DEUTSCHE HYPO
Member of NORD/LB

2019 Annual Report

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01. - 31.12.2019	01.01. - 31.12.2018	Change (in %)
New business figures			
Commercial real estate finance business	3,008.2	2,869.8	4.8
Domestic finance	1,786.6	1,698.4	5.2
Foreign Finance	1,221.6	1,171.5	4.3
Funding volume	2,235.2	2,327.1	– 3.9
Mortgage Pfandbriefe	1,795.0	1,722.8	4.2
Unsecured	440.2	604.3	– 27.2

in € millions	31.12.2019	31.12.2018	Change (in %)
Portfolio figures			
Commercial real estate finance business	12,188.3	12,264.0	– 0.6
Domestic finance	6,472.9	6,878.0	– 5.9
Foreign finance	5,715.4	5,386.0	6.1
Loans to local authorities	2,473.7	2,844.4	– 13.0
Securities	4,016.8	4,716.6	– 14.8
Funding capital	19,023.7	19,616.7	– 3.0
Mortgage Pfandbriefe	8,330.9	8,128.1	2.5
Public Pfandbriefe	3,286.7	3,806.9	– 13.7
Unsecured	1,661.7	1,784.3	– 6.9
Other liabilities	5,744.4	5,897.4	– 2.6
Equity *)	1,193.6	1,232.1	– 3.1
Balance sheet total	20,454.2	21,072.8	– 2.9

in € millions	01.01. - 31.12.2019	01.01. - 31.12.2018	Change (in %)
Income figures			
Net interest income	182.5	177.4	2.9
Net commission income	0.9	– 0.1	>100.0
Administrative expenses **)	81.2	84.0	– 3.3
Risk result	– 41.6	– 20.3	<– 100.0
Income from securities and participatory interest	– 5.5	9.1	<– 100.0
Result from normal operations	55.1	74.7	– 26.2
Extraordinary result	– 0.9	– 16.5	94.5
Taxes	0.0	3.0	– 100.0
Profit and loss transfer	54.2	55.2	– 1.8

in %	31.12.2019	31.12.2018	
Other information			
Cost-income ratio	44.2	49.5	

*) including funds for general banking risks 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 descrepancy, the German version shall prevail.

ANNUAL REPORT 2019

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FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Customers
and Business Partners of Deutsche Hypo,

We can look back on one of the best years in the German real estate industry. Supported by the low-interest environment and the resulting lack of alternative investment opportunities, there was an unwavering high demand for real estate in the reporting year 2019. The transaction volume for German commercial real estate exceeded € 70 billion, a new record. The real estate market continued to be very robust, despite the existing geopolitical risks.

However, the positive development of the real estate market was accompanied by ongoing intense competition on both the investor and financing sides. In this challenging market environment, Deutsche Hypo's development in the past financial year was very satisfactory. The Bank achieved a result from normal operations of € 55.1 million. As expected, that result was lower than in the previous year, which was subject to special effects. However, the profit to be surrendered of € 54.2 million was on par with 2018. The Bank's strong overall result was primarily due to the stable income situation and the continuing low risk provisioning requirements in the main business area commercial real estate financing. Deutsche Hypo was able to continue to build up its precautionary reserves and actively reduce its capital market portfolio, thereby once again underlining its position as a consistent and sustainable profit driver in the NORD/LB Group.

The unchanged high quality of Deutsche Hypo's credit portfolio, its risk-aware lending policies, and its comprehensive financing and structuring expertise, combine to make it an experienced partner with an optimum market position. The Bank will continue to rely on those drivers of quality in the future, thereby offering you competent support for your projects and real estate initiatives.

Best regards,

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

INTERVIEW WITH THE BOARD OF MANAGING DIRECTORS

In this interview, members of the Board of Managing Directors Sabine Barthauer and Andreas Rehfus describe the financial year 2019 and give an outlook for 2020.

How would you describe the economic environment and Deutsche Hypo's business performance in 2019?

Barthauer: The economic conditions we operated in have been subject to greatly varied development over the last year. Political and trade disputes had a significant impact on the development of the global economy. That resulted in relatively weak economic growth in the eurozone. In Germany, economic development was even below the European average. In the third quarter, in terms of its GDP, Germany only narrowly avoided a technical recession. As a reaction, the ECB signalled that it would continue with its policy of low interest rates for the time being. And that was the primary reason for continuing high demand for real estate. In terms of completed transaction volume, the industry had a record year in 2019.

Rehfus: Deutsche Hypo performed very well in this environment. Because of ongoing low interest rates and a lack of attractive alternative asset classes, demand for real estate remained consistently high. Despite continuing strong competition, we were able to increase new business slightly year-on-year, which is also reflected by our net interest income. Administrative expenses were lower than in the previous year, which resulted in a further improvement of our CIR to 44.2 %. That is a very good level – including comparison with our peers. The stable market environment and our unchanged risk-aware lending policies, have led to low additions to risk provisions. That allowed us to increase our precautionary reserves over the past year. The result from normal operations of € 55.1 million is lower than in the previous year, which was subject to special effects. However, the profit to be surrendered of € 54.2 million was at the level seen in 2018. That means we can be very satisfied with the past financial year.

What do you expect in 2020?

Barthauer: Deutsche Hypo started the financial year 2020 with ongoing positive framework conditions. However, over the last few weeks, it has become clear that the positive initial situation must be re-evaluated. Depending on the duration and intensity of the economic effects of the coronavirus pandemic and the impact of government aid programs, it will become clear how severely the economies in our target markets will be affected. However, there are already signs of a recession for the whole of 2020 with a possible recovery from the fourth quarter at the earliest. But it is still too early for a reliable outlook.

Rehfus: For Deutsche Hypo, it is very positive that NORD/LB has completed its capital measures, and that the rating agency Moody's has increased our rating by two notches. Our long-term rating has improved to A3, thanks to a stable outlook. The effects of our cost reduction programme will have a positive impact in 2020, although ongoing digitalisation will result in a need for further investment. We have been highly selective in our lending for years, and pursue a conservative risk culture. This gives us the confidence to steer our portfolio well through the corona crisis together with our clients.

From left: Sabine Barthauer, Andreas Rehfus

Sustainability has been an important topic for a number of years. Not least through the Fridays for Future movement, the topic seems to have reached society at large for the first time. How is Deutsche Hypo positioned in this regard?

Barthauer: We first established a professional sustainability management system back in 2013, and have continually developed it since then. To seriously pursue a sustainable orientation, the topic must be addressed by a holistic strategy. We do not consider sustainability a one-time effort, or a trend, but rather a process of constant development. To be credible and authentic, there must be a connection with the company's core business – meaning the assets and liabilities sides of the balance sheet. We have achieved that by establishing green loans and bonds. Deutsche Hypo's core business is the financing of commercial real estate. Real estate is responsible for a large share of CO_2 emissions, making it a significant driver of pollution. As a participant in that market, we have a responsibility which we want to meet.

Rehfus: With the green loan, we have created a form of financing with a preferential interest rate for modern, contemporary buildings that are as forward-looking as possible – and that are energy efficient thanks to state-of-the-art technology and very good energetic properties. However, it is not just the physical construction of a building that counts; other criteria such as transport and use concepts are taken into account. We have also successfully issued our green Pfandbrief for the financing of green buildings a number of times, allowing us to establish a value chain that is reflected in the balance sheet. We are very pleased about the resulting positive sustainability ratings we have received over a number of years. In February 2020, the rating agency ISS ESG again gave Deutsche Hypo a prime rating. And its sustainability rating improved from C+ to B-, making us one of the best in our industry.

The year 2019 at a glance

14 January 2019

Deutsche Hypo financed the purchase of land and the development of an attractive green building in Berlin for SIGNA Development Selection AG as the sole lender. The financing volume totals € 66 million and has been made available over a period of four years. Completion of the green building in Berlin's Prenzlauer Berg district is planned for December 2021.

24 January 2019

Deutsche Hypo and Hamburger Sparkasse (Haspa) financed the purchase of Postbank's headquarters in Hamburg's City Nord district for MAGNA Real Estate AG. The office property will be redeveloped in the scope of a € 350 million project. The financed property is the Postbank site on Überseering in Hamburg's City Nord district, with approximately 46,000 square meters of rental space. The property has eight stories and 585 parking spaces.

25 February 2019

Deutsche Hypo placed a benchmark mortgage Pfandbrief with a volume of € 625 million. The bond was primarily issued to investors in Europe and Asia. The order book was oversubscribed 1.2 times at € 750 million. The Pfandbrief has a term of ten years and a coupon of 0.75 %. The issue price of 99.827 % corresponds to a yield of 0.768 % – equating to a premium of 12 basis points at mid-swap.

2 April 2019

Inner-urban logistics is considered a future market segment and offers a great deal of potential. This is the conclusion of Deutsche Hypo's latest study titled City Logistics – Last Mile Concepts. The study also shows that the logistics sector is undergoing a transformation, a development driven primarily by the online retail boom. Customers increasingly prefer same-day or same-hour delivery, without additional costs for shipping and returns.

29 April 2019

Deutsche Hypo financed a logistics centre in Bavaria for a special-purpose vehicle managed by Dietz AG. The financing volume is € 82 million, with a term of just under two years. The green building has a central location near the A3 motorway in Geiselwind. It is part of the new Inno-Park retail park and has a total usable area of 67,464 square metres. A long-term lease for the logistics centre has already been agreed with the sporting goods company PUMA SE.

7 May 2019

Deutsche Hypo has successfully tapped a benchmark mortgage Pfandbrief issued in June 2018 by € 250 million. The Pfandbrief with a coupon of 0.5 % now has a volume of € 750 million. The residual term is approximately seven years. As a result, the increase is Europe's first covered-bond issue in 2019 with a negative spread.

16 May 2019

The introduction of green loans represents a consistent extension of Deutsche Hypo's green value chain. The focus of the green loan is the financing of contemporary, future-proof and energy-efficient properties. It also incentivises the sparing use of resources, along with sustainable and environmentally sound construction methods. Criteria used to determine eligibility for a green loan include energy consumption, certifications, distance to public transport, building structure and soil sealing.

22 June 2019

Deutsche Hypo published a new study in its Real Estate Special series. It found that Poland will build on its appeal as central Europe's largest real estate investment market, and will continue expanding as it has for a number of years. The study indicates that there is potential for growth in the office, retail, logistics and hotel real estate markets in Poland.

29 August 2019

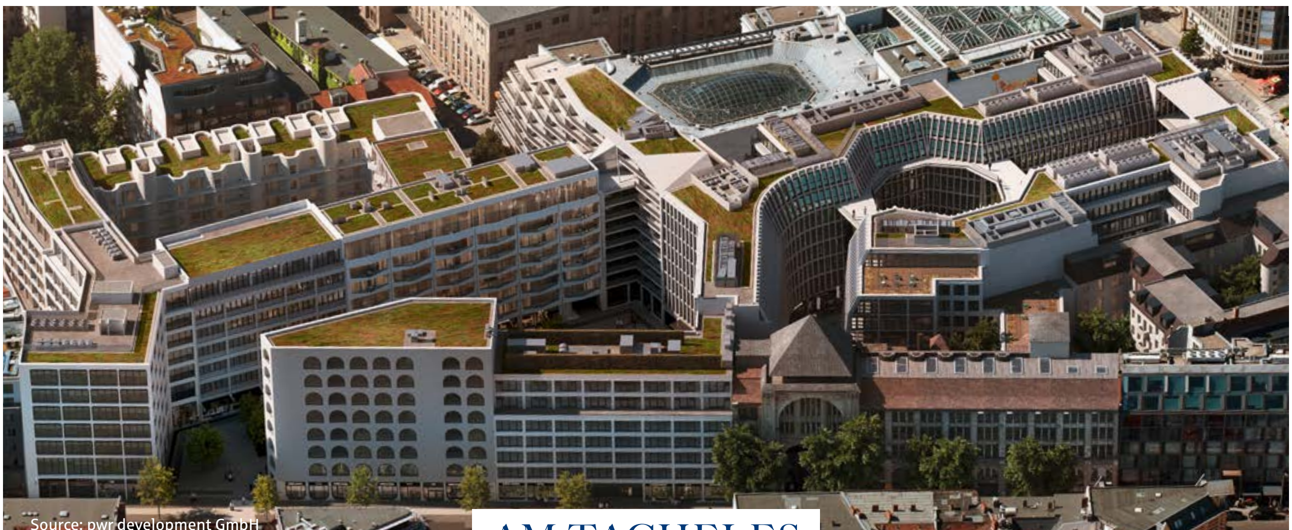
In the first half of 2019, Deutsche Hypo generated a result from normal operations of € 33.0 million. That result was approximately on par with the previous year (€ 33.9 million) and underlines the consistently strong development of the Bank's results. In the first six months of the year, Deutsche Hypo increased its new business volume slightly to € 1,495.7 million (2018: € 1,402.9 million). It was thereby able to underline its good portfolio quality by means of conservative, quality-oriented lending policies.

4 September 2019

Deutsche Hypo successfully issued its second benchmark mortgage Pfandbrief of 2019. The € 500 million bond has a term of three years and a coupon of 0.01 %. The issue price of 101.642 % corresponds to a yield of – 0.531 %, corresponding to a premium of + 2 at mid-swap. The benchmark issue was overseen by a bank consortium including ABN AMRO, Commerzbank, DZ Bank, NatWest Markets and NORD/LB.

Our references

Deutsche Hypo's portfolio offers a wide range of interesting financing options across all of the bank's target markets and asset classes. Below is an exemplary list of three references.



AM TACHELES

Type of property: Office and residential building with retail and gastronomy space
Location: Berlin Mitte

Our Domain Rotterdam Blaak

Type of property: Residential building for students and young professionals
Location: Rotterdam

FOUR Frankfurt - Residential tower IGNIS

Type of property: Residential building
Location: Frankfurt

SUSTAINABILITY

As one of the oldest Pfandbrief banks in Germany, Deutsche Hypo combines decades of tradition and experience in real estate financing with responsible corporate governance and a forward-looking strategy. Sustainability is one of the Bank's key fields of action. It is therefore the aim to make Deutsche Hypo sustainably profitable and thus secure future profitability and jobs in the long term. In real estate financing, the Bank is a financing partner for the spatial design of many cities. The quality, professionalism and sustainability of a financing project play a major role in the selection of projects.

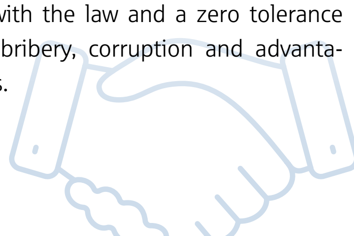
In 2019 Deutsche Hypo continued to expand its sustainability activities as planned. The following measures, among others, were successfully implemented:

- Introduction of Green Loans, under which Deutsche Hypo grants its customers an interest rate advantage for financing energy-efficient buildings.
- Launch of a new leadership programme to prepare the Bank's managers for the digital future.
- An energy audit was carried out, in which it was established that Deutsche Hypo uses an extremely energy-efficient building with very favourable energy consumption values.
- Christmas donations were given to the institutions ‘Zusammen Stark! e.V.’ and ‘Repair Café Hannover’, in which employees volunteer their time.
- Publication of a Code of Conduct, which provides all Deutsche Hypo employees with a framework for “correct" behaviour with regard to moral and ethical standards.

The Bank's sustainability strategy, which is updated annually, addresses the central aspects of global change for Deutsche Hypo and its customers and investors, and shows how opportunities that arise can be efficiently realised and risks responsibly managed. The Bank has identified a total of five fields of action for sustainability and has underpinned these with strategic focal points: governance, customers and investors, employees, society and the environment.

Governance

As part of society, Deutsche Hypo considers it an important task to prevent criminal activity as far as possible by means of preventive measures, and to do justice to the trust placed in it by employees, customers and business partners through its own ethical, moral and lawful behaviour, as well as to maintain and expand this trust. This also includes compliance with regulatory requirements, conduct in compliance with the law and a zero tolerance policy towards bribery, corruption and advantageous measures.



Deutsche Hypo operates internationally and offers products and services in various European markets. These activities are therefore subject to various country-specific and international legal provisions and practices. Legal prohibitions and obligations must be strictly observed, even if this may prove "inappropriate" or "economically unfavourable" from the point of view of the individual or the company. In case of doubt, lawful action always takes precedence. If there are conflicting requirements or stricter or more comprehensive laws and rules in this respect, the stricter regulations must always be applied.

Deutsche Hypo is responsible for a responsible corporate governance with clear ethical principles and for setting an example of integrity and lawful conduct within the Bank. A system was established as a compliance management system throughout the NORD/LB Group which is based on the IDW PS 980 standard, among other things. The NORD/LB Group has implemented a large number of measures within the scope of compliance management in order to protect society by preventing criminal activities in the best possible manner. The NORD/LB Group Managing Board has obligated the employees of all of the Group companies to be "100% compliant" in this respect and underpins this requirement with a corporate compliance policy.

Deutsche Hypo does not tolerate corruption, bribery or corruptibility in business transactions. In addition to the applicable legal requirements in this respect, which must be strictly observed, the Bank also complies with the UN Global Compact, in which the 10th principle is worded as follows: "Fighting corruption - Businesses should work against all forms of corruption, including extortion and bribery".

The Code of Conduct as well as the policy on gifts, gratuities and favours contain clear guidelines on the prevention of corruption, bribery and corruptibility as well as the granting of benefits. Supplementary internal policies describe the admissibility of accepting or granting invitations and gifts as well as the conditions for the settlement of hospitality and material expenses.

Customers and investors

Deutsche Hypo is active as a commercial real estate financier in the core markets of Germany, UK, France, Benelux, Spain and Poland. It is important to the Bank to be a partner to its customers at eye level. With its financing activities, particularly in green buildings, Deutsche Hypo makes an active contribution to the real estate industry's efforts to establish a durable and sustainable infrastructure. It is part of the self-perception that the Bank sets high quality standards for financing and only enters into promising new business.

Sustainable aspects are incorporated into the risk assessment of the property. If a property is planned on a sustainable basis, the risk of a vacancy is lower, for example. For its sustainable core business, the Bank assesses commitments in terms of economic, building law and ecological aspects as part of risk management. The best possible financing solution is then worked out together with the customer.

Since April 2019, Deutsche Hypo has been further expanding its green value chain with the introduction of the green loan. When granting a green loan, the focus is on financing modern, sustainable and energy-efficient properties. At the same time, an incentive is created to conserve resources and to use sustainable and environmentally conscious construction methods. The green loan eligibility of the financing is assessed using an in-house scoring model. The criteria used include energy consumption, certifications, distance to public transport, building fabric and surface sealing. In addition, an analysis of the tenant structure is carried out; properties with controversial main tenants are generally excluded. If the financing is finally assessed as "green loan eligible", a corresponding incentive is provided via the margin structure.

Deutsche Hypo has already issued two green mortgage Pfandbriefe - on 17 November 2017 and 3 September 2018. This made Deutsche Hypo the second bank in Germany to successfully place a Green Pfandbrief in benchmark format on the capital market. With this lighthouse project, Deutsche Hypo gained numerous new investors, many of whom are very focused on sustainability.

Deutsche Hypo has identified green building financing in its mortgage portfolio and added it to a green sub-portfolio. The basis for this was the evaluation of energy certificates and sustainability certificates based on Deutsche Hypo's green bond framework. The funds raised will be used exclusively to finance energy-efficient real estate. The appropriateness of the entire process and compliance with the Green Bond Principles was confirmed by oekom research in a "Second Party Opinion". A detailed report on this is published on the Deutsche Hypo website. This enables investors to analyse portfolio performance and calculate the CO_2 savings attributable to their investment.

Employees

Competent, committed and entrepreneurial employees are a key factor in the success of Deutsche Hypo. In this context, the Bank has to face up to the current challenges - regulatory environment, changes in the employer market, digitalisation, shortage of specialists and managers as well as demographic change. In order to remain competitive, it is particularly important to plan consistently for the next generation of employees and to provide them with further training. Finally, from a societal perspective, both the training of junior staff and the provision of adequate continuing education opportunities for the workforce are important educational and economic policy aspects.

Präsenzseminartage

	2019*)	2018*)	2017
Management (in work days)	244	203	145
of which male employees	198	197	124
of which female employees	46	6	21
Employees (in work days)	1,070	814	771
of which male employees	558	412	376
of which female employees	512	402	394
Average work day	3.2	2.3	2.0
Percentage of training days for management	18.6 %	20.0 %	15.8 %
Percentage of training days for employees	81.4 %	80.0 %	84.2 %
Number of hours for management	1,901	1,583	1,131
Number of hours for employees	8,347	6,349	6,014
Average number of hours for management	33.9	225.9	18.9
of which male employees	32.8	29.6	19.0
of which female employees	39.9	5.3	18.2
Average number of hours for employees	23.4	17.1	16.1
of which male employees	24.3	17.0	14.8
of which female employees	22.3	17.1	17.5

*) In contrast to the 2017 financial year, free further training measures have also been included in this overview at Deutsche Hypo since the financial year 2018.

The training offers are available to all employees, regardless of any factors (such as age, gender, working time model, pay scale group, temporary/permanent contract).

Society

Social commitment in the business environment is an important issue for Deutsche Hypo. For a bank, the regional environment is not only a location, but also the place where its employees and many customers live and work, and last but not least, it is important for attracting young talent. In addition, the Bank obtains a significant proportion of the services it commissions from the region.

Science

For almost 50 years, Deutsche Hypo has been supporting outstanding scientific work in the field of cancer research with the Johann Georg Zimmermann Prize. Each year, two prizes with a total value of 12,500 euro are awarded: This year, Prof. Dr. Jan-Henning Klusmann received the research prize and Prof. Dr. Dr. h.c. Peter M. Schlag was awarded the Johann Georg Zimmermann Medal.

Social engagement

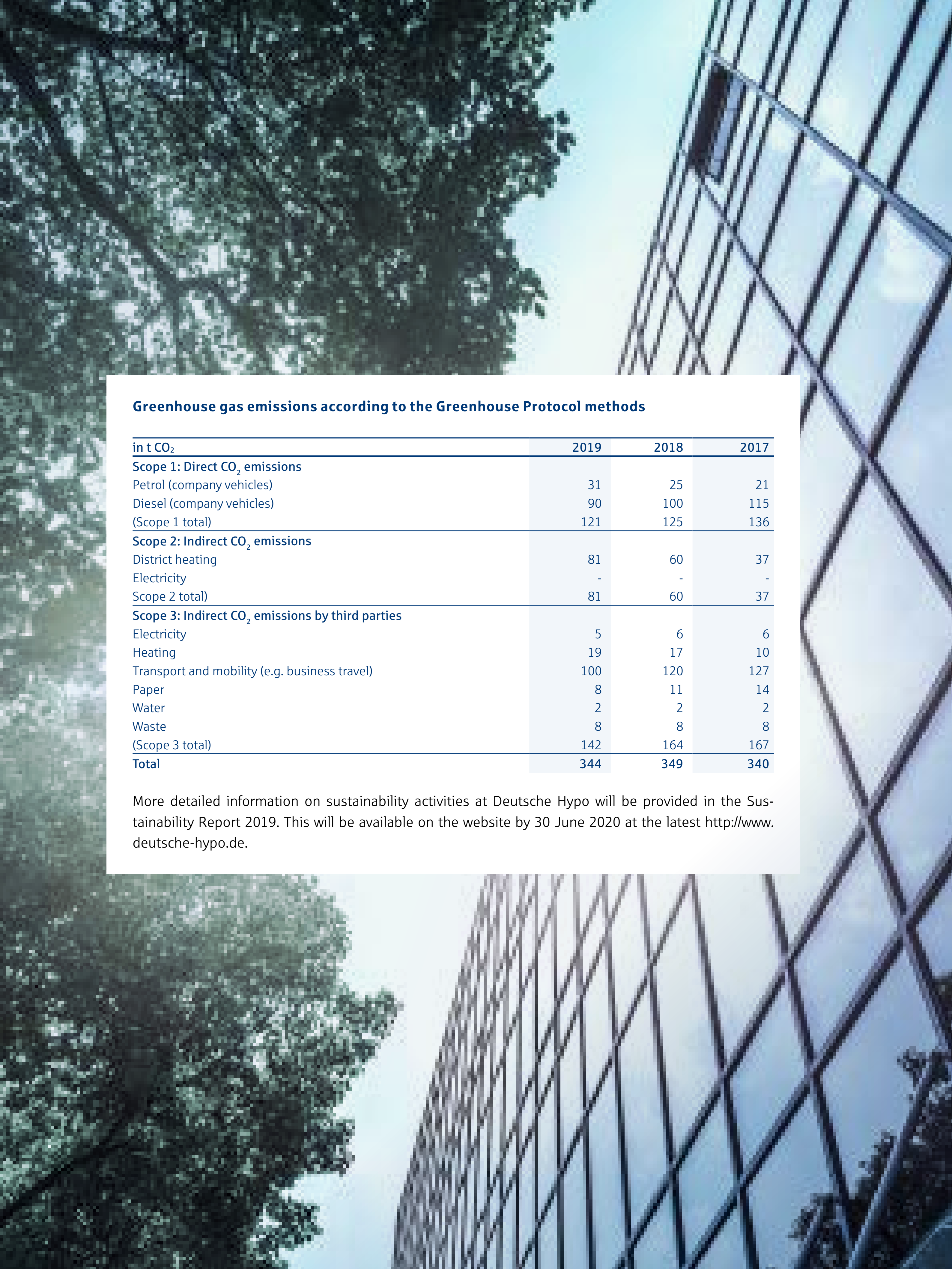
For the tenth year in a row, Deutsche Hypo employees organised a Christmas wish tree. All the wishes, on the wish lists of the 106 children on the large Christmas tree in the foyer, were fulfilled. The gifts were presented to children from the Güldene Sonne facility. This institution works closely with the Department of Child and Youth Psychiatry at the Hanover Children's Hospital in Bult. The reasons for the children and adolescents' stay are often due to experiences of violence in the family, disturbed parent-child relationships or alcohol and drug abuse.

Deutsche Hypo took part once again in the Social Days in 2019. Twice a year, the Hanover Volunteer Centre calls for companies to volunteer for the community. For one day, people swap their jobs and everyday life to work in a charitable project. In May 2019, the employees were guests at the 'Kindertreff Märchenkoffer e. V.' and in September 2019 they actively helped out at the 'Upcyclingbörse Hanover'.

Environment

Deutsche Hypo provides jobs for over 400 employees in offices in Germany and abroad, which must be heated, cooled if necessary and supplied with water, as well as being equipped with IT hardware and office furniture. In addition, Deutsche Hypo's activities require mobility in order to be able to perform a key service of a financial services company, namely advising customers.

Within the framework of its sustainability strategy, Deutsche Hypo has defined the protection of the environment as a key aspect. The aim is to consistently increase the Group's eco-efficiency by saving resources, energy and emissions. Furthermore, in view of climate change, Deutsche Hypo currently regards the continuous reduction of CO_2 emissions as a key aspect. A number of measures are already planned for 2020 which will further reduce Deutsche Hypo's greenhouse gas emissions.



Greenhouse gas emissions according to the Greenhouse Protocol methods

in t CO_2	2019	2018	2017
Scope 1: Direct CO_2 emissions			
Petrol (company vehicles)	31	25	21
Diesel (company vehicles)	90	100	115
(Scope 1 total)	121	125	136
Scope 2: Indirect CO_2 emissions			
District heating	81	60	37
Electricity	-	-	-
Scope 2 total)	81	60	37
Scope 3: Indirect CO_2 emissions by third parties			
Electricity	5	6	6
Heating	19	17	10
Transport and mobility (e.g. business travel)	100	120	127
Paper	8	11	14
Water	2	2	2
Waste	8	8	8
(Scope 3 total)	142	164	167
Total	**344**	**349**	**340**

More detailed information on sustainability activities at Deutsche Hypo will be provided in the Sustainability Report 2019. This will be available on the website by 30 June 2020 at the latest http://www.deutsche-hypo.de.

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) has a 150-year history and is one of the most renowned Pfandbrief banks in Germany. As a company of the Norddeutsche Landesbank Girozentrale (Anstalt des öffentlichen Rechts), Hanover, Braunschweig, Magdeburg, (NORD/LB), the Bank is the centre of competence for commercial real estate finance business and the issuing of mortgage Pfandbriefe in the NORD/LB Group. Deutsche Hypo is a German real estate bank with a European focus and is active as a professional and strategic financing partner in the strategic target markets of Germany, the UK, France, Benelux, Spain and Poland. It is headquartered in Hanover and also has offices in Berlin, Dusseldorf, Frankfurt, Hamburg and Munich, as well as in Amsterdam, London, Madrid, Paris and Warsaw.

Deutsche Hypo's material business activities are commercial real estate finance and capital market business. Commercial real estate finance therefore constitutes the Bank's strategic business area. It pools the financing of customers that primarily generate their cash flow from real estate or regularly make significant real estate investments. A multi-year comparison shows that financing relating to its home market, Germany, continues to account for the largest share of the commercial real estate finance portfolio, at approximately 60 %.

The Bank intensively services customers on both the financing side, as well as investors in real estate loans. Selected insurance companies and pension funds receive a tailored offering of investments in real estate financing. They efficiently leverage Deutsche Hypo's existing knowledge, and thereby achieve optimal integration of its real estate expertise in the areas of structuring and capital market orientation.

Deutsche Hypo also issues green loans for the development of the green value chain and to increase the green share of its finance portfolio. The Bank thereby expects the reduction of portfolio risk through the use of a modern collateral pool, characterised by energy-efficient construction, state-of-the-art technology, low operating costs and future-proof overall building concepts that meet increasingly strict legal requirements.

The capital market business serves the purpose of overall bank management and includes the securities, money markets and derivatives business with banks, as well as funding. As a non-trading book institution, Deutsche Hypo has a sufficiently endowed portfolio of liquid securities for liquidity and cover pool management. In strategic terms, Deutsche Hypo has pursued a reduction of its public sector loan portfolio for many years, which is why the capital market business has become significantly less important for the Bank. Selective new business with highly liquid securities is only entered into for the purpose of liquidity and cover pool management. Derivatives are used exclusively to hedge interest rate and foreign currency risks, as well as for market risk management.

Funding and liquidity at attractive conditions in line with the market is ensured 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 corporate goals are to secure and increase corporate value, profitability and profit transfer over the long term. The Bank's business is affected by numerous external influencing factors. This is mainly due to the economic and sector-specific framework conditions that impact business development and thus affect the Bank's net assets, financial and income position. Furthermore, a number of customer-specific factors, such as changes in the redemption or extension behaviour, the holding period of real estate or the time of a sale in project developments, influence the development of the Bank's portfolios. Regulatory framework conditions constitute an external influential factor for the development of Deutsche Hypo's business and income. The various funding options are also influenced, among other things, by developments on money and capital markets, and Deutsche Hypo's ratings, which depend on the rating development and capital resources of the parent company NORD/LB. These also have an influence on the management of liquidity.

Deutsche Hypo's sustainability strategy addresses the central aspects of global change that affect its business activities. The Bank has defined its sustainability management approach and takes steps to develop it further. It reports on those efforts. The Bank's sustainability report is available on its website at http://www.deutsche-hypo.de. The sustainability report is not part of this management report.

Group affiliation

Deutsche Hypo is a subsidiary 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 2018 were published on 23 May 2019 in the German Federal Gazette. A control and profit and loss transfer agreement has been entered into between Deutsche Hypo and NORD/LB for an indefinite period. 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 a fiscal tax unit exists. By transferring profits or losses, Deutsche Hypo reports an annual result of zero.

Due to the control and profit and loss transfer agreement as well as the use of a waiver rule according to Art. 7(1) CRR, formerly Section 2a(1) of the German Banking Act (KWG), Deutsche Hypo is dependent on the Group's parent company NORD/LB. Additional significant dependencies exist regarding compliance with the Group's capital requirements, the development of the rating, liquidity and funding as well as controlling and organisation within the Group. There are also service relationships between Deutsche Hypo and NORD/LB as well as intra-group receivables and liabilities.

In the past financial year NORD/LB has completed the intended measures for capital strengthening. On 29 November 2019, NORD/LB received confirmation that the planned capital instruments meet the conditions for common equity tier 1 capital, along with permission to class these capital instruments as instruments of common equity tier 1 capital, from the responsible banking regulatory authorities. On 5 December 2019, the European Commission also confirmed the eligibility of the measures planned in the support agreement for state aid.

On 6 December 2019, the owners' meeting of NORD/LB agreed to the conclusion of the capital measures, after the Board of Managing Directors had agreed the capital measures on 19 November 2019. All the owners' final committee resolutions for the execution of the capital measures were then passed in December. The parliaments of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania then agreed to the state treaty. The cash capital contributions were received to NORD/LB's account on 23 December 2019, thereby implementing the capital measures. That resulted in a significant increase in NORD/LB's capital ratios, which were thereby again in line with the ECB's regulatory requirements.

Controlling system

Deutsche Hypo's controlling system begins with the business and risk strategy, and aims to sustainably secure its 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). RoE is defined as the quotient of the result before taxes and the Bank's equity, whereby the Bank's equity includes subscribed capital, capital reserves, profit reserves and the funds for general banking risks. 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. Due to their particular influence on the Bank's income performance, the development of new business and the commercial real estate finance portfolio are used as supplementary central performance indicators at the Bank.

In addition, the development of risk-weighted assets (RWA), margins in new business and of the real estate finance portfolio 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. Compliance with external requirements for regulatory performance indicators is ensured in the form of supplementary constraints. Additional economic performance figures and risk limits are also used to manage the portfolio with regard to returns and risks.

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.

Corporate governance statement

Deutsche Hypo regularly publishes a current overview of 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 on the Bank's website at http://www.deutsche-hypo.de. Further information about the management of the company is included in the corporate governance report in the Bank's annual report. The corporate governance report is not part of this management report.

Economic report

Macroeconomic and sector environment[1]

Economic performance in Germany and Europe

Economic growth in the eurozone remained weak in 2019. At the end of the year, real gross domestic product (GDP) expanded at a quarterly rate of just 0.2 %. At the start of the year economic performance was still increasing by 0.4 % quarter on quarter. For 2019 as a whole, real GDP in the eurozone grew at an annual rate of +1.2 %. Of the five largest economies, Spain and the Netherlands achieved the highest growth, while economic development in France was, at least, stable. Meanwhile, economic growth in Germany and Italy was below average for the eurozone. Despite the uncertainty around Brexit, the UK reported economic growth of 1.3 % for 2019 as a whole.

Germany's economy cooled significantly in 2019. Following several years of strong rises, real economic performance expanded by just 0.6 % year on year. In the second quarter, German economic performance even decreased temporarily. Brexit, international trade conflicts and a decline in global demand had a negative impact on the German economy, which has traditionally been strongly export oriented and industrialised. The negative developments in the external economic environment were reflected by weak exports compared to the previous year and the contribution to growth from net exports was clearly negative in 2019. The industrial sector was in recession. Meanwhile, the strong employment market and rising disposable income contributed to a further year-on-year increase in private consumption. The growth in public sector consumption and the boom in the construction sector also supported Germany's economic performance in the past year. At the start of the new year, a rise in the ZEW Indicator of Economic Sentiment in January suggested improving economic sentiment.

[1]) Source for economic developments and developments on money and capital markets: NORD/LB Fixed Income & Macro Research, Economic Adviser – Outlook 2020 and/or February 2020 edition; source for development of real estate target markets: Jones Lang Lasalle, Investment Market Overview – Germany Q4 2019

Developments of the banking sector

Developments of money and capital markets

The market environment in commercial real estate finance was again significantly influenced by the generally low level of interest rates. As expected, the ECB's monetary policy remained very expansive in the past financial year, and easing was even increased by the decision to resume the bond purchase programme. Significant deterioration in economic expectations, the increase in political and trade policy risks, and the cut in interest rates anticipated by market participants led to a clear decline in capital market interest rates by early September. At that time, yields on ten-year German government bonds reached a new all-time low of –0.75 %, with returns in the rest of Europe also falling to record lows. A slight economic stabilisation at the end of the year led to a marked countermovement. However, yields remained close to their all-time lows at the end of 2019.

Development of real estate target markets

The largely stable economic environment, the capital market situation and, in particular, the very low level of interest rates continued to be key drivers of unchanged high demand for real estate. A lack of alternative investments meant investors looking for positive returns were prepared to invest in real estate assets, despite very high prices. The overall ongoing positive development of real estate markets at their already very high level was reflected by the completed transaction volume in almost all of Deutsche Hypo's target regions. The previous year's high transaction volume was reached or even exceeded in its important home market and almost all foreign markets. Thanks to a strong final quarter, there was a significant increase in transactions in the German commercial real estate market compared to the record level in the previous year. The high proportion of large volume transactions, particularly at the end of the year, was noteworthy.

Transaction volumes also remained at their high level in France and the Netherlands. Along with relatively stable economic development, France also benefited from British investors shifting their focus to the French real estate market. The Dutch real estate market continued to benefit from good economic conditions, which were, in particular, reflected by renewed high demand for office properties. As in previous years, the residential asset class also accounted for a large proportion of transactions. The smaller real estate markets in Spain and Poland also profited significantly from generally beneficial conditions, and were increasingly seen as attractive investment locations, thanks to positive economic development.

The uncertainty surrounding Brexit resulted in a special situation in the UK real estate market throughout the year. The resulting general caution on the part of investors and, in particular, the adaptation of the British retail sector to structural factors led to an overall significant decline in transaction volumes, despite comparatively stable economic development.

Changes in the retail sector also resulted in restrained demand for retail real estate compared to other asset classes in the Bank's other target regions. The deep structural shift from bricks-and-mortar retail to mail order resulted in a very selective approach on the part of investors. As consumers continue to prefer local suppliers for food and other everyday items, there was high interest in retail parks. As a result, returns on such properties in the German big 7 declined further, while increasing returns on shopping centres reflected weaker demand on the part of investors. The transaction volume in the German retail real estate market remained largely unchanged at approximately € 11 billion. That meant with a share of 12 %, retail real estate continued to be the third most popular asset class in the German real estate investment market in 2019, after office and residential.

Office properties continued to be the most important asset class. As a result of structural changes to the working world, there was a clear shift in the requirements for properties towards the flexible usability of working spaces. In the past year, there were insufficient available, attractive, modern office properties to meet the high demand on the part of investors. The construction industry, which was operating at capacity, therefore also continued to represent a limiting factor. The overall volume of investment in office real estate was approximately € 36 billion. That represented an increase of approximately 20 % and accounted for around 40 % of total German investment volume, including residential.

In the past year, as a result of the structural change in the retail industry, logistics properties were also very popular. The transaction volume for logistics properties remained relatively stable at € 7 billion. The proportion of portfolio transactions was approximately 50 %. Investors were focused on properties in the affluent commuter belts around metropolitan areas and smaller package distribution centres. In 2019 as a whole, the German hotel real estate market achieved a significant increase in transaction volume, rising to approximately € 6 billion. The final quarter was thereby the strongest on record.

Year-on-year development of the transaction volume in the German residential real estate market was stable. Investor interest in German residential real estate remains high as a result of international immigration, increasing urbanisation, higher square metres of residential space per person, and the scarcity of vacant properties in most major cities.

Mixed-use properties also account for a growing proportion of transactions. The combination of several uses for a property is a result of the increasing interlinking of life, leisure and work.

Development of the competitive environment

In the view of the Bank, commercial property financing remained highly competitive in the past year, as it has been in previous years. A large number of real estate financiers continue to be represented in the real estate markets relevant to Deutsche Hypo. Those developments continued to result in comparatively high pressure on margins, particularly with regard to the financing of properties in locations with strong demand.

Course of business at a glance

Significant influencing factors and developments in financial year 2019

As in previous years, Deutsche Hypo's business in the past financial year was characterised by positive developments in the real estate markets and largely stable economic conditions. High demand for real estate resulted in a slight year-on-year increase in new business volume, despite strong competition from other banks with regard to commercial real estate finance. The Bank thereby continued to place great importance in financing with what it considers good risk-return profiles. The primary goal of lending continued to be maintaining the high quality of its finance portfolio, which was reflected by an ongoing high proportion of loans with good and very good rating classes. External conditions continued to ensure stable risk indicators and low risk provisioning requirements compared to the long-term average. The proportion of defaults on financing declined further year on year.

In the capital market business, the Bank continued its strategic portfolio reduction in the public sector finance business through planned maturities. As in the previous year, the Bank also utilised stable market conditions to selectively sell off exposures to especially high-risk counterparties.

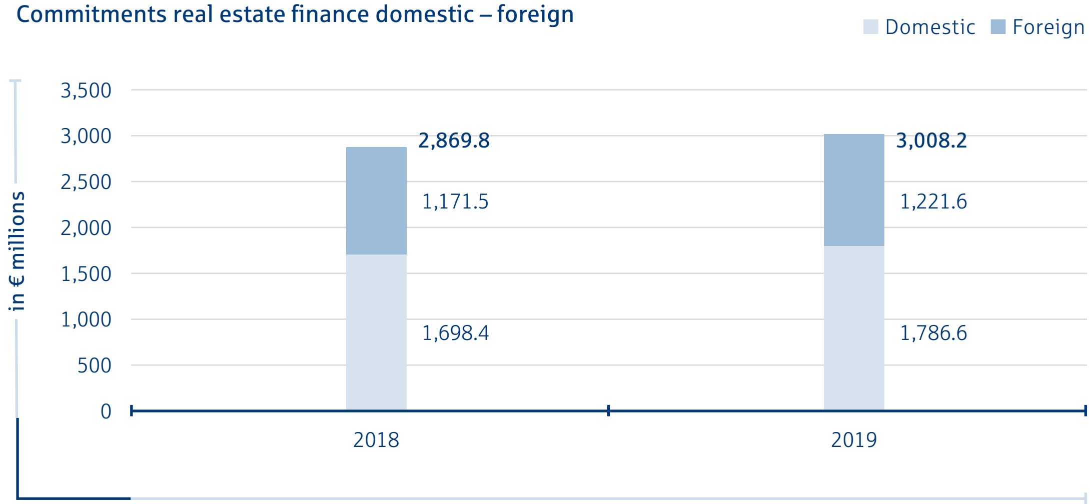
To ensure future competitiveness, the Bank commenced a cost-reduction programme in 2018. Initial measures were completed in the past financial year. Along with the improved efficiency of bank-internal procedures, they include investments in the Bank's technical infrastructure for the digitalisation of internal processes. As a result of the implementation of HR measures, the average number of employees decreased slightly year on year.

In the view of the Board of Managing Directors, the business developments described above led to a good result from normal operations in the past financial year, which totalled € 55.1 million after the addition to the precautionary reserves (2018: € 74.7 million). The profit transfer of € 54.2 million (2018: € 55.2 million) to NORD/LB remained nearly constant compared to the previous year.

New business development

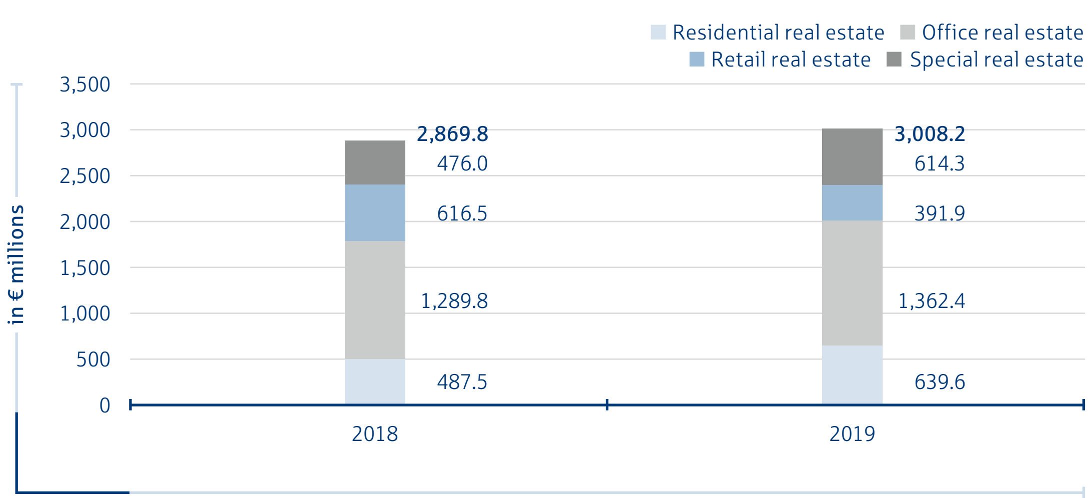
With new loan commitments totalling € 3,008.2 million (2018: € 2,869.8 million), Deutsche Hypo was able to achieve a slight increase in new business volume forecast in the previous year.

Commitments real estate finance domestic – foreign



Once again, the domestic market accounted for considerably more than half the commitment volume at € 1,786.6 million (2018: € 1,698.4 million). A large proportion of the Bank's new business abroad, with € 542.1 million (2018: € 368.9 million) being generated in what has become the largest target market – Benelux. There were also significant volumes of new business in Poland at € 174.5 million (2018: 85.0 million) and in the renewed target market Spain with € 108.3 million. The volume of new business the Bank concluded in the United Kingdom in the past year decreased to € 290.4 million (2018: € 347.4 million). As a result of the political uncertainty surrounding Brexit, the Bank continued to take a cautious approach to lending there.

Real estate finance by property types



With regard to the property types financed by Deutsche Hypo in 2019, there was a further shift away from retail properties. At € 391.9 million (2018: € 616.5 million), the volume of new business in this asset class was again lower in the past year. Office properties accounted for the largest proportion, at € 1,362.4 million (2018: € 1,289.8 million), while the volume of new residential real estate finance increased to € 639.6 million (2018: € 487.5 million). With regard to special real estate, among other things, there were new loans for hotels of € 289.8 million (2018: € 187.5 million) and for logistics properties of € 261.3 million (2018: € 235.8 million).

Project developments also continued to represent an important proportion of new business. Approximately 90 % of these transactions were concluded in Germany.

Funding activities

Deutsche Hypo issued own securities in the amount of € 2,235.2 million in reporting year 2019 (2018: € 2,327.1 million). They consisted of € 1,795.0 million (2018: € 1,722.8 million) of mortgage Pfandbriefe and € 440.2 million (2018: € 604.3 million) of unsecured bonds. Term deposits with terms of more than 360 days totalling € 369.8 million (2018: € 167.9 million) were received.

A total of 100 % of the unsecured bonds were issued as private placements, usually in the form of registered bonds, and only to a lesser degree as bearer bonds. The mortgage Pfandbriefe were mainly issued in benchmark format. The Pfandbrief benchmarks relate to a new issue of € 625 million, which was increased by € 125 million after a week, a € 250 million increase in a mortgage Pfandbrief issued in June 2018 and a new emission in benchmark format of € 500 million. The second benchmark mortgage Pfandbrief, which was issued in September 2019, had a negative yield and was oversubscribed 1.6-fold. That demonstrates the high demand and associated trust in Deutsche Hypo's securities on the part of investors.

The contracted business in commercial real estate finance was consistently funded at market conditions. Deutsche Hypo's liquidity was therefore ensured at all times. As usual, Deutsche Hypo was engaged in secondary market servicing for its own securities.

Net assets, financial and income position

Income position

in € millions	Total result		Commercial reals estate finance		Capital market & other business	
	2019	2018	2019	2018	2019	2018
Net interest income	182.5	177.4	163.5	162.4	19.1	15.0
Net commission income	0.9	– 0.1	1.6	0.4	– 0.7	– 0.5
Administrative expenses	81.2	84.0	40.4	41.0	40.8	43.0
Other operating income	0.0	– 7.4	0.0	0.5	0.0	– 7.9
Risk result	– 41.6	– 20.3	– 4.3	16.3	– 37.3	– 36.6
Income from securities and participatory interest	– 5.5	9.1	0.0	0.0	– 5.5	9.1
Result from normal operations	**55.1**	**74.7**	**120.5**	**138.6**	**– 65.3**	**– 63.9**
Extraordinary result	– 0.9	– 16.5				
Taxes	0.0	3.0				
Profit and loss transfer	**54.2**	**55.2**				

Deutsche Hypo generated a result from normal operations of € 55.1 million in financial year 2019. As expected, this was lower than the previous year's result of € 74.7 million, which resulted from positive one-time effects. Taking into account the restructuring expenses for HR measures relating to the ongoing cost-reduction programme and reported under the extraordinary result, this resulted in profit to be surrendered of € 54.2 million (2018: € 55.2 million) at the previous year's level. Those results, which the Bank considered good, were the result of its stable income position and continued low risk provisioning requirements in commercial real estate finance compared to the long-term average. That gave the Bank the opportunity to further build up its precautionary reserves.

The net interest income for the Bank as a whole was € 182.5 million and was slightly higher than the previous-year's value of € 177.4 million. Here the commercial real estate finance business made the biggest contribution with net interest income of € 163.5 million, which was close to the previous year's level of € 162.4 million as expected. While the average real estate finance portfolio increased year on year, that rise was offset by continuing pressure on margins resulting from the competitive situation. The overall margin result was comparable to the previous year. Net interest income also benefited, year-on-year, from the collection of prepayment penalties, which increased by approximately € 6 million.

The initial implementation of the cost-reduction programme initiated in 2018 was reflected by the slight decline in administrative expenses. Material expenses included investments in further boosting the Bank's market presence, along with organisational and technical infrastructure. The decrease in the bank levy to € 9.8 million (2018: € 11.1 million) and one-off effects in personnel expenses contributed to positive year-on-year development. Overall, administrative expenses decreased slightly, contrary to the forecast in the previous year. The resulting low CIR compared to the rest of the industry of approximately 44.2 % was lower than in the previous year (2018: 49.5 %) and was also better than expected.

Balanced other operating income was marked by the dissolution of reserves in conjunction with legal uncertainties regarding existing contracts in the lending business totalling € 7.6 million. That effect was, in particular, offset by interest-related allocations to pension provisions.

The continuing stable market environment and the Bank's risk-aware lending policies were drivers of the continued low level of net additions to risk provisions in commercial real estate finance by long-term standards. In the previous year, they were offset by the positive effect of the reversal of value adjustments on results. The risk result attributable to the capital market was impacted by expenses for the repurchase of the Bank's own Pfandbriefe for the purpose of market servicing. After entering into hedging transactions, and the sale of associated asset positions, the remaining net impact on earnings was € 17.2 million. Future funding costs are reduced accordingly. The good development of risk and results, from the Bank's point of view, allowed for the formation of further precautionary reserves, resulting in a risk result for the Bank as a whole of € – 41.6 million (2018: € – 20.3 million).

Income from securities and participatory interest of € – 5.5 million (2018: € 9.1 million) resulted from the active reduction of the capital market portfolio and was below the previous year's level, which was impacted by positive one-off effects.

The result generated by the Bank led to RoE of 6.4 %, which was close to the level of 6.8 % achieved in the previous year, as forecast in the previous year.

Net assets

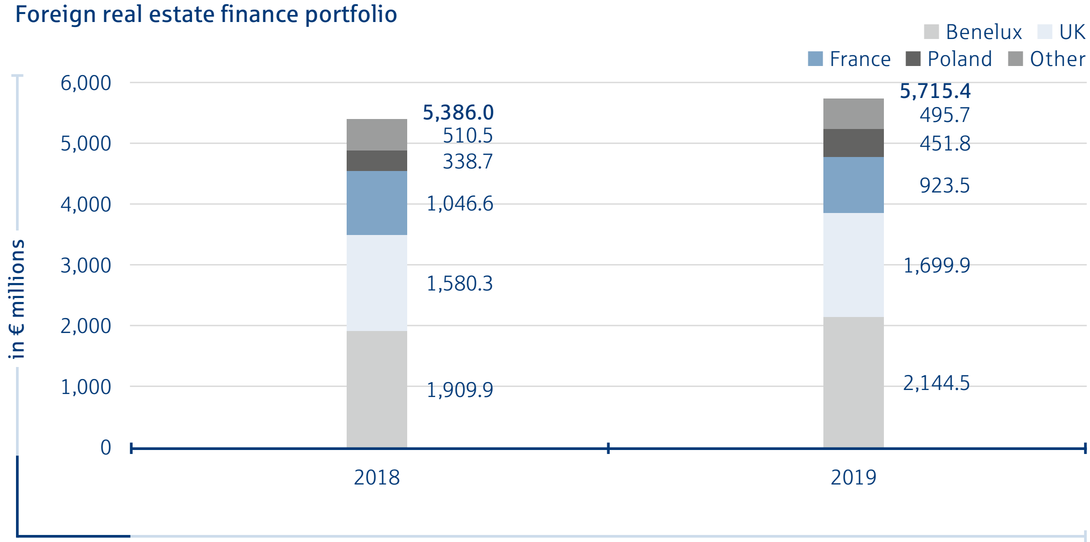
in € millions	31.12.2019	31.12.2018
Receivables		
Mortgage loans	12,188.3	12,264.0
Loans to local authorities	2,473.7	2,844.4
Other receivables	1,214.2	1,014.2
Securities	4,016.8	4,716.6
Other assets	561.2	233.6
Total assets	**20,454.2**	**21,072.8**

Deutsche Hypo's balance sheet total decreased compared to the previous year, to € 20,454.2 million (2018: € 21,072.8 million). While the commercial real estate finance portfolio remained approximately constant, loans to local authorities and securities fell considerably again in the past financial year, by a total of € 1,070.5 million. This decrease was due both to planned maturities and selective disposals. As in the previous year, the Bank thereby made use of market opportunities, particularly to reduce exposure to individual high-risk counterparties. New business with third-party securities for the purpose of liquidity and cover pool management with a nominal volume of € 301.0 million (2018: € 10.0 million) was conducted in the past financial year.

Despite the slight increase in volume of new business, as of the balance sheet date, the portfolio of commercial real estate finance remained on par with the previous year at € 12,188.3 million (2018: € 12,264.0 million). The slight increase in the portfolio forecast in the previous year was not achieved, particularly due to the high level of early repayments at the end of the year. For detailed information on the distribution of the finance portfolio by rating categories and regions, please refer to the presentations for the analysis of credit risk in the expanded risk report.

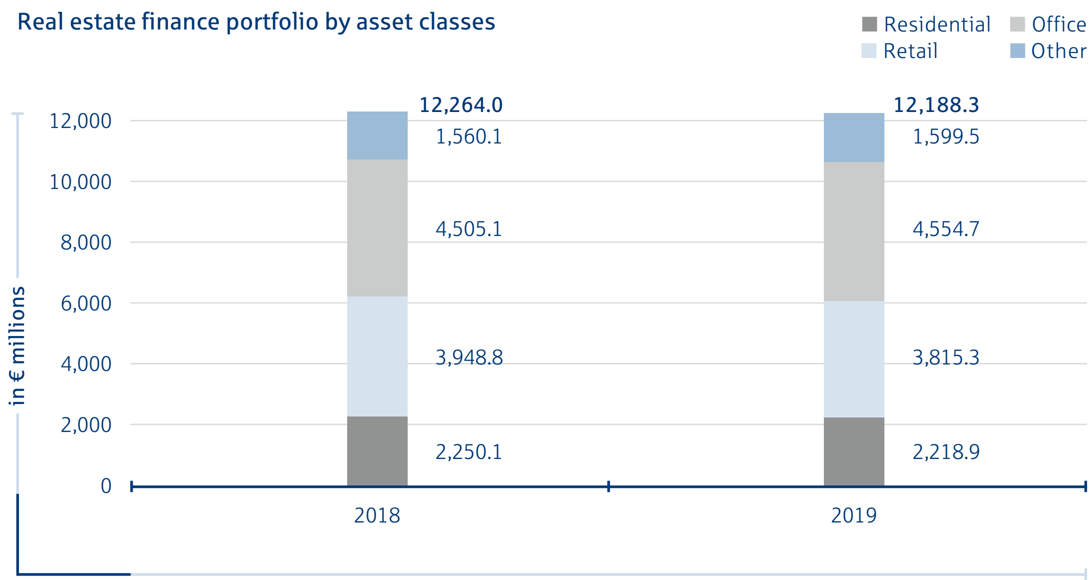
With a volume of € 6,472.9 million (2018: € 6,878.0 million), domestic financing continues to account for the majority of the real estate finance portfolio. As of the balance sheet date, the portfolio in foreign markets totalled € 5,715.4 million (2018: € 5,386.0 million). With the exception of France, the portfolio increased in all the Bank's target regions.

Foreign real estate finance portfolio



The distribution of the finance portfolio by property type followed the development of new business figures in the past year as described above. As in the previous year, there was a further slight decrease in the proportion of finance for retail properties at Deutsche Hypo. Office real estate finance was almost unchanged and continues to account for the largest share of the commercial real estate finance portfolio. The residential and other real estate finance portfolios were also largely unchanged, compared to the previous year. Other real estate largely consists of hotel and logistics buildings, mostly financed in Germany.

Real estate finance portfolio by asset classes



In addition to the portfolio of commercial real estate finance, as of the balance sheet date there were also irrevocable credit commitments of € 1,072.6 million (2018: € 1,061.6 million) and guarantee facility agreements with a volume of € 274.8 million (2018: € 327.9 million).

Financial position

in € millions	31.12.2019	31.12.2018
Liabilities		
Mortgage Pfandbriefe	8,330.9	8,128.1
Public Pfandbriefe	3,286.7	3,806.9
Unsecured bonds	1,661.7	1,784.3
Other liabilities	5,744.4	5,897.4
Subordinated liabilities	341.0	379.5
Funds for general banking risks	14.4	14.4
Equity	838.2	838.2
Other liabilities	236.9	224.0
Total liabilities	**20,454.2**	**21,072.8**
Contingent liabilities	393.8	462.2
Other obligations	1,072.6	1,061.6

In line with the overall decline in the finance portfolio in the lending business, funding capital declined year-on-year as of the balance sheet date. That included a reduction in both secured liabilities via a decline in the portfolio of current mortgage Pfandbriefe and unsecured liabilities in the form of a decrease in the bond portfolio.

The fall in secured liabilities was a result of the significant reduction in current public Pfandbriefe. This 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. Meanwhile, the portfolio of mortgage Pfandbriefe increased slightly, in line with planned funding needs.

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 14 to 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.

Balance sheet equity remained constant at € 838.2 million compared to the previous year because of the profit and loss transfer agreement. Please refer to the explanations in the expanded risk report of this management report regarding the Bank's regulatory equity resources.

As of the balance sheet date, off-balance-sheet obligations in the form of irrevocable loan commitments amounted to € 1,072.6 million (2018: € 1,061.6 million). Contingent liabilities decreased slightly to € 393.8 million (2018: € 462.2 million). This was mainly due to a further reduction in commitments from credit derivatives to € 119.0 million (2018: € 134.3 million) and a decrease in contingent liabilities from sureties in the real estate finance business to € 274.8 million (2018: € 327.9 million).

Rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Senior unsecured preferred	Junior/Senior unsecured non-preferred	Baseline Credit Assessment (BCA)
Moody's	Aa1	Aa1	Prime-2	A3 Outlook: stable	Baa2	ba3
	until 9 January 2020 Aa1 Outlook: on review for upgrade	until 9 January 2020 Aa2 Outlook: on review for upgrade	until 9 January 2020 Prime-2	until 9 January 2020 Baa2 Outlook: on review for upgrade	until 9 January 2020 Ba1 Outlook: on review for upgrade	until 9 January 2020 b2 Outlook: on review for upgrade

After NORD/LB completed its capital measures on 23 December 2019, the rating agency Moody's increased Deutsche Hypo's rating by two notches on 9 January 2020. Among other things, the long-term rating improved from Baa2 to A3. That means that all of Deutsche Hypo's ratings are again investment grade. The outlook was set to "stable". The rating of the public Pfandbriefe was also increased to Aa1.

Sustainability ratings

	imug
Sustainability Rating	positive BB
Mortgage Pfandbriefe	positive BBB
Public Pfandbriefe	positive BBB

oekom research
Overall Score B–
Investment Status “Prime”

In March 2019, the sustainability rating agency imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH reassessed the Bank in its annual cycle. Deutsche Hypo took second place among the assessed mortgage banks (28 in total) with the assigned ratings, and 4th place among all European banks (171 in total).

In February 2020, the rating agency oekom research AG again gave Deutsche Hypo a “prime” rating and the Bank’s sustainability rating improved from C+ to B -. Deutsche Hypo is therefore among the top ten percent of all the rated banks and exhibits strong performance in terms of sustainability. In the view of the rating agency, the Bank is among the top-rated 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 very satisfactory financial year 2019 that was positive on the whole. As a result, and in view of the stable income situation and the continued low need for risk provisions in line with the long-term average, the Bank was able to further increase its precautionary reserves and transfer a constant profit to NORD/LB compared with the previous year.

Due to high early loan repayments, it was not possible to increase the portfolio of commercial real estate financing despite a slight increase in the volume of new business compared with the previous year. Within the portfolio, the risk parameters based on default risks remained largely constant, and the proportion of financing in default fell even further compared with the historical low of the previous year.

Despite the uncertainties surrounding the capital contribution at NORD/LB which prevailed during the past financial year and the associated negative effects, for example on its own rating, Deutsche Hypo was always in a position to refinance itself at market conditions in line with requirements.

Report on subsequent events

There were no events of particular significance that occurred after the end of the financial year and that could have an impact on the Bank's net assets, financial or income position.

Supplement on the development of the effects of coronavirus until 24 March 2020:

After the balance sheet date, the coronavirus spread worldwide ("corona crisis"). Since 11 March, the WHO has classified the spread of the virus as a pandemic. The spread of the coronavirus thus has a noticeable, in some cases significant, impact on the economic activity of many markets. This has also significantly increased the likelihood of further burdens on the economy and future negative consequences for the real estate industry. As a result, there was a noticeable deterioration in the sentiment among companies and consumers. Sharp declines in share prices with higher volatilities were observed at times on the capital markets. In this respect, a value-determining event occurred after the balance sheet date.

The concrete effects on the economy, individual markets and sectors cannot yet be conclusively assessed. In view of the unfolding dynamics, the forecasts contained in the management report are characterised by a high degree of uncertainty. However, if the effects of the coronavirus on the economy are reflected in sustained economic and capital market burdens and the current situation persists or worsens for a longer period of time, this could also have a significant negative impact on the real estate markets due to vacancies and losses in the value of commercial properties, thus leading to rising risk provisioning expenses. There could also be a significant decrease in new business volume and portfolios in commercial real estate financing. Therefore, it cannot be ruled out that further developments relating to the corona crisis will have a considerable negative impact on the planned earnings figures. In such a situation, the result from normal operations in 2020 could be significantly lower than in 2019 as a result of rising risk provision expenses and burdens in net interest income. In this case, the other key performance indicators CIR and RoE could possibly also develop less favourably than shown in the forecast report. In addition, there may be corresponding consequences for regulatory capital and regulatory key figures at both the Bank and Group levels. This could also result in considerable liquidity risks. It cannot be ruled out that further developments in the corona crisis in the 2020 financial year may also have a significant negative impact on the risk control parameters.

On 23 March the German Federal Cabinet adopted a draft "Law to mitigate the consequences of the Covid 19 pandemic in civil, insolvency and criminal proceedings (Gesetz zur Abmilderung der Folgen der Covid-19-Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht)". The effects of the draft law are currently difficult to assess. The draft should mitigate the effects of the corona crisis and contribute to a stabilisation of development. In addition, the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin) have announced the first measures to ease the burden on banks during the crisis. These include the temporary reduction of minimum capital and liquidity requirements, the postponement or suspension of individual measures such as EU-wide stress tests and on-site inspections, and the notification of flexibility in the interpretation of various requirements, for example with regard to non-performing loans. These measures are also intended to reduce the effects of the corona crisis for banks.

Forecast, opportunity and risk report

Forecast report

Significant assumptions in the forecast

The forecast report should be read in the context of the other 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 in the forecast report. The assumptions made in the course of planning are described in greater detail below.

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 below. 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 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.

Deutsche Hypo's medium-term 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 capital market developments and regulatory requirements. New business, the development of the portfolios and the margins, among other factors, are planned on this basis. Forecasts on the key performance indicators for the coming financial year 2020 are presented below.

In terms of macroeconomic framework data, the Bank's planning 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.

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

- Creating added value for customers through tailor-made financing and securing the Bank's market position at home and in the foreign focus markets
- Active portfolio management with a focus on profitability and risk aspects for effective use of equity and ensuring granularity
- Use and further development of structuring and placement skills

- Continuation of the product development business
- Pursuit and development of sustainability measures; for example, by issuing more green bonds, issuing green loans and maintaining good sustainability ratings
- 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 connection with modern technologies and methods of operation for the implementation of regulatory requirements
- Ongoing constant optimisation of processes and structures, in particular through a cost programme initiated in 2018 to boost efficiency and reduce costs over the long term

Assumptions regarding economic development

The presence indicators for the German economy are still mixed. In particular, German industrial production and new orders do not point to a rapid end to the industrial recession. At the beginning of the year, the coronavirus could turn out to be an additional stress factor. The negative effects are likely to be offset at some point, but it is uncertain to what extent. At present, all important leading indicators at least point to a gradual bottom formation. However, there are still no signs of an upswing; the political risk factors are still too great and global dynamics too weak. In the absence of major shock events, the German economy should grow by 0.9 % in real terms in 2020, although 0.4 percentage points of this is attributable to calendar effects. Support is expected from private and public consumption and construction investments. The expansive monetary policy and slight impetus from the fiscal policy support the expectation of stabilisation.

Risks for the economic development of the eurozone in 2020 remain primarily political in nature. Against this background, moderate GDP growth of 1.0 % is expected in 2020. Given that domestic price pressures are not reversing and stronger oil price impulses are not expected, year-on-year HICP inflation is not expected to return to the 2.0 % range for a prolonged period. In 2020 as a whole, the inflation rate should even be slightly lower at 1.1 %, before an upward trend – albeit a slow one – is expected in the following years.

Assumptions regarding the industry’s development

While the fundamental framework conditions for the global real estate market remain robust, investors are becoming more selective in view of the advanced real estate cycle. The basis for the expectation of stable development on the real estate markets should be a continued low interest rate level, as adjustments to the very expansive monetary policy of the ECB are not to be expected and capital market interest rates are likely to rise slightly at best, depending on the development of the political and economic conditions. The lack of alternative investments should therefore continue to boost demand for real estate in 2020.

The German real estate investment market is characterised by stability and risk-adjusted investment opportunities. According to Deutsche Hypo, the expectation of robust employment market data, further increases in office employment and stable income development will continue to form the basis for investments in German commercial real estate in 2020. Excess demand on the investment market and the product shortages are expected to continue. In particular, project developments, value-added products and operator properties, such as hotels and student apartments, should be the areas to focus on in 2020. Stable user demand for modern commercial space is expected to continue.

For the European real estate markets, it is forecast that real estate investments in 2020 will remain at the previous year's level. This is based on the assumption of stable economic growth. In addition, the general interest rate level should remain low and further enhance the appeal of real estate compared to government bonds. Trading tensions and uncertainties related to Brexit are expected to continue in 2020. The development of the office letting market in the major western European economies is likely to follow on from the previous year. The retail and logistics sector should continue to be determined in particular by growing online business in Europe.

Forecast for the development of business with significant opportunities and risks

Development of new and existing business

Against the background of the assumption that the economic and sector environment will remain fundamentally positive, Deutsche Hypo expects the volume of new business for the coming financial year 2020 to be on par with the previous year. Deutsche Hypo will continue to apply high quality standards and prioritise financing yield criteria when it comes to lending. A sideways move is also aimed for in the development of the portfolio volume.

Opportunities and risks

The opportunity for new business to exceed expectations results in particular from unexpectedly high credit demand in the real estate financing sector. This may be based on more positive developments in the economic or industry environment. Examples include significantly stronger economic growth or a further significant reduction in interest rates, each of which would have a positive effect on the real estate markets and therefore also on the demand for credit. Furthermore, higher than expected new business may result from better acquisition performance by the Bank. A higher than expected volume of new business is also associated with the opportunity that the real estate financing portfolio will exceed the forecast.

However, there is a risk that demand for real estate financing will fall short of the Bank's expectations. Mirroring the opportunities, these risks result from negative developments in the economic or industry environment, among other things. In particular, such developments include weaker than expected economic growth or an unexpectedly sharp rise in interest rates. Both could have a negative impact on the Bank's new business volume.

Uncertainties arising from political developments that cannot be ruled out could also have a positive or negative impact on the real estate markets, and therefore also on Deutsche Hypo's new business activities. Examples of such developments include the political developments surrounding the UK's withdrawal from the EU.

Furthermore, an unexpected change in the intensity of competition on the lender side cannot be ruled out, which could have both positive and negative effects on the Bank's new business volume. A further intensification of competition could restrict Deutsche Hypo's opportunities for new business, and therefore represents a risk to achieving the forecast for new business. Accordingly, an unexpected weakening of competition harbours potential opportunities for new business.

Integrated bank management, which takes account in particular of earnings, risk, RWA management and capital requirement aspects, can have an impact on the management of new business and existing portfolios. The integration into the Group as well as corresponding decisions which may change in connection with capital allocation and RWA management within the Group may have positive and negative effects on the development of new business and the existing portfolio of Deutsche Hypo. Furthermore, stricter legal and regulatory requirements (particularly with regard to capital requirements), discretionary decisions by the banking authority regarding additional individual and increased industry-wide capital requirements or a higher RWA commitment due to a worsening of the real estate economy could lead to restrictions in the acquisition of new business.

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

Income forecast

For the coming financial year 2020, Deutsche Hypo expects earnings to be on par with the previous year. In line with the development of earnings, RoE will also be roughly on par with the previous year. In the forecast, the development of earnings is favoured by lower risk provisioning costs at the level of the Bank as a whole, which will continue to be essentially characterised by risk costs in real estate financing business that are below the long-term average. According to the forecast, the better risk result will compensate for the pressure on earnings.

The implementation of the cost savings programme is aimed at further improvements in terms of efficient and lean business operations. Further investments in digitalisation and the technical infrastructure are also planned. The CIR is expected to increase slightly year on year in financial year 2020 and remain low compared to the rest of the industry.

Opportunities and risks
The significant opportunities and risks of the earnings and RoE forecast result from the existing counterparty risks in the Bank's loan and securities portfolio. The Bank plans a risk provision or loan loss provision requirement on the basis of the available assumptions when preparing the forecast. A limited scope of predictable and unexpected developments of external economic, geopolitical and industry-related conditions or developments on the international financial markets may represent opportunities and risks for the risk result of capital market business and net income from securities and participatory interest. Despite careful planning, a trend reversal of the external framework conditions, such as a considerable drop in real estate prices following an interest rate increase, could also lead to the deterioration of borrower creditworthiness and to an impairment of the value of the collateral provided, and could also result in a need for additional risk provisions and loan loss provisions for the commercial real estate finance business. It is also possible that, if economic conditions remain the same or improve, the risk provisioning requirement will be lower than expected.

The possibility of a considerable decrease in real estate prices in the UK after its withdrawal from the EU cannot be excluded, which could lead to higher risk provisioning costs. Under consideration of the existing portfolio's structure and the risk parameters, and in view of Deutsche Hypo's UK real estate financing portfolio volume of € 1,699.9 million (2018: € 1,580.3 million), the risks regarding the result are considered low for 2020.

Other significant opportunities and risks for the development of earnings and RoE result from deviations from the planned interest result. These result, on the one hand, from deviations from the planned portfolio development in the loan portfolio. With regard to these opportunities and risks, reference is made to the previous section on forecasting the development of new and existing business. On the other hand, deviations from the interest result forecast may result from unexpected margin developments. Margin developments that are better or weaker than planned, for example due to a change in the intensity of competition or a lower or higher general demand for credit, present opportunities and risks for the development of earnings and RoE.

A change in the rating of the Bank or the rating of the parent company may have a positive or negative impact on the Bank's financing possibilities or refinancing costs. Furthermore, a more restrictive than expected monetary policy implemented by the major central banks may increase refinancing costs. Earnings risks arise in particular if an increase in funding costs cannot be passed on within the framework of the terms and conditions or if the expected volume of new business cannot be generated at the planned margins on the markets. Opportunities for more favourable funding could also result from the further diversification of the investor base, for example by issuing more green bonds.

Furthermore, future 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 institute-specific protection scheme. Special payments could be demanded from the institutes 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.

Regarding the CIR, opportunities mainly result from a positive forecast deviation in reference to expenses and income. Negative deviations in these result components constitute a risk leading to a less favourable Expense-Income-Ratio.

Overall statement

In connection with the aim of securing the value of the company in the long term, Deutsche Hypo attaches great importance to good creditworthiness when it comes to lending. The focus is also on achieving good profitability and creating added value for customers. To do this, it is important to use further optimisation and innovation potential. Deutsche Hypo continues to anticipate a positive market environment on the real estate markets, meaning that new business volume is expected to remain at the previous year's level. The CIR will be slightly higher than in the current reporting year due to the pressure on the earnings level. Overall, the result is on par with the previous year's level, and RoE is correspondingly on par with the previous year.

Expanded risk report

Risk management

Fundamentals of risk management

Deutsche Hypo has made use of the waiver rule in accordance with Art. 7(1) CRR, formerly Section 2a(1) of the German Banking Act (KWG), since 2013. For this reason, the bank regulatory provisions concerning the requirements for equity at 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 at the level of the cover pools.

Deutsche Hypo has implemented an inter-divisional risk management process and is closely integrated 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 the individual institution level and at the Group level. Deutsche Hypo attaches great importance to an appropriate risk management system from a business perspective, and such a system is deeply anchored in its corporate culture. Deutsche Hypo promotes an appropriate risk culture and continuously develops it further.

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 Group risk strategy describes the risk policy principles of the NORD/LB Group. The institute-specific risk strategy of Deutsche Hypo is also defined. Counterparty, market price, liquidity and operational risks were qualified as significant in the course of a risk inventory conducted at Group level. Accordingly, risk management focuses on these risk types in the narrower sense. Compliance with the existing risk strategy requirements was checked at the same time. In this context, it was determined that the risk strategy goals were met.

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. There is an established organisational separation between the market and risk management function up to and including the management level. The Board of Managing Directors establishes framework conditions, responsibilities and risk tolerances for the main types of risk and is responsible for the implementation of the risk strategy at the Bank level and for the 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 and distinctly defined down to the level of individual employees.

At the level of NORD/LB as the Group institution, additional 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 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.

Deutsche Hypo has an independent risk controlling function. Its primary function is to continuously monitor the Bank's risk situation and to prepare the risk report for management and the Supervisory Board.

The risk-oriented and process-independent review of the effectiveness and appropriateness of risk management is carried out by Deutsche Hypo's Internal Audit department. Its audit approach also extends to the Bank's outsourced functions and divisions.

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 that safeguards compliance with legal and regulatory provisions and supports other departments in performing their tasks in terms of compliance-relevant aspects. The compliance management systems are complemented by cross-departmental committees. The compliance function also performs regular prevention measures, as well as adequacy and efficiency surveys, and produces risk analyses.

To enhance existing contact options, Deutsche Hypo has implemented a whistle-blower system that can be used not only by employees, but also by customers, business partners and other stakeholders. This includes the function of an external ombudsman whom the whistle-blower may approach confidentially if there are suspicious acts involving criminal deeds or illegal business processes.

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 day-to-day 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 in day-to-day 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 main types of risk identified at Deutsche Hypo. Furthermore, the Board of Managing Directors is informed at various intervals (daily to quarterly, depending on the requirements) about the situation with major types of risk 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 case of material events.

Management of risks in the cover pool

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

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

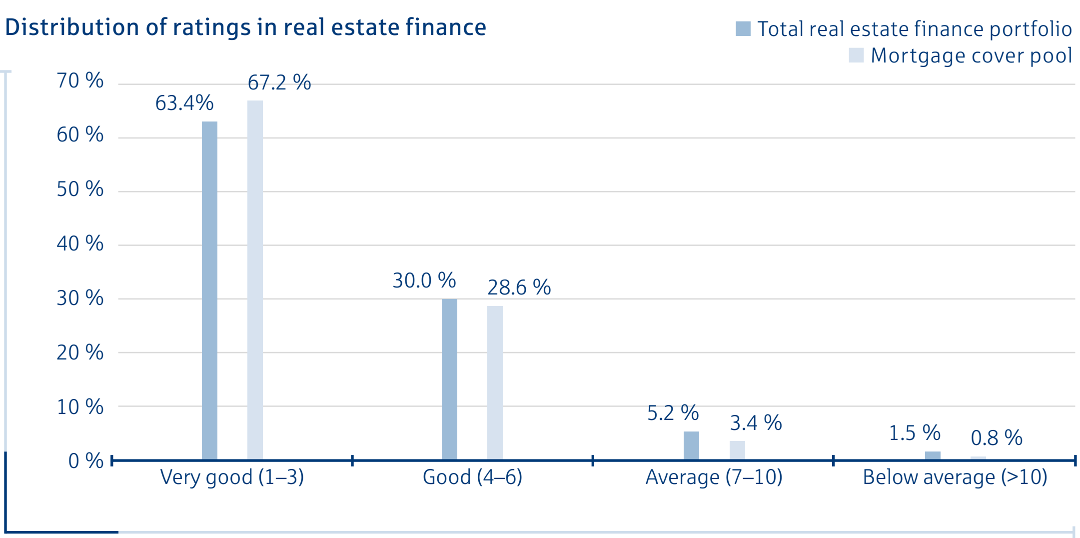
To comply with the requirements of the transparency provision in Section 28 of the German Pfandbrief Act, Deutsche Hypo publishes the appropriate information in the notes to the financial statements and – together with the historical values – on the Bank's website. The information on the Bank's website is not part of this management report.

The coverability of the cover assets in the United Kingdom will also be assured after Brexit. First, grandfathering rules apply to cover assets that will be entered into the cover register by the end of the transition phase on 31 December 2020. And second, the United Kingdom has been included in the group of third countries with coverage approval under the PfandBG, thus safeguarding the coverability of both portfolio finance and new business in the long term.

Cover pool of mortgage Pfandbriefe

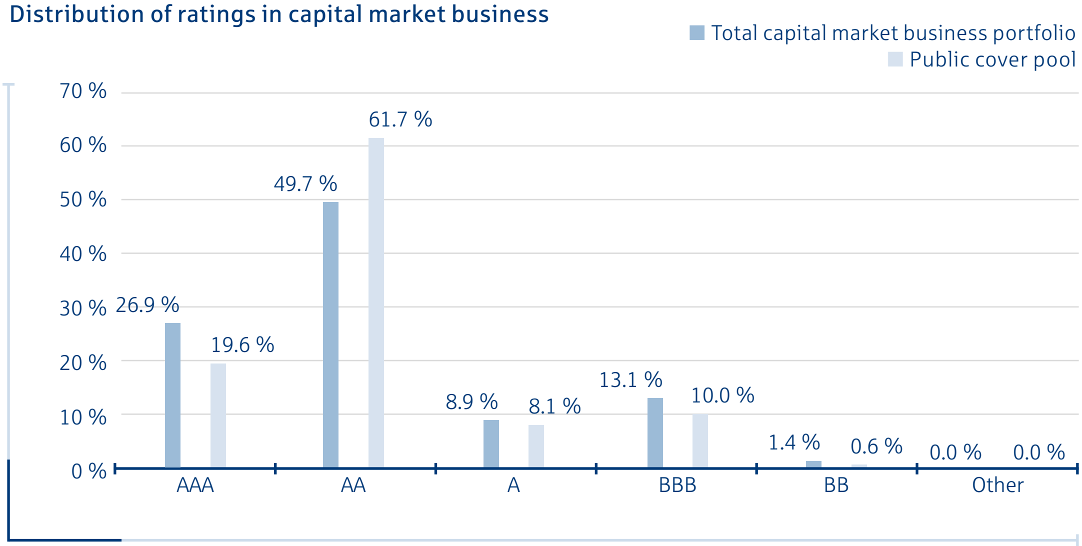
The proportion of good and very good credit ratings (rating scores 1 to 6 in line with the DSGV rating master scale) in the mortgage cover pool amounted to 95.8 % as of 31 December 2019 (2018: 93.9 %). In reference to the real estate finance portfolio, this proportion was 93.3 % (2018: 91.1 %). The rating distribution in the mortgage cover pool is a good indicator for the quality of the Pfandbriefe.

Distribution of ratings in real estate finance



Cover pool for public Pfandbriefe
The share of loans with a rating of A to AAA in the cover pool of public Pfandbriefe was 89.4 % as of 31 December 2019 (2018: 91.3 %). This contributes to a good rating for the Bank's issued Pfandbriefe by external rating agencies and documents the quality of the cover pool.

Distribution of ratings in capital market business



Risk management – risk bearing capacity

The risk bearing capacity (RBC) of Deutsche Hypo is monitored at the level of the NORD/LB Group due to the exercising of the waiver rule. Various factors are examined under the NORD/LB Group's RBC model. Based on the ECB's ICAAP guideline, the risk bearing capacity is examined from both a normative and an economic perspective. Concrete limits are derived from the RBC model for Deutsche Hypo in regards to credit risk, market price risk and liquidity risk. To check compliance with these limits, which constitute a central aspect of risk management at Deutsche Hypo, the risk contributions of the relevant risk types are calculated regularly. In the course of a value-at-risk approach, the risk contributions are standardised to a uniform confidence level of 99.9 % and generally a holding period of one year. Escalation mechanisms have been established for when limits are exceeded. Note that the relevant limits were adhered to at the Deutsche Hypo level as of the respective reporting dates.

Current developments

From the Bank's point of view, the external conditions resulting from a stable economic environment as well as continuing positive real estate markets and Deutsche Hypo's internal lending policy of recent years, which focuses on quality, have contributed to a risk level in the real estate financing portfolio which is still low by long-term standards, based on the average default risk. Due to the strategic focus, risk management focuses on counterparty risks in commercial real estate finance.

The money and capital markets continued to be defined by ongoing low interest rates and an even flatter yield curve, which, however, had no material impact on the Bank's earnings and risk situation due to the position and tight management of the change in interest rate risks. In 2019, the Bank's entire funding requirement was covered at market prices despite the challenging environment in view of the Group situation. Counterparty and credit spread risks arising from the capital market business were further lowered through the selective reduction of positions and regular maturities. The significance of operational risks continues to be minor.

Counterparty risk

Deutsche Hypo's counterparty risk consists of the credit risk including country risk. The financial investment risk has no strategic importance and is not relevant today, since there were no investments as of 31 December 2019. 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 case of cross-border transactions can be the country 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 risk strategy for credit risks, which, in turn, is part of the Group risk strategy. Deutsche Hypo's aim is to achieve a market level of profitability under risk and reward aspects by minimising unanticipated losses for the purpose of the active management of the credit risk items. The management of credit risks is a core competency in the portfolio and new business at Deutsche Hypo, and one that is continuously 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 property financing. 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 a comparable internal rating. Deutsche Hypo only pursues 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 intended 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 within the Bank for the new credit business for each market segment in the 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 (such as 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 and distinctly 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 credit risk controlling, credit risk management and special credits management.

Credit decisions as defined in MaRisk include all decisions on new loans, loan increases, loan takeovers, loan extensions and significant changes to risk-relevant properties of loans. Credit decisions are always made by two authorised employees or, for certain sizes of loans, by decision-making committees (such as 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. Processing and decisions on pure portfolio financing are made exclusively in the back office.

Before the credit decision is made by the responsible employee, two additional consenting votes – one vote from the market division and one from the back office division – are first required. The responsibility of the authorised employees is generally 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 – management 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 portfolio management for the optimisation of the income and risk structure. In addition to the management of new business, placements through syndication, direct sales of receivables or the divestiture of problematic exposures can be considered as portfolio-improving measures on a case-by-case basis.

Financing principles

The financing principles must be applied as a risk management instrument by all the institutions affiliated with the Group. With financing principles, the back office division and the market division establish ex ante what requirements potential business should meet as a minimum. The financing principles are used as a pre-selection mechanism for business initiation and do not anticipate definitive decisions in individual cases. Here the focus is 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 and/or 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 finance 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 – or most of the portfolio, in the case of apartment portfolios – is inspected by a Bank employee or an expert hired by the Bank prior to the credit decision.
- The financing must run out within the market values upon the initial decision with due regard for the mitigants and/or additional securities.

Limit system

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 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. Other sub-limits for each business area at Deutsche Hypo exist within this framework. Risks are limited at the level of country risk, sector risks and on the basis of individual risk bearers. In order to avoid concentrations of risk at the borrower level, limits have been put in place for economic units that extend beyond the rules for borrower units (the group of affiliated customers in terms of Art. 4 CRR). The actual form of the limits for real estate segments 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 twelve-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 Sparkassen-Finanzgruppe and the Landesbanks. Deutsche Hypo uses the rating results as part of the Group-wide approval for the basic internal ratings-based approach to estimate the regulatory equity backing required and for the determination of expected economic losses.

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 division (drawing right). Proactive avoidance or reduction of potential capital losses is the goal. This division is responsible for exerting 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 case of unwinding. Special Credit Management is also the sole centre of competence for determining the necessary risk provisioning and has to ensure an appropriate level of risk provisions at all times in this process.

The early identification of potential crisis situations forms the basis for the 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 commercial real estate finance, loans are generally secured by means of a mortgage in the amount of the loan. Mortgage collateral can be omitted in exceptional cases. A requirement for this is a good credit rating and observing the limit for financing not collateralised by mortgages.

The value of the property, and thus the value of the related securities, is monitored on a regular basis, generally at least annually. If there have been any changes to the influencing factors that are of relevance to the value of the security, a revaluation must be carried out. Deutsche Hypo’s credit guidelines and lending principles set out definitions of the basic types of security and properties being mortgaged that may be used as 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 cover eligibility of the loan receivables and thus influences the volume of the cover pool available as security for Pfandbriefe issued, in accordance with the terms of the German 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 or public authorities 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 at the level of the NORD/LB Group and on the other at the level of the individual institution of Deutsche Hypo. 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 into account any collateral. The expected loss corresponds to the expected defaults in the loan portfolio over the next twelve months. To cover expected losses, the Bank collects a risk premium as part of its margin. The amount of this premium for each individual loan depends on the volume of receivables after adjustments for the loan conversion factor, the rating or 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. It determines 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 (basic IRBA) to calculate the regulatory equity 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 scenarios and their ongoing monitoring take place with the inclusion of Deutsche Hypo. Major 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. The same applies to other scenarios, such as a stress analysis of a real estate crisis on the basis of an annual, regular determination process. 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. Additional scenarios, for example focused on real estate financing, are calculated on a case-by-case basis.

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 reports on conspicuous exposures as part of the early warning system and on the development of 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 2019 was € 22,777.9 million, down € 697.7 million as compared to the end of the previous year. At € 13,469.6 million, the volume of commercial real estate finance business was almost on par with the previous year. By contrast, the credit exposure for loans to local authorities fell by € 373.3 million to € 2,479.5 million. There was also a significant decline of € 756.3 million in the portfolio of securities and derivatives. There was an increase of € 498.0 million in other financing products, which mainly arises from bank balances. 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 rating 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 83.4 %, up slightly from the previous-year level. In addition to the continuing high proportion of exposures to governments, public authorities and financial institutions, which were largely assigned the best rating class "very good to good", this was mainly due to a larger proportion of real estate financing in the best IFD rating class compared with the previous year.

The share of non-performing loans (NPL) in the overall exposure, at 0.3 %, was below the level of the previous year (0.5 %). The absolute volume fell by € 53.5 million to € 67.4 million.

In the following, the breakdown of the credit exposure by rating categories is described in table form.

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

31.12.2019 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva-tives	Other	Total exposure	Share in total exposure
Very good to good	10,325.6	2,479.5	3,826.6	545.5	1,808.3	18,985.5	83.4 %
Good / satisfactory	1,968.8	0.0	183.1	0.0	0.0	2,151.9	9.4 %
Still good / sufficient	891.2	0.0	0.0	0.0	0.0	891.2	3.9 %
Elevated risk	100.2	0.0	7.1	0.0	440.6	548.0	2.4 %
High risk	85.9	0.0	0.0	0.0	0.0	85.9	0.4 %
Very high risk	48.0	0.0	0.0	0.0	0.0	48.0	0.2 %
Default (=NPL)	50.0	0.0	0.0	17.5	0.0	67.4	0.3 %
Total	**13,469.6**	**2,479.5**	**4,016.8**	**563.0**	**2,248.9**	**22,777.9**	**100.0 %**

31.12.2018 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva-tives	Other	Total exposure	Share in total exposure
Very good to good	9,804.1	2,852.8	4,352.6	603.5	1,739.6	19,352.6	82.4 %
Good / satisfactory	2,554.2	0.0	332.5	0.0	0.0	2,886.7	12.3 %
Still good / sufficient	868.7	0.0	16.2	0.0	0.0	884.9	3.8 %
Elevated risk	128.8	0.0	14.1	0.0	11.3	154.3	0.7 %
High risk	65.8	0.0	0.0	0.0	0.0	65.8	0.3 %
Very high risk	10.4	0.0	0.0	0.0	0.0	10.4	0.0 %
Default (=NPL)	103.9	0.0	0.0	17.0	0.0	120.9	0.5 %
Total	**13,535.9**	**2,852.8**	**4,715.5**	**620.6**	**1,750.9**	**23,475.6**	**100.0 %**

A total of 97.9 % (2018: 97.7 %) of the Bank's credit exposure in the real estate finance business consisted at year end of financing for customers that have a rating of at least satisfactory. In the past year, the volume-weighted average probability of default in the commercial real estate business (excluding defaults) only changed slightly and, compared to the long-term average, remained at a very low level of 0.35 % as of 31 December 2019 (2018: 0.31 %). The NPL volume sank further in comparison to the previous year to € 50.0 million (2018: € 103.9 million). The share of NPLs in the overall portfolio was 0.4 %, down from 0.8 % in the previous year. The NPL portfolio consisted of foreign financing in Spain and the UK. Overall, the proportion of the NPL credit exposure falls significantly below the level of the long-term average values.

Breakdown of the total credit exposure by segments and region:

31.12.2019 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Eurozone	11,183.9	2,401.5	3,121.1	354.8	2,236.4	19,297.7	84.7 %
of which, Germany	7,394.0	1,699.4	1,441.9	321.0	2,235.7	13,092.0	57.5 %
Other EU	2,250.9	8.2	154.7	32.8	5.5	2,452.2	10.8 %
of which, UK	1,772.8	0.0	86.9	17.7	5.5	1,882.9	8.3 %
Other Europe	0.0	69.8	25.3	36.8	0.0	131.9	0.6 %
North America	34.8	0.0	477.5	138.5	7.0	657.8	2.9 %
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	238.2	0.0	0.0	238.2	1.0 %
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Total	**13,469.6**	**2,479.5**	**4,016.8**	**563.0**	**2,248.9**	**22,777.9**	**100.0 %**

31.12.2018 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Eurozone	11,355.2	2,683.5	3,472.7	366.3	1,743.0	19,620.6	83.6 %
of which, Germany	7,715.2	2,057.8	1,971.1	333.1	1,727.7	13,804.8	58.8 %
Other EU	2,031.4	8.2	175.5	39.6	4.5	2,259.2	9.6 %
of which, UK	1,641.8	0.0	83.5	25.2	4.5	1,754.9	7.5 %
Other Europe	0.0	67.6	50.4	56.0	0.0	174.0	0.7 %
North America	149.4	0.0	440.1	158.7	3.4	751.6	3.2 %
Central America	0.0	0.0	5.6	0.0	0.0	5.6	0.0 %
Middle East / Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Asia	0.0	0.0	238.2	0.0	0.0	238.2	1.0 %
Other	0.0	93.4	333.0	0.0	0.0	426.5	1.8 %
Total	**13,535.9**	**2,852.8**	**4,715.5**	**620.6**	**1,750.9**	**23,475.6**	**100.0 %**

The breakdown of the credit exposure by segments and regions shows that 96.1 % (2018: 93.9 %) of the entire exposure is in Europe. The credit exposure in Germany as a percentage of the total exposure decreased slightly to 57.5 % (2018: 58.8 %) during the reporting period.

The exposure in what are known as the PIIGS countries decreased significantly in recent years. Balances were further reduced beyond planned maturities in the past financial year, especially in Italy.

Real estate financing in the UK was analysed in particular against the background of a Brexit scenario. Even in case of considerable market changes, the results confirm what the Bank considers to be an overall conservative portfolio structure. No significant negative effects are expected aside from individual special cases.

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 to 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 towards written-down claims are recorded in the income statement.

The specific loan loss provisions and provisions rose in the past financial year compared to the previous year, to € 40.5 million (2018: € 27.7 million). This amount was attributable to the countries of the eurozone, the United Kingdom and North America. Of the overall NPL portfolio credit exposure of € 67.4 million (2018: € 120.9 million), € 50.0 million (2018: € 24.1 million) related to impaired commercial real estate finance, while € 17.5 million (2018: € 17.0 million) related to impaired transactions in the capital market business with derivatives, and € 0.0 million (2018: € 79.8 million) to overdue, non-impaired loans. The amount of specific loan loss provisions and provisions as a percentage of the total credit exposure was 0.18 % (2018: 0.12 %) as of 31 December 2019.

The overall amount of NPL exposures is secured by standard collateral, which is valued using the applicable lending principles.

Counterparty risk – outlook

Although the Bank assumes that the current trend on the real estate markets will generally continue in 2020, the retail segments in the United Kingdom and the Netherlands are under particular observation. The Bank believes that the level of risk provisioning is low. However, it cannot be assumed that the current level will be maintained in the long term. Deutsche Hypo therefore expects that the necessary risk provisioning and the risk-weighted assets from commercial real estate financing will once again approach the long-term average value in the medium term.

Even though the capital market environment was largely consistent in 2019, it cannot be ruled out entirely that individual capital market counterparties could face payment difficulties in the future. Depending on the specific framework 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 Art. 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. 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. Further opportunistic positioning – particularly with the goal of achieving the short-term realisation of speculative profits – is not pursued and also not planned.

The economic interest rate risks arise mainly from the investment of perpetually available equity. Earnings-oriented interest rate risks arise in the course of operational business activities and are largely caused by mismatches in the maturity structure of short-term fixed interest rates as well as different reference interest rates on the assets and liabilities side along with corresponding hedging transactions. They are of minor importance compared to economic interest rate risks. Interest rate risks in foreign currencies are not assumed. In order to limit economic interest rate risks, Deutsche Hypo pursues the goal of limiting the effects of the early warning interest rate scenarios (EBA/GL/2018/02) prescribed by the regulatory authorities on the interest book cash value to a maximum of 15 % of core capital.

To reduce credit spread risks, Deutsche Hypo has been pursuing the strategy of successively reducing the existing capital market portfolio while protecting 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 the 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. Ensuring the correctness of the transaction data in the data processing systems and the proper processing of the financial market business is handled by Treasury Operations in the market price risk management process. Controlling is responsible for various risk controlling tasks, for example related to risk assessment, controlling and monitoring processes, and 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 – management and monitoring

Market price risks are mainly managed using limits that take the risk strategy requirements into account. Factors including interest sensitivities, internal and regulatory interest shocks and probability-based figures such as value-at-risk (VaR) are used to manage interest rate risks in the banking book. 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 on the income statement in accordance with the German Commercial Code. To achieve these goals, the open nominal overhangs per currency are controlled within narrow early warning limits.

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 limit violations. Compliance with the limits is monitored at various intervals from daily to quarterly.

To control or reduce market price 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. Derivatives such as interest and currency swaps as well as forwards are primarily used as hedging instruments. Additional information regarding hedging and the reporting of hedging relationships on the balance sheet is provided in the notes to the financial statements.

Market price risk – reporting

The quarterly risk report encompassing all risk types includes a sub-report on market price risk, which includes all the important information on strategic management of the market price risks.

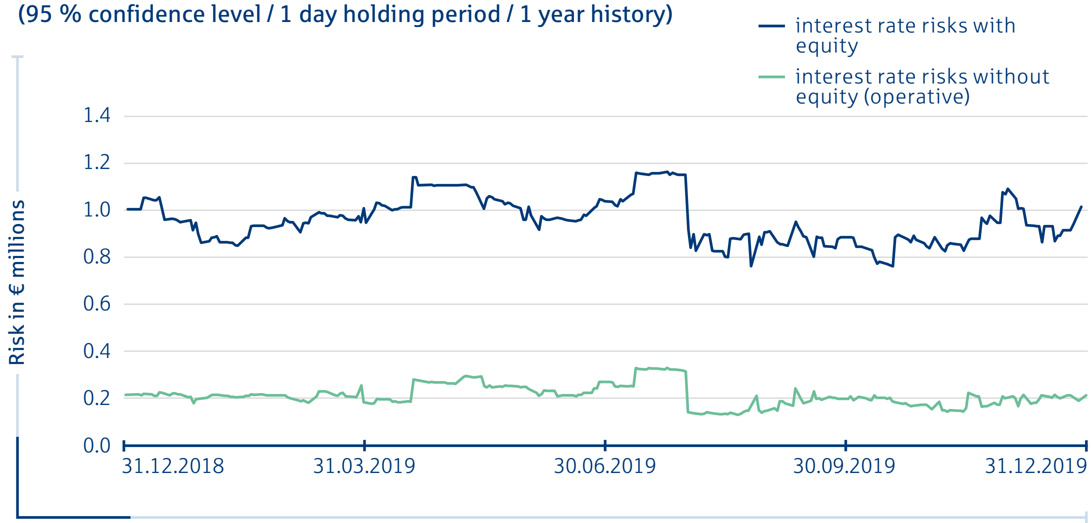
The Board of Managing Directors and Treasury receive a daily report to keep them informed of the economic interest rate risks and the income from the Bank's interest maturity transformation. Weekly reporting is in place for the ALCO and also includes VaR indicators for interest rate and credit spread risks. The banking book's hidden charges and reserves, as well as the earnings-oriented risk figures, are reported to the ALCO monthly or quarterly. Daily reports on foreign currency risks are also sent to Treasury.

Market price risk – developments and outlook

Also as expected, the very low, in part negative interest rate observed in the markets and the flattening of euro yield curve that occurred during the year had a negligible impact on the Bank's earnings and risk position.

The economic interest rate risk was mainly caused by the investment of perpetually available equity. Other interest rate risk caused by the Bank's operational business activities, measured as a 100 basis point interest rate shock, was around € 3.4 million at the end of the year. The daily calculated VaR for the interest rate risk (95 % confidence level, 1-day holiday period) fluctuated between € 0.76 million and € 1.16 million in the reporting period, with an average of € 0.96 million. The following chart shows the development of the VaR for interest rate risk in the past reporting year, including the equity investment, along with the operative portfolio VaR (excluding the equity investment). Credit spread risks of the banking book are not included in the VaR. The chart clearly shows the minor importance of the operational portfolio for the economic interest rate risk. The results confirm Deutsche Hypo's low risk appetite.

Change in value-at-risk interest rate risks
(95 % confidence level / 1 day holding period / 1 year history)



The nominal volume that involves credit spread risks totalled € 6,403.4 million as of 31 December 2019 (2018: € 7,458.1 million), a considerable decrease of € 1,054.7 million over the course of the year. Hidden charges in the capital market portfolio were reduced slightly in 2019.

The systematic pursuit of the conservative risk strategy goals and the attentive monitoring of the market developments in 2020 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 2020, 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 2020 will, among other things, be on implementing the requirements of CRR II regarding the calculation, reporting and management of capital requirements for market price risk in accordance with the new standard approach for foreign currency 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. Internally the liquidity risk is divided into classic liquidity risk including intra-day liquidity risk and liquidity spread risk.

Liquidity risk – targets and strategy

For the Bank, the securing of liquidity available at any time, both under normal and stress scenarios, is a strategic necessity. This is ensured by holding highly liquid, diversified and unencumbered assets and the option of issuing mortgage Pfandbriefe as a stable source of refinancing. Both unencumbered liquid assets and stable refinancing sources serve to hedge expected and unexpected liquidity risks. In order to satisfy the requirements of the German Pfandbrief Act (Pfandbriefgesetz), liquid securities are held in the respective cover pools if necessary, to ensure the liquidity of cover pools for public and mortgage Pfandbriefe. Total volume and structural requirements regarding the diversification of total liquidity assets are determined on a regular basis and take into consideration management buffers that go above and beyond minimum regulatory and supervisory requirements, reflecting the liquidity risk propensity of Deutsche Hypo and ensuring adequate flexibility in operative business management. The costs associated with liquid assets are taken into account in the liquidity transfer price system.

In funding the business activities in the market divisions, Deutsche Hypo fundamentally pursues the strategy of term-congruent funding. This is reflected in the annual liquidity and funding planning. Involvement in structural liquidity-term transformation positions is of minor strategic significance for the Bank. The intraday liquidity risk has no appreciable impact. Surpassing the regulatory LCR (liquidity coverage ratio) requirements at all times is anchored in the liquidity risk goals and strategies.

The Bank's Liquidity Policy (LP) constitutes the strategic framework directive for ensuring adequate liquidity. In the case of a liquidity crisis, the management of the liquidity risk in accordance with the LP concept is assumed by an independent committee 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 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 Funds 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 operational 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 validation, monitoring and reporting functions. Controlling handles liquidity reporting in accordance with CRR. Treasury and Controlling are responsible for preparing liquidity and funding planning and forecasts, as well as calculating liquid asset requirements.

Liquidity risk – management and monitoring

Present value limits derived from the risk bearing capacity model of the NORD/LB Group and volume structure limits are used to control and monitor the liquidity spread risks. Monitoring the limit utilisation of the volume structure limits takes place daily 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 liquidity spread 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. This 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. These also include unencumbered liquid assets and modelled incoming payments from stable funding sources. Compliance with the limits is monitored daily. Additional scenarios and stress tests are also examined. Both institution-specific and market-wide crisis scenarios are modelled in this context. A standardised process is used to assess the materiality of individual foreign currencies. Insofar as individual foreign currencies are classified as significant, the classic liquidity risk is also monitored in these foreign currencies.

Compliance 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. The net stable funding ratio (NSFR) is managed through internal planning specifications.

Liquidity risk – reporting

The quarterly risk report provides the Board of Managing Directors and the Supervisory Board with comprehensive information about the current situation regarding the classic liquidity risk and liquidity spread risk as well as the regulatory liquidity indicators, LCR and NSFR. The report on the dynamic stress scenario is also provided daily to Treasury and the Board of Managing Directors. The utilisation pursuant to MaRisk of the required liquidity buffer, the liquidity outflow statement, the utilisation of the volume structure limits and the cash limit for the liquidity spread risk as well as the LCR positions and ratios are also provided to Treasury daily. Weekly reporting regarding expected liquidity flows is in place for the ALCO. In addition, the development of the LCR indicator is reported monthly to the ALCO.

Liquidity risk – developments and outlook

In 2019 Deutsche Hypo had sufficient access at all times to the money market and capital market at conditions in line with the market in spite of the challenging environment within the Group due to the rating situation. The total issue volume presented in the economic report and measured in terms of the Bank's need made it possible to place sufficient secured and unsecured issues on the market. Operative liquidity management was strongly affected by the challenging environment. For example, detailed enquiries are made on a regular basis in market divisions on expected disbursements, loan extensions and unscheduled repayments and this information is fed into regular forecasts for relevant internal and external liquidity figures. This way, necessary controlling measures can be identified pre-emptively in order to meet internal, regulatory and legal liquidity requirements.

Volume structure limits were complied with at all times during the reporting year. The present value liquidity spread risk dropped slightly compared to the previous year, and was met at all times. The DtI metric from the daily dynamic liquidity stress test used for internal controlling and limiting was within the existing required range in 2019. The green phase in the traffic light system was maintained throughout the year. As of 31 December 2019, the DtI was 305 days (2018: 293 days).

The applicable minimum regulatory LCR requirements of 100.0 % were met continuously in 2019. As of 31 December 2019, the ratio was at 396.3 % (2018: 264.1 %, 2019 average: 331.9 %). Internal planning specifications for the NSFR ratios were surpassed by a considerable margin as of 31 December 2019.

The improvement of the Moody's rating for Deutsche Hypo, published on 9 January 2020, in conjunction with the lowering of excess cover requirements both for mortgage Pfandbriefe and for public Pfandbriefe is expected to have a positive impact on funding conditions and opportunities. Nonetheless, the principle of close management and monitoring of the liquidity situation will continue to be pursued in 2020. Once the CRR II enters into force in reporting year 2019, liquidity reporting activities will focus on implementing NSFR reporting requirements. Due to the Bank's funding structure and the high proportion of coverable loans in the total asset portfolio, the Bank expects to surpass the intended minimum requirements concerning the NSFR ratio.

In terms of an individual MREL (minimum requirement for own funds and eligible liabilities) for Deutsche Hypo, the bank submitted an application to approve an MREL waiver pursuant to Article 12 (10) Single Resolution Mechanism Regulation (SRMR) in conjunction with Article 45 (12)(a-c) Bank Recovery and Resolution Directive (BRRD).

Operational risk

Operational risks are possible events, unintended from the Bank's perspective, that occur due to the inadequacy or failure of internal processes, employees or technologies or due to external influences and lead to damage or significant negative consequences for the Bank. According to this definition, operational risks include legal risks and the risks of changes in laws, compliance risks, outsourcing risks, insourcing risks, conduct risks, fraud risks, model risks, IT risks, information security risks and vulnerability risks in emergency and crisis management as well as HR risks.

Operational risk – goals and strategies

The guidelines for dealing with operational risks are formulated in the Group risk strategy. These encompass the timely identification of operational risks and the initiation of meaningful countermeasures regarding economic and risk strategy aspects. Operational risks should generally be avoided, transferred or alleviated. The guidelines also include the goal of avoiding future damage through a solid risk culture, which encompasses dealing with operational risks openly. Operational risks must be taken into account in all company decisions. There are framework conditions in the form of technical and organisational measures, contractual provisions and work instructions to reduce the operational risk as much as possible and to guarantee business security. Not only specific contingency plans and additional insurance coverage, but also every employee's understanding of risks play a key role in this context.

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 method. 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. The existing outsourcing of operational risk controlling to NORD/LB was ended as at 31 October 2019 and is now performed independently with the help of a Group-wide risk management tool. This tool helps the various divisions record, assess and manage risks, thereby ensuring that operational risks are treated in the same manner Group-wide.

Operational risk – structure and organisation

The Board of Managing Directors and all other Bank divisions are included in the process of managing operational risks. Within the set framework conditions, responsibility for the controlling of operational risks is decentralised and lies with the individual divisions. An integrated, Group-wide approach is used for controlling operational risks and continuously optimised. The Risk Round Table committee is a platform for discussing important matters of relevance to operational risk, the evaluation of such matters by the Bank, and the assessment of possible future risks within Deutsche Hypo at the level of division heads and experts. A uniform risk matrix is used for the assessment of risks. Controlling handles the central tracking of operational risks and their independent reporting.

Operational risk – management 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 adapted to an appropriate extent in view of the type and scope, structure and operational risk situation of the Bank.

The management of operational risks is supported in this context by a methodological framework for risk assessment. Against the background of a constantly updated assessment of the risk situation, ongoing extensive information such as cases of loss, risk indicators and the results of scenario analyses is evaluated. Suitable countermeasures are taken by the responsible divisions if the occasion requires it. For example, in the past financial year, investments in the IT systems continued with the aim of strengthening the level of IT and information security over the long term, 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 established to ensure the prompt introduction of countermeasures.

Operational risk – reporting

In the course of the risk management process, the results from the Risk Round Table committee are processed as part of the risk report. Current risk is assessed using a traffic light system overview on the basis of different risk categories. This examination includes the recorded risk indicators, 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. Special events in the reporting period are reported as well, such as damage or ad hoc reports, as well as the OpVaR determined for Deutsche Hypo by NORD/LB. The Board of Managing Directors and the Supervisory Board are informed of the current status in the quarterly risk report.

Operational risk – development

Significant cases of damage were not noted in 2019. Existing provisions for legal uncertainties arising from existing contracts in the credit business were largely reversed through profit or loss.

Accounting-related internal control system and risk management system

The accounting-related internal control system (ICS) is 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 as warranted on occasion, their results must be documented and their appropriateness has to be checked at regular intervals. They include ongoing manual control tasks within the work process and programmed controls within the IT systems. In particular, controls have been implemented at the interfaces between the participating divisions and 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:

- The Accounting division is responsible for preparing the annual financial statements and the management report. The accuracy and completeness of the accounting transactions from supplying divisions is their responsibility, and is subject to directed controls. Areas of responsibility within the accounting process are clearly allocated in consideration of appropriate separation of duties.
- 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 continuous monitoring of the IT systems by appropriately trained employees of the Bank and external system partners reduces the risk of downtime and ensures high availability.
- The Bank has implemented a system of guidelines and instructions in an organisation manual that takes the form of an organisational structure and workflows.
- All accounting processes are subject to consistent manual and automated controls according to the principle of dual control.
- Bookkeeping files that are received or forwarded are continuously checked for completeness and accuracy, for example by means of random sampling. Programmed plausibility tests are conducted by the software that is used.
- The plausibility of the data determined in the accounting process is regularly checked.
- Internal Audit checks compliance with 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 legal 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, compliance with the equity and capital requirements and the regulatory equity resource 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 equity in accordance with Art. 4 (1) no. 71 CRR with the risk-weighted assets.

In accordance with the regulatory requirements, a total of € 1,003.2 million (2018: € 1,054.8 million) was eligible for recognition under regulatory capital requirements in the Group as of the balance sheet date. This means a decline of € 51.6 million relative to the end of 2018 due to the planned maturity of supplementary capital components. At the same time, RWA remained relatively constant. Therefore, the equity ratio was 17.6 % (2017: 18.5 %).

Summary of the risk position

From the perspective of the Board of Managing Directors, Deutsche Hypo has systematically continued its conservative risk policy in 2019 and maintains a favourable risk position. Due to the ongoing generally positive development of the commercial real estate markets and the constant focus on good credit ratings and sustainable securities when acquiring new business, the risk indicators for the credit portfolio remain at their previous level. This is indicated among other things by the historically low proportion of financing in default out of the overall portfolio.

Further reductions were realised in the capital market portfolio in line with the business strategy in 2019, thereby reducing the accompanying credit spread risks. The Bank's interest rate risk also remained very low as a result of Deutsche Hypo's low risk appetite.

Deutsche Hypo was able to adequately cover its funding requirements at all times at conditions in line with the market during the challenging past financial year. Internal, regulatory and statutory minimum liquidity requirements, as well as the Group's strategic limit requirements, were met without exception.

Deutsche Hypo will continue to systematically pursue what it considers to be a conservative risk policy. This includes complying with existing risk standards in commercial real estate financing business and also continuing to reduce its public sector finance portfolio while protecting the income statement. Deutsche Hypo will push ahead with the continuous improvement of its risk structure in the future.

Amendment of the management report

Against the background of the developments in the corona crisis, on March 24, 2020 the Board of Managing Directors supplemented the management report in section 3 "report of subsequent events" with statements on the corona crisis and its effects on the future development of the company.

At the same time, the notes to the financial statements in section 3 "Events after the balance sheet date" were supplemented by events after the balance sheet date with regard to the developments of the corona crisis. There were no other changes in the annual financial statements.

Hanover, 3 March 2020 / 24 March 2020

The Board of Managing Directors

Barthauer Rehfus

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2019

ASSETS

	€	€	€	31 December 2018 (in € thousands)
1. Cash reserve				
b) Credit with central banks		451,735,422.72		13,662
of which: with the "Deutsche Bundesbank" € 451,735,422.72 (PY € 13,662 thousand)				
			451,735,422.72	**13,662**
2. Receivables from financial institutions				
a) Mortgage loans		5,091,933.34		7,853
b) Loans to local authorities		183,728,548.80		298,009
c) Other receivables		1,186,408,328.78		997,234
of which: due daily € 899,010,575.76 (PY € 679,162 thousand)				
			1,375,228,810.92	**1,303,096**
3. Receivables from customers				
a) Mortgage loans		12,183,226,617.38		12,256,144
b) Loans to local authorities		2,289,955,574.86		2,546,401
c) Other receivables		27,749,725.27		17,006
			14,500,931,917.51	**14,819,551**
4. Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers	2,120,991,067.67			2,282,180
of which: lendable to the "Deutsche Bundesbank" € 1,317,983,216.76 (PY € 1,489,321 thousand)				
bb) from other issuers	1,895,852,007.19			2,434,434
of which: lendable to the "Deutsche Bundesbank" € 1,722,672,348.74 (PY € 2,299,337 thousand)				
		4,016,843,074.86		
c) Own bonds		278,076.36		46,869
Nominal amount: € 263,000.00 (PY € 47,297 thousand)				
			4,017,121,151.22	**4,763,483**
5. Intangible assets				
b) Purchased licenses, industrial property rights, as well as licenses to such rights and assets		1,173,685.00		1,382
d) Payments made on account		99,019.90		119
			1,272,704.90	**1,501**
6. Tangible assets			**1,807,781.31**	**1,770**
7. Other assets			**64,011,801.42**	**121,790**
8. Accrued and deferred items				
a) from the issue and loan transaction		37,800,795.73		42,904
b) others		4,265,828.01		5,081
			42,066,623.74	**47,985**
Total assets			**20,454,176,213.74**	**21,072,838**

LIABILITIES

	€	€	€	31 December 2018 (in € thousands)
1. Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		193,352,675.76		191,895
b) Issued registered public Pfandbriefe		218,089,978.99		278,094
c) Other liabilities		2,442,150,365.06		2,643,359
of which: due daily				
€ 346,519,834.26 (PY € 324,473 thousand)				
			2,853,593,019.81	**3,113,348**
2. Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		565,310,602.49		680,490
b) Issued registered public Pfandbriefe		2,935,857,259.39		3,385,838
d) Other liabilities		3,302,208,202.79		3,253,997
of which: due daily				
€ 4,303,375.70 (PY € 8,747 thousand)				
			6,803,376,064.67	**7,320,325**
3. Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,572,262,445.92			7,255,699
ab) public Pfandbriefe	132,802,372.04			142,990
ac) other bonds	1,661,686,324.11			1,784,279
		9,366,751,142.07		
			9,366,751,142.07	**9,182,968**
4. Other liabilities			**92,200,146.89**	**83,447**
5. Accrued and deferred items				
a) from the issue and loan transaction		45,576,083.83		28,559
b) other		8,225,393.93		11,308
			53,801,477.76	**39,867**
6. Provisions				
a) Provisions from pensions and similar obligations		61,049,152.87		54,163
b) Tax provisions		36,999.99		2,274
c) Other provisions		29,796,586.48		44,374
			90,882,739.34	**100,811**
7. Subordinated liabilities			**341,000,000.00**	**379,500**
8. Funds for general banking risks			**14,400,000.00**	**14,400**
9. Equity				
a) Subscribed capital		80,640,000.00		80,640
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		
			838,171,623.19	**838,172**
Total liabilities			**20,454,176,213.73**	**21,072,838**
1. Contingent liabilities				
b) Liabilities arising from sureties and guarantee agreements		393,798,179.35		462,220
			393,798,179.35	**462,220**
2. Other obligations				
c) Irrevocable credit commitments		1,072,646,243.29		1,061,606
			1,072,646,243.29	**1,061,606**

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

	€	€	€	€	1 January 2018 – 31 December 2018 (in € thousands)
1. Interest earnings from					
a) Credit and money market transactions	427,034,937.67				428,519
less neg. interest from money market transactions	– 3,875,457.00				– 2,965
		423,159,480.67			
b) Fixed interest bearing securities and book-entry securities		109,323,292.03			119,446
			532,482,772.70		
2. Interest expenses					
Interest expenses from the banking business		356,609,201.92			372,729
less positive interest from the banking business		– 6,666,484.59			– 5,137
			349,942,717.33		
				182,540,055.37	177,408
3. Commission income			10,065,157.81		10,737
4. Commission expenses			9,166,549.64		10,844
				898,608.17	– 107
5. Other operating income				8,558,791.83	2,368
6. General administrative expenses					
a) Personnel expenses					
aa) wages and salaries		33,652,221.92			32,943
ab) social security and expenses for pension plans and for support		7,569,616.76			10,190
of which: for pension plans € 1,510,110.02 (PY € 4,293 thousand)					
			41,221,838.68		
b) Other administrative expenses			39,073,667.39		39,925
				80,295,506.07	83,058
7. Write-downs and value adjustments of intangible assets and tangible fixed assets				887,024.05	960
8. Other operating expenses				8,515,211.25	9,770
9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business			41,643,099.54		20,272
				41,643,099.54	20,272
10. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securites treated as fixed assets			5,514,405.00		0
				5,514,405.00	0
11. Income from write-ups of participatory interests, shares in affiliated companies and securities treated as fixed assets			0.00		9,092
				0.00	9,092
12. Result from normal operations				55,142,209.46	74,701
13. Extraordinary income			0.00		295
14. Extraordinary expenses			928,014.07		16,832
15. Extraordinary result				– 928,014.07	– 16,537
16. Taxes on income			– 65,269.95		2,920
17. Other taxes not included under item 8			76,119.67		48
				10,849.72	2,968
18. Profits surrendered under partial surrender agreements or a profit and loss transfer agreement				54,203,345.67	55,196
19. Profit for the period				0.00	0
20. Transfer to profit reserves				0.00	0
21. Balance sheet profit				0.00	0

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 2019	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**
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 2019	**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 2018	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**
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 2018	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**

CASH FLOW STATEMENT

in € thousands		1 January – 31 December 2019	1 January – 31 December 2018
1.	**Net result**	**0**	**0**
2.	Write-downs, value adjustments and write-ups to receivables and tangible fixed assets	36,715	12,313
3.	Increase/decrease in reserves	– 8,620	856
4.	Other non-cash expenses/income	0	0
5.	Profit/loss from the disposal of tangible fixed assets	– 12,900	– 42,497
6.	Profit to be surrendered under a profit and loss transfer agreement	54,203	55,196
7.	Other adjustments (balance)	– 2,848	– 2,352
8.	Increase/decrease of receivables from financial institutions	– 91,756	536,827
9.	Increase/decrease of receivables from customers	282,949	635,327
10.	Increase/decrease of securities (if not financial assets)	46,555	– 20,410
11.	Increase/decrease of other assets from current operations	52,240	– 14,526
12.	Increase/decrease of liabilities to financial institutions	– 246,157	– 532,270
13.	Increase/decrease of liabilities to customers	– 500,583	– 730,543
14.	Increase/decrease of securitised liabilities	182,352	– 1,317,243
15.	Increase/decrease of other liabilities from current operations	40,153	37,896
16.	Interest expenses/income	– 182,540	– 177,408
17.	Expenses/income from extraordinary items	928	16,537
18.	Income tax expenses/income	– 65	2,920
19.	Interest and dividend payments received	547,193	587,968
20.	Interest paid	– 345,549	– 389,552
21.	Extraordinary deposits	0	0
22.	Extraordinary disbursements	0	– 978
23.	Income tax payments	– 2,667	– 3,303
24.	**Cash flow from current operations (total of items 1 to 23)**	**– 150,397**	**– 1,345,242**
25.	Deposits from disposals of financial assets	1,031,564	854,170
26.	Disbursements for investments in financial assets	– 327,662	– 43,958
27.	Deposits from disposals of tangible fixed assets	0	3
28.	Disbursements for investments in tangible fixed assets	– 530	– 246
29.	Deposits from disposals of intangible fixed assets	0	0
30.	Disbursements for investments in intangible fixed assets	– 166	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)	0	– 192
34.	Deposits from extraordinary items	0	0
35.	Disbursements for extraordinary items	0	0
36.	**Cash flow from investment activities (total of items 25 to 35)**	**703,206**	**809,777**
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	– 21,040	– 22,744
46.	Profit and loss transfer	– 55,196	– 56,280
47.	Changes in funds from other capital (balance)	– 38,500	– 20,000
48.	**Cash flow from financing activities (total of items 37 to 47)**	**– 114,736**	**– 99,024**
49.	Cash changes in finance funds (total from 24, 36, 48)	438,073	– 634,489
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	13,662	648,151
53.	**Finance funds at the end of period (total of items 49 to 52)**	**451,735**	**13,662**

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 of 31 December 2018 were published on 23 May 2019 in the federal gazette.

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

2. Accounting regulations

The annual financial statements of Deutsche Hypo for the financial year 2019 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 foreign locations. These are calculated on the basis of the taxable result at the applicable income tax rate.

3. Events after the balance sheet date

Supplement on the development of the effects of coronavirus until 24 March 2020:

After the balance sheet date, the coronavirus spread worldwide ("corona crisis"). Since 11 March, the WHO has classified the spread of the virus as a pandemic. The spread of the coronavirus thus has a noticeable, in some cases significant, impact on the economic activity of many markets. This has also significantly increased the likelihood of further burdens on the economy and future negative consequences for the real estate industry. As a result, there was a noticeable deterioration in the sentiment among companies and consumers. Sharp declines in share prices with higher volatilities were observed at times on the capital markets. In this respect, a value-determining event occurred after the balance sheet date.

The concrete effects on the economy, individual markets and sectors cannot yet be conclusively assessed. In view of the unfolding dynamics, the forecasts contained in the management report are characterised by a high degree of uncertainty. However, if the effects of the coronavirus on the economy are reflected in sustained economic and capital market burdens and the current situation persists or worsens for a longer period of time, this could also have a significant negative impact on the real estate markets due to vacancies and losses in the value of commercial properties, thus leading to rising risk provisioning expenses. There could also be a significant decrease in new business volume and portfolios in commercial real estate financing. Therefore, it cannot be ruled out that further developments relating to the corona crisis will have a considerable negative impact on the planned earnings figures. In such a situation, the result from normal operations in 2020 could be significantly lower than in 2019 as a result of rising risk provision expenses and burdens in net interest income. In this case, the other key performance indicators CIR and RoE could possibly also develop less favourably than shown in the forecast report. In addition, there may be corresponding consequences for regulatory capital and regulatory key figures at both the Bank and Group levels. This could also result in considerable liquidity risks. It cannot be ruled out that further developments in the corona crisis in the 2020 financial year may also have a significant negative impact on the risk control parameters.

On 23 March the German Federal Cabinet adopted a draft "Law to mitigate the consequences of the Covid 19 pandemic in civil, insolvency and criminal proceedings (Gesetz zur Abmilderung der Folgen der Covid-19-Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht)". The effects of the draft law are currently difficult to assess. The draft should mitigate the effects of the corona crisis and contribute to a stabilisation of development. In addition, the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin) have announced the first measures to ease the burden on banks during the crisis. These include the temporary reduction of minimum capital and liquidity requirements, the postponement or suspension of individual measures such as EU-wide stress tests and on-site inspections, and the notification of flexibility in the interpretation of various requirements, for example with regard to non-performing loans. These measures are also intended to reduce the effects of the corona crisis for banks.

4. 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 recognised 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.

Applying Section 340c (2) clause 1 of the HGB, the expenses from write-downs on 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 € 250.01 and € 1,000.00 are capitalised as compound items in accordance with 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 €250.00 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 € 9,156 thousand as of 31 December 2019 (2018: € 9,776 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 2018 G mortality tables published by Heubeck AG as of the reporting date were used to calculate pension provisions. The calculation was based on the following actuarial assumptions as of 31 December 2019:

	31.12.2019	31.12.2018
Actuarial interest	2.71 %	3.21 %
Mortality tables	Heubeck RT 2018 G	Heubeck RT 2018 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 were fund assets from reinsurance contracts at a fair value of € 3,786 thousand (2018: € 3,868 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 fair value as defined in Section 255 (4) clause 4 of the HGB is equal to amortised cost calculated in accordance with the lower-of-cost-or-market-principle pursuant to Section 253 (4) of the HGB. The fund assets of the insurance contract were calculated in accordance with the calculation principles as defined in Section 169 (3) of the German Insurance Contracts Act. The settlement value of the covered obligations amounted to € 12,368 thousand as of the balance sheet date (2018: € 12,724 thousand). The reinsurance contract resulted in an income contribution equal to the change in the asset value compared to the previous period, plus insurance benefits received in financial year 2018 and less insurance premiums paid in financial year 2018. Income from pledged reinsurance contracts amounted to € 144 thousand in the reporting year (2018: € 104 thousand).

The tax provisions and other provisions are set in accordance with the requirements of Section 249 (1) clause 1 of the HGB in conjunction with Section 253 (1) clause 2 and, 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.

Restructuring provisions are recognised to the extent that the Bank incurs liabilities or surplus obligations under a restructuring programme from which it is unable to escape. Deutsche Hypo recognises provisions from announced personnel-related measures under other provisions. Restructuring provisions amounted to € 7.8 million as of the balance sheet date (2018: € 15.8 million). As soon as the obligation is quantifiable and can be defined with a suitable degree of certainty, for example due to signed contracts, amounts are reclassified to other liabilities if they relate to settlement payments or to provisions for pensions and similar obligations if there are benefit commitments after reaching retirement age. Benefit commitments concerning periods prior to retirement age are recognised in other provisions. Income and expenses from restructuring measures are recognised in the extraordinary result.

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 transactions 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.

5. 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 € 2,498.8 million as of the reporting date (2018: € 2,534.4 million); the amount of the liabilities denominated in a foreign currency was € 566.5 million (2018: € 559.7 million).

6. 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.

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 to 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.

7. 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

8. Receivables from financial institutions

in € thousands	31.12.2019	31.12.2018
Breakdown of residual maturities		
due daily	899,011	679,162
up to three months	7,347	105,530
between three months and one year	149,528	152,074
between one year and five years	93,419	10,218
more than five years	90,000	200,565
proportionate interest in total	135,924	155,547
Balance sheet item	**1,375,229**	**1,303,096**
of which from affiliated companies	**159,544**	174,294

9. Receivables from customers

in € thousands	31.12.2019	31.12.2018
Breakdown of residual maturities		
up to three months	437,971	337,861
between three months and one year	1,523,932	1,436,555
between one year and five years	6,490,602	6,188,673
more than five years	5,977,497	6,781,288
proportionate interest in total	70,930	75,174
Balance sheet item	**14,500,932**	**14,819,551**

10. Bonds and other fixed interest securities

in € thousands	31.12.2019	31.12.2018
Balance sheet item	**4,017,121**	**4,763,483**
of which to affiliated companies	509,841	1,009,319
of which due in the following year	1,152,369	1,024,112
of which exchange eligible	4,017,121	4,763,483
of which listed on exchanges	3,788,954	4,535,628
of which not listed on exchanges	288,167	227,855
of which not valued at the lower of cost or market value*)	124,910	308,702
fair value of securities not valued at lower of cost or market value	96,766	270,199

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

11. Fixed asset schedule

in € thousands	Intangible assets	Tangible assets*)
Balance sheet date 31.12.2018	1,501	1,770
Historical costs 01.01.2019	9,635	5,264
Change in additions	166	530
Change in disposals	– 1,137	– 750
Historical costs 31.12.2019	8,663	5,045
Accumulated depreciation as of 01.01.2019	8,133	3,495
Depreciation in current financial year	395	492
Change in disposals	– 1,137	– 750
Accumulated depreciation as of 31.12.2019	7,391	3,237
Balance sheet date 31.12.2019	1,273	1,808

*) Tangible assets involve only business and office equipment.

in € thousands	Securities**)
Balance sheet date 31.12.2018	4,716,615
Change*)	– 699,772
Balance sheet date 31.12.2019	4,016,843

*) The simplification rule pursuant to Section 34 (3) of the RechKredV was applied.
**) Securities treated as fixed assets.

12. Other assets

in € thousands	31.12.2019	31.12.2018
Balance sheet item	64,012	121,790
of which adjustment items from foreign currencies	62,748	120,633

13. Accrued items

in € thousands	31.12.2019	31.12.2018
Balance sheet item	42,067	47,985
of which premium on claims	6,387	8,459
of which issuing discount from bonds	31,414	34,444

14. Liabilities to financial institutions

in € thousands	31.12.2019	31.12.2018
Breakdown of residual maturities		
due daily	346,520	324,473
up to three months	1,210,471	971,519
between three months and one year	545,045	1,042,068
between one year and five years	199,148	194,653
more than five years	397,403	411,908
proportionate interest in total	155,006	168,727
Balance sheet item	**2,853,593**	**3,113,348**
of which not senior liabilities with preferential treatment*)	214,447	397,570
of which assets pledged	412,834	498,888
as collateral to affiliated companies	1,508,097	1,542,552
of which within the context of real pension transactions	1,508,097	1,542,552

*) These are debt instruments as defined in Section 46f (6) clause 1 of the KWG as amended 10 July 2018.

15. Liabilities to customers

in € thousands	31.12.2019	31.12.2018
Breakdown of residual maturities		
due daily	4,303	8,747
up to three months	154,445	414,799
between three months and one year	877,290	1,123,150
between one year and five years	2,455,931	2,192,091
more than five years	3,216,004	3,470,219
proportionate interest in total	95,403	111,319
Balance sheet item	**6,803,376**	**7,320,325**
of which not senior liabilities with preferential treatment*)	1,589,435	1,955,658

*) These are debt instruments as defined in Section 46f (6) clause 1 of the KWG as amended 10 July 2018.

16. Securitised liabilities

in € thousands	31.12.2019	31.12.2018
Balance sheet item	**9,366,751**	**9,182,968**
of which not senior liabilities with preferential treatment*)	1,448,054	1,591,000
of which due in the following year	1,434,057	1,548,162
of which from affiliated companies	241,203	247,392

*) These are debt instruments as defined in Section 46f (6) clause 1 of the KWG as amended 10 July 2018.

17. Other liabilities

in € thousands	31.12.2019	31.12.2018
Balance sheet item	**92,200**	**83,447**
of which adjustment items from foreign currencies	79,258	67,297
of which pro-rata interest on subordinated liabilities	9,929	10,986

18. Deferred items

in € thousands	31.12.2019	31.12.2018
Balance sheet item	**53,801**	**39,867**
of which discounts on claims	3,969	4,961

19. Subordinated liabilities

Subordinated liabilities stood at € 341.0 million (2018: € 379.5 million) as of the balance sheet date. 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 € 20.0 million in the reporting period (2018: € 21.0 million). As of the balance sheet date, there were subordinated liabilities to affiliated companies in the amount of € 165.0 million (2018: € 165.0 million).

20. Notes on the development of equity

Deutsche Hypo held subscribed capital of € 80.6 million on 31 December 2019, which is divided into 13,440,000 individual shares and is the same as in 2018.

21. Contingent liabilities and other obligations

in € thousands	31.12.2019	31.12.2018
Liabilities arising from sureties and guarantee agreements	**393,798**	**462,220**
of which total return swaps	118,956	134,346
of which sureties in the mortgage business	274,842	327,874
of which assets pledged as collateral	2,090	3,096

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 obligations relate exclusively to irrevocable credit commitments.

22. 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.

23. 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 exclusively include 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 without accrued interest, calculated using a calculation model (in most cases the discounted cash flow model) on the basis of observable market parameters (yields curves, forex rates, etc.). 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 category.

31.12.2019 in € millions	Nominal amount	Market value		Book value		Balance sheet item
		positive	negative	positive	negative	
Currency-related transactions	377	1	7	0	0	
Interest rate-related transactions	32,659	1,388	1,842	4	6	Assets 8; Liabilities 5
Interest rate- and currency-related transactions	2,429	89	221	0	2	Assets 8; Liabilities 5
Total	35,465	1,478	2,070	4	8	

31.12.2018 in € millions	Nominal amount	Market value		Book value		Balance sheet item
		positive	negative	positive	negative	
Currency-related transactions	688	7	2	0	0	
Interest rate-related transactions	34,095	1,193	1,528	4	9	Assets 8; Liabilities 5
Interest rate- and currency-related transactions	2,202	128	184	0	3	Assets 8; Liabilities 5
Total	36,985	1,329	1,714	4	11	

Notes on the income statement

24. Other operating income

in € thousands	31.12.2019	31.12.2018
Income statement item	8,559	2,368
of which significant items:		
income from the release of provisions*)	8,291	917
reimbursement of expenses	110	770
interest rebates from taxes	0	391

*) The amount results mainly from the release of provisions due to legal uncertainty in existing contracts in the lending business.

25. Other operating expenses

in € thousands	31.12.2019	31.12.2018
Income statement item	8,515	9,770
of which significant items:		
expenses from the discounting of provisions*)	7,986	6,710
additions to provisions due to litigation claims**)	218	2,602
losses from currency transactions	37	12

*) The amount also includes the effect of the interest rate change related to the discounting of provisions.
**) The addition was made due to legal uncertainty in existing contracts in the lending business.

26. Extraordinary income

in € thousands	31.12.2019	31.12.2018
Income statement item	0	295
of which release of provisions in connection with the efficiency improvement programme	0	295

27. Extraordinary expenses

in € thousands	31.12.2019	31.12.2018
Income statement item	928	16,832
of which additions to provisions due to cost-reduction programme*)	900	15,776
of which additions to provisions due to efficiency improvement programme	28	78
of which restructuring expenses from cost reduction programme	0	978

*) These are additions to restructuring provisions for resolved future measures in relation to a cost-reduction programme geared towards cutting personnel and other administrative expenses.

Other disclosures

28. 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.

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

Information on Pfandbriefe in circulation (Section 28 (1) of the PfandBG):

Revolving Pfandbriefe and the cover assets used with disclosure of the maturity structure of the Pfandbriefe in circulation and the fixed-interest period of the cover pool

Mortgage Pfandbriefe

	Nominal		Net present value		Risk net present value *)	
in € millions	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Mortgage Pfandbriefe	8,306	8,095	8,628	8,279	8,117	7,919
of which derivatives	–	–	2	1	– 2	– 3
Cover pool	8,866	9,010	9,736	9,796	9,028	9,280
of which derivatives	–	–	11	15	15	18
Excess cover	**561**	**915**	**1,108**	**1,517**	**911**	**1,362**

*) 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.

	31.12.2019		31.12.2018	
in € millions	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	500	579	176	629
more than 0.5 years up to 1 year	25	635	1,415	646
more than 1 year up to 1.5 years	467	762	505	329
more than 1.5 years up to 2 years	528	548	25	636
more than 2 years up to 3 years	1,380	1,157	971	1,158
more than 3 years up to 4 years	1,308	866	880	1,074
more than 4 years up to 5 years	1,316	908	1,308	842
more than 5 years up to 10 years	2,468	2,776	2,481	3,169
more than 10 years	313	637	335	528
Total	**8,306**	**8,866**	**8,095**	**9,010**

Public Pfandbriefe:

	Nominal		Net present value		Risk net present value *)	
in € millions	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Public Pfandbriefe	3,215	3,719	4,172	4,696	3,799	4,429
of which derivatives	–	–	0	–	– 5	–
Cover pool	3,483	3,958	4,717	5,112	3,869	4,663
of which derivatives	–	–	–	1	–	9
Excess cover	**268**	**239**	**544**	**416**	**70**	**234**

*) 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.

	31.12.2019		31.12.2018	
in € millions	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	106	394	214	510
more than 0.5 years up to 1 year	192	107	177	259
more than 1 year up to 1.5 years	183	47	111	259
more than 1.5 years up to 2 years	74	16	189	8
more than 2 years up to 3 years	301	180	256	53
more than 3 years up to 4 years	293	318	300	120
more than 4 years up to 5 years	129	443	292	314
more than 5 years up to 10 years	1,243	867	1,164	1,145
more than 10 years	696	1,110	1,016	1,290
Total	**3,215**	**3,483**	**3,719**	**3,958**

Other cover assets for mortgage Pfandbriefe:

in € millions	Germany		EU		France		Italy	
(each as of 31.12)	2019	2018	2019	2018	2019	2018	2019	2018
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	–	–	41	23	–	–	15	69
of which: covered debt securities in terms of Art. 129 of Regulation (EU) 575/2013	–	–	41	23	–	–	15	69
Claims in terms of Section 19 (1) clause 3 of the PfandBG	86	366	–	–	48	–	–	–
Total	**86**	**366**	**41**	**23**	**48**	**–**	**15**	**69**

in € millions	Japan		Canada		Sweden		Total	
(each as of 31.12)	2019	2018	2019	2018	2019	2018	2019	2018
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	–	–	–	–	–	–	56	91
of which: covered debt securities in terms of Art. 129 of Regulation (EU) 575/2013	–	–	–	–	–	–	56	91
Claims in terms of Section 19 (1) clause 3 of the PfandBG	149	149	–	– 41	–	25	283	581
Total	**149**	**149**	**–**	**41**	**–**	**25**	**339**	**672**

Other cover assets for public Pfandbriefe were not available in either the previous year or as of 31 December 2019:

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

Mortgage Pfandbriefe:

		31.12.2019	31.12.2018
Pfandbriefe in circulation	in € millions	8,306	8,095
of which share of fixed-rate Pfandbriefe	%	94.38	93.97
Cover pool	in € millions	8,866	9,010
of which total amount of claims that exceed the limits in accordance with Section 13 (1) of the PfandBG	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 2 of the PfandBG	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 3 of the PfandBG	in € millions	–	–
of which share of fixed-rate cover pool	%	73.74	74.54
Net cash value in accordance with Section 6 of the PfandBarwertV for each foreign currency (in € millions) (net of assets and liabilities)	CHF	20.1	18.4
	GBP	750.3	494.1
	USD	31.9	100.0
Volume-weighted average of age of claims (past term since credit award – seasoning)	years	4.8	4.5

Public Pfandbriefe:

		31.12.2019	31.12.2018
Pfandbriefe in circulation	in € millions	3,215	3,719
of which share of fixed-rate Pfandbriefe	%	87.71	88.95
Cover pool	in € millions	3,483	3,958
of which total amount of claims that exceed the limits of Section 20 (2) of the PfandBG	in € millions	–	–
of which share of fixed-rate cover pool	%	81.63	82.62
Net cash value in accordance with Section 6 of the PfandBarwertV for each foreign currency (in € millions) (net of assets and liabilities)	CAD	20.2	38.7
	CHF	78.7	77.7
	GBP	118.8	113.3
	JPY	– 44.6	– 46.8
	USD	182.7	173.9

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	31.12.2019	31.12.2018
up to and including € 0.3 million	12	14
more than € 0.3 million up to and including € 1 million	36	43
more than € 1 million up to and including € 10 million	1,111	1,189
more than € 10 million	7,369	7,092
Total	**8,528**	**8,338**

Breakdown of receivables by areas and types of use:

in € millions	Germany		Belgium		France	
(each as of 31.12)	2019	2018	2019	2018	2019	2018
Apartments	1	3	–	–	0	0
Detached family homes	3	4	–	–	–	–
Multi-family homes	357	466	–	–	212	105
New buildings, not yet completed or not yet a source of income	15	38	–	–	–	–
Total residential	377	511	–	–	213	105
Office buildings	1,249	1,382	–	–	210	236
Commercial buildings	1,765	1,783	26	26	255	322
Industrial buildings	27	19	–	–	–	–
Other commercially used buildings	366	415	–	–	40	–
New buildings, not yet completed or not yet a source of income	316	250	–	–	54	54
Building sites	50	26	–	–	11	–
Total commercial	3,772	3,875	26	26	571	612
Total value of cover	**4,148**	**4,386**	**26**	**26**	**783**	**718**

in € millions	UK		Ireland		Luxembourg	
(each as of 31.12)	2019	2018	2019	2018	2019	2018
Apartments	–	–	–	–	–	–
Detached family homes	–	–	–	–	–	–
Multi-family homes	83	58	–	–	–	–
New buildings, not yet completed or not yet a source of income	60	26	–	–	–	–
Total residential	143	83	–	–	–	–
Office buildings	629	477	83	83	13	13
Commercial buildings	475	424	50	34	–	–
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	12	11	–	–	–	–
New buildings, not yet completed or not yet a source of income	89	16	11	–	–	–
Building sites	–	–	–	–	–	–
Total commercial	1,204	927	143	117	13	13
Total value of cover	**1,347**	**1,010**	**143**	**117**	**13**	**13**

in € millions (each as of 31.12)	The Netherlands 2019	The Netherlands 2018	Austria 2019	Austria 2018	Poland 2019	Poland 2018
Apartments	–	–	–	–	–	–
Detached family homes	64	79	–	–	–	–
Multi-family homes	903	888	–	–	–	–
New buildings, not yet completed or not yet a source of income	4	16	–	–	–	–
Total residential	971	983	–	–	–	–
Office buildings	273	130	84	85	164	189
Commercial buildings	165	208	9	10	123	100
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	163	157	–	–	23	23
New buildings, not yet completed or not yet a source of income	–	8	–	–	–	–
Building sites	–	–	–	–	–	–
Total commercial	601	501	93	95	309	311
Total value of cover	**1,572**	**1,485**	**93**	**95**	**309**	**311**

in € millions (each as of 31.12)	Spain 2019	Spain 2018	USA 2019	USA 2018	Total – all countries 2019	Total – all countries 2018
Apartments	–	–	–	–	2	4
Detached family homes	–	–	–	–	68	83
Multi-family homes	–	–	–	–	1,556	1,517
New buildings, not yet completed or not yet a source of income	–	–	–	–	79	79
Total residential	–	–	–	–	1,703	1,683
Office buildings	8	–	35	100	2,747	2,693
Commercial buildings	43	46	–	24	2,910	2,976
Industrial buildings	–	–	–	–	27	19
Other commercially used buildings	8	9	–	–	611	614
New buildings, not yet completed or not yet a source of income	–	–	–	–	469	327
Building sites	–	–	–	–	61	26
Total commercial	59	55	35	124	6,824	6,655
Total value of cover	**59**	**55**	**35**	**124**	**8,528**	**8,338**

Other information in connection with receivables used to cover Mortgage Pfandbriefe:

		31.12.2019	31.12.2018
Information pursuant to § 28 (2) clause 2 PfandBG			
Total amount of payments overdue by at least 90 days	in € millions	–	–
of which total amount of claims if the overdue amount totals at least 5 % of the claim	in € millions	–	–
Information pursuant to § 28 (2) clause 3 PfandBG			
Average weighted loan-to-value ratio	in %	57.73	58.46
Average weighted loan-to-value ratio (on market basis)	in %	38.45	40.47
Information pursuant to § 28 (2) clause 4 PfandBG			
Foreclosures pending at the balance sheet date		–	–
Sequestration pending at the balance sheet date		–	–
Foreclosures executed in the past financial year		–	1
Real estate acquired in the past financial year		–	–
Total amount of interest overdue	in € millions	–	–

Disclosures in connection with receivables used as cover for public Pfandbriefe (Section 28 (3) clause 1 of the PfandBG):

Breakdown by size groups:

in € millions	31.12.2019	31.12.2018
up to and including € 10 million	212	265
more than € 10 million up to and including € 100 million	3,146	3,542
more than € 100 million	125	150
Total	3,483	3,958

Distribution of receivables by area and type of borrower

	Germany		Belgium		EU		Finland	
in € millions as of 31.12.	2019	2018	2019	2018	2019	2018	2019	2018
Central state	–	–	–	–	3	6	–	–
Regional authority	1,450	1,662	125	125	–	–	10	10
Local authority	34	35	–	–	–	–	–	–
Other	375	572	125	125	157	151	–	–
Total	1,860	2,269	250	250	160	157	10	10

	France		UK		Italy		Japan	
in € millions as of 31.12.	2019	2018	2019	2018	2019	2018	2019	2018
Central state	–	11	–	55	237	260	–	–
Regional authority	22	22	–	–	47	50	10	10
Local authority	–	–	–	–	–	–	–	–
Other	12	1	59	–	–	–	–	–
Total	34	34	59	55	284	310	10	10

	Canada		Latvia		Luxembourg		Austria	
in € millions as of 31.12.	2019	2018	2019	2018	2019	2018	2019	2018
Central state	–	–	–	–	–	40	430	463
Regional authority	65	119	12	13	–	–	9	10
Local authority	–	–	–	–	–	–	–	–
Other	57	–	–	–	–	–	25	–
Total	122	119	12	13	0	40	464	474

	Poland		Sweden		Switzerland		Spain	
in € millions as of 31.12.	2019	2018	2019	2018	2019	2018	2019	2018
Central state	33	32	–	–	–	–	–	–
Regional authority	–	–	8	8	69	67	–	16
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	16	–
Total	33	32	8	8	69	67	16	16

	USA		Total	
in € millions as of 31.12.	2019	2018	2019	2018
Central state	–	–	703	867
Regional authority	94	95	1,921	2,208
Local authority	–	–	34	35
Other	–	–	825	848
Total	94	95	3,483	3,958

As of 31 December 2019, there were no payments overdue by at least 90 days which were owed by public authorities.

30. Cover for bonds in circulation

	Mortgage Pfandbriefe		Public Pfandbriefe	
in € millions	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Ordinary cover				
Receivables from financial institutions				
Public sector loans	–	–	180	290
Receivables from customers				
Mortgage loans	8,528	8,338	–	–
Public sector loans	–	–	2,304	2,550
Bonds of public sector issuers	–	–	999	1,118
	8,528	**8,338**	**3,483**	**3,958**
Substitute cover				
Other receivables from financial institutions	24	224	–	–
Bonds and other fixed interest securities	315	448	–	–
	339	**672**	**–**	**–**
Total value of cover	**8,866**	**9,010**	**3,483**	**3,958**
Total amount in circulation requirement cover	**8,306**	**8,095**	**3,215**	**3,719**
Surplus cover	**561**	**915**	**268**	**239**

31. Members of the Board of Managing Directors

SABINE BARTHAUER

ANDREAS REHFUS

32. Members of the Supervisory Board

THOMAS S. BÜRKLE
Chairman of the Board of Managing Directors of NORD/LB
– Chairman of the Supervisory Board –

GÜNTER TALLNER
Member of the Board of Managing Directors of NORD/LB
– Vice Chairman of the Supervisory Board –

CHRISTOPH DIENG
Member of the Board of Managing Directors of NORD/LB

THOMAS KRÜGER
Member of the Board of Managing Directors of VGH Versicherungen (retired

DIRK METZNER (UNTIL 12 JUNE 2019)
Bank employee, Deutsche Hypo

ANDREA BEHRE
Bank employee, Deutsche Hypo

MICHAEL GEHRIG (SINCE 13 JUNE 2019)
Bank employee, Deutsche Hypo

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

in € thousands	2019	2018
Total emoluments		
Board of Managing Directors	800	912
Former members of the Board of Managing Directors and their surviving dependants	1,302	1,332
Supervisory Board	120	120

in € thousands	2019	2018
Provisions for pension obligations owed to former members of the Board of Managing Directors and their surviving dependants	15,664	16,501
of which in reserves	15,664	16,501

34. Size of workforce on average over the year

	2019	2018
Female employees	187	190
Male employees	229	240
Total	416	430

35. 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. Furthermore, a comfort letter was issued, confirmations were provided relating to the requirements of the Sparkassen-Finanzgruppe's institute-specific protection scheme and a quality-control check was performed on the efficiency review of Supervisory Board activities.

As in the previous year, 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.

36. Amendment of the notes

Against the background of the developments in the corona crisis, on 24 March 2020, the Board of Managing Directors added events after the balance sheet date to the notes in section 3 "events after the balance sheet date" with regard to the developments in the corona crisis. There were no other changes in the annual financial statements.

At the same time, statements on the corona crisis and its effects on the future development of the company were added to the management report in section 3 "report of subsequent events".

Hanover, 3 March 2020 / 24 March 2020

The Board of Managing Directors

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.

Addition of information on subsequent events after the balance sheet date to the notes and management report:

These events relate to the effects of the corona crisis in the form of adverse effects on the economy and capital markets and possible burdens on Deutsche Hypothekenbank's (Actien-Gesellschaft) key performance indicators.”

Hanover, 24 March 2020

The Board of Managing Directors

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), Hanover, which comprise the balance sheet as at 31 December 2019, the profit and loss statement, the statement of changes in equity and the statement of cash flows for the financial year from 1 January to 31 December 2019, 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 to 31 December 2019. In accordance with German legal requirements, we have not audited the content of the components of the management report mentioned in the "Other information" section of our audit opinion.

The management report contains cross-references not required by law. In accordance with German legal requirements, we have not examined the content of these cross-references or the information to which they refer.

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 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 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. Our audit opinion on the management report does not extend to the content of the components of the management report mentioned in the section "Other information". The management report contains cross-references not required by law. Our audit opinion does not extend to these cross-references or to the information to which they refer.

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 judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. 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 valuation principles" section in the notes for the accounting and valuation principles applied at Deutsche Hypothekenbank (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 resp. the Supervisory Board is responsible for the other information. The other information comprises the following non-audited component of the management report:

- the corporate governance statement (women's quota), to which reference is made in the management report.

The other information also includes the remaining parts of the Annual Report (including the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code, to which reference is made in the management report.

The other information does not include the annual financial statements, the audited management report details and our associated audit opinion.

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 2019. We were engaged by the supervisory board on 3 July 2019. 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).

Note on the supplementary audit

We issue this audit opinion on the amended annual financial statements and amended management report on the basis of our dutiful audit of the annual financial statements, which was completed on 3 March 2020, and our supplementary audit, which was completed on 24 March 2020, and which related to the change in the disclosures in the notes and management report on the basis of a supplementary report updated in the light of new information on the effects of the spread of the coronavirus. Reference is made to the presentation of the change by the legal representatives in the amended notes in section 3 "Events after the balance sheet date" and in the amended management report in section 3 "Report on subsequent events".

German Public Auditor Responsible for the Engagement

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

Hanover, 24 March 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thiede	Röwekamp
[German Public Auditor]	[German Public Auditor]

PERSONNEL REPORT

As a modern employer, Deutsche Hypo would like to support and challenge its employees while providing a wide variety of tasks and attractive benefits. Deutsche Hypo employees hold the international yet collegiate working environment in high regard. The challenge to reconcile the ambitious triad of the Bank's fixed income goals, the necessary cost discipline and also the constantly increasing regulatory requirements day by day continued to apply in the reporting year. In 2019 the Bank succeeded in doing so with ideas, impetus and active contributions for the further development of the organisation by the colleagues who work here.

The Human Resources department supports the employees with ongoing optimisation of the framework conditions and the working environment. However, it regards itself not only as a service provider, but also a shaper and as such is the strategic partner of corporate management and the respective departments. The aim is to develop the common understanding so that the employees – including management – are not merely consumers of HR products, but that they also shape them as co-designers. HR work takes place day in, day out in every organisational unit. The communicated understanding of HR development is that each individual accepts responsibility for their own development and is supported and advanced by their line manager, who acts as a champion and mentor.

The HR function creates the framework of instruments, offers and products that are crucial for modern HR development. The Bank believes that this approach promotes employees' individual responsibility, enhances the role of each manager as an "on-site HR developer" and ultimately clears the way to the Bank's successful and future-proof development. After all, everything that Deutsche Hypo offers its customers emanates from the people who work here.

Remuneration system

The remuneration system of Deutsche Hypo follows and supports the company's business strategy and risk strategy. Its objectives are sustainability and continuity in order to promote responsible and risk-conscious behaviour on the part of employees and to ensure sustainable business success. The remuneration system is also designed to ensure appropriate staffing in qualitative and quantitative terms and – in line with the Group remuneration strategy – to improve the attractiveness as an employer.

Under the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung), the Bank is classified as a significant institution, so a risk analysis has been carried out according to section 18 of the Remuneration Ordinance for Institutions (identification of the so-called 'risk taker'). It also had to comply with provisions of the Remuneration Ordinance for Institutions applicable to major institutions. In the reporting year, adjustments to the remuneration system were reviewed to ensure compliance with the amendments to the Remuneration Regulation for Institutions (IVV 3.0).

Deutsche Hypo is bound by collective bargaining agreements. As a result, collective bargaining agreements for the private banking sector and public banks apply. Besides fixed remuneration in 12 equal parts, employees under the collective bargaining agreement receive a special bonus equal to an additional month's salary. Non-tariff employees receive a fixed annual salary, in 12 equal parts. The variable salary is determined for all employees in a formalised and transparent process. The Group context has had to be taken into adequate consideration since financial year 2018. As far as the risk takers are concerned, the variable remuneration is determined taking proper account of the individual profit contribution alongside the Bank's (and where relevant the Group's) overall success and the profit contribution of the organisational unit. The variable remuneration is limited to 100 % of the fixed remuneration.

Personnel development

In previous years the focus of HR development has been firmly on the implementation of the competence model and the largely technical qualifications of specific target groups. However, in 2019, the foundations were laid to lead employees and management into the digital era and equip them with the necessary skills. Besides the New Leadership development series that began in October 2019 and was aimed at management and project managers, employees also had the opportunity to familiarise themselves with the latest digitalisation projects at the Bank and agile working methods within the scope of a marketplace event. In addition, a total of 195 employees received training on the introduction of E-file.

Two seminar concepts were also organised as pilot projects focusing on issue of agility. The first of these has already been converted into a seminar offering for 2020 and the second is set to be included in the in-house seminar programme too. November 2019 saw a Learning Journey take place with a total of 22 participants aimed at fostering the innovative capacity of the Bank. The event included visits to three fintech companies in Berlin with question and answer sessions. This led to the development of three initiatives to review and drive forward the implementation of a variety of measures and ideas at Deutsche Hypo.

In addition to training courses, seminars, and numerous development measures in day-to-day operations, part-time study plays a key role in personnel development at Deutsche Hypo. It is for this reason that the Bank supports employees who are studying specialised or bank-related subjects part time. In 2019, a total of 16 employees attended part-time professional training activities funded by the Bank, such as master's degree programmes or subject-specific advanced training.

In Germany a total of two colleagues took up management positions for the first time or moved into a more senior leadership role in 2019. These people are qualified through the corresponding development programs of NORD/LB. Additionally, Deutsche Hypo supplements these measures with need-focused further training and a seminar programme for all executives. This included a training course on specialist HR foundational skills in 2019.

Encouraging/attracting the next generation

In fiscal year 2019, Deutsche Hypo also provided training in the classic occupation of bank clerk. Additionally, this offer was enhanced with the international Bachelor of Arts (B.A.) and the Bachelor of Science (B.Sc.) courses of study, which are offered in cooperation with the Leibniz FH School of Business. The Bank had 11 trainees and work-study students in the reporting year. As part of the training alliance with NORD/LB, the trainees form a Group-wide graduating class with the NORD/LB trainees. Additionally, the joint training venture in the Group gave trainees of NORD/LB the opportunity to work in real estate banking at Deutsche Hypo in Hanover. Conversely, trainees from Deutsche Hypo were able to sit in on different departments at NORD/LB. Further, the trainees availed themselves of the Group's wide offer of examination preparations, seminars and workshops.

Deutsche Hypo also gives interested students the chance to complete internships at Deutsche Hypo, providing them with their first insight into the workings of a real estate and Pfandbrief bank. In the year under review, a total of nine internships were offered.

Since 2017 Deutsche Hypo has also been involved in a close partnership with HAWK (Hochschule für angewandte Wissenschaft and Kunst) in Holzminden. The HAWK students all have strong expertise in real estate matters as a result of their specific course of study, creating optimum conditions for collaborations for dissertations or internships.

Work-life balance and social affairs

Following the conclusion of the company agreement to 'Promote the Combination of Family and Work' in 2018, 2019 was all about implementing the agreed measures. Employees have been able to use the emergency childcare service Fluxx offered by the city and region of Hanover since February 2019. In addition, they also have access to a holiday childcare service for children of school age up to 12, which is also supported by the Bank. Furthermore, Deutsche Hypo also offers advice and mediation services on issues relating to private life such as children, caring for family members and looking for household help.

Additionally, the Bank takes its employees' health very seriously. In the context of health promotion, for example, Deutsche Hypo provides a company counselling service, run by an external service provider. 2019 also saw the "Time out at lunchtime" initiative take place. A further two presentations were also held on the issue of burn-out and depression and were very well received.

Cooperation with the Works Council

Good solutions and answers to the various challenges can always be found through trust and constructive cooperation with the Works Council. We sincerely thank the social partner for this.

	31.12.2019	31.12.2018	31.12.2017
Employees	416	430	414
of which: male	229	240	232
of which: female	187	190	182
Employee structure			
Trainees*)	0	3	15
Average age	46.2	45.3	45.0
other			
Illness rate (in %)	5.1	4.5	4.5
10-year service anniversary (number of employees)	35	23	10
25-year service anniversary (number of employees)	8	12	10
40-year service anniversary (number of employees)	3	2	0

*) As a result of the modified joint training venture with NORD/LB, the trainees who started their training in 2018 and 2019 for a uniform cooperation across the Group along with the NORD/LB trainees and are therefore no longer included here.

CORPORATE GOVERNANCE REPORT

The German Corporate Governance Code contains essential requirements concerning the management and monitoring of German listed companies. It includes recognised national and international standards for good and responsible management, particularly when it comes to managing and organising a company, control mechanisms and collaboration between the Board of Managing Directors and the Supervisory Board. The aim of the code is to gain the trust of investors, customers, employees and the general public when it comes to the management and monitoring of a company.

The German Corporate Governance Code is obligatory for all listed stock corporations, but as a non-listed stock corporation Deutsche Hypo is not legally obliged to apply the Code. Deutsche Hypo, which operates both nationally and internationally, considers it important to position itself on the market as a reliable and trustworthy partner. Transparent corporate management is a key aspect of this aim. For this reason, Deutsche Hypo voluntarily commits to applying the recommendations and proposals of the Code to the extent that is possible and appropriate within the scope of its legal form and the organisational structure of the parent company.

Deutsche Hypo applies in particular the requirements concerning the structure of its corporate bodies, the tasks of the corporate bodies and their interactions, as well as the transparency of the company. In these areas Deutsche Hypo largely complies with the recommendations and suggestions defined in the Code. In the interests of transparency, all information published by the Bank including annual reports and half-year reports – is also available on its website.

Composition of the Supervisory Board

Pursuant to the Corporate Governance Code, the Supervisory Board should set concrete goals in terms of its composition and devise a competence profile for the Board as a whole. In doing so, the Supervisory Board should ensure that it takes diversity into account. Proposals submitted by the Supervisory Board to the Annual General Meeting should take these aims into consideration and, at the same time, strive to meet the competence profile for the Board as a whole. This is already the case at Deutsche Hypo and is explained in further detail in the Report by the Supervisory Board. Thomas Krüger is considered an independent member of the Supervisory Board of Deutsche Hypo as defined by the Corporate Governance Code. Excluding employee representatives on the Supervisory Board, the proportion of independent Supervisory Board members is therefore 25 %. The Bank considers this percentage to be adequate.

Transparency

Open communication and transparency are very important at Deutsche Hypo. Besides its annual reports and half-yearly reports, the Bank also provides information about publication deadlines as well as key company developments and news that is announced via press releases. The website also features capital market information such as risk reporting of the cover pools, ad hoc notifications and information pursuant to the transparency rules of section 28 German Pfandbrief Act.

Risk culture

The business philosophy of Deutsche Hypo has long been based on the triad of stable income, efficient structures and low risks. The Bank therefore operates a risk culture that is geared towards safeguarding commercial success and enterprise value in the long term. This forms the basis of the Bank's risk awareness, risk willingness and risk management strategies. Deutsche Hypo's conservative risk culture is reflected in aspects such as business processes, guidelines, financing principles and the Code of Conduct and is apparent on a day-to-day basis in the decisions of the Bank's management and employees.

Compliance

Deutsche Hypo has a tried-and-tested compliance management system that monitors developments in prevailing legal and regulatory conditions and initiates implementation measures where necessary. The purpose of this is to protect the Bank and its customers and thus strengthens customers' trust in Deutsche Hypo. The Bank has set up a central compliance function that safeguards compliance of legal and regulatory projects and supports other departments in performing their tasks in terms of compliance-relevant aspects. The compliance management systems are complemented by cross-departmental committees. The compliance function also performs regular prevention measures as well as adequacy and efficiency surveys and produces risk analyses.

To enhance existing contact options, Deutsche Hypo has implemented a whistle-blower system that can be used not only by employers, but also customers, business partners and other stakeholders. This includes the function of an external ombudsman whom the whistle-blower may approach confidentially if there are suspicious acts involving criminal deeds or illegal business processes.

REPORT BY THE SUPERVISORY BOARD

The six-strong Supervisory Board of Deutsche Hypo and its committees performed the tasks required of them by law, under the Bank's articles of association and in accordance with the German Corporate Governance Code in 2019. During the past financial year, the Supervisory Board consistently advised, supervised and monitored the Board of Managing Directors and was notified by the Board of Managing Directors regularly, promptly and extensively about key developments at the Bank.

Fundamental subjects such as adjustments to the business and risk strategy were discussed in detail with the Board of Managing Directors. For its part, the Board of Managing Directors provided continual reports about the Bank's situation, current business performance, the risk and liquidity situation and planning. The meetings also dealt extensively with measures relating to risk and liquidity management.

As in previous years, the Supervisory Board was involved in all material decisions. The Board passed resolutions on the transactions presented to it that require Supervisory Board approval under the law, the Bank's articles of association and the guidelines issued in that context. The corresponding draft resolutions are always presented to the Supervisory Board Members sufficiently in advance so they can make a decision. If the adoption of resolutions was required between meetings, the appropriate resolutions were adopted by written circulation procedure.

The Members of the Board of Managing Directors cooperated closely with the Chair of the Supervisory Board over the whole year and notified him of all material developments in the Bank. In personal discussions they also spoke about open questions and prepared the meetings of the Supervisory Board.

In 2019, the Supervisory Board held four ordinary meetings as well as one extraordinary meeting and one constituent meeting. In the Supervisory Board's constituent meeting, it was resolved that Thomas S. Bürkle and Günter Tallner, who were re-elected by the Annual General Meeting, would continue to perform the functions of Chairman of the Supervisory Board and Vice Chairman of the Supervisory Board. The Supervisory Board mandate of employee representative Dirk Metzner ended on schedule at the end of the Annual General Meeting. Michael Gehring took Mr Metzner's place on the Board. The composition of the committees was also discussed in this meeting. The 2018 annual report and the annual financial statements were approved in the extraordinary meeting on 16 April 2019.

The Supervisory Board has formed four committees to ensure that the Supervisory Board functions efficiently. These committees deal with subject-specific matters and generally prepare the resolutions of the Supervisory Board. These are the lending and risk committee, the audit committee, the appointments committee and the remuneration committee.

In 2019 the lending and risk committee met four times. Alongside the risk reports, the committee discussed loans requiring approval and received reports from the Board of Managing Directors about trends on the Bank's target markets. Additionally, the committee dealt with a range of portfolio reports last year, with special focus on the UK portfolio due to the imminence of Brexit.

The audit committee met twice in the reporting year. The focus was on the discussion of the auditor's reports at the end of 2018 as well as the 2019 interim financial statements. At the same time, the committee was notified about the adequacy and effectiveness of the principles, methods and processes for compliance with the German Securities Trading Act (Wertpapierhandelsgesetz), the obligations relating to MaRisk compliance as well as the prevention of money laundering, the funding of terrorism and other criminal acts. Additionally, the audit committee dealt with the regular reports from Internal Audit as well as reports on the internal control system.

The remuneration committee met three times in 2019. In particular its focus was on looking at the remuneration systems of the employees and the Members of Board of Managing Directors. The committee also discussed the contents of the remuneration report and received regular updates from the Board of Managing Directors about the implementation status of IVV 3.0.

The appointments committee met three times during the reporting year. Its primary function is to propose suitable candidates to the Supervisory Board when it comes to the Annual General Meeting electing Supervisory Board Members. In addition, the Appointments Committee discussed both the results of the survey of the Supervisory Board conducted in 2019 with external support in terms of structure, size, composition and performance of management and Supervisory Board as well as the knowledge, capabilities and experience of all managers and Supervisory Board members. No anomalies were identified from the survey, neither did any recommendations for action arise.

The members of the Supervisory Board were kept informed of the work and the topics dealt in the committees, partly through their own participation as guests at the meetings, and partly through the reports of the committee members in the Supervisory Board meetings. The Chairman of the Supervisory Board and the Chairmen of the committees also remained in contact between the meetings.

The following table provides information about the attendance of the Supervisory Board members at the meetings as a whole. Supervisory Board members who were unable to attend individual meetings gave notification of their absence specifying the reasons and submitted written votes for the respective meetings.

Supervisory Board member	Number of attendances / number of meetings (Supervisory Board and committees)
Thomas S. Bürkle (Chairman)	18 out of 18
Günter Tallner (Vice Chairman)	18 out of 18
Christoph Dieng	18 out of 18
Thomas Krüger	12 out of 12
Dirk Metzner (employee representative until 12 June 2019)	3 out of 4
Michael Gehrig (employee representative since 13 June 2019)	5 out of 5
Andrea Behre (employee representative)	5 out of 6

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, elected by the Annual General Meeting and subsequently appointed by the Supervisory Board, audited the financial statements for the 2019 financial year and issued an unqualified audit opinion. 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 extensively and approved the auditor's audit result. At its meeting on 25 March 2020, the Supervisory Board approved the management report and the annual financial statements as of 31 December 2019. The annual financial statements for 2019 are thereby approved.

The Supervisory Board thanks the employees of Deutsche Hypo for all their hard work during 2019. Deutsche Hypo was able to assert itself on the market in a difficult market environment and to achieve a good operating result.

Hanover, 25 March 2020

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 –

GÜNTER TALLNER
Hanover
Member of the Board of Managing Directors of NORD/LB
– Vice chairman of the Supervisory Board –

CHRISTOPH DIENG
Hanover
Member of the Board of Managing Directors of NORD/LB

THOMAS KRÜGER
Hanover
Member of the Board of Managing Directors of VGH Versicherungen (retired)

DIRK METZNER (UNTIL 12 JUNE 2019)
Hanover
Bank employee

MICHAEL GEHRIG (SINCE 13 JUNE 2019)
Hannover
Bank employee

ANDREA BEHRE
Hanover
Bank employee

Committees of the Supervisory Board

Lending and risk committee

CHRISTOPH DIENG
– Chairman –

THOMAS S. BÜRKLE

GÜNTER TALLNER

THOMAS KRÜGER
– Substitute member –

Audit committee

GÜNTER TALLNER
– Chairman –

THOMAS S. BÜRKLE

THOMAS KRÜGER

CHRISTOPH DIENG
– Substitute member –

Appointments committee

THOMAS S. BÜRKLE
– Chairman –

CHRISTOPH DIENG

GÜNTER TALLNER

Renuneration committee

THOMAS S. BÜRKLE
– Chairman –

CHRISTOPH DIENG

GÜNTER TALLNER

DIRK METZNER (UNTIL 12 JUNE 2019)

MICHAEL GEHRIG (SINCE 13 JUNE 2019)

Board of Managing Directors

SABINE BARTHAUER
Hanover

ANDREAS REHFUS
Hanover

Public Trustees

ANDREAS WOLFF
Ronnenberg
Lawyer
– Trustee –

DORIS VOGEL
Hanover
Tax advisor
– Deputy trustee –

ORGANISATIONAL STRUCTURE

Sabine Barthauer
Business Area 1

- Domestic Property Finance
  Ralf Vogel
- Real Estate Investment Banking
  Dieter Koch
- London Branch
  Markus Nitsche
- Real Estate Structured Finance and International Property Finance
  Ingo Martin
- Transaction and Portfolio Management
  Jens Assmann
- Syndication
  Jürgen Munke
- Changemanagement, Agil, Digital
  Dirk Hunger
- Communications and Board Staff
  Axel Seidenschwarz
- Treasury
  Dirk Schönfeld

Andreas Rehfus
Business Area 2

- Credit Department and Property Valuation
  Markus Heinzel
- Credit Risk Controlling
  Uwe Menninger
- Credit Risk Management and Special Loans
  Lars Busch
- Organisation and IT
  Dr. Wulfgar Wagener
- Human Resources and Legal
  Dr. Peter Hinze
- Accounting
  Stefan Leise
- Treasury Operations
  Dirk Neugebauer
- Controlling
  Arabell Foth
- Compliance and Security
  Arne Preuß
- Internal Revision
  Axel Harms

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Management

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Supervisory body

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DEUTSCHE HYPO
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