property space is likely to decrease, apart from in 1a locations, due to a drop in the requirement for sales spaces. The market for logistics properties is expected to continue on its path of expansion, primarily near urban centres. A lack of suitable properties will continue to prevail in the hotel real estate market.

Overall it can be expected that the German real estate market will continue its dynamic upwards trend in the light of attractive framework conditions and will sustain its prior position as a safe haven for assets.





## Forecast for developments on international financial markets

The US Federal Reserve will continue its moderate rise in prime rates in 2018 and gradually reduce its balance sheet total. On the other hand, the European Central Bank (ECB) is continuing its extremely expansive monetary policy and is not expected to stop net purchases within the scope of the ECB's Expanded Asset Purchase Programme (EAPP) until the end of 2018. If economic data remains positive on a prolonged basis, an initial prime rate increase is likely to occur by mid-2019, and is expected to start in the area of deposit facility rates. Capital market interest rates are likely to increase in this environment. The yield on ten-year German federal bonds should rise to 1.20 % by the start of 2019. NORD/LB predicts a US dollar to euro exchange rate of 1.18 USD/EUR over the next twelve months. In the short to medium-term, NORD/LB expects the EUR/USD basis swap spread to remain at around –35 basis points. The econometric forecast model indicates that the repayment trajectory for these should remain level.

## Forecast for the development of business with significant opportunities and risks

### Significant assumptions in the forecast

Deutsche Hypo's multi-year plan, which is compiled annually, provides the basis for the statements on the income forecast. Its foundation consists of economic assumptions, expectations with regard to developments on real estate markets, forecasts on financial market developments and regulatory requirements. Factors such as new business, the development of the portfolios and the margins are planned on the basis of these reports.

In terms of macroeconomic framework data, planning for the coming years is based on market mechanisms that are largely fully functional. The prevailing low-interest environment ensures ongoing high liquidity in the markets, which is going to underpin the attractiveness of commercial real estate. For Deutsche Hypo, this means the environment is expected to be stable but with strong competition on the lender side. It is assumed that Deutsche Hypo will continue to have access to funding on a sufficient scale and on the basis of standard market conditions at all times. In addition, a stable rating is assumed for the forecast year.

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

- Utilisation and further development of the structuring competence
- Continuation of the product development business
- Strengthening the acquisition capacities and expansion of further sales initiatives (development of business relationships with new partners and segments)
- Pursuit and development of sustainability measures; for example by issuing more green bonds
- Depletion of the public sector finance portfolio with an accompanying reduction of credit spread risks
- Further investments in the organisational and technical infrastructure to realise opportunities in the context of digitalisation and for the implementation of regulatory requirements
- Ongoing constant optimisation of the processes and structures

### Existing and new business development in the commercial real estate finance business

For the commercial real estate finance business, positive new business development can be expected for the subsequent year, which will manifest itself in a slight increase in the new business volume compared to the previous year. A slight increase is also expected for the portfolios. Deutsche Hypo will continue to apply high quality standards and prioritise yield criteria when it comes to lending. Pressure on margin development is expected against the background of ongoing intense competition. To counteract this competition, Deutsche Hypo has already expanded the acquisition capacities in a targeted manner and set in motion the further development of its structuring expertise. It will also seek to expand portfolio financing and project developments.

#### Opportunities and risks

It is conceivable that unexpectedly high credit demand in the real estate finance sector may lead to the opportunity for new business considerably above the expectations. This could, for example, be caused by a further perceptible increase in economic growth or also an additional significant interest rate decrease, which would have a positive impact on real estate markets and therefore on credit demand. Furthermore, higher than expected new business in commercial real estate finance may result from better acquisition performance. Higher than expected new business closings are associated with the opportunity of a real estate finance portfolio in excess of the forecast. The opportunity for higher than expected margins may arise from competitive advantages over competitors, for example in the course of structuring or a decrease in overall competition.

On the other hand, there are risks of lower demand for real estate financing due to reduced growth in the real estate markets, caused for example by weakening economic growth or a considerable interest rate increase. Other uncertainties resulting from political developments, e.g. the Brexit negotiations, are not to be excluded as they could influence the real estate markets and hence also the new business activities of Deutsche Hypo. An unexpectedly sharp increase in competition on the lender side is also possible, which could have a corresponding impact on the realisable margins and new business.

Deutsche Hypo makes use of the waiver rule in accordance with Art. 7 (1) CRR. This means that the regulatory capital requirements are kept at the level of NORD/LB as the parent institution and not at the level of Deutsche Hypo. There is thus the risk that the Bank's new business opportunities could be limited by the CET1 capital adequacy of the parent institution, discretionary decisions by the banking authority in this regard and decisions by the parent institution on the allocation of capital. Increasing legal and regulatory requirements (in particular regarding capital requirements) or a higher RWA commitment following a decline in the real estate forecast could lead to fewer new business opportunities.

Customer behaviour also harbours opportunities and risks for the portfolio, particularly with regard to loan extensions and unscheduled repayments.

#### Income forecast

Deutsche Hypo expects the development of earnings in the core business area to remain strong and stable, based on a positive new business and portfolio trend. However, the further depletion of the capital market portfolio and lower investment income from the Bank's equity also represent strains at the level of the Bank as a whole. A sideways trend is therefore expected for the income position overall.



The quality-oriented lending policies of Deutsche Hypo and the sustained positive market environment on the real estate markets are expected to continue to lead to a good risk result in the core business area. However, the Bank forecasts a rise in risk costs in the real estate finance area for 2018, since the Bank's medium-term plan anticipates that the risk result will approach a level that is expected over the long term.

Investments to strengthen Deutsche Hypo's brand image and the organisational and technical infrastructure will continue. Nevertheless, the cost discipline already demonstrated will be retained. This is why only a slight rise in administrative expense is expected overall. This will lead to a slight increase in the CIR at the same time. However, the expected level will remain positive compared to the rest of the industry.

A good result of ordinary business activities is expected for 2018 on the whole. The contribution to operating income from the commercial real estate finance business will continue to be a key driver of this result. The result for the Bank as a whole is expected to be almost the same as in the previous year. This would also lead to a more or less constant RoE.

### **Opportunities and risks**

Limited predictability of developments in the capital market business constitutes a key risk regarding the result. Unexpected developments of external economic, geopolitical and industry-specific framework conditions and trends in the international financial markets may have a significant influence on the development of Deutsche Hypo's results. They could drive the worsening of borrower credit-worthiness and therefore lead to a need for higher loan loss provisions compared to the forecast. Despite careful risk planning, a trend reversal of the external framework conditions, e.g. a clear drop in real estate prices following an interest rate increase, could lead to the deterioration of borrowers' credit-worthiness and to an impairment of the value of the collateral provided, and could also result in a need for additional loan loss provisions.

Weaker than planned portfolio and margin developments, resulting from e.g. a sharpening of competition or a reduced demand for credit, also bear income risks. Furthermore, it is conceivable that the terms for unsecured funding may become more costly and that these costs cannot be passed on within the framework of conditions. Earnings risks and opportunities can also arise from changes in methods of rating agencies and the resulting revaluations. Reference needs to be made to the current efforts to harmonise EU insolvency law concerning banks, which could result in adjustments to the rating. Generally speaking, an improvement in the Bank's rating or the parent company's rating could have positive effects on the terms of funding, while a deterioration in the rating could have negative effects on funding costs. Furthermore, legal uncertainty over existing credit contracts could influence the income results.

Income risks arising from Brexit with respect to the real estate business portfolio in the UK, with a volume of € 1,425.7 million, are considered to be comparatively unlikely for 2018, taking into account the portfolio risk parameters. If, however, additional events occur that have a negative impact on the capital market, this may result in a risk for the development of Deutsche Hypo's income due to the interdependency of market participants.

Furthermore, new regulatory changes may be associated with restrictions and therefore with earnings risks as well as the implementation of new regulatory requirements with additional administrative expenses. There are also risks due to the Bank's membership in the Sparkassen-Finanzgruppe's institution-specific protection scheme. Special payments could be demanded from the institutions under the protection scheme in the course of compensation and support measures, impacting the Bank's result. This applies correspondingly to possible supplementary payment obligations to the restructuring fund for financial institutions. Whether and in what amount such payments will occur cannot be predicted at this time.

Opportunities for higher than forecast earnings result mainly from a bigger portfolio and/or higher margins in commercial real estate finance. Higher fees also constitute earnings and therefore income opportunities. Opportunities for more favourable refinancing could result from the further diversification of the investor base, e.g. through the issuing of more green bonds.

It is also conceivable that, given constant or improving economic framework conditions, the risk result in the commercial real estate finance business will be close to as good as in the past financial year, and therefore significantly better than the planning assumptions. The same applies to possible positive effects on the result due to better than expected developments of external framework conditions for the capital market business, which would lead to a better risk result and/or income from securities and participatory interest.

Regarding the development of administrative expenses, there is an opportunity in the fact that investments may lead to lower than planned expenses, thereby increasing the result. If investments cannot be made to the planned extent, there would be an opportunity of a higher result in the forecast year. The reduction in costs could, however, be associated with higher expenses in the subsequent year. Income opportunities arising from regulatory changes, for example in the form of lower banking levies, are considered comparatively unlikely on the other hand.

Effects on the result in the context of negative interest rates or also interest rate changes are considered comparatively minor in terms of both their risk and opportunity potential.

The aforementioned income opportunities and risks also constitute opportunities and risks relating to the performance indicator RoE.

Regarding the CIR, opportunities mainly result from a positive forecast deviation in reference to costs and earnings. Negative deviations in these result components constitute a risk leading to a less favourable cost/earnings ratio.



## Expanded risk report

### Risk management

#### Fundamentals of risk management

Deutsche Hypo made use of the waiver rule in accordance with Art. 7 (1) CRR, formerly Section 2a (1) of the German Banking Act (KWG), in 2013. For this reason, the bank regulatory provisions concerning the requirements for equity on the institution level, the requirements for large exposure notification and the calculation and securing of the risk bearing capacity, the determination of the strategies and the establishment of processes for the identification, assessment, control, monitoring and communication of risks (Section 25a (1) clause 3 no. 1 of the German Banking Act) were transferred to NORD/LB as the parent company.

As a Pfandbrief bank within the meaning of Section 1 of the German Pfandbrief Act (PfandBG), the Bank is subject to the requirements of the PfandBG which set forth in Section 27 a suitable risk management system for the identification, assessment, control and monitoring of all risks connected with the Pfandbrief business. The implementation of existing requirements from the Pfandbrief Act is an integral part of the existing risk management and requires the control of the counterparty, market price and liquidity risks on the level of the cover pools.

Deutsche Hypo has implemented, on the one hand, an inter-divisional risk management process and is closely integrated, on the other, in the risk management process of the NORD/LB Group. The risk management process at Deutsche Hypo includes identifying, assessing, reporting, managing and monitoring risk and is subject to continual review and refinement.

The risk organisation of Deutsche Hypo corresponds to the risk strategy principles both at individual institution level and at Group level. Furthermore, Deutsche Hypo attaches great importance to an appropriate risk management system from a business perspective and such a system is anchored in its corporate culture. Deutsche Hypo promotes an appropriate risk culture and continuously develops it further. This ensures, among other things, a balance of results in the loan decision-making processes under risk and reward aspects.

#### Risk management – strategies and goals

The strategic orientation of the NORD/LB Group is determined in compliance with Section 25a (1) of the German Banking Act (KWG), among others, on the basis of a consistent compendium of strategies. The Deutsche Hypo risk strategy is integrated into the Group risk strategy. On the one hand, the Group risk strategy describes the risk policy principles of the NORD/LB Group; on the other hand, the institution-specific risk strategy of Deutsche Hypo is included as a significant company from the Group's perspective. Accordingly, risk management is carried out more specifically regarding counterparty, market price, liquidity and operational risks. At the same time, compliance with the existing risk strategy requirements was checked. In this connection, it was discovered that the risk strategy goals were complied with in principle.

## Risk management – structure and organisation

The risk organisation of Deutsche Hypo corresponds to the risk-strategic goals and includes an efficient risk management process with clearly defined responsibilities and competencies. Furthermore, there is an established organisational separation between the market and risk management function up to and including the level of management.

The Board of Managing Directors sets framework conditions, jurisdictions and risk tolerances for the main types of risk and is responsible for the implementation of the risk strategy at Bank level and the effective control. The Board of Managing Directors is advised and monitored by the Supervisory Board. At the same time, the Supervisory Board is directly included in decisions that are of major significance for Deutsche Hypo.

The risk management process is supported by an IT infrastructure and an appropriate team of qualified employees, ensuring systematic interaction between involved divisions and smooth processes. The risk-related organisational structure and the functions, roles and powers of the areas of the Bank involved in the risk processes are clearly defined down to the level of individual employees.

On the level of NORD/LB as the Group institution, boards have been established for handling the risk management process and exercising the consulting, monitoring, control and coordination functions. These include the Group Risk committee, the Methodenboard Risikomanagement (Method Board risk management) and various working groups. Due to the integration of Deutsche Hypo in the risk management process at Group level, the results of the previously mentioned boards have an impact on Deutsche Hypo, which is included by sending representatives to these boards. The process-independent review of the effectiveness and appropriateness of risk management is carried out by Deutsche Hypo's Internal Audit department. On account of the outsourcing of significant responsibilities in Internal Audit to NORD/LB, Deutsche Hypo's Internal Audit is represented by an audit officer who bears responsibility for proper internal audit.

In addition, Deutsche Hypo has an established compliance management system, which monitors developments regarding legal and regulatory framework conditions and initiates implementation measures if applicable. It serves to protect the Bank and its customers and thereby boosts customer confidence in Deutsche Hypo. The Bank has set up a central compliance function to ensure the compliance of legal and regulatory undertakings and to assist other divisions in performing their compliance-related responsibilities. The compliance management function is rounded out by cross-divisional boards. The compliance function also carries out regular preventive measures and suitability and effectiveness surveys in the divisions, and creates risk analyses.

In addition to existing contact methods, Deutsche Hypo has implemented a whistle-blower system, which can be used by employees as well as customers, business partners and other stakeholders. This includes the function of an external ombudsman, to whom whistle-blowers can turn in confidence if the case involves suspicions of criminal acts or inappropriate transactions.



With regard 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 the approach taken to new markets, new sales channels and new services. The early identification of risks, the appropriate assessment of their impact on the overall risk profile of the Bank and the determination of reasonable measures to manage the risks take precedence. After the successful conclusion of the NPP, it is possible to include the product in running business operations.

Over the course of time, the framework conditions considered in the NPP can change and have an impact on the proper handling of the product without this leading directly to a case-by-case product review. For this reason, a product review is carried out annually, on the basis of the current product catalogue, for all products permitted for running business operation.

### Risk management – reporting

The quarterly risk report on different types of risk is a central report for the Board of Managing Directors and the Supervisory Board. It provides a complete and comprehensive overview of the risk situation at Deutsche Hypo. Furthermore, the Board of Managing Directors is informed at various intervals (daily to quarterly, depending on the requirements) about the situation in major types of risks for the Bank. Besides these regular reports, the Board of Managing Directors and – depending on the severity of the event – the Supervisory Board also receive ad hoc information in the case of material events.

### Management of risks affecting cover pool

The goal of the risk management system is to control the counterparty, market price and liquidity risks on the level of the cover pools, to ensure high quality standards for the cover assets of public Pfandbriefe and the high security of the collateral in the mortgage business. That ensures a stable and cost-affordable funding basis by achieving a high quality rating for the Pfandbriefe from rating agencies, thereby securing the long-term value and the profitability of the Bank.

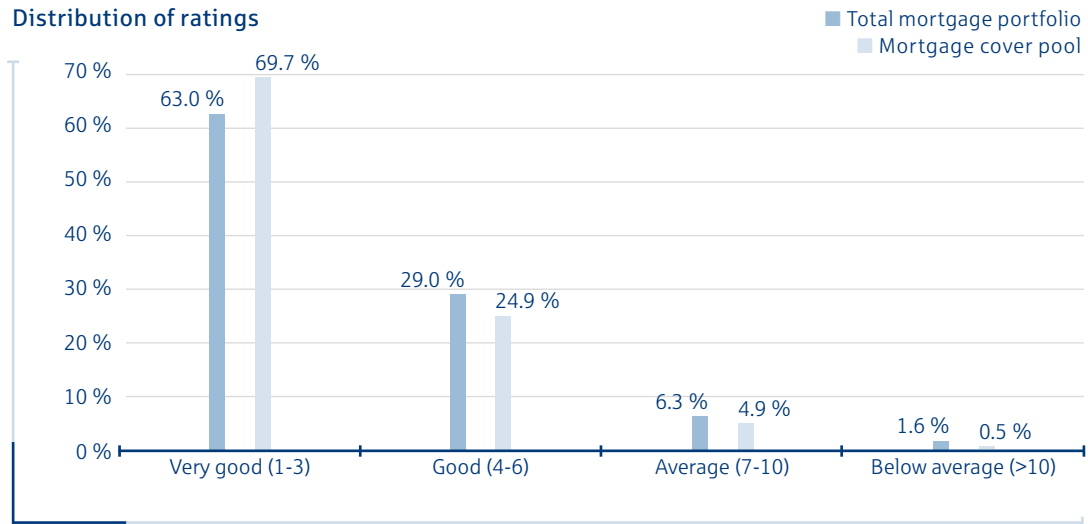
Besides permanent compliance with the cover principles and the permanent ensuring of sufficient cash coverage (Section 4 (1) of the German Pfandbrief Act) and the ensuring of the liquidity over the next 180 days (Section 4 (1a) of the German Pfandbrief Act), the Bank regularly analyses the quality and the value of the loan receivables used as the cover portfolio. This includes internal rating processes, the analysis of external ratings and the regular monitoring of the performance of the real estate serving as collateral.

To comply with the requirements of the transparency provision in Section 28 of the German Pfandbrief Act, Deutsche Hypo publishes the appropriate information in the notes to the financial statements and – together with the historical values – on the Bank’s website.

**Cover pool of mortgage Pfandbriefe**

The proportion of good and very good credit ratings (rating scores 1 to 6 in line with the DSGVO rating master scale) in the mortgage cover pool amounted to 94.7 % as of 31 December 2017 (2016: 91.3 %). In terms of the total real estate business portfolio, this share was 92.1 % (2016: 88.0 %). The distribution of ratings in the mortgage cover pool reflects the good quality of the Pfandbriefe.

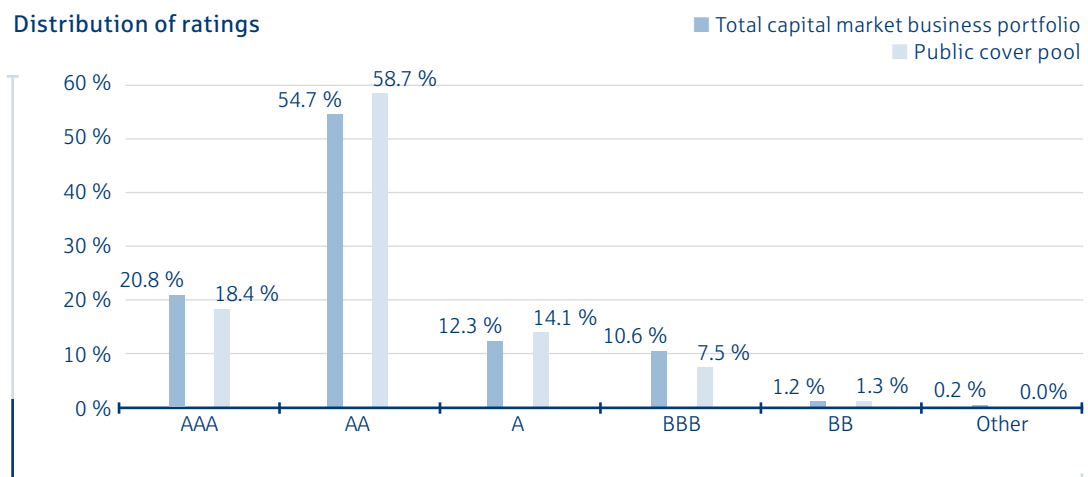
Distribution of ratings



**Cover pool for public Pfandbriefe**

The share of loans with a rating of A to AAA in the cover pool of public Pfandbriefe was 91.2 % as of 31 December 2017 (2016: 88.7 %). This contributes to the high quality of the cover pool for the Pfandbriefe issued.

Distribution of ratings



**Risk management – risk bearing capacity**

The risk bearing capacity (RBC) of Deutsche Hypo is monitored on the level of the NORD/LB Group due to the exercising of the simplification rules under Section 2a (1) of the German Banking Act or Art. 7 CRR. The RBC model of the NORD/LB Group consists of three levels of analysis. The model was adapted





on the Group level in 2017. A distinction is now made between business case (authoritative level of analysis for evaluating the risk-bearing capacity, formerly “going concern”), resolution case (secondary condition, formerly “gone concern”) and regulatory (strict secondary condition). The significant risks (risk potentials) are viewed in each case in relation to the defined risk capital of the Group. Deutsche Hypo supplies the required information, which is consolidated within the scope of the risk bearing capacity calculation of NORD/LB for the Group. The securing of the risk bearing capacity on the Group level is supported by the use of institute limits for the significant types of risk at Deutsche Hypo. While compliance with the institution limits assumes a place of particularly high strategic relevance for Deutsche Hypo, they represent an early warning instrument from the perspective of the NORD/LB Group. Corresponding escalation mechanisms have been established for the exceeding of limits.

The monitoring of limits entails that the risk potential for the major risk types is calculated quarterly according to the uniform Group methodology and compared to the respective limits for the Bank. The risk potential is fundamentally based on a value-at-risk approach. The model adaptation process mentioned above included increasing the confidence level to 99.9 % for the business case in comparison to the previous going concern level (95 %). The resolution case level is based on a confidence level of 99.9 %, which corresponds to the gone concern level. Each case still has a holding period of 250 trading days.

### Current developments

The year 2017 was characterised by positive sentiment on the relevant money and capital markets, and the low level of interest rates. The stable real estate markets and the ongoing quality-oriented lending policies also contributed to further reduced risk in the real estate finance portfolio. Maturities and the targeted disposal of individual items in the capital market business also led to a significant decline in exposure and hidden charges. The positive developments also manifest in the significant decrease in risk potential for credit, market price and liquidity risks. This is discussed in more detail in the relevant sections below. The breakdown of material risk types only changed slightly in comparison to 2016. The risk potential in the business case (confidence level of 99.9%, time horizon of fundamentally 1 year) from the material risk types was as follows on 31 December 2017:

### Composition of risk potential from the significant risk types as of 31 December 2017



Comparative figures as of 31 December 2016 in brackets. Values deviating from the 2016 Management Report due to a model change.

## Counterparty risk

Deutsche Hypo's counterparty risk consists of the credit risk, including the country risk. The financial investment risk does not have any strategic meaning and is therefore not relevant since there are no investments as of 31 December 2017. The credit risk refers in general 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, collateral risk is a further component of credit risk. This is understood as the risk that it might not be possible to recover the assumed fair values of loan collateral in the event of realisation.

Another component of the credit risk in the case of cross border transactions can be the related sovereign risk. This is the risk that state-imposed obstacles could prevent repayment despite the individual borrower being able and willing to make a payment (transfer risk).

### Counterparty risk – goals and strategies

Credit risks are handled on the basis of the Bank's risk strategy for credit which, in turn, is part of the Group risk strategy. Deutsche Hypo's aim is to achieve a competitive level of profitability under risk and rewards aspects and to take into account effectiveness and flexibility in terms of active management of the credit risk items in order to minimise the unanticipated losses. Lending operations and controlling credit risks are a core competency in portfolio and new business at Deutsche Hypo, and one that is permanently being developed and expanded.

In accordance with the part of the risk strategy for credit risks, the focus in the new credit business is on lending to borrowers with a good credit rating and securities in the form of senior mortgages for the amount of the financing for the property. In the capital market business, Deutsche Hypo also concentrates on doing business with good counterparties with a minimum rating of investment grade, but on average "A" or with a comparable rating. Deutsche Hypo only pursued business with customers and counterparties that lie outside of the aforesaid credit rating focus after careful consideration of the opportunities and risks.

Active portfolio management and limitations are to ensure that the granularity of the credit portfolio is retained and concentration risks are avoided. For the early identification and reduction of credit risks, the Bank identifies all borrowers and counterparties that exhibit an elevated level of risk in an early warning process defined for this purpose.

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 the Bank 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, methods and credit processes).



## Counterparty risk – structure and organisation

All the organisational structures derived from the framework conditions and the processing procedures are included in the written policy of Deutsche Hypo. The credit-risk-related organisational 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. The processes in the credit business are characterised by a clear structural and organisational separation of the market division and the back office division up to and including the level of management. In the back office division, there is a separation between the credit risk controlling, the credit risk management and the special credits management.

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 market division and one person from the back office division. The authorised employees responsible for making the decision must be on the same functional or hierarchical level as each other. The market division has no authority to approve credit on its own.

Before the loan decision is made by the responsible employee, two additional votes – i.e. one vote from the market division and one from the back office division – must first be present. The responsibility of the authorised employees is basically based around the total commitment of the group of affiliated customers in accordance with Art. 4 (39) CRR to which the customer is to be allocated and around the rating class as determined in the credit review. 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.

## Counterparty risk – controlling and monitoring

Deutsche Hypo's counterparty credit risk is controlled and monitored primarily through the stipulation of financial principles, the limit system and the rating system. The Bank also operates a portfolio management for the optimisation of the income and risk structure. As portfolio-improving measures, not only a controlling of the new business, but also placements through syndication, direct sales of receivables or the divestiture of problematic exposures can be considered on a case-by-case basis. Additionally, hedging transactions in the form of cash collateral guarantees for the takeover of mezzanine risks exist in the underlying portfolio. In the reporting year, the Bank supplemented one of the existing transactions. Future new business may also be included in the hedging transaction in the scope of a replenishment period to 2018. The total value of the guarantees included as of the balance sheet date is € 85.0 million (2016: € 77.3 million).

## Financing principles

The financing principles are an instrument in the risk management and must be applied by all the institutions affiliated with the Group. The financing principles are set ex ante by the back office division and the market division, and should at least meet the requirements for potential business. The financing principles serve as effective pre-selection for starting business and do not anticipate definitive decisions in individual cases. In this, the focus is placed on the financing structure in connection with general property-related financing requirements:

- On the part of the borrower, it is usually necessary to contribute an appropriate amount of equity in the form of cash and / or individual performance of 20 % of the total cost (orientation amount) in advance. A substitute in the form of perfect (in terms of credit rating) co-liability conditions / recoverable guarantees / recoverable additional collateral is possible.
- The focus is on the property types of office, retail and shopping centre, multi-family homes and properties with a mix of the aforementioned types of use and on hotel and logistics real estate.

Furthermore, the following strict criteria apply as minimum risk standards in the commercial real estate financing business:

- The redemption structures and the loan maturities ensure the redemption of the loans within the remaining term of the financed real estate.
- The real estate and the overwhelming share of the portfolio in the case of apartment portfolios are inspected by a Bank employee (IBC, market, KRM) or an expert hired by the Bank prior to the credit decision.
- The financing must run off within the market values upon the initial decision with due regard for the mitigants and/or additional securities.

### **Limitsystem**

Deutsche Hypo is included in the limit systems for risk concentrations of the NORD/LB Group as part of strategic limiting. There are limits on the concentration of counterparty, country and sector risks. This system combines, monitors and controls all the counterparty risk concentrations in the Group. The limits are binding across the Group. Deutsche Hypo supplies the information required for this and, in turn, is informed about Group-wide concentrations of risk with regard to its own borrowers. If the limits are exceeded, uniform Group rules for the monitoring and reduction of the affected unit shall apply. In this case, there are various limits for each business area at Deutsche Hypo. The limiting of risk is handled on the level of the country risk, sector risks and on the basis of individual risk bearers all the way to limiting the risk on an individual mortgage property. In order to avoid concentrations of risk at the borrower level, limits are in place for economic units that extend beyond the rules for borrower units (borrower unit in terms of Section 19 (2) of the German Banking Act (KWG) and the group of affiliated customers in terms of Article 4 CRR). The actual form of the limits for real estate areas is governed in the Bank's guidelines.

### **Rating system**

The rating system calculates a rating score for each borrower, expressing the individual probability of default over the next 12-month period. This is then updated as part of the annual credit rating assessment and any assessment carried out following a particular occurrence. The rating modules in use were developed as part of cooperation projects involving the savings bank group and the Landesbanks. Deutsche Hypo uses the rating results as part of the basic internal ratings based approach approval to calculate the regulatory capital backing required and for the determination of the expected economic losses. The assessment of the credit rating of customers in combination with a risk-adjusted pricing of the loan leads to the compensation of the expected losses from the portfolio perspective.



### Treatment of conspicuous exposures

The use of sophisticated credit rating assessment processes cannot prevent the credit ratings of individual borrowers from deteriorating beyond expectations over time. Exposures are monitored using early warning criteria and, where anomalies are identified, are included in the early warning list. The early warning list fundamentally includes all the claims that do not develop in accordance with the plan at the time of the original credit decision and represent an elevated risk that requires special credit monitoring.

Exposures in certain risk classes are transferred to Special Credit Management and can be assumed by this department (drawing right). The goal is proactive avoidance or reduction of potential capital losses. This department is responsible for having an influence early on and introducing a restructuring process if necessary in order to ensure the servicing of the contractually agreed interest and capital payments or to develop and implement alternative options for action. If there is no longer any ability to restructure or merit therein, an effort is made to optimise the income from the collateral in the case of unwinding. The Special Credit Management is also the only centre of competence for appropriate risk provisioning and has to ensure a reasonable measurement of the risk provision at all times.

The early identification of potential crisis situations forms the basis for the risk-conscious and efficient control of credit risks. For this reason, Deutsche Hypo has a series of processes, systems and requirements that represent a system for the early identification of various risks in combination and facilitates the systematic controlling and early introduction of measures for their effective limiting.

### Counterparty risk – collateral

Deutsche Hypo accepts collateral in order to reduce its credit risk. With regard to area of 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 be omitted. 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 are monitored on a regular basis, generally at least annually. If there have been any influential 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 collateral, 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 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 assigned 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 CRR.

### Counterparty risk – measurement

The direct quantification of the credit risk takes place for the Bank on the one hand on the level of the NORD/LB Group and on the other on the level of the individual institution of Deutsche Hypo. The explanations below on the measurement of the credit risk include the general description of the methods and processes that are used at NORD/LB Group level for the measurement of the credit risk. Credit risk is measured using the risk key figures of expected loss and unexpected loss. These are calculated on the basis of the determined probability of default and the anticipated loss amount per loan, taking account of any collateral. The expected loss is the expected defaults in the loan portfolio over the next twelve months. To cover expected losses, the Bank collects a risk premium as part of its margin. The amount of this premium for each individual loan depends on the volume of receivables after adjustments for the loan conversion factor, the rating or one-year probability of default and on the expected loss ratio. The unexpected loss for the credit risk is quantified using an economic credit risk model 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 credit risk model can be used to study sub-portfolios and their share of the unexpected loss. The results of such analyses have 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. Deutsche Hypo uses the internal ratings based approach (foundation IRBA) to calculate the regulatory capital backing required for credit risks pursuant to the CRR.

In addition, scenario calculations for the individual institution's portfolio in the form of stress test analyses are performed. The design of the Group-wide stress scenario and its ongoing monitoring take place with the inclusion of Deutsche Hypo. Authoritative stress is a serious recession. This case is calculated quarterly by the Group, and the results are then placed at the disposal of Deutsche Hypo for its own analysis on the level of the individual exposure. This makes it possible to carry out a risk-causing assignment of the credit risk potential to the business areas. The scenario analyses can be used as early warning instruments.



## Counterparty risk – reporting

The quarterly risk report includes the credit risk sub-report. It contains a summary and analysis of material structural characteristics and parameters that are of relevance to the controlling of the credit portfolio. Furthermore, a portfolio report for the Board of Managing Directors is prepared on the portfolio of problematic exposures for the real estate finance and capital market business. In addition, there are quarterly reports on the monitoring of project developments, syndication and monthly reports on conspicuous exposures as part of the early warning system and on the development of the risk provisioning.

## Counterparty risk – analysis of the credit exposure

The credit exposure, a key reference indicator in credit risk controlling, represents the quantification of all 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 agreements. Irrevocable credit commitments are usually included in the credit exposure at 75 %. Revocable credit commitments or internal credit lines are not taken into account. 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.

Deutsche Hypo's credit exposure as of 31 December 2017 was € 25,153.4 million, down € 2,214.7 million as compared to the end of 2016. In the commercial real estate finance business, the volume of € 13,582.2 million was only slightly below the 2016 level. In contrast, credit exposure to loans to local authorities fell significantly by € 926.8 million to € 3,900.3 million. There was also a significant decline of € 2,025.8 million in the portfolio of securities and derivatives. There is an increase of € 835.9 million in other financing products, which primarily arise as a result of Deutsche Bundesbank funds. These developments reflect the business policy of the Bank, which aims to turn the Bank into a pure real estate finance bank.

The focus of the credit exposure continued to be on the very good to good IFD rating 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 proportion of total exposures in the rating class "very good to good" was 81.5 %, which was unchanged from the good level of 2016. The reason was the high shares of exposure to governments, public authorities and financial institutions that have a good credit rating and the good ratings in the real estate finance portfolio.

The share of non-performing loans (NPL) in the overall exposure remains at the low level of the previous year at 0.8 %. The absolute volume fell by € 39.8 million to € 189.1 million.

In the following, the breakdown of the credit exposure by rating categories is described in table form. The hedging transactions completed for the purpose of active RWA management in recent years for loan portfolios consisting of commercial real estate financing by means of cash guarantees are not included in the display due to their effect on the pure mezzanine risk of the underlying portfolios.

#### Breakdown of total credit exposure by rating category according to IFD:

31.12.2017 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Very good to good	10,083.0	3,849.0	5,128.9	640.0	791.7	20,492.6	81.5 %
Good / satisfactory	2,321.6	0.1	233.9	0.0	35.1	2,590.7	10.3 %
Still good / sufficient	765.4	51.2	123.0	0.0	669.1	1,608.7	6.4 %
Elevated risk	204.9	0.0	7.8	0.0	15.0	227.8	0.9 %
High risk	30.8	0.0	0.0	0.0	2.3	33.1	0.1 %
Very high risk	11.4	0.0	0.0	0.0	0.0	11.4	0.0 %
Default (=NPL)	164.9	0.0	0.0	24.2	0.0	189.1	0.8 %
<b>Total</b>	<b>13,582.2</b>	<b>3,900.3</b>	<b>5,493.6</b>	<b>664.2</b>	<b>1,513.2</b>	<b>25,153.4</b>	<b>100.0 %</b>

31.12.2016 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Very good to good	9,404.4	4,775.1	6,118.5	1,420.5	596.2	22,314.7	81.5 %
Good / satisfactory	2,667.9	0.2	265.8	0.0	0.0	2,933.8	10.7 %
Still good / sufficient	1,037.9	51.8	190.2	0.0	75.1	1,355.0	5.0 %
Elevated risk	344.3	0.0	149.7	0.0	6.0	500.0	1.8 %
High risk	19.0	0.0	2.9	0.0	0.0	21.9	0.1 %
Very high risk	13.8	0.0	0.0	0.0	0.0	13.8	0.1 %
Default (=NPL)	192.8	0.0	0.0	36.1	0.0	228.9	0.8 %
<b>Total</b>	<b>13,680.0</b>	<b>4,827.1</b>	<b>6,727.0</b>	<b>1,456.6</b>	<b>677.3</b>	<b>27,368.1</b>	<b>100.0 %</b>

The Bank's credit exposure in the real estate finance business amounted to € 13,582.2 million at year end (2016: € 13,680.0 million) and 97.0 % of it (2016: 95.8 %) consisted of financing for customers that have a rating of at least satisfactory. The NPL volume sank further in comparison to the previous year to € 164.9 million (2016: € 192.8 million). The share of NPL in the overall portfolio was 1.2 % (2016: 1.4 %), which continues the low level from the previous year. The overwhelming majority of the NPL portfolio was filled by foreign financing, largely in the Netherlands and Spain. In total, the development of the NPL credit exposure shows that the level has fallen below the long-term average.

#### Breakdown of the total credit exposure by class and region:

31.12.2017 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Eurozone	11,579.8	3,730.8	3,706.3	399.9	1,497.5	20,914.2	83.1 %
<i>of which, Germany</i>	7,993.5	2,716.8	2,011.3	350.3	1,392.6	14,464.4	57.5 %
Other EU	1,858.9	8.2	262.5	28.4	0.0	2,158.0	8.6 %
Other Europe	0.0	64.8	50.5	54.1	3.8	173.2	0.7 %
North America	143.5	0.0	490.1	181.8	11.9	827.4	3.3 %
Central America	0.0	0.0	5.7	0.0	0.0	5.7	0.0 %
Middle East / Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Asia	0.0	0.0	260.6	0.0	0.0	260.6	1.0 %
Other	0.0	96.4	718.0	0.0	0.0	814.4	3.2 %
<b>Total</b>	<b>13,582.2</b>	<b>3,900.3</b>	<b>5,493.6</b>	<b>664.2</b>	<b>1,513.2</b>	<b>25,153.4</b>	<b>100.0 %</b>



31.12.2016 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Eurozone	11,639.7	4,748.2	5,365.1	1,012.6	637.9	23,403.4	85.5 %
<i>of which, Germany</i>	8,418.9	3,422.5	2,180.1	297.9	616.3	14,935.6	54.6 %
Other EU	1,737.0	8.2	321.6	33.3	0.0	2,100.1	7.7 %
Other Europe	0.0	70.7	50.6	58.5	0.0	179.7	0.7 %
North America	303.3	0.0	721.3	352.2	7.4	1,384.2	5.1 %
Central America	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Middle East / Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Asia	0.0	0.0	262.7	0.0	0.0	262.7	1.0 %
Other	0.0	0.0	5.9	0.0	32.1	38.0	0.1 %
<b>Total</b>	<b>13,680.0</b>	<b>4,827.1</b>	<b>6,727.0</b>	<b>1,456.6</b>	<b>677.3</b>	<b>27,368.1</b>	<b>100.0 %</b>

The breakdown of the credit exposure by class and region shows that 92.4 % (2016: 93.9 %) of the entire exposure is in Europe. The credit exposure in Germany as a percentage of total exposure increased slightly to 57.5 % (2016: 54.6 %) during the reporting period.

The supranational institutions were assigned their country of domicile in the previous year. This is reported under "Other" as of the date of this report and explains the apparent rise in this region.

The exposure to countries referred to as the PIIGS countries decreased significantly in recent years. Also in the past financial year, the balances were able to be reduced below the envisaged amount, above all in Italy.

### Non-performing loans and credit exposures in arrears

Where there are objective indications of acute default risks affecting the balance-sheet credit business, Deutsche Hypo establishes specific loan loss provisions. The write-down requirement is based on an analysis of the expected interest and principal payments and the proceeds from the realisation of collateral, and also on the extent to which claims can be serviced. Risk provisioning for off-balance-sheet business (guarantees, credit commitments and loan collateral) is carried out by creating provisions for risks from the credit business. Any claims that cannot be recovered and for which there are no specific loan loss provisions are written off directly. Incoming payments toward written-down claims are recorded in the income statement.

The total loan loss provisions and provisions fell compared to the previous year, to € 66.5 million (2016: € 77.2 million). This amount was attributable to the countries of the eurozone and North America. Of the overall NPL portfolio credit exposure of € 189.1 million (2016: € 228.9 million), € 109.2 million (2016: € 153.7 million) related to impaired loans in the core area of real estate finance, while € 24.2 million (2016: € 36.1 million) related to impaired transactions in the capital market business with derivatives, and € 55.7 million (2016: € 39.0 million) to overdue, non-impaired loans. The amount of loan loss provisions and provisions as a percentage of the total credit exposure as of 31 December 2017 was 0.26 % (2016: 0.28 %).

The period of default for the overdue, not impaired loans was less than 90 days. The overall amount of NPL exposures is secured by standard collateral, which is valued using the applicable lending principles.

### Counterparty risk – outlook

The Bank assumes that the current positive development in the real estate markets will generally persist in 2018. However, it cannot assume that the low level of risk provisioning will be maintained in the long term. Deutsche Hypo therefore expects that the necessary risk provision in the core business area will once again draw near to the long-term average value. Even if the capital market was largely attractive in 2017, it cannot be ruled out entirely that individual capital market counterparties could face payment difficulties in the future. Depending on the specific general conditions of the individual countries and their public authorities, this can also lead to different developments with regard to credit risks posed by such difficulties. Deutsche Hypo 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. The focus of risk management and monitoring is on economic and earnings-oriented interest rate risks in the banking book, on credit spread risks and on currency risks.

### Market price risk – goals and strategies

Deutsche Hypo does not currently have a trading book in accordance with Article 4 (86) CRR. The Bank also does not currently plan to engage in trading book activities in the future. In accordance with its strategic focus, the assumption of market price risks is of secondary importance. Overall, the market price risk in business case primarily arises from interest risks in euros, the majority of which are from the investment of the perpetually available equity and thus not from the operating activity of the Bank. Deutsche Hypo's positioning in the money, currency and capital markets is primarily based on the needs of customers, and the support of the market divisions and overall Bank management. The requirements of the risk strategy, and the importance and size of the bank are taken into account here. Further opportunistic positioning – particularly with the goal of achieving the short-term realisation of speculative profits – is not pursued and is also not planned.

To reduce credit spread risks, Deutsche Hypo has been pursuing the strategy of successively reducing the existing capital market portfolio to protect the income statement for some years now. The capital market portfolio also comprises liquid securities that are retained to fulfil internal, legal and regulatory requirements for a liquidity reserve.

### Market price risk – structure and organisation

Against the background of the risk-related organisational structure, a range of divisions and committees are involved in the management of market price risks. The controlling of the strategic market price risk banking book positions is handled by the Bank's Asset-Liability Committee (ALCO) and the operative implementation by Treasury. In the context of the requirements laid down by ALCO 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. The ensuring of the correctness of the transaction data in the data processing systems and the proper processing of the financial market business is handled by the Treasury Operations department in the market price risk management process. Controlling is responsible for the tasks related to risk assessment, validation of risk and assessment



models, the controlling and monitoring processes and the reporting. It provides methods for managing, assessing and monitoring market price risks internally. Controlling and Treasury Operations are functionally and organisationally independent of Treasury.

### Market price risk – managing and monitoring

Material market price risks are mainly managed using limits. The limits for market price risks are measured such that the support of the customer business, the liquidity reserve and the long-term and earnings-stabilising investment of equity are ensured. For the economic and earnings-oriented management of interest rate risks in the banking book, sensitivities (PV01), interest shocks and probability-based figures such as value-at-risk (VaR) and earnings-at-risk (EaR) are included. VaR figures are also used to manage credit spread risks, together with the monitoring of hidden charges and the analysis of adverse scenarios. The management of currency risks is primarily handled by limiting currency results in the income statement in accordance with the German Commercial Code. To achieve these goals, the open nominal overhangs per currency are closely controlled.

A major component of risk monitoring is the audit of compliance with the pre-set limits and early identification of risks, e.g. through traffic light systems or P&L analyses. Escalation processes are implemented for violations of the limit. In addition to compliance with the institution limits already described, other institution-specific limits are used for material market price risks. Their compliance is monitored daily for most cases, and monthly or quarterly for some cases.

To control or reduce risks, positions are hedged in order to counter the impact of disadvantageous market movements (e.g. in interest rates or 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 regarding hedging and the reporting of hedging relationships in the balance sheet is provided in the notes to the financial statements.

**Market price risk – reporting**

The quarterly risk report includes a partial report on the market price risk, which includes all the important information on the strategic controlling of the market price risks.

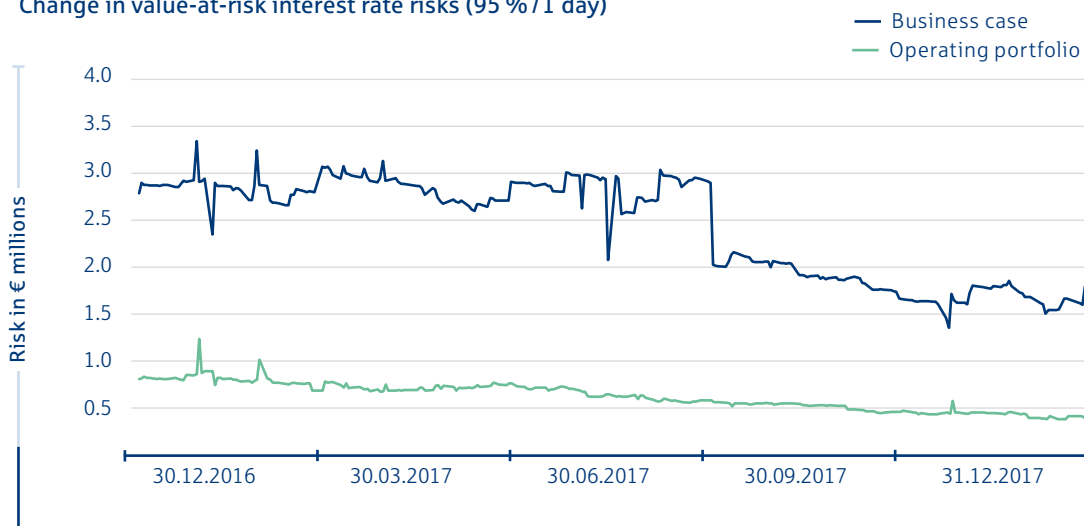
The Board of Managing Directors and Treasury receive a daily report to keep them informed of the economic interest rate risks, the income from the Bank’s interest maturity transformation and the credit spread risks. The banking book’s hidden charges and the earnings-oriented risk figures are included in a monthly report. Daily reports on foreign currency risks are also sent to Treasury.

**Market price risk – developments and outlook**

The development of the risk of a change in interest rates at Deutsche Hypo was on a moderate level in the year under review, as expected. The very low, partially negative interest rates observed on markets had a negligent impact on the Bank’s income and risk position due to the business model.

Interest rate risk largely relates to the investment of perpetually available equity. The daily calculated VaR for the interest rate risk fluctuated between € 1.32 million and € 3.35 million in the reporting period and was therefore within the expected ranges. The average value of € 2.42 million for the year confirms Deutsche Hypo’s low risk appetite. The utilisation of the VaR limit for interest rate changes averaged 63 % over the year (2016: 68 %). At no time was the limit exceeded. The clear reduction of the VaR in the middle of the year was largely due to a one-off model adjustment relating to the modelling of pension commitments. The following chart shows the development of the VaR in the business case in the reporting period (95 % confidence level, 1 day holding period) along with the operative portfolio VaR (excluding the equity investment). The VaR does not include the credit spread risks in the banking book. The chart clearly shows the low significance that the operative portfolio has for the overall risk.

**Change in value-at-risk interest rate risks (95 % / 1 day)**



Regular maturities of all credit default swaps in 2017 resulted in credit spread risks related only to bonds and loans (Schuldscheindarlehen). The nominal volume that involves credit spread risks totalled € 9,250.3 million as of 31 December 2017 (2016: € 11,868.4 million), a considerable decrease of € 2,618.1 million over the course of the year. A major reduction in hidden charges was also achieved by the portfolio and market development.

The systematic pursuit of the conservative risk-strategic goals and the attentive monitoring of the market developments in 2018 are also the focal points of controlling for the market price risk at Deutsche Hypo. In this context, this includes the continued strategy for a reduction in the positions that have credit spread risks in a way that protects the income statement, among other elements. For 2018, Deutsche Hypo expects the interest rate risk to remain low. The focus of the further development of the risk management process at Deutsche Hypo in 2018 will, among other things, be on fulfilling the requirements of the European regulatory authorities, such as with regard to CRR II, and on the interest rate risk in the banking book.

### Liquidity risk

Liquidity risk includes risks that may arise as a result of disruptions in the liquidity of individual market segments, unexpected events in the credit, deposit or issuing business, or changes to the Bank's own funding conditions.

#### Liquidity risk – goals and strategies

For the Bank, the securing of liquidity available at any time, both under normal and stress scenarios, is a strategic necessity. In the funding of the business activities in the market areas, Deutsche Hypo fundamentally pursues the strategy of term-congruent funding. Involvement in open funding positions has low strategic significance for the Bank. The intraday liquidity risk is very closely controlled at Deutsche Hypo and therefore has no appreciable impact. Liquidity risk limits cap the risk of a negative impact on income due to a change in the liquidity spreads related to an open liquidity risk position. The factors of securing sufficient liquidity and the risk bearing capacity of the NORD/LB Group are taken into account in the measurement of liquidity risk limits. Compliance with regulatory (LCR) and legal (PfandBG) requirements is embedded in the goals and strategies at all times.

Global Liquidity Policy (GLP) at the Bank describes the strategic framework for securing sufficient liquidity. In the case of a liquidity crisis, the management of the liquidity risk in accordance with the GLP concept 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.

In terms of a complete consideration of the liquidity costs, benefits and risks in the income and risk management, the Bank offsets these components internally in accordance with their cause. The business policy principles and the responsibilities arising from the liquidity transfer pricing system, both in regard to application and refinement, are formulated in the binding Group-wide Group Transfer Pricing Policy.

### Liquidity risk – structure and organisation

The process of liquidity risk management must include the ALCO first and foremost, and also Treasury and Controlling. The ALCO at Deutsche Hypo assumes responsibility for the management of the banking book positions, which includes in particular the liquidity positions. Treasury handles the operating liquidity risk management. It is also responsible for the management of the intraday liquidity positions. As an independent monitoring unit, Controlling defines the internal processes for the measurement, limiting and monitoring of liquidity risks and carries out the operative monitoring and reporting functions. Controlling handles the liquidity notifications in accordance with CRR.

### Liquidity risk – controlling and monitoring

In addition to compliance with the institution's limit, the Bank also uses volume structure limits to control and monitor the funding risks. The monitoring of the limit utilisation of the volume structure limits takes place on the basis of the liquidity outflow statement of 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. If limits are exceeded, the Board of Managing Directors is informed immediately. Furthermore, the funding risks from significant foreign currencies are determined and capped through volume structure limits.

The classic liquidity risk is limited by a dynamic stress test scenario. The Distance to Illiquidity (DtI) performance indicator is used in the internal management and limiting of such risk. 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. Compliance with the limits is monitored daily. To assess the materiality of individual foreign currencies, a standardised process is used. If individual foreign currencies are classified as significant, the classic liquidity risk is also monitored in these foreign currencies.

In addition, there are further static stress tests. They model both the institution-specific and market crisis scenarios. The goal is to avoid liquidity shortages in cases of crises. Additional liquidity may be secured in the case of stress by maintaining a liquidity buffer consisting of free, highly liquid securities in accordance with the requirements of MaRisk. The costs associated with a liquidity buffer are taken into account in the liquidity transfer price system.

Compliance at all times with minimum regulatory requirements for the liquidity coverage ratio (LCR) is ensured by the daily management and monitoring of the ratio. Management includes internal target ratios, which are set intentionally higher than the minimum regulatory requirements.

### Liquidity risk – reporting

The quarterly risk report provides the Board of Managing Directors and the Supervisory Board with comprehensive information about the current situation in the classical liquidity risk and refinancing risk as well as the LCR figure. The report on the dynamic stress scenario is also provided daily to Treasury and the



Board of Managing Directors. The utilisation of the required liquidity buffer, the liquidity outflow statement, the utilisation of the volume structure limits and the institution limit for the cash value funding risk are also provided to Treasury daily. The LCR positions and ratios are determined daily and provided to Treasury.

### Liquidity risk – developments and outlook

In 2017, Deutsche Hypo had sufficient access at all times to the money market and capital market at conditions in line with the market. It was able to expand its product range and further diversify its investor base, in particular through the first-time placement of a green bond. The total issue volume presented in the economic report and measured in terms of the Bank's need made it possible to place sufficiently covered and uncovered issues on the market.

All the volume structure limits were complied with in the past financial year with the help of forward-looking liquidity management. The Dtl metric from the dynamic liquidity stress test used for internal controlling and limiting was within the existing required range in 2017. The green phase in the traffic light system was maintained throughout the year. As of 31 December 2017, Dtl was 265 days (2016: 319 days). Likewise, the Bank met the requirements for the maintained liquidity buffer in accordance with MaRisk throughout the course of 2017.

The applicable minimum regulatory LCR requirements of 80.0 % were met continuously in 2017. As of 31 December 2017 the ratio was at 345.7% (2016: 147.7 %). The VaR in the business case fell significantly year on year, which was caused by the reduction of refinancing risks in USD, among other things.

Against the background of the current rating and the planned changes in Section 46f German Banking Act (KWG) with respect to the change in the rating for unsecured debt certificates in the insolvency rating (difference between preferred and non-preferred debt certificates), 2018 will see an even closer monitoring of the liquidity situation. Management will also focus more on the expected minimum regulatory requirements for an NSFR ratio.

### Operational risk

The term operational risk includes legal risks and the risks of changes in laws, compliance risks, outsourcing risks, insourcing risks, conduct risks, fraud risks, model risks, IT risks, vulnerability risks in emergency and crisis management, and HR risks.

### Operational risk – goals and strategies

The guidelines for dealing with operational risks are formulated in the Group risk strategy. Operational risks should generally be avoided or transferred if this is economically sensible. 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 and to guarantee business security. 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. A functioning internal control system (ICS) prevents operational risks. The appropriateness and effectiveness of the ICS is checked with regard to risk at regular intervals. Deutsche Hypo uses the possibilities of outsourcing processes with due regard for the regulatory requirements in accordance with MaRisk. The outsourced functions should continue to meet the Bank's performance and quality standards. The goal in this context is to increase efficiency, optimise processes, concentrate on core competencies, reduce risk potential, lower costs and make costs more flexible. Processes that represent strategic core competencies usually remain within Deutsche Hypo. The operational risk of outsourcing is kept as low as possible by taking suitable measures.

#### **Operational risk – structure and organisation**

The Board of Managing Directors and all other Bank departments are included in the process of managing operational risks. Within the set framework conditions, responsibility for the controlling of the operational risks is decentralised and lies with the individual divisions. The Risk Round Table committee is a platform for discussing important matters of relevance to OpRisk, the evaluation of such matters by the Bank, and possible future risk assessments at the Bank at the level of departmental heads and experts. Controlling handles the central tracking of operational risks and the independent reporting.

#### **Operational risk – controlling and monitoring**

As a result of inclusion in standardised Group methods, the methods and processes for the management of operational risks developed by NORD/LB are also applied at Deutsche Hypo. They are adjusted to the extent that they are appropriate with regard to the bank's type and scope, structure and operational risk situation.

The management of operational risks is supported in this context by a methodological framework for risk assessment. The constantly updated assessment of the risk situation entails the assessment of ongoing extensive information such as cases of loss, risk indicators and the results of scenario analyses. Suitable measures are taken by the responsible divisions if the occasion requires it. For example, in the past financial year, investment in the IT systems initiated in the previous year was continued with the aim of sustainably strengthening the level of IT and information security, among other things. 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. Inclusion in risk management at the Group level means that the operational Value Risk management limits (OpVaR) for Deutsche Hypo are determined by NORD/LB in light of the risk bearing capacity on the level of the NORD/LB Group, and compliance with them is a risk-strategic goal at the Bank.





## Operational risk – reporting

In the course of the ongoing risk management process, the results from the Risk Round Table committee are processed as part of the risk report. The regular reports contain the limit utilisation of the OpVaR limit set by the NORD/LB Group, and assess the current risk on the basis of different risk categories using a traffic light system overview. The regular reports include the information from the loss event database, the results of the scenario analyses and the risk assessment of the ongoing legal disputes and externally outsourced significant activities. They also report on special events in the reporting period, such as damage or ad hoc reports. The Board of Managing Directors and the Supervisory Board are kept up to date by the quarterly risk report.

## Operational risk – development

Significant cases of damage were not noted in 2017. A provision was made for legal uncertainty over existing credit contracts.

## 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. 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 involved departments and between the Bank's IT systems. This ensures that the clearly defined specifications within the accounting process are implemented.

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

- Deutsche Hypo's Accounting 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 departments is handled there and subject to specialised 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 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 a system of guidelines and instructions in an organisational manual that takes the form of 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. Programmed plausibility tests take place as a result of the used software.
- The plausibility of the data that is calculated in the accounting process is regularly checked.
- 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. The qualified technical personnel, appropriate IT systems and legislative and internal company specifications form the basis for a proper accounting process. Report recipients are therefore provided with accurate and reliable information.

### **Regulatory equity resources**

Due to the exercising of the waiver rule, the obligations to provide individual bank reports and compliance with the equity and capital requirements in accordance with CRR, part 2 and 3, do not apply to Deutsche Hypo at the level of the individual institution. For the reports on the equity resources at Group level according to IFRS and for internal controlling in line with HGB, Deutsche Hypo calculates, after exercising the waiver rule, the equity capital and risk-weighted assets (RWA) that are consolidated in the IFRS reports prepared by NORD/LB for the Group. The Bank also follows the HGB to calculate an equity ratio, which compares all eligible capital in accordance with Art. 4 (1) no. 71 CRR with the risk-weighted assets.

In accordance with the regulatory requirements, a total of € 1,123.0 million (2016: € 1,182.4 million) was eligible for recognition under regulatory capital requirements in the Group as of 31 December 2017. This means a decline of € 59.4 million relative to the end of 2016 due to the scheduled run-off of components in equity. At the same time, the RWA fell by 11.5 %. As a result, the equity ratio increased to 20.3 % (2016: 18.9 %).

### **Summary of the risk position**

Deutsche Hypo has systematically continued its conservative risk policy in 2017, according to the Board of Managing Directors. All in all, the Bank is looking at an improved risk position. In particular, significant reductions to the capital market portfolio in line with the business strategy were made once again in 2017, thereby reducing the accompanying credit spread risks. That contributed to a further decrease in hidden charges in the banking book. Interest rate risk at the bank also remained very low as a result of Deutsche Hypo's low risk appetite.



The continued positive development on real estate markets and the constant focus on quality when acquiring new business resulted in continued confirmation of the good level of credit portfolio risk figures. Another noteworthy point in this regard is the proportion of financing in default within the overall portfolio, which remains significantly below the expected long-term average.

The Bank's liquidity situation in the past financial year was also consistently good. It complied with the regulatory minimum liquidity requirements at all times. All regulatory requirements and those required by PfandBG were complied with, along with the Group's strategic rules.

Deutsche Hypo will systematically pursue its conservative risk policy. This includes the continuation of the reduction of its public sector finance portfolio to protect the income statement and the adherence to high risk standards in the real estate finance business. Deutsche Hypo will push ahead with the continuous improvement of its risk expertise and the consistent optimisation of the risk structure in the future.

Hanover, 27 February 2018

The Board of Managing Directors



Pohl



Barthauer



Rehfus



# ANNUAL FINANCIAL STATEMENTS

**Balance sheet as of 31 December 2017**

**Income statement for the period  
from 1 January to 31 December 2017**

**Statement of changes in equity**

**Cash flow statement**

**Notes**

# BALANCE SHEET AS OF 31 DECEMBER 2017

## ASSETS

	€	€	€	31 December 2016 (in € thousands)
<b>1. Cash reserve</b>				
b) Credit with central banks		648,150,937.98		50,541
of which:				
with the "Deutsche Bundesbank"				
€ 648,150,937.98 (PY € 50,541 thousand)				
		<b>648,150,937.98</b>		<b>50,541</b>
<b>2. Receivables from financial institutions</b>				
a) Mortgage loans		10,581,626.79		13,277
b) Loans to local authorities		487,080,450.52		588,295
c) Other receivables		1,375,328,415.02		1,402,643
of which: due daily				
€ 773,250,634.70 (PY € 1,179,926 thousand)				
		<b>1,872,990,492.33</b>		<b>2,004,215</b>
<b>3. Receivables from customers</b>				
a) Mortgage loans		12,066,514,071.71		11,963,723
b) Loans to local authorities		3,405,403,397.39		4,227,234
c) Other receivables		16,867,609.60		54,624
		<b>15,488,785,078.70</b>		<b>16,245,581</b>
<b>4. Bonds and other fixed interest securities</b>				
b) Bonds and debentures				
ba) from public issuers	2,847,185,309.11			3,406,873
of which:				
lendable to the "Deutsche Bundesbank"				
€ 1,533,444,108.47 (PY € 1,970,427 thousand)				
bb) from other issuers	2,642,679,650.34			3,313,398
of which:				
lendable to the "Deutsche Bundesbank"				
€ 2,365,298,802.33 (PY € 2,806,383 thousand)				
c) Own bonds		5,489,864,959.45		39,367
Nominal amount:		26,650,334.26		
€ 26,479,000.00 (PY € 39,197 thousand)				
		<b>5,516,515,293.71</b>		<b>6,759,638</b>
<b>5. Participatory interest</b>			0.00	77
<b>6. Intangible assets</b>				
b) Purchased licenses, industrial property rights, as well as licenses to such rights and assets		595,181.00		584
d) Payments made on account		1,056,028.91		483
		<b>1,651,209.91</b>		<b>1,067</b>
<b>7. Tangible assets</b>			<b>2,145,704.03</b>	<b>2,176</b>
<b>8. Other assets</b>			<b>118,968,214.53</b>	<b>87,115</b>
<b>9. Accrued and deferred items</b>				
a) from the issue and loan transaction		40,529,809.30		43,436
b) others		8,531,948.76		8,765
		<b>49,061,758.06</b>		<b>52,201</b>
<b>Total assets</b>			<b>23,698,268,689.25</b>	<b>25,202,611</b>

Balance sheet as of 31 December 2017 | Income statement for the period from 1 January to 31 December 2017 | Statement of changes in equity | Cash flow statement | Notes

## LIABILITIES

	€	€	€	31 December 2016 (in € thousands)
<b>1. Liabilities to financial institutions</b>				
a) Issued registered mortgage Pfandbriefe		276,013,791.39		138,306
b) Issued registered public Pfandbriefe		283,486,590.57		255,527
c) Other liabilities		3,117,686,381.11		4,943,158
of which: due daily				
€ 339,356,784.33 (PY € 474,929 thousand)				
			<b>3,677,186,763.07</b>	<b>5,336,991</b>
<b>2. Liabilities to customers</b>				
a) Issued registered mortgage Pfandbriefe		684,296,373.27		660,310
b) Issued registered public Pfandbriefe		3,825,683,696.89		4,312,536
d) Other liabilities		3,554,438,225.61		2,144,343
with which: due daily				
€ 1,447,960.90 (PY € 902 thousand)				
			<b>8,064,418,295.77</b>	<b>7,117,189</b>
<b>3. Securitised liabilities</b>				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,453,756,093.71			7,488,252
ab) public Pfandbriefe	381,202,964.43			810,430
ac) other bonds	2,677,419,863.82			2,740,481
		10,512,378,921.96		
			<b>10,512,378,921.96</b>	<b>11,039,163</b>
<b>4. Other liabilities</b>				
			<b>62,564,457.88</b>	<b>198,410</b>
<b>5. Accrued and deferred items</b>				
a) from the issue and loan transaction		31,124,606.74		40,795
b) other		13,604,836.15		11,210
			<b>44,729,442.89</b>	<b>52,005</b>
<b>6. Provisions</b>				
a) Provisions from pensions and similar obligations		48,373,109.39		44,863
b) Tax provisions		2,796,279.95		2,370
c) Other provisions		33,749,795.15		29,048
			<b>84,919,184.49</b>	<b>76,281</b>
<b>7. Subordinated liabilities</b>			<b>379,500,000.00</b>	<b>395,000</b>
<b>8. Jouissance right capital</b>			<b>20,000,000.00</b>	<b>60,000</b>
<b>9. Funds for general banking risks</b>			<b>14,400,000.00</b>	<b>14,400</b>
<b>10. Equity</b>				
a) Subscribed capital		80,640,000.00		80,640
Capital held by silent partners		0.00		75,000
b) Capital reserves		481,313,877.23		481,314
c) Profit reserves				
ca) statutory reserves	18,917,799.60			18,918
cd) other profit reserves	257,299,946.36			257,300
		276,217,745.96		
			<b>838,171,623.19</b>	<b>913,172</b>
<b>Total liabilities</b>			<b>23,698,268,689.25</b>	<b>25,202,611</b>
<b>1. Contingent liabilities</b>				
b) Liabilities arising from sureties and guarantee agreements		502,231,980.70		1,029,309
			<b>502,231,980.70</b>	<b>1,029,309</b>
<b>2. Other obligations</b>				
c) Irrevocable credit commitments		1,378,659,787.65		1,809,697
			<b>1,378,659,787.65</b>	<b>1,809,697</b>

# INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

	€	€	€	1 January 2016 – 31 December 2016 (in € thousands)
<b>1. Interest earnings from</b>				
a) Credit and money market transactions	493,617,021.04			520,008
less negative interest from money market transactions	<u>- 3,303,213.08</u>			- 1,819
		490,313,807.96		
b) Fixed interest bearing securities and book-entry securities		<u>156,267,131.06</u>		185,353
			646,580,939.02	<b>703,542</b>
<b>2. Interest expenses</b>				
Interest expenses from the banking business	462,633,096.34			510,135
less positive interest from the banking business	<u>- 9,405,548.04</u>			- 8,689
		453,227,548.30		
			<b>193,353,390.72</b>	<b>202,096</b>
<b>3. Commission income</b>			11,983,254.48	13,624
<b>4. Commission expenses</b>			<u>11,635,486.44</u>	9,935
				<b>3,689</b>
			<b>347,768.04</b>	
<b>5. Other operating income</b>				<b>2,165</b>
			<b>16,455,251.90</b>	
<b>6. General administrative expenses</b>				
a) Personnel expenses				
aa) wages and salaries		39,065,440.00		36,885
ab) social security and expenses for pension plans and for support of which: for pension plans		<u>6,763,461.73</u>		6,116
€ 1,104,550.98 (PY € 897 thousand)			45,828,901.73	
b) Other administrative expenses			<u>37,201,468.99</u>	32,674
			<b>83,030,370.72</b>	<b>75,675</b>
<b>7. Write-downs and value adjustments of intangible assets and tangible fixed assets</b>				
			<b>744,464.59</b>	<b>698</b>
<b>8. Other operating expenses</b>				<b>5,670</b>
			<b>12,217,392.43</b>	
<b>9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business</b>				
			<u>41,267,844.36</u>	66,573
			<b>41,267,844.36</b>	<b>66,573</b>
<b>10. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securities treated as fixed assets</b>				
			<u>10,189,790.60</u>	0
			<b>10,189,790.60</b>	<b>0</b>
<b>11. Income from write-ups of participatory interest, shares in affiliated companies and securities treated as fixed assets</b>				
			<u>0.00</u>	55,658
			<b>0.00</b>	<b>55,658</b>
<b>12. Result from normal operations</b>			<b>62,706,547.96</b>	<b>114,992</b>
<b>13. Extraordinary income</b>			688,859.48	3,507
<b>14. Extraordinary expenses</b>			<u>13,662.07</u>	5,152
<b>15. Extraordinary result</b>				<b>- 1,645</b>
			<b>675,197.41</b>	
<b>16. Taxes on income</b>			3,724,222.89	3,376
<b>17. Other taxes not included under item 8</b>			<u>- 86,957.29</u>	- 38
			<b>3,637,265.60</b>	<b>3,338</b>
<b>18. Profits surrendered under partial surrender agreements or a profit and loss transfer agreement</b>				
			<b>59,744,479.77</b>	<b>110,009</b>
<b>19. Profit for the period</b>			<b>0.00</b>	<b>0</b>
<b>20. Transfer to profit reserves</b>			<b>0.00</b>	<b>0</b>
<b>21. Balance sheet profit</b>			<b>0.00</b>	<b>0</b>



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## STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2017	80,640	75,000	481,314	276,218	0	0	0	913,172
Capital increase / reduction	0	-75,000	0	0	0	0	0	-75,000
Allocation to / withdrawal from reserves	0	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0
Profit /loss for the period	0	0	0	0	0	0	0	0
As of 31 December 2017	80,640	0	481,314	276,218	0	0	0	838,172

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2016	80,640	75,000	481,314	276,218	0	0	0	913,172
Capital increase / reduction	0	0	0	0	0	0	0	0
Allocation to / withdrawal from reserves	0	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0
Profit /loss for the period	0	0	0	0	0	0	0	0
As of 31 December 2016	80,640	75,000	481,314	276,218	0	0	0	913,172

# CASH FLOW STATEMENT

in € thousands	2017	2016
1. Net result	0	0
2. Write-downs, value adjustments and write-ups to receivables and tangible fixed assets	42,639	- 10,129
3. Increase/decrease in reserves	8,886	11,341
4. Other non-cash expenses/income	0	0
5. Profit/loss from the disposal of tangible fixed assets	- 45,952	- 52,682
6. Profit to be surrendered under a profit and loss transfer agreement	56,280	101,609
7. Other adjustments (balance)	1,902	9,307
8. Increase/decrease of receivables from financial institutions	118,127	975,039
9. Increase/decrease of receivables from customers	702,632	329,649
10. Increase/decrease of securities (if not financial assets)	12,557	10,275
11. Increase/decrease of other assets from current operations	- 46,582	- 78,897
12. Increase/decrease of liabilities to financial institutions	- 1,588,036	85,693
13. Increase/decrease of liabilities to customers	954,805	- 1,582,148
14. Increase/decrease of securitised liabilities	- 520,012	- 207,217
15. Increase/decrease of other liabilities from current operations	- 105,249	- 25,389
16. Interest expenses/income	- 193,353	- 202,096
17. Expenses/income from extraordinary items	- 675	1,645
18. Income tax expenses/income	3,724	3,376
19. Interest and dividend payments received	660,171	763,892
20. Interest paid	- 453,192	- 548,882
21. Extraordinary deposits	0	0
22. Extraordinary disbursements	0	0
23. Income tax payments	- 2,303	- 372
<b>24. Cash flow from current operations (total of items 1 to 23)</b>	<b>- 393,631</b>	<b>- 415,986</b>
25. Deposits from disposals of financial assets	1,346,594	1,033,105
26. Disbursements for investments in financial assets	- 87,866	- 615,346
27. Deposits from disposals of tangible fixed assets	0	14
28. Disbursements for investments in tangible fixed assets	- 518	- 419
29. Deposits from disposals of intangible fixed assets	0	0
30. Disbursements for investments in intangible fixed assets	0	0
31. Deposits from disposals from the consolidated group	0	0
32. Disbursements for additions to the consolidated group	0	0
33. Changes in funds from other investment activities (balance)	- 760	- 517
34. Deposits from extraordinary items	0	0
35. Disbursements for extraordinary items	0	0
<b>36. Cash flow from investment activities (total of items 25 to 35)</b>	<b>1,257,450</b>	<b>416,837</b>
37. Deposits from equity contributions by shareholders of the parent company	0	0
38. Deposits from equity contributions by other shareholders	0	0
39. Disbursements for equity reductions to shareholders of the parent company	0	0
40. Disbursements for equity reductions to other shareholders	0	0
41. Deposits from extraordinary items	0	0
42. Disbursements for extraordinary items	0	0
43. Dividends paid to shareholders of the parent company	0	0
44. Dividends paid to other shareholders	0	0
45. Other disbursements to company owners	- 34,100	- 31,400
46. Profit and loss transfer	- 101,609	- 61,850
47. Changes in funds from other capital (balance)	- 130,500	52,000
<b>48. Cash flow from financing activities (total of items 37 to 47)</b>	<b>- 266,209</b>	<b>- 41,250</b>
49. Cash changes in finance funds (total from 24, 36, 48)	597,610	- 40,399
50. Exchange-rate and valuation-related change in finance funds	0	0
51. Consolidation-related change in finance funds	0	0
52. Finance funds at the start of the period	50,541	90,940
<b>53. Finance funds at the end of period (total of items 49 to 52)</b>	<b>648,151</b>	<b>50,541</b>

The cash flow statement was prepared in accordance with the recommendations of the German Accounting Standard (DRS) 21. The finance funds results from the bank's cash reserve shown in the balance sheet, which exclusively contains credit with the Deutsche Bundesbank. The credit balance is not subject to any restrictions on disposal. Existing bank balances at other banks were not included in the finance funds. Deutsche Hypo does not have any securities that meet the definition of DRS 21 for an addition to cash equivalents and thus for an addition to finance funds.

# NOTES

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 on annual financial statements and accounting and valuation principles

### 1. General information on the company and on group affiliation

Name:	Deutsche Hypothekenbank (Actien-Gesellschaft)
Headquarters:	Hanover
Registry court:	Hanover District Court
Commercial register number:	5602

According to Section 271 (2) of the German Commercial Code (HGB), Deutsche Hypo (Actien-Gesellschaft), Hanover, (Deutsche Hypo or the Bank) is a company affiliated to 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 at 31 December 2016 were published on 19 April 2017 in the federal gazette.

Pursuant to an existing control and profit and loss transfer agreement between Deutsche Hypo and NORD/LB, Deutsche Hypo is obligated to transfer all of its profits to NORD/LB. The profit and loss transfer agreement leads to a fiscal tax unit.

### 2. Accounting regulations

The annual financial statements of Deutsche Hypo for financial year 2017 have been prepared in accordance with the provisions of the HGB in conjunction with the German Ordinance on Accounting of Financial Institutions (RechKredV) and with due adherence to the provisions of the German Stock Corporation Act (AktG) and the German Pfandbrief Act (PfandBG). The annual financial statements comprise the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes. The breakdown of the balance sheet and the income statement is based on forms 1 and 3 of the RechKredV.

Due to the fiscal tax unit with NORD/LB, Deutsche Hypo only reports income taxes that relate to financial years up to and including 2012 or that relate to foreign locations. The latter are calculated on the basis of the taxable result at the applicable income tax rate.

### 3. Accounting and valuation principles

Receivables from institutions and customers are reported at their nominal value (Section 340e (2) of the HGB). Any differences between the nominal value and the payout value, as far as similar in nature to interest, are reported under accrued and deferred items, which are released on a straight-line basis.

Appropriate loan loss provisions and provisions according to cautious criteria are formed to cover identifiable risks in the credit business. Irrecoverable receivables are written off. Latent credit risk is accounted for in the form of general loan loss provisions. The general loan loss provisions are calculated in accordance with the requirements of the Federal Ministry of Finance Circular dated 10 January 1994.

Debenture bonds and other fixed interest securities are reported at cost if they involve securities held as fixed assets. If a permanent impairment is considered likely, unscheduled write-downs are performed pursuant to Section 253 (3) clause 5 of the HGB. Write-ups are performed pursuant to Section 253 (5) clause 1 of the HGB, provided that the reasons for the write-down no longer exist. Securities from the liquidity reserve are measured in accordance with the lower-of-cost-or-market-principle pursuant to Section 253 (4) of the HGB. Zero coupon bonds are measured at cost plus accrued interest. If there are securities transferred under repurchase agreements, this is conducted as part of real securities repurchase transactions, which are reported in accordance with the requirements of Section 340b (4) of the HGB.

Structured financial instruments are reported pursuant to IDW RS HFA 22, reviewed in terms of the obligation to separate such from the host instrument and of embedded derivatives; in the case of an obligation to separate, they are reported according to the respective applicable general principles.

Participatory interest is measured at cost or the lower-of-cost-or-market value pursuant to Section 253 (3) clause 5 of the HGB. Write-ups are performed pursuant to Section 253 (5) clause 1 of the HGB, provided that the reasons for a write-down cease to apply.

Applying Section 340c (2) clause 1 of the HGB, the expenses from write-downs on participatory interest and securities treated as fixed assets are offset against write-ups on these assets. The resulting income or expense is reported under income from financial assets in the income statement. There is no individual table of write-ups and write-downs in the notes to the financial statements due to the application of Section 34 (3) of the RechKredV.

Tangible assets and intangible fixed assets are carried at their acquisition cost less the straight-line scheduled depreciation over their ordinary useful life. If a permanent impairment is considered likely, unscheduled write-downs are performed. Assets with costs between € 150.01 and € 1,000.00 are capitalised as compound items in application of Section 6 (2a) of the German Income Tax Act (EStG) and written off on a flat-rate basis at 20 % respectively per year over a period of five years. Low-value assets with costs of less than € 150.00 are written off in full in the year of acquisition in accordance with the procedure under tax law.

Deutsche Hypo does not recognise deferred taxes on account of the existing fiscal tax unit.



Liabilities, as a general rule, are reported at their settlement amount or nominal value. Any difference between the nominal value and payout amount is reported under accruals and deferrals, which are released on a scheduled basis.

The pension provisions are calculated by independent actuaries using an expectancy cash-value method, the projected unit credit method. In this process, the pensions being paid on the reporting date and the share of entitlements accrued (or earned) during the service period as of the reporting date are evaluated. Increases based on salary trends or pension adjustments expected in the future are also taken into account.

The cash value of the obligation is calculated by discounting the expected future benefits (settlement value) pursuant to Section 253 (2) clause 1 of the HGB at the average market rate of interest over the past ten years in view of their residual term. The differing amount pursuant to Section 253 (6) clause 1 of the HGB totalled € 8,250 thousand as of 31 December 2017 (2016: € 6,533 thousand).

When discounting pension provisions, use is made of the simplification rule set out in Section 253 (2) clause 2 of the HGB and the average market interest rate is applied on a flat-rate basis for a residual term of 15 years. The calculations of the pension provisions for the period ended 31 December 2017 are based on the following actuarial assumptions:

	31.12.2017	31.12.2016
Actuarial interest*	3.68 %	4.01 %
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 %

For a small portion of the calculated obligation, there was a fund asset in the amount of € 3,048 thousand (2016: € 4,288 thousand) as of the balance sheet date that is netted with the pension provision under application of Section 246 (2) clause 2 of the HGB.

The tax provisions and other 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 of the HGB, if there is a residual term of more than one year, they are discounted at the average market rate of interest for the past seven financial years. The applicable discount interest rate is determined by Deutsche Bundesbank in accordance with the German Provision Discounting Ordinance (RückAbzinsV) and announced monthly. The disclosure of expenses and income from the compounding or discounting of provisions takes place in the net interest result for provisions from the credit business and in other operating result for provisions from the non-banking business.

Contingent liabilities and other liabilities are reported at their nominal amounts on the balance sheet, provided that provisions have not been formed in this respect. Other liabilities relate to irrevocable loan commitments. Contingent liabilities are based on guarantees and collateral provided. Within the framework of these agreements, Deutsche Hypo undertakes to issue payments to beneficiaries if an issuer of reference or borrower does not fulfil their obligations. The decision whether contingent liabilities and other commitments are to be reported in the balance sheet at nominal value or reduced by a necessary provision amount is based on the estimation of the credit risk. The assessment is based on the estimated creditworthiness of the issuers of reference or of the borrowers on the reporting date.

The Bank has expenses and income from negative interest as a result of both receivables and liabilities. Negative interest income primarily results from the provision of collateral for derivative transactions; positive interest expenses result largely from pension transactions. Positive interest expenses were generated from collateral provided for derivative transaction as well as day-to-day money and fixed-term deposits. The amount of negative interest in the items “interest income” and “interest expenses” is set out separately in the income statement.

#### 4. Currency conversion

The assets, liabilities and off-balance-sheet transactions denominated in foreign currencies are converted in line with the principles stipulated in Sections 256a and 340h of the HGB (“special cover”). All of the Bank’s foreign currency transactions are subject to the special cover. Excesses in the total positions per currency are as a rule insignificant amounts 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. Receivables 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 (spot price and swap rate), as they are concluded to hedge interest-bearing items. All exchange rates are calculated by and taken from the European System of Central Banks (ECB reference rate).

The adjusting items created from valuing swap and forward exchange transactions at current rates are reported as net amounts in relation to the currency and disclosed 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 as net amounts under “other operating expenses” or under “other operating income”.

The amount of net assets denominated in foreign currency totalled € 2,798.7 million as of the reporting date (2016: € 3,321.9 million); the amount of the liabilities denominated in a foreign currency was € 417.5 million (2016: € 544.3 million).



## 5. Derivatives

All derivatives of Deutsche Hypo are assigned to the non-trading portfolio and are therefore 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. Please refer to the next section of the notes to the financial statements for more information.

Balance sheet valuation units did not exist as of the reporting date. As of the previous year's reporting date, the Bank had formed a balance sheet valuation unit for an economic hedge relationship on a one-time basis.

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

The Bank also has credit derivatives in its portfolio, both as the collateral-taker and collateral-provider. With regard the credit derivatives where the Bank is the collateral-provider, these qualify as issued loan collateral. They are reported under contingent liability, provided that no provision was formed for them. The credit derivatives, where the bank is the collateral-taker, qualify as loan collateral received. They are not reported separately, but taken into account when measuring the risk provision for the loan business.

## 6. Loss-free valuation of interest-related transactions for the banking book

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 of the HGB in conjunction with Section 249 (1) clause 1 alternative 2 of the 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 by the closed and open fixed-income positions, taking into account the anticipated risk and administrative costs still to be incurred. 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.

## Notes on the balance sheet

### 7. Receivables from financial institutions

in € thousands	31.12.2017	31.12.2016
<b>Breakdown of residual maturities</b>		
due daily	773,251	1,179,926
up to three months	484,803	118,596
between three months and one year	161,042	17,515
between one year and five years	64,716	284,202
more than five years	200,564	202,286
proportionate interest in total	188,614	201,690
<b>Balance sheet item</b>	<b>1,872,990</b>	<b>2,004,215</b>
of which from affiliated companies	357,325	51,270

### 8. Receivables from customers

in € thousands	31.12.2017	31.12.2016
<b>Breakdown of residual maturities</b>		
up to three months	352,719	584,419
between three months and one year	1,302,346	1,305,707
between one year and five years	6,352,012	6,070,303
more than five years	7,391,308	8,179,570
proportionate interest in total	90,400	105,582
<b>Balance sheet item</b>	<b>15,488,785</b>	<b>16,245,581</b>
of which from investors and investees	–	463

### 9. Bonds and other fixed interest securities

in € thousands	31.12.2017	31.12.2016
<b>Balance sheet item</b>	<b>5,516,515</b>	<b>6,759,638</b>
of which from affiliated companies	1,030,595	1,044,864
due in the following year	400,136	586,758
of which exchange eligible	5,516,515	6,759,638
of which listed on exchanges	4,843,545	5,849,351
of which not listed on exchanges	672,970	910,287
of which not valued at the lower of cost or market value*)	234,539	846,642
fair value of securities not valued at lower of cost or market value	201,907	774,280

\*) In these cases, a long-term impairment was not anticipated, as the individual review of the relevant issuer's credit rating did not reveal any signs that would justify a long-term impairment.

### 10. Participatory interest

in € thousands	31.12.2017	31.12.2016
<b>Balance sheet item</b>	<b>0</b>	<b>77</b>
of which exchange eligible	0	0





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## 11. Fixed asset schedule

in € thousands	Intangible Assets	Tangible Assets*)
<b>Balance sheet date 31.12.2016</b>	1,067	2,176
<b>Historical costs 01.01.2017</b>	8,662	4,700
Change in additions	781	519
Change in disposals	0	- 185
<b>Historical costs 31.12.2017</b>	9,443	5,034
<b>Accumulated depreciation as of 01.01.2017</b>	7,595	2,525
Depreciation current financial year	197	548
Change in disposals	0	- 185
<b>Accumulated depreciation as of 31.12.2017</b>	7,792	2,888
<b>Balance sheet date 31.12.2017</b>	1,651	2,146

\*) Tangible assets involve only business and office equipment.

in € thousands	Securities**)	Participatory interest
<b>Balance sheet date 31.12.2016</b>	6,720,271	77
Change*)	- 1,230,406	- 77
<b>Balance sheet date 31.12.2017</b>	5,489,865	0

\*) The simplification rule pursuant to Section 34 (3) of the RechKredV was applied.

\*\*) Securities treated as fixed assets.

## 12. Other assets

in € thousands	31.12.2017	31.12.2016
<b>Balance sheet item</b>	118,968	87,115
of which adjustment items from foreign currencies	113,359	75,441

## 13. Accrued items

in € thousands	31.12.2017	31.12.2016
<b>Balance sheet item</b>	49,062	52,201
of which premium on claims	10,930	17,008
of which issuing discount from bonds	29,600	26,428

**14. Liabilities to financial institutions**

in € thousands	31.12.2017	31.12.2016
<b>Breakdown of residual maturities</b>		
due daily	339,357	474,929
up to three months	1,204,862	1,926,488
between three months and one year	995,529	1,464,679
between one year and five years	518,671	945,045
more than five years	420,673	300,036
proportionate interest in total	198,095	225,814
<b>Balance sheet item</b>	<b>3,677,187</b>	<b>5,336,991</b>
of which to affiliated companies	835,169	1,402,247
Assets pledged as collateral	1,609,403	2,395,500
of which within the context of real pension transactions	1,609,403	2,395,500

**15. Liabilities to customers**

in € thousands	31.12.2017	31.12.2016
<b>Breakdown of residual maturities</b>		
due daily	1,448	902
up to three months	433,691	609,283
between three months and one year	1,111,989	671,564
between one year and five years	2,472,339	1,740,221
more than five years	3,919,854	3,962,266
proportionate interest in total	125,097	132,953
<b>Balance sheet item</b>	<b>8,064,418</b>	<b>7,117,189</b>
of which to affiliated companies		

**16. Securitised liabilities**

in € thousands	31.12.2017	31.12.2016
<b>Balance sheet item</b>	<b>10,512,379</b>	<b>11,039,163</b>
of which due in the following year	2,967,523	2,321,699
of which from affiliated companies	759,230	1,106,561

**17. Other liabilities**

in € thousands	31.12.2017	31.12.2016
<b>Balance sheet item</b>	<b>62,564</b>	<b>198,410</b>
of which adjustment items from foreign currencies	47,813	176,917
of which pro-rata interest on subordinated liabilities and capital held by silent partners	10,986	15,271

**18. Deferred items**

in € thousands	31.12.2017	31.12.2016
<b>Balance sheet item</b>	<b>44,729</b>	<b>52,005</b>
of which discounts on claims	6,632	8,170



## 19. Subordinated liabilities

Subordinated liabilities stood at € 379.5 million as of the balance sheet date (2016: € 395.0 million). Two subordinated liabilities exceeded 10.0 % of the total amount reported. This involved an amount of € 90.0 million subject to an interest rate of 6.12 % and due on 27 January 2020 as well as an amount of € 75.0 million subject to an interest rate of 5.00 % and due on 23 December 2026. Early repayment will only be possible in the event of additional payments to the lender or its legal successor due to changes in taxation or negative developments in regulatory recognition. In the event of dissolution, liquidation or insolvency of the Bank, or in the case of a settlement or procedure aimed at preventing the Bank's insolvency, the liabilities are subordinate to other non-subordinated liabilities. A conversion in balance sheet equity or another form of debt is not intended. These conditions also relate to other borrowings.

Interest expenses related to subordinated liabilities amounted to € 21.6 million in the reporting period (2016: € 18.0 million). As of the balance sheet date, there were subordinated liabilities to affiliated companies in the amount of € 165.0 million (2016: € 165.0 million).

## 20. Jouissance right capital

Reported jouissance right capital totalled a nominal amount of € 20.0 million (2016: € 60.0 million). The terms ran to 31 December 2017, whereby the repayment of the jouissance right capital falls due approximately 6 months after the end of the term. The jouissance right is associated with the right to distribution within the meaning of these jouissance right conditions.

## 21. Notes on the development of equity

Deutsche Hypo held subscribed capital of € 80.6 million on 31 December 2017, which is divided into 13,440,000 individual shares and is the same as in 2016. The contract for an investment held by silent partners in the amount of € 75.0 million reported on the previous balance sheet date was paid back over the course of financial year 2017.

## 22. Contingent liabilities and other obligations

in € thousands	31.12.2017	31.12.2016
<b>Liabilities from sureties and guarantee agreements</b>	<b>502,232</b>	<b>1,029,309</b>
of which credit default swaps	0	598,452
of which total return swaps	155,457	263,408
of which sureties in the mortgage business	346,775	167,449
of which assets pledged as collateral	3,861	12,119

The risk of drawdowns of contingent liabilities is considered to be low, as the liabilities are managed with regard to credit and monitored. Provisions are created for the event of an imminent drawdown (see 3. Accounting and valuation principles).

Other liabilities relate exclusively to irrevocable credit commitments.

## 23. 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. Furthermore, the Bank is obligated to make annual contributions to the restructuring funds for financial institutions (bank levy). The Bank did not make use of the option to provide a portion of the annual contributions to the restructuring funds in the form of irrevocable payment obligations. Accordingly, there are no financial obligations in terms of Section 285 (3a) of the HGB. However, the Bank is also obligated to provide reserve liability, if requested. This represents a risk for the financial position in terms of Section 285 (3) of the HGB.

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.

## 24. Derivative financial instruments

The Bank uses derivative financial instruments to manage the general interest rate risk (overall bank management) as well as to hedge foreign currency risks. Forward exchange transactions to hedge against foreign currency positions (currency-related transactions) are reported under forward transactions. Other reported items include exclusively swap transactions to hedge against interest rate risk (risk-related transactions) and changes in interest rate and currency risk (currency and interest rate-related transactions). The bank also has credit derivatives in its portfolio related to the credit substitution business. According to IDW RS BFA 1, these represent collateral issued and received; as a result, they are not included in the presentation below. Market values represent the current value of the derivatives at market conditions (yield curves, forex rates, etc.) without accrued interest. The book values (without pro-rata interest) are comprised of upfronts. The figures determined in this way are summarised in the following tables by product group.



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31.12.2017	Nominal amount	Market value		Book value		Balance sheet item
		positive	negative	positive	negative	
in € millions						
Currency-related transactions	581	4	3	0	0	
Interest rate-related transactions	41,201	1,346	1,714	6	10	Assets 2 and 9; Liabilities 5
Interest rate and currency related transactions	2,007	126	188	2	4	Assets 9; Liabilities 5
<b>Total</b>	<b>43,789</b>	<b>1,476</b>	<b>1,905</b>	<b>8</b>	<b>14</b>	

31.12.2016	Nominal amount	Market value		Book value		Balance sheet item
		positive	negative	positive	negative	
in € millions						
Currency-related transactions	1,121	18	33	0	0	
Interest rate-related transactions	33,557	1,712	2,248	5	6	Assets 2 and 9; Liabilities 5
Interest rate and currency related transactions	2,366	104	358	3	5	Assets 9; Liabilities 5
<b>Total</b>	<b>37,044</b>	<b>1,834</b>	<b>2,639</b>	<b>8</b>	<b>11</b>	

## Notes on the income statement

### 25. Other operating income

in € thousands	31.12.2017	31.12.2016
<b>Income statement item</b>	<b>16,455</b>	<b>2,165</b>
of which significant items:		
interest rebates from taxes	15,057	0
income from the release of provisions	930	1,258
ongoing income from leases	3	411
exchange rate profits from currency transactions	0	170

### 26. Other operating expenses

in € thousands	31.12.2017	31.12.2016
<b>Income statement item</b>	<b>12,217</b>	<b>5,670</b>
of which significant items:		
additions to provisions*)	5,020	40
expenses from the discounting of provisions**)	4,975	4,913
adjustments of surrender values from reinsurance policies	1,161	0
losses from currency transactions	563	0
expenses for externally managed buildings	11	423

\*) The addition was made to due to legal uncertainty over existing credit contracts.

\*\*) The amount also includes the effect of the interest rate change related to the discounting of provisions.

### 27. Extraordinary income

in € thousands	31.12.2017	31.12.2016
<b>Income statement item</b>	<b>689</b>	<b>3,507</b>
of which release of provisions in connection with the efficiency improvement programme	689	0
of which release of pension provisions following revision of Section 253 (2) clause 1 of the HGB	0	3,507

## 28. Extraordinary expenses

in € thousands	31.12.2017	31.12.2016
<b>Income statement item</b>	<b>14</b>	<b>5,152</b>
of which allocations to provisions in connection with the efficiency improvement programme	14	21
of which allocations to pension provisions pursuant to Art. 67 (1) clause 1 EGHGB	0	5,131

## Other disclosures

### 29. Services rendered to third parties for management and brokerage

Deutsche Hypo continues to manage the real estate finance business in the portfolio of NORD/LB. For this service, the Bank received service fees that were included in the net commission income.

Deutsche Hypo also structured financing for customers and assumed management of all loans for the bank consortium as the lead manager of the consortium of banks. For this service, the Bank receives ongoing remuneration for loan management in addition to the one-off fee for establishing the financing structure.

### 30. Cover analysis (in accordance with Section 28 of the PfandBG)

#### Revolving Pfandbriefe and the cover assets used with disclosure of the maturity structure

(Section 28 (1) of the PfandBG):

#### Mortgage Pfandbriefe:

in € millions	Nominal		Net present value		Risk net present value *)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
<b>Mortgage Pfandbriefe</b>	<b>8,376</b>	<b>8,243</b>	<b>8,570</b>	<b>8,571</b>	<b>8,260</b>	<b>7,591</b>
of which derivatives	–	–	2	25	4	2
<b>Cover pool</b>	<b>9,369</b>	<b>9,151</b>	<b>10,342</b>	<b>10,282</b>	<b>9,752</b>	<b>8,902</b>
of which derivatives	–	–	22	29	25	80
<b>Excess cover</b>	<b>993</b>	<b>908</b>	<b>1,772</b>	<b>1,711</b>	<b>1,492</b>	<b>1,311</b>

\*) For the calculation of the risk net present value, the dynamic approach in accordance with Section 5 (1) clause 2 of the PfandBarwertV is used.

in € millions	31.12.2017		31.12.2016	
	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	875	700	821	743
more than 0.5 years up to 1 year	1,108	550	364	579
more than 1 year up to 1.5 years	175	497	875	573
more than 1.5 years up to 2 years	1,415	518	1,108	508
more than 2 years up to 3 years	530	1,178	1,491	1,012
more than 3 years up to 4 years	578	1,079	530	1,093
more than 4 years up to 5 years	630	1,024	550	943
more than 5 years up to 10 years	2,710	3,192	2,339	3,139
more than 10 years	355	631	167	561
<b>Total</b>	<b>8,376</b>	<b>9,369</b>	<b>8,243</b>	<b>9,151</b>

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### Public Pfandbriefe:

in € millions	Nominal		Net present value		Risk net present value *)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Public Pfandbriefe	4,389	5,266	5,518	6,643	5,185	5,728
of which derivatives	–	–	2	6	0	–5
Cover pool	5,075	6,108	6,214	7,606	5,711	6,584
of which derivatives	–	–	5	–	13	–
Excess cover	686	843	696	964	526	856

\*) For the calculation of the risk net present value, the dynamic approach in accordance with Section 5 (1) clause 2 of the PfandBarwertV is used.

in € millions	31.12.2017		31.12.2016	
	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	412	794	385	714
more than 0.5 years up to 1 year	108	273	419	492
more than 1 year up to 1.5 years	214	383	431	531
more than 1.5 years up to 2 years	177	133	118	198
more than 2 years up to 3 years	329	312	416	509
more than 3 years up to 4 years	255	120	336	328
more than 4 years up to 5 years	300	322	255	120
more than 5 years up to 10 years	1,384	1,401	1,471	1,487
more than 10 years	1,210	1,337	1,436	1,729
<b>Total</b>	<b>4,389</b>	<b>5,075</b>	<b>5,266</b>	<b>6,108</b>

Other cover assets for mortgage Pfandbriefe (Section 28 (1) clauses 4 to 6 of the PfandBG in conjunction with Section 19 (1) clauses 1 to 3 of the PfandBG):

in € millions (as of 31 December each)	Germany		Belgium		EU		France	
	2017	2016	2017	2016	2017	2016	2017	2016
Equalisation claims in terms of Section 19 (1) clause 1 of the PfandBG	–	–	–	–	–	–	–	–
Claims in terms of Section 19 (1) clause 2 of the PfandBG	–	–	–	–	246	144	–	–
of which: uncovered debt securities in terms of Art. 129 of Regulation (EU) No. 575/2013	–	–	–	–	246	144	–	–
Claims in terms of Section 19 (1) clause 3 of the PfandBG	408	273	75	75	–	–	22	82
<b>Total</b>	<b>408</b>	<b>273</b>	<b>75</b>	<b>75</b>	<b>246</b>	<b>144</b>	<b>22</b>	<b>82</b>

in € millions (as of 31 December each)	Italy		Japan		Luxembourg		Netherlands	
	2017	2016	2017	2016	2017	2016	2017	2016
Equalisation claims in terms of Section 19 (1) clause 1 of the PfandBG	–	–	–	–	–	–	–	–
Claims in terms of Section 19 (1) clause 2 of the PfandBG	119	289	–	–	40	40	–	–
of which: uncovered debt securities in terms of Art. 129 of Regulation (EU) No. 575/2013	119	289	–	–	40	40	–	–
Claims in terms of Section 19 (1) clause 3 of the PfandBG	3	11	149	149	–	–	25	25
<b>Total</b>	<b>121</b>	<b>300</b>	<b>149</b>	<b>149</b>	<b>40</b>	<b>40</b>	<b>25</b>	<b>25</b>

in € millions (as of 31 December each)	Austria		Spain		Other*)		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Equalisation claims in terms of Section 19 (1) clause 1 of the PfandBG	–	–	–	–	–	–	–	–
Claims in terms of Section 19 (1) clause 2 of the PfandBG	25	60	–	–	–	135	429	668
of which: uncovered debt securities in terms of Art. 129 of Regulation (EU) No. 575/2013	25	60	–	–	–	135	429	668
Claims in terms of Section 19 (1) clause 3 of the PfandBG	–	–	8	46	–	–	689	660
<b>Total</b>	<b>25</b>	<b>60</b>	<b>8</b>	<b>46</b>	<b>–</b>	<b>135</b>	<b>1,119</b>	<b>1,328</b>

\*) Other supranational organisations

**Other cover assets for public Pfandbriefe** (Section 28 (1) clauses 4 and 5 of the PfandBG in conjunction with Section 20 (2) clauses 1 and 2 of the PfandBG) were not available in either the previous year or as of 31 December 2017.

**Disclosures in connection with receivables used as cover for mortgage Pfandbriefe** (Section 28 (2) clause 1 of the PfandBG):

#### Breakdown by size groups:

in € millions	31.12.2017	31.12.2016
up to and including € 0.3 million	15	22
more than € 0.3 million up to and including € 1 million	48	66
more than € 1 million up to and including € 10 million	1,436	1,505
more than € 10 million	6,751	6,230
<b>Total</b>	<b>8,250</b>	<b>7,823</b>

#### Breakdown of receivables by areas and types of use:

in € millions (as of 31 December each)	Germany		Belgium		France	
	2017	2016	2017	2016	2017	2016
<b>Residential</b>						
Apartments	5	6	–	–	0	0
Detached family homes	6	7	–	–	–	–
Multifamily homes	432	553	–	–	133	156
New buildings, not yet completed or not yet a source of income	6	21	–	–	–	–
<b>Total residential</b>	<b>448</b>	<b>587</b>	<b>–</b>	<b>–</b>	<b>133</b>	<b>156</b>
<b>Commercial</b>						
Office buildings	1,458	1,403	8	18	290	310
Commercial buildings	1,752	1,793	–	–	364	327
Industrial buildings	19	17	–	–	–	–
Other commercially used buildings	473	518	–	–	–	–
New buildings, not yet completed or not yet a source of income	264	189	–	–	54	–
Building sites	7	38	–	–	–	–
<b>Total commercial</b>	<b>3,973</b>	<b>3,958</b>	<b>8</b>	<b>18</b>	<b>707</b>	<b>637</b>
<b>Total value of cover</b>	<b>4,420</b>	<b>4,545</b>	<b>8</b>	<b>18</b>	<b>841</b>	<b>793</b>



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in € millions (as of 31 December each)	UK		Ireland		Netherlands	
	2017	2016	2017	2016	2017	2016
<b>Residential</b>						
Apartments	–	–	–	–	16	16
Detached family homes	–	–	–	–	58	1
Multifamily homes	59	–	–	–	724	364
New buildings, not yet completed or not yet a source of income	–	–	–	–	29	–
<b>Total residential</b>	<b>59</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>827</b>	<b>381</b>
<b>Commercial</b>						
Office buildings	432	541	83	24	172	176
Commercial buildings	411	306	18	–	274	229
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	20	21	–	–	159	231
New buildings, not yet completed or not yet a source of income	48	17	–	–	4	–
Building sites	–	–	–	–	–	–
<b>Total commercial</b>	<b>911</b>	<b>884</b>	<b>101</b>	<b>24</b>	<b>608</b>	<b>635</b>
<b>Total value of cover</b>	<b>969</b>	<b>884</b>	<b>101</b>	<b>24</b>	<b>1,435</b>	<b>1,016</b>

in € millions (as of 31 December each)	Austria		Poland		Spain	
	2017	2016	2017	2016	2017	2016
<b>Residential</b>						
Apartments	–	–	–	–	–	–
Detached family homes	–	–	–	–	–	–
Multifamily homes	–	–	–	–	–	–
New buildings, not yet completed or not yet a source of income	–	–	–	–	–	–
<b>Total residential</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Commercial</b>						
Office buildings	86	63	152	153	–	–
Commercial buildings	10	10	39	51	49	56
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	–	–	23	–	10	11
New buildings, not yet completed or not yet a source of income	–	–	–	–	–	–
Building sites	–	–	–	–	–	–
<b>Total commercial</b>	<b>95</b>	<b>73</b>	<b>213</b>	<b>203</b>	<b>59</b>	<b>66</b>
<b>Total value of cover</b>	<b>95</b>	<b>73</b>	<b>213</b>	<b>203</b>	<b>59</b>	<b>66</b>

in € millions (as of 31 December each)	USA		Total – all countries	
	2017	2016	2017	2016
<b>Residential</b>				
Apartments	–	–	21	22
Detached family homes	–	–	64	9
Multifamily homes	–	–	1,347	1,072
New buildings, not yet completed or not yet a source of income	–	–	35	21
<b>Total residential</b>	<b>–</b>	<b>–</b>	<b>1,467</b>	<b>1,125</b>
<b>Commercial</b>				
Office buildings	95	186	2,775	2,872
Commercial buildings	13	15	2,929	2,786
Industrial buildings	–	–	19	17
Other commercially used buildings	–	–	684	780
New buildings, not yet completed or not yet a source of income	–	–	369	206
Building sites	–	–	7	38
<b>Total commercial</b>	<b>109</b>	<b>201</b>	<b>6,783</b>	<b>6,699</b>
<b>Total value of cover</b>	<b>109</b>	<b>201</b>	<b>8,250</b>	<b>7,823</b>

**Total amount of payments overdue by at least 90 days (Section 28 (2) clause 2 of the PfandBG):**

in € millions	31.12.2017		31.12.2016	
	Total amount of payments overdue by at least 90 days	Total amount of these claims if the overdue amount totals at least 5 % of the claim	Total amount of payments overdue by at least 90 days	Total amount of these claims if the overdue amount totals at least 5 % of the claim
Germany	0.5	0.3	0.4	0.3
France	–	–	3.3	5.1
Netherlands	–	–	0.7	8.6
<b>Total</b>	<b>0.5</b>	<b>0.3</b>	<b>4.4</b>	<b>14.0</b>

**Foreclosure / sequestration (Section (2) clause 4 of the PfandBG):**

in € millions	As of 31 December					
	Foreclosures pending		Sequestration pending		Foreclosures executed	
	2017	2016	2017	2016	2017	2016
Properties used for residential purposes	1	–	1	–	–	–
Properties used for commercial purposes	–	–	–	–	1	1
<b>Total</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>1</b>

In financial year 2017, Deutsche Hypo did not possess any property to save existing mortgages, as in the prior year.

**Total overdue interest (Section 28 (2) clause 4 of the PfandBG):**

in € millions	31.12.2017	31.12.2016
Properties used for residential purposes	–	–
Properties used for commercial purposes	0.9	2.1
<b>Total</b>	<b>0.9</b>	<b>2.1</b>

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Disclosures in connection with receivables used as cover for public Pfandbriefe (Section 28 (3) of the PfandBVG):

in € millions (as of 31 December)	Germany		Belgium		EU		Finland	
	2017	2016	2017	2016	2017	2016	2017	2016
Central state	–	–	–	–	53	60	–	–
Regional authority	1,911	2,212	50	105	–	–	11	12
Local authority	36	53	–	–	–	–	–	–
Other	884	1,249	140	140	199	170	–	–
<b>Total</b>	<b>2,832</b>	<b>3,514</b>	<b>190</b>	<b>245</b>	<b>252</b>	<b>229</b>	<b>11</b>	<b>12</b>

in € millions (as of 31 December)	France		UK		Italy		Japan	
	2017	2016	2017	2016	2017	2016	2017	2016
Central state	–	–	–	–	196	61	–	–
Regional authority	–	22	–	–	53	113	10	10
Local authority	–	–	–	–	–	–	–	–
Other	23	13	56	58	–	103	–	–
<b>Total</b>	<b>23</b>	<b>35</b>	<b>56</b>	<b>58</b>	<b>249</b>	<b>278</b>	<b>10</b>	<b>10</b>

in € millions (as of 31 December)	Canada		Latvia		Netherlands		Austria	
	2017	2016	2017	2016	2017	2016	2017	2016
Central state	–	–	–	–	–	–	456	574
Regional authority	123	153	14	16	130	130	39	41
Local authority	–	–	–	–	–	–	–	–
Other	53	86	–	–	290	290	–	–
<b>Total</b>	<b>176</b>	<b>238</b>	<b>14</b>	<b>16</b>	<b>420</b>	<b>420</b>	<b>495</b>	<b>614</b>

in € millions (as of 31 December)	Poland		Sweden		Switzerland		Spain	
	2017	2016	2017	2016	2017	2016	2017	2016
Central state	107	118	–	–	–	–	–	–
Regional authority	–	–	16	16	64	70	50	50
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	16	48
<b>Total</b>	<b>107</b>	<b>118</b>	<b>16</b>	<b>16</b>	<b>64</b>	<b>70</b>	<b>66</b>	<b>98</b>

in € millions (as of 31 December)	Hungary		USA		Total	
	2017	2016	2017	2016	2017	2016
Central state	–	28	–	–	812	840
Regional authority	–	–	93	109	2,565	3,058
Local authority	–	–	–	–	36	53
Other	–	–	–	–	1,662	2,157
<b>Total</b>	<b>0</b>	<b>28</b>	<b>93</b>	<b>109</b>	<b>5,075</b>	<b>6,108</b>

As at 31 December 2017, there were no payments overdue by at least 90 days which were owed by public authorities.

#### Breakdown by size groups:

in € millions	31.12.2017	31.12.2016
up to and including € 10 million	362	390
more than € 10 million up to and including € 100 million	4,574	5,582
more than € 100 million	139	136
<b>Total</b>	<b>5,075</b>	<b>6,108</b>

## Key figures about the Pfandbriefe in circulation and the cover assets used:

## Mortgage Pfandbriefe:

		31.12.2017	31.12.2016
<b>Pfandbriefe in circulation</b>	in € millions	8,376	8,243
of which share of fixed-rate Pfandbriefe (Section 28 (1) clause 9 of the PfandBG)	%	96.51	94.33
<b>Cover pool</b>	in € millions	9,369	9,151
of which total amount of claims that exceeds the limits in accordance with Section 13 (1) of the PfandBG (Section 28 (1) clause 7 of the PfandBG)	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 2 of the PfandBG (Section (1) clause 8 of the PfandBG)	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 3 of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which share of fixed-rate cover pool (Section 28 (1) clause 9 of the PfandBG)	%	69.33	65.47
Net cash value in accordance with Section 6 of the PfandBarwertV for each foreign currency (in € millions)	AUD	–	–
	CAD	–	–
	CHF	18.2	161.2
Section 28 (1) clause 10 of the PfandBG (net of assets and liabilities)	GBP	784.2	459.8
	JPY	–	0.9
	SEK	–	–
	USD	97.0	133.2
Volume-weighted average of age of claims (past term since credit award seasoning (Section 28 (1) clause 11 of the PfandBG)	years	4.2	4.3
Average weighted loan-to-value ratio (Section 28 (2) clause 3 of the PfandBG)	%	57.87	58.21
Average weighted loan-to-value ratio on a market basis	%	41.26	42.52

## Public Pfandbriefe:

		31.12.2017	31.12.2016
<b>Pfandbriefe in circulation</b>	in € millions	4,389	5,266
of which share of fixed-rate Pfandbriefe (Section 28 (1) clause 9 of the PfandBG)	%	90.56	90.75
<b>Cover pool</b>	in € millions	5,075	6,108
of which total amount of claims that exceed the limits of Section 20 (2) of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which share of fixed-rate cover pool (Section 28 (1) clause 9 of the PfandBG)	%	82.26	83.51
Net cash value in accordance with Section 6 of the PfandBarwertV for each foreign currency (in € millions)	AUD	–	–
	CAD	65.9	68.6
	CHF	80.3	–99.2
	GBP	117.3	78.1
Section 28 (1) clause 10 of the PfandBG (net of assets and liabilities)	JPY	–45.9	–153.2
	SEK	7.4	7.6
	USD	289.4	411.7



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### 31. Cover for bonds in circulation

in € millions	Mortgage Pfandbriefe		Public Pfandbriefe	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
<b>Ordinary cover</b>				
Receivables from financial institutions				
Public sector loans	–	–	474	572
Receivables from customers				
Mortgage loans	8,250	7,823	–	–
Public sector loans	–	–	3,470	4,266
Bonds of public sector issuers	–	–	1,131	1,270
	<b>8,250</b>	<b>7,823</b>	<b>5,075</b>	<b>6,108</b>
<b>Substitute cover</b>				
Other receivables from financial institutions	437	518	–	–
Bonds and other fixed income securities	681	810	–	–
	<b>1,119</b>	<b>1,328</b>	<b>–</b>	<b>–</b>
<b>Total value of cover</b>	<b>9,369</b>	<b>9,151</b>	<b>5,075</b>	<b>6,108</b>
<b>Total amount in circulation requirement cover</b>	<b>8,376</b>	<b>8,243</b>	<b>4,389</b>	<b>5,266</b>
<b>Surplus cover</b>	<b>993</b>	<b>908</b>	<b>686</b>	<b>843</b>

### 32. Members of the Board of Managing Directors

**ANDREAS POHL**

(until 28 February 2018)

– Chairman of the Board of Managing Directors –

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**SABINE BARTHAUER****ANDREAS REHFUS**

### 33. Members of the Supervisory Board

**THOMAS S. BÜRKLE**

Chairman of the Board of Managing Directors of NORD/LB

– Chairman of the Supervisory Board –

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**GÜNTER TALLNER**

Member of the Board of Managing Directors of NORD/LB

– Vice Chairman of the Supervisory Board –

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**CHRISTOPH DIENG**

Member of the Board of Managing Directors of NORD/LB

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**THOMAS KRÜGER**

Member of the Board of Managing Directors of VGH Versicherungen (retired)

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**DIRK METZNER**

Bank employee, Deutsche Hypo

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**ANDREA BEHRE**

Bank employee, Deutsche Hypo



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

in € thousands	2017	2016
<b>Total emoluments</b>		
Board of Managing Directors	1,269	1,171
Former members of the Board of Managing Directors and their surviving dependants	1,173	1,143
Supervisory Board	120	113

in € thousands	2017	2016
<b>Provisions for pension obligations owed to former members of the Board of Managing Directors and their surviving dependants</b>		
of which in reserves	11,993	13,453
	11,993	13,453

### 35. Size of workforce on average over the year

	2017	2016
Female employees	182	174
Male employees	232	221
<b>Total</b>	<b>414</b>	<b>395</b>

### 36. Auditor's fees

KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements of Deutsche Hypo. The audit included the audit and/or audit review of Group reporting packages as well as the audit review of the half-yearly financial report and project-specific quality assurance related to the introduction of IFRS 9 and the implementation of IT and/or IT-compliance requirements. Furthermore, a comfort letter was issued and confirmations were provided relating to the requirements of the Sparkassen-Finanzgruppe's institute-specific protection scheme.

Unlike in previous years, the disclosures in accordance with Section 285 clause 17 of the HGB have not been made. Instead, reference has been made to the inclusion of the Bank in NORD/LB's consolidated financial statements. The auditor's fees incurred by Deutsche Hypo are taken into account in the corresponding disclosure in the consolidated financial statements.

Hanover, 27 February 2018

The Board of Managing Directors



Pohl



Barthauer



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 net assets, financial and income position 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, 27 February 2018

The Board of Managing Directors



Pohl



Barthauer



Rehfus





# INDEPENDENT AUDITOR'S REPORT

To Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover

## Report on the Audit of the Annual Financial Statements and of the Management Report

### Opinions

We have audited the annual financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover, which comprise the balance sheet as at 31 December 2017, the statement of profit and loss, the statement of cash flows and the statement of changes in equity for the financial year from 1 January 2017 to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of the Company for the financial year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January 2017 to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

### Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

### **Key Audit Matters in the Audit of the Annual Financial Statements**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

### **Appropriateness of the loan loss provisions created for receivables from customers from commercial real estate finance**

We refer to the disclosures in the “Accounting and Measurement Principles” section in the notes for the accounting and measurement principles applied at Deutsche Hypothekbank (Actien-Gesellschaft).

#### **The financial statement risk**

The Company recognises, among others, mortgage loans relating to commercial real estate finance, which is the focus of the Company's lending business, under receivables from customers. The determination of the amount of loan loss provisions for receivables from customers is discretionary.

To calculate loan loss provisions for commercial real estate finance, the Company must estimate its expected cash flows from interest and principal payments and from the realisation of collateral provided. The cash flows are estimated on the basis of the expected development of material assumptions and parameters that have an impact on value. These include, in particular, the future development of the respective real estate markets and especially rents from the financed properties as well as the expected recoverable collateral. These estimates are subject to a degree of uncertainty.

Inaccurate assumptions regarding the amount of the expected cash flows or the realisation of collateral provided can lead to receivables being incorrectly valued and counterparty default risks not being adequately taken into account. In view of this, it was particularly important for our audit that the assumptions regarding the above-mentioned evaluative parameters were made in accordance with the applicable accounting principles.

#### **Our audit approach**

In terms of our risk assessment and the evaluation of error risks, we based our audit opinion on control-based audit procedures as well as substantive audit procedures.

Within the scope of the control-based audit procedures, we assessed the implementation and effectiveness of relevant controls installed by the Bank to ensure the appropriateness of the loan loss provisions for commercial real estate finance.

We examined, according to materiality and risk aspects, the appropriateness of the determined loan loss provisions for receivables from commercial real estate finance for consciously selected individual exposures. In this context, we especially reviewed the appropriate estimation of expected cash flows while taking into account the anticipated development of material assumptions and parameters that have an impact on value. This includes in particular assessing the appropriate reflection of the future development of the respective real estate markets and especially rents from the financed properties, as well as the expected recoverable collateral.



### Our observations

The underlying assumptions for the calculation of the loan loss provisions for commercial real estate finance were properly selected and comply with the applicable accounting principles for measuring loan loss provisions.

### Other Information

Management is responsible for the other information. The other information comprises:

- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.
- the Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code and
- the insurance in accordance with § 264 (2) sentence 3 HGB for the annual financial statements and the insurance in accordance with § 289 (1) sentence 5 HGB for the management report

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

### Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

### **Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.



- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other Legal and Regulatory Requirements

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 12 June 2017. We were engaged by the supervisory board on 6 November 2017. We have been the auditor of the Company without interruption since the financial year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Rainer Thiede.

Hannover, 27 February 2018

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Thiede  
[German Public Auditor]

Schmidt  
[German Public Auditor]



## PERSONNEL REPORT

Deutsche Hypo is a reliable employer that offers its employees support and challenges while providing a wide variety of tasks and attractive benefits. The employees appreciate the international yet informal working environment. As in previous years, mastering the demanding combination of the Bank's earnings targets, the necessary cost discipline and the constantly rising regulatory requirements day in, day out posed a particular challenge for employees in the reporting year. The Bank succeeded once again in rising to this challenge in 2017 through ideas, inspiration and the active contributions of its staff to the advancement of the Bank.

The Human Resources department supports employees by constantly optimising the general conditions and the working environment. However, the department sees itself not only as a provider of services, but also as a creative force, making it the strategic partner of the company's management and the respective divisions. The goal is to work together to understand that employees and management are not just the "customers", but also act as "co-designers" to help shape HR offerings. HR-related topics play an essential role in each organisational unit every day. For example, according to the way the company views personnel development, employees are responsible for their own growth and can rely on the encouragement and support of their supervisors, who act as sponsors and mentors.

With this aim in mind, the Human Resources department creates the range of tools, offerings and products that are essential for modern personnel development. The Bank believes that this attitude encourages employees to take responsibility, hones the role of each supervisor as an "on-site personnel development coordinator" and ultimately outlines the right path towards the Bank's successful, future-oriented development. After all, behind everything Deutsche Hypo offers its customers are the people who work here. The employees' active participation in helping shape the Bank in their roles as co-designers has been underscored through a number of measures, including the creation of think tanks where employees from various divisions work on specific issues that will have an impact on future development. In 2017, for example, a concept for intensifying the use of job shadowing was developed in one of the first think tanks. The think tanks can also explore non-HR topics, thereby helping the Bank advance as a whole.

The "Basic Programme for Real Estate Financing", an approach to sharing knowledge within the Bank and a reflection of the new culture of learning, is also worth mentioning. The programme was developed and launched in the reporting year. For more information on the programme and other HR-related topics that have earned recognition can be found in the following abbreviated report.

### Remuneration system

Deutsche Hypo's remuneration system complies with and supports the business and risk strategy. It aims at sustainability and continuity to promote responsible and risk-conscious behaviour on the part of employees and to ensure lasting business success. The configuration of the remuneration system is also intended to guarantee appropriate staffing in both qualitative and quantitative terms, and especially to improve the attractiveness of the Bank as an employer, in line with the Group remuneration strategy.

Under the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung – InstitutsVergV), the Bank is to be classified as a significant institution. A risk analysis has therefore been carried out in accordance with Section 18 of the Remuneration Ordinance for Institutions (identification of risk takers). The Bank also had to comply with other provisions of the Remuneration Ordinance for Institutions applicable to significant institutions. In particular, it was essential to appropriately take into account the new requirements of the Remuneration Ordinance for Institutions, which was revised in 2017, in the remuneration system by making appropriate adjustments.

Deutsche Hypo is bound by collective bargaining agreements. As a result, collective bargaining agreements for the private banking sector and public banks apply. In addition to fixed remuneration in twelve equal parts, employees under the collective bargaining agreement receive a special bonus equal to an additional month's salary. Employees who are not part of the collective pay scale receive a fixed basic annual salary in twelve equal parts. Variable remuneration is determined for all employees in a specifically defined, transparent process. For risk takers, executives and acquisitions officers, the overall success of the Bank, the profit contribution of the organisational unit and the individual profit contribution are duly taken into account when determining variable remuneration. Variable remuneration is limited to 100 % of fixed remuneration.

### **Personnel development**

Personnel development at Deutsche Hypo in 2017 was a pivotal element of implementing the competency model introduced in the previous year in various human resources tools. The revision of the criteria of the employee appraisal process, which is part of the annual performance appraisal, played an important role. The new appraisal criteria have been valid since 1 January 2018. In addition, the individual assessment centre, which is also based on the competency model, was established as the standard selection tool for managers in 2017.

Personnel development also focused on the systematic qualification of specific target groups in 2017. For example, the Bank launched the “Basic Programme for Real Estate Financing” to educate less experienced employees in commercial real estate financing. The programme, which is designed to help foster the development of a learning culture, consists of 18 seminar days over a total of 18 months. The content of the seminars is oriented towards Deutsche Hypo's lending process. A case study that learners examine throughout the entire programme ensures a close link between theory and practice. Employees with experience in the respective field preside over the individual events. Participants may attend the entire development series or join individual sessions. A total of 15 employees participate in the entire development series.

The “Project Management Qualification Programme” was launched with 13 participants in 2017 with the aim of strengthening decentralised project managements skills and expertise in the individual divisions. The programme includes three intensive seminars over a total of seven days on various aspects of project management, as well as two one-day hands-on workshops, over a period of eleven months.





In addition to training courses, seminars and numerous on-the-job development measures, ongoing training and education play a key role in personnel development at Deutsche Hypo. As a result, Deutsche Hypo supports employees who are obtaining additional professional or bank-related training. In 2017, a total of eleven Bank employees took advantage of ongoing training and education opportunities, such as master's degree programmes or gaining specific professional qualifications.

A total of four employees took over management positions for the first time or were promoted to more senior management positions in Germany in 2017. These persons received training through corresponding NORD/LB development programmes. Deutsche Hypo supplemented these measures through further training and seminar offerings for all managers that were designed to address their specific needs. Offerings in 2017 included training on the introduction of the new appraisal criteria from 2018 onward as well as an event on management-related HR topics.

### **Encouraging/attracting the next generation**

In financial year 2017, Deutsche Hypo also provided training in traditional banking professions. This training has been expanded to include the international Bachelor of Arts (B.A.) course of study and the Bachelor of Science (B.Sc.) course of study, which are offered in association with the Leibniz-FH (University of Applied Sciences). The Bank had a total of 15 trainees and work-study students in the reporting year. As part of the overhauled training alliance with NORD/LB, the trainees who started their vocational training in 2017 form a Group-wide graduating class with the NORD/LB trainees.

Trainees from the parent company also receive training in real estate banking at Deutsche Hypo in Hanover as part of the common approach to vocational training across the Group. In return, trainees from Deutsche Hypo had the opportunity to shadow staff in various divisions at NORD/LB. Furthermore, our trainees can take advantage of the wide range of options offered by NORD/LB to help them prepare for tests or participate in a wide range of seminars.

Deutsche Hypo offers interested students the chance to get a first look at the workings of a real estate and Pfandbrief bank through appealing work placement programmes. With this goal in mind, Deutsche Hypo has maintained a close partnership with the University of Applied Sciences and Arts (HAWK) in Holzminden since June 2018. Thanks to their specific course of study, all of the students have a high level of real estate expertise, resulting in optimum conditions for thesis work partnerships. In the reporting year, a total of eight slots in a work placement programme were offered.

### **Work-life balance and social affairs**

The compatibility of family and career enjoys high priority at Deutsche Hypo and is reinforced by a company agreement. As part of its Employee Assistance Programme (EAP), the Bank has offered its staff places in a crèche, holiday childcare, emergency care options and care for the elderly through an external service provider since 2009.

Digitalisation and advancing technological progress are changing the possibilities and conditions in the working world. For example, the option of alternating telecommuting was further expanded in the reporting year. A constantly growing number of employees is taking advantage of the opportunity of doing part of their work at home.

In addition to the compatibility of family and career, the health of its employees is important to the Bank. To promote health, Deutsche Hypo offers a company counselling service through an external service provider, for example. The Bank also offers all employees over the age of 45 a medical check-up and health coaching programme every three years. In addition, the company offered a presentation and a workshop on the topic of mindfulness in 2017. Moreover, Deutsche Hypo has offered a relaxation programme known as “Time out” during lunch at regular intervals since May 2017. The Bank ultimately plans to establish the model developed to help it analyse mental health risks throughout the company in 2018.

### Cooperation with the Works Council

The constructive partnership with the Works Council founded on trust made it possible to find good solutions and answer to the various challenges, for which we would like to sincerely thank our social partner.

	31.12.2017	31.12.2016	31.12.2015
<b>Employees</b>	414	395	391
of which: male	232	221	223
of which: female	182	174	168
<b>Employee structure</b>			
Trainees	15	11	11
Average age	45,0	44,0	43,6
<b>Other</b>			
Illness rate (in %)	4,5	3,3	3,7
10-year service anniversary (number of employees)	10	13	4
25-year service anniversary (number of employees)	10	5	7
40-year service anniversary (number of employees)	0	1	2



# CORPORATE GOVERNANCE REPORT

Deutsche Hypo reaffirms its full commitment to the principles of good corporate governance. Corporate governance characterised by a sense of responsibility and transparency is the foundation on which our sustainable success as a company is built. It also strengthens the trust of owners, customers, business partners, employees and financial markets in our Bank. Against this backdrop, we are committed to upholding the aims and intents of the German Corporate Governance Code, which contains recommendations and suggestions and is reviewed and adapted as necessary once a year by the Government Commission on the German Corporate Governance Code.

On 7 February 2017, the Government Commission made changes and amendments to the Code that, among other things, increase transparency so as to better allow stakeholders to assess corporate governance and incorporate international best practices into the German Code for publicly listed companies. The current version of the Code was published in the official part of the Federal Gazette on 24 April 2017 and is also available on Deutsche Hypo's website at [www.deutsche-hypo.de](http://www.deutsche-hypo.de), as is Deutsche Hypo's latest Declaration of Conformity.

## Composition of the Supervisory Board

According to the German Corporate Governance Code, the Supervisory Board should determine concrete objectives regarding its composition and prepare a profile of skills and expertise for the entire Board. Deutsche Hypo is currently working to implement this recommendation and will fulfil the requirement in full at some time in 2018.

Mr Thomas Krüger is considered to be an independent member of the Supervisory Board of Deutsche Hypo within the meaning of the German Corporate Governance Code. In relation to the number of employee representatives on the Supervisory Board, the share of independent Supervisory Board members stands at 25 %. The Bank believes this percentage to be appropriate.

## Transparency

Open communication and transparency are of great importance to Deutsche Hypo. Along with the declaration on the German Corporate Governance Code, it provides its latest annual and half-yearly reports as well as information about its publication dates. The Bank also announces major corporate developments and news in press releases. In addition, the website features capital market information, such as risk reporting on the cover pools, ad hoc reports and the latest statements in accordance with Section 28 of the German Pfandbrief Act (Pfandbriefgesetz – PfandBG).

## Risk culture

Deutsche Hypo's business philosophy has always been based on the trio consisting of stable earnings, efficient structures and low levels of risk. The Bank therefore maintains a risk culture that focuses on ensuring business success and corporate value in the long term. This culture guides risk consciousness, the willingness to take risks and risk management at the Bank. Deutsche Hypo's conservative risk culture is reflected in its business processes, guidelines, code of ethics and financing principles, among other things, and can be seen in day-to-day operations in the decisions made by management and employees.

**Compliance**

Deutsche Hypo has an established compliance management system that monitors the development of legal and regulatory framework conditions and initiates implementation measures if necessary. It serves to protect the Bank and its customers and thereby boosts customer confidence in Deutsche Hypo. The Bank has set up a central compliance function to ensure compliance with legal and regulatory requirements and to assist other divisions in performing their compliance-related responsibilities. The compliance management function is complemented by cross-divisional boards. The compliance function also carries out regular preventive measures, as well as suitability and effectiveness surveys in the divisions, and creates risk analyses.

In addition to existing contact options, Deutsche Hypo has implemented a whistle-blower system, which can be used by employees as well as customers, business partners and other stakeholders. This includes the function of an external ombudsman, to whom whistle-blowers can turn if the case involves suspicions of criminal acts or inappropriate transactions.



## REPORT BY THE SUPERVISORY BOARD

The Supervisory Board of Deutsche Hypo and its committees performed the tasks required of them by law, the Bank's articles of association and the German Corporate Governance Code in 2017. During the past financial year, the Supervisory Board advised, supervised and monitored the Board of Managing Directors at all times. The Board of Managing Directors also informed the Supervisory Board regularly, promptly and comprehensively about key developments at the Bank. Regular information was also provided in the form of risk reports in accordance with the provisions of MaRisk and monthly reports on the business development and income position of the Bank. Furthermore, topics of fundamental importance, such as changes to the business and risk strategy, were discussed in detail with the Board of Managing Directors. The Board of Managing Directors therefore reported continuously on the Bank's position, current business developments, the risk and liquidity situation, and planning. Risk and liquidity management measures were also addressed in depth.

The Supervisory Board was involved in all material decisions. The Board passed resolutions on the issues and transactions requiring their approval under the law, the articles of association and the rules stipulated within their framework. The corresponding drafts for resolution were at all times presented to the Supervisory Board sufficiently in advance for it to make a decision. Resolutions were adopted by way of a written circulation procedure if their adoption became necessary between meetings.

The Chairman of the Board of Managing Directors was in regular and close contact with the Chairman of the Supervisory Board in order to inform him about all material developments at the Bank and discuss important questions and decisions in one-on-one meetings.

The Supervisory Board held four meetings in 2017. In addition to the aforementioned regular agenda items, the meetings focused on developments in real estate finance markets, the challenging competitive environment and the implementation of regulatory provisions.

To ensure the efficiency of the Supervisory Board's work, the Bank has formed four committees that address specific technical matters and usually prepare the Supervisory Board resolutions. These committees are the Lending and Risk Committee, the Audit Committee, the Appointments Committee and the Remuneration Committee.

The Lending and Risk Committee met four times in 2017. In addition to examining the risk reports in depth, the committee discussed the Board of Managing Director's opinions on the respective developments in the target markets and looked at various portfolio reports of the Bank. It also regularly turned its attention to loans requiring its approval.

The Audit Committee met twice in the reporting year. Among other topics, the meetings focused on discussing the auditor's report on the annual financial statements for 2016 and the half-yearly financial statements for 2017. The committee received information about the appropriateness and effectiveness of the principles, methods and procedures for complying with the WpHG and the obligations associated with the compliance rules under MaRisk, as well as for preventing money laundering, terrorism financing and other criminal actions. In addition, the Audit Committee examined the regular Internal Audit reports and the reports on the internal control system.

The Remuneration Committee met three times in 2017. One particular focal point of the meetings was examining the remuneration systems for employees and members of the Board of Managing Directors. The committee also discussed the content of the remuneration control report and had the Board of Managing Directors report to it regularly on the status of implementing the revised Remuneration Ordinance for Institutions (Institutsvergütungsverordnung – InstitutsVergV).

The Appointments Committee met once in the reporting year. The meeting focused on the findings of the Supervisory Board survey regarding the structure, size, composition and performance of management and Supervisory Board, as well as the knowledge, skills and experience all management staff and Supervisory Board members. The survey was conducted in 2017 with external support and did not result in any recommended actions.

At the Supervisory Board meetings, the respective chairs of the committees briefed the Supervisory Board on the work of their committees and the topics discussed. There was also a constant exchange of information between the Supervisory Board chairman and the committee chairs between the meetings.

The following table provides information about the Supervisory Board members' attendance at all meetings. Supervisory Board members who were unable to attend individual meetings announced their absence and their reasons in advance.

Supervisory Board member	Number of meetings attended/total (Supervisory Board and committees)
Thomas S. Bürkle (Chairman)	15 of 15
Günter Tallner (Vice Chairman)	13 of 15
Christoph Dieng	13 of 13
Thomas Krüger	10 of 10
Dirk Metzner (employee representative)	6 of 8
Andrea Behre (employee representative)	5 of 5

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, which was elected by the Annual General Meeting and subsequently appointed by the Supervisory Board, audited the financial statements for the financial year 2017 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. The members of the Supervisory Board discussed the audit report in depth and agreed to the findings of the auditor's report. At its meeting on 28 March 2018, the Supervisory Board approved the management report and the annual financial statements as of 31 December 2017, which were thereby adopted.

In view of Deutsche Hypo's successful financial year, the Supervisory Board would like to expressly thank the members of the Board of Managing Directors as well as all employees for their work and outstanding dedication in 2017.

Hanover, 28 March 2018

The Supervisory Board



Thomas S. Bürkle  
Chairman of the Supervisory Board

# CORPORATE BODIES

## Supervisory Board

### THOMAS S. BÜRKLE

Hanover

Chairman of the Board of Managing Directors of NORD/LB

– Chairman of the Supervisory Board –

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### GÜNTER TALLNER

Hanover

Chairman of the Board of Managing Directors of NORD/LB

– Vice chairman of the Supervisory Board –

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### CHRISTOPH DIENG

Hanover

Member of the Board of Managing Directors of NORD/LB

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### THOMAS KRÜGER

Hanover

Member of the Board of Managing Directors of VGH Versicherungen (retired)

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### DIRK METZNER

Hanover

Bank employee

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### ANDREA BEHRE

Hanover

Bank employee





## Committees of the Supervisory Board

### Lending and risk committee

CHRISTOPH DIENG

– Chairman –

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THOMAS S. BÜRKLE

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GÜNTER TALLNER

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THOMAS KRÜGER

– Substitute member –

### Audit committee

GÜNTER TALLNER

– Chairman –

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THOMAS S. BÜRKLE

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THOMAS KRÜGER

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CHRISTOPH DIENG

– Substitute member –

### Appointments committee

THOMAS S. BÜRKLE

– Chairman –

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CHRISTOPH DIENG

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GÜNTER TALLNER

### Remuneration committee

THOMAS S. BÜRKLE

– Chairman –

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GÜNTER TALLNER

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CHRISTOPH DIENG

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DIRK METZNER

## Board of Managing Directors

ANDREAS POHL

Hanover

– Chairman of the Board of Managing Directors until 28 February 2018 –

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SABINE BARTHAUER

Hanover

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ANDREAS REHFUS

Hanover

## Public trustees

ANDREAS WOLFF

Ronnenberg

Lawyer

– Trustee –

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DORIS VOGEL

Hanover

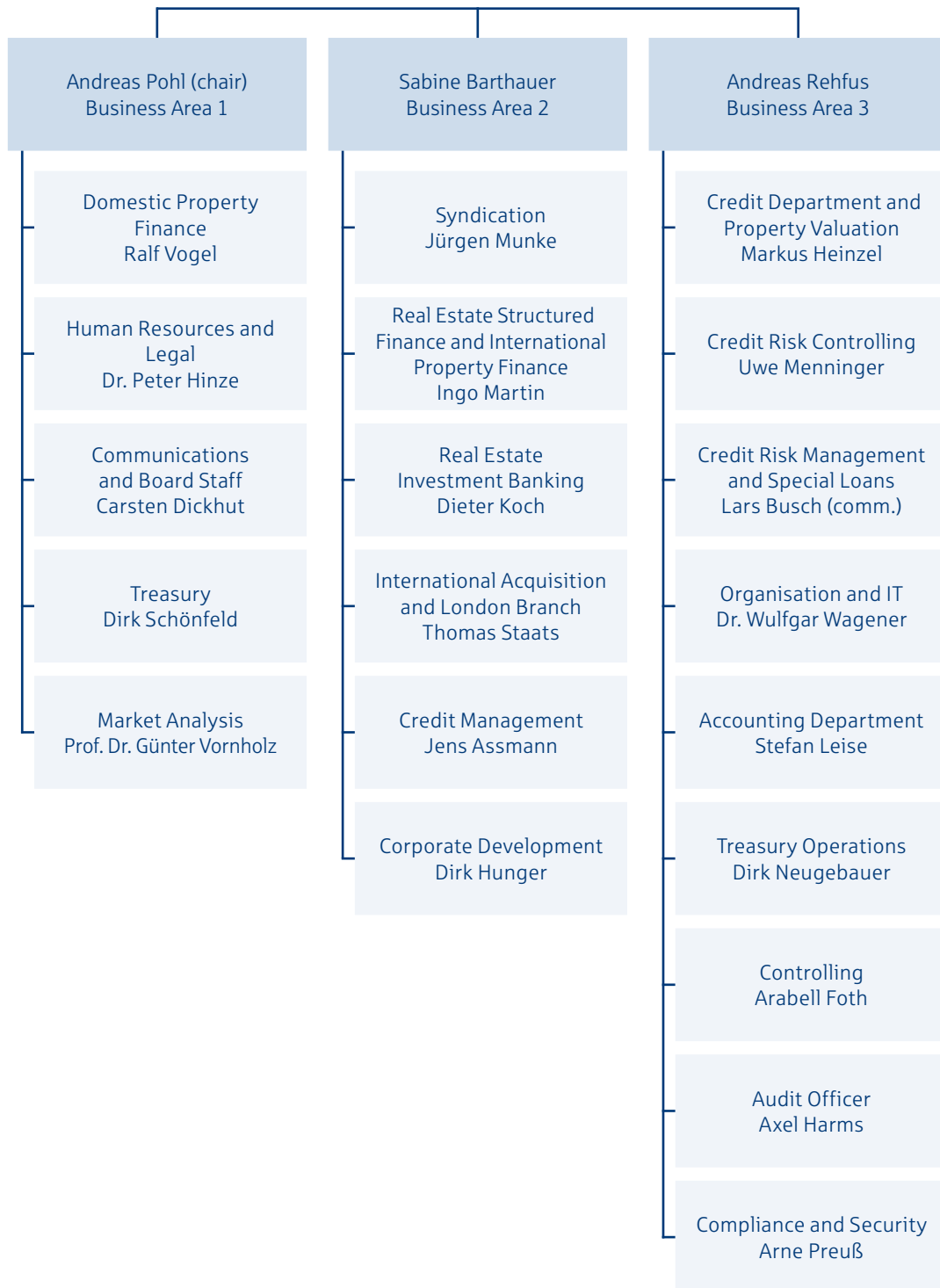
Tax advisor

– Deputy trustee –



# ORGANISATIONAL STRUCTURE

until 28 Februar 2018



# ORGANISATIONAL STRUCTURE

since 1 March 2018



# ADDRESSES IN GERMANY AND ABROAD

## Management

### 30159 Hannover

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## Supervisory body

Europäische Zentralbank (EZB) · Sonnemannstraße 20 · 60314 Frankfurt am Main

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Bundesanstalt für Finanzdienstleistungsaufsicht · Graurheindorfer Straße 108 · 53117 Bonn

# DEUTSCHE HYPO

Member of NORD/LB

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