

OS AA01

Statement of details of parent law and other information for an overseas company



Companies House

000015/20

What this form is for
You may use this form to
accompany your accounts
disclosed under parent law

What this form is NOT for
You cannot use this form to
an alteration of manner of
with accounting requirements

THURSDAY



A14 *A48E0K40* #211
28/05/2015
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ①	Deutsche Hypothekenbank (Actien-Gesellschaft)									
UK establishment number	B	R	0	1	4	3	5	5		

→ **Filing in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

① This is the name of the company in its home state

Part 2 Statement of details of parent law and other information for an overseas company

A1	Legislation	
	Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited	② This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.
Legislation ①	German Commercial Code	

A2	Accounting principles	
Accounts	Have the accounts been prepared in accordance with a set of generally accepted accounting principles? Please tick the appropriate box <input type="checkbox"/> No. Go to Section A3 <input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those principles below, and then go to Section A3	③ Please insert the name of the appropriate accounting organisation or body
Name of organisation or body ①	German commercial law	

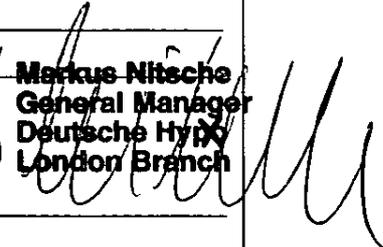
A3	Accounts	
Accounts	Have the accounts been audited? Please tick the appropriate box <input type="checkbox"/> No Go to Section A5 <input checked="" type="checkbox"/> Yes. Go to Section A4	

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A4 Audited accounts		
Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box <input type="checkbox"/> No. Go to Part 3 'Signature' <input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'	Please insert the name of the appropriate accounting organisation or body
Name of organisation or body		

A5 Unaudited accounts		
Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box <input type="checkbox"/> No <input type="checkbox"/> Yes.	

Part 3 Signature		
Signature	I am signing this form on behalf of the overseas company Claudia Macke <input checked="" type="checkbox"/> Director/Operations Management Deutsche Hypothekbank (Aktien-Gesellschaft) London Branch Markus Nitsche General Manager Deutsche Hypo London Branch	
	This form may be signed by Director, Secretary, Permanent representative	

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	Claudia Nacke						
Company name	Deutsche Hypothekenbank						
	(Actien-Gesellschaft)						
Address	One Wood Street						
Post town	London						
County/Region							
Postcode	E	C	2	V	7	W	T
Country	England & Wales						
DX							
Telephone	0207 429 4714						

Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following

- The company name and, if appropriate, the registered number, match the information held on the public Register
- You have completed all sections of the form, if appropriate
- You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address

England and Wales

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 NR Belfast 1.

Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

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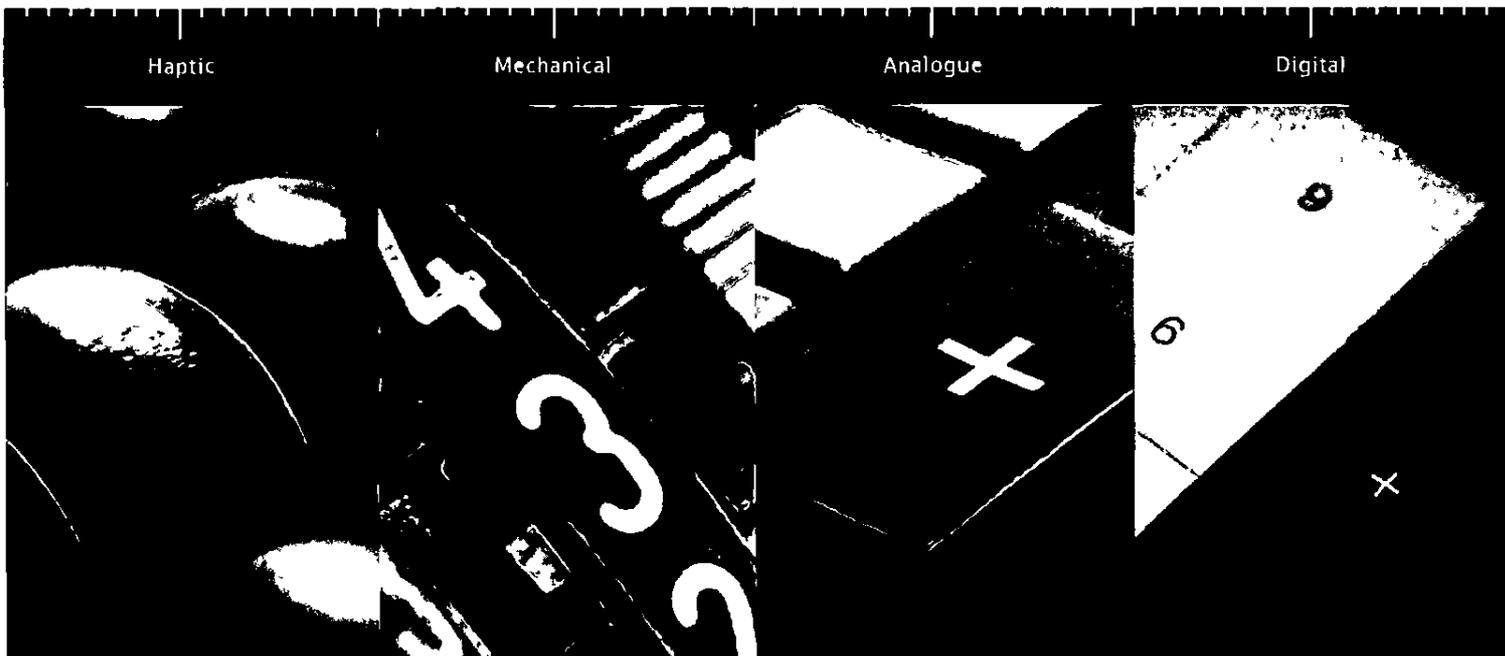
DEUTSCHE/HYPO
Member of NORD/LB

Haptic

Mechanical

Analogue

Digital



ACHIEVEMENT THROUGH CHANGE

Annual Report 2014



COMPANIES HOUSE

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01 01 - 31 12 2014	01 01 - 31 12 2013	Change (in %)
New business figures			
Commercial real estate finance business	3,610.3	2,662.1	35.6
Domestic finance	2,117.5	2,099.0	0.9
Foreign finance	1,492.8	563.1	> 100.0
Funding volume	2,852.2	3,265.7	-12.7
Mortgage Pfandbriefe	1,613.7	2,725.0	-40.8
Unsecured	1,238.5	540.7	> 100.0

in € millions	31 12 2014	31 12 2013	Change (in %)
Portfolio figures			
Commercial real estate finance business	12,409.8	11,931.7	4.0
Domestic finance	7,811.0	7,591.0	2.9
Foreign finance	4,598.8	4,340.7	5.9
Loans to local authorities	6,362.2	7,412.5	-14.2
Securities	9,254.4	10,145.2	-8.8
Funding capital	28,306.4	29,626.9	-4.5
Mortgage Pfandbriefe	8,834.8	8,739.2	1.1
Public Pfandbriefe	8,807.3	11,022.6	-20.1
Unsecured	2,172.1	2,624.1	-17.2
Other liabilities	8,492.2	7,241.0	17.3
Equity **)	1,336.6	1,346.6	-0.7
Balance sheet total	30,054.9	31,274.5	-3.9

in € millions	01 01 - 31 12 2014	01 01 - 31 12 2013*)	Change (in %)
Income figures			
Net interest income	222.3	209.8	6.0
Net commission income	4.5	6.6	-31.8
Administrative expenses ***)	70.2	69.0	1.7
Risk result	-62.2	-83.2	25.2
Income from securities and participatory interest	-42.5	6.5	> -100.0
Result from normal operations	41.4	64.3	-35.6
Extraordinary result	-1.4	6.7	> -100.0
Interest on investments by silent partners	8.4	15.9	-47.2
Profit before taxes and profit and loss transfer agreement	31.6	55.1	-42.6

in %	31 12 2014	31 12 2013
Other information		
Cost-income ratio	32.5	32.8

) The amounts from the previous year were corrected. Reference is made to the information in the notes in the financial statements with regards to this

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

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

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

WE HAVE A CENTRE OF COMPETENCE:

Benedikt von Abendroth, Carolin Albers, Ingo Albert, Alois Algermissen, Antje Amelsberg,
 Anne-Kathrin Apel, Elena Argun, Daniela Assing, Jens Assmann, Hans-Hermann Baltz, Angela Bank,
 Philipp Bank Sabine Barthauer, Susie Bassett, Christopher Batke, Isabel Bauke, Jurgen Becksvoort,
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Dr. Pia Leipertz, Stefan Leise, Claudia Leu, Maria Love, Alexander Ludwig, Karin Ludwig, Hans-Joachim Gianluca Martineili, Edgard Maurette, Desiree McKay, José Ignacio Merinero Muñoz, Michael Mesenbrink Meyer, Andreas Michel, Stefan Mikus, Sonja Misch, Claudia Muller, Frank Muller, Michael Muller, Brigitte Jurgen Munke, Marion Muth, Claudia Nacke, Andreas Newman, Uwe Niemann, Michael Niemeier, Rebecca Noack, Ralf Obst, Jana Oliver, Jan Christoph Paape, Meike Peter, Anja Philipps, Sandra Piehl, Liane Pilz, Priesnitz, Torben Pschunder, Timothy Pygott, Rehfus, Andrea Reinecke, Frank Rekowski, Tanja

Mirko Sommer, Kerstin Sonntag, Sascha Sonntag, Mathias Stolte, Axel Stoppel, Bianca Strohia, Nicole Maren Tegtmeier, Leyla Tekkal, Martina Teutloff, Treptow, Stefan Ullmann, Manja Unger, Anika Unruh, Vogt, Nicole Voigt, Jurgen Voikers, Ina Volkmann, Wanner, Sabine Watermann, Marion Weber, Hans-Georg Ansgar Werner, Ralf Westermann, Torsten Wickert, Wilkens, Holger Wille, Barbel Willert, Immo Willner, Ulrike Witte, Markus Wittenberg, Dirk Wompner, Wunsch, Martina Wuschlager, Heike Wuttke, Haishu Ziegler, Frank Zimmermann, Nicole Zimmermann

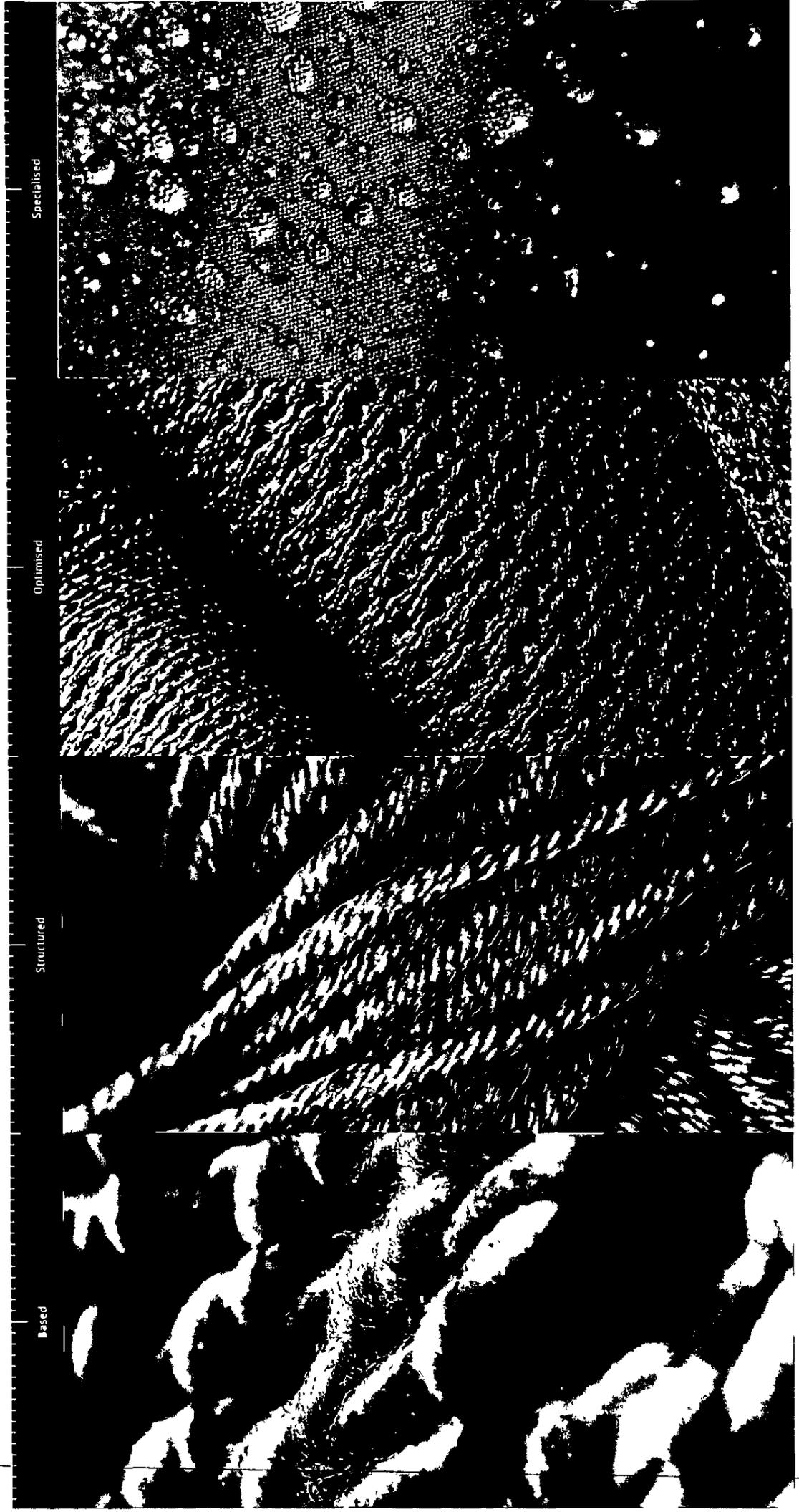
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Flexible structures for an optimal response time

Each transaction is individual and requires custom-fit solutions. Given its expertise and broad product range, Deutsche Hypo is able to provide tailored financing to its customers and thus can contribute to the success of the project.



MESSAGE FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Customers
and Business Partners of Deutsche Hypo,

We are currently experiencing an extraordinary market phase. On the one hand, there are many geopolitical crises that are increasingly impinging on the real economy. On the other hand, around seven years after the onset of the financial crisis, the sovereign debt crisis is still keeping us on tenterhooks. Furthermore, the low interest rate policy, which the European Central Bank has been pursuing for quite some time in order to counteract the threat of deflation and the weak economic performance, constitutes a new dimension of fiscal challenges.

It is not only savers who are suffering from low interest rates. Institutional investors, too, are faced with the question of how they can invest their capital and still make a profit in this exceptional market environment. Thus, instead of German government bonds, which in the meanwhile are generating only modest returns, it is alternative investment opportunities that are increasingly taking centre stage, especially commercial real estate. Demand in the German real estate strongholds, in particular, is currently at its highest level in ten years.

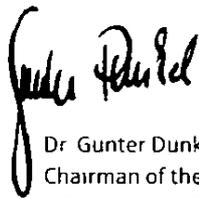
For about two years now, insurance companies and pension funds have, more and more frequently, been acting as financiers of commercial real estate. Deutsche Hypo spotted this development early on and is relying on cooperation with these new market participants. The best example of this is the strategic framework agreement that the Bank concluded with the Bayerische Versorgungskammer (BVK) in autumn 2013. The high point of this cooperation so far has been the joint financing for the Mall of Berlin shopping centre in the amount of € 600 million. The BVK provided the bulk of the financing volume, while Deutsche Hypo's particular contribution, in addition to € 80 million, was also its structuring know-how.

Another exceptional Deutsche Hypo deal, last year, was the structuring of the first real estate debt fund with an initial volume of € 200 million. Moreover, it should be particularly highlighted that, in this case, the NORD/LB Group was able to draw on expertise from within its own ranks for the entire process chain that was centred around the fund. Those involved here were NORD/LB Asset Management AG, which set up the fund and has also assumed the management and risk monitoring, as well as NORD/LB AÖR as the custodian. Deutsche Hypo provides the fund with its own real estate financing from new business and is responsible for the servicing. Both the above transactions once again demonstrated the strength of Deutsche Hypo's innovative capacity.

Message from the Chairman of the Supervisory Board | Message from the Board of Managing Directors | 2014 at a glance | Sustainability | Our references | New location proven service

The NORD/LB Group is pleased to have Deutsche Hypo among its ranks. It is one of the leading financiers of commercial real estate in Germany and, in the light of recent capital market developments, it generated yet another respectable operating result. I am confident that, in 2015, too, the company will continue on its successful course and that together with you, our valued customers and business partners, we will realise many interesting projects once again. In my capacity as Chairman of the Supervisory Board, I would like to thank you for placing your trust in the Bank. I can assure you that Deutsche Hypo will do its utmost to merit this trust in the future, too, by providing excellent services.

With best regards,



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



MESSAGE FROM THE BOARD OF MANAGING DIRECTORS

Dear Customers and Business Partners,

It is undoubtedly a remarkable achievement to have been operating successfully in the Pfandbrief market for more than 140 years. Yet, even though we look back on our history with pride, our sole focus is the future viability of Deutsche Hypo. Things that have worked well in the past do not come with the certainty of success tomorrow. That is why we regularly evaluate very precisely which features of our business model are worth preserving and which ones we should reassess.

For us, 2014, in particular, was a year that brought in yet more changes. The opening of our representative office in Warsaw gave us direct access to a promising new foreign market and we have already been able to conclude attractive financing deals there. Moreover, on the product side we also made considerable progress last year. By structuring a € 600 million financing transaction for the Mall of Berlin we once again demonstrated the special know-how that is available at Deutsche Hypo – aside from the classic financing business.

The fact that we have chosen “everything new” as the motto for the 2014 annual report is related in no small part to the move to our new headquarters in Hanover’s city centre. After having been spread out over two locations in Hanover for years, we are very pleased that, since the end of last year, all Deutsche Hypo employees have been reunited under one roof. The short distances serve to strengthen communication among the staff and lead to even greater work efficiency. Furthermore, the new location in the heart of Hanover, just a short walk from the city centre, enhances our attractiveness as an employer.

Thus, even though there were many changes for us in 2014, fortunately, one thing did continue, namely, the positive development in our core business area of commercial real estate finance. We succeeded in generating a significant increase in net interest income as well as a noticeable improvement in the risk result for commercial real estate lending. Furthermore, we can be very pleased with the progress of our efficiency improvement programme, which started in 2012. The moderate increase in administrative expenses was due almost exclusively to another host of regulatory requirements. However, on account of a loan loss provision that had to be made for an Austrian capital market counterparty, the bottom line is that the result from normal operations came in at € 41.4 million.

Deutsche Hypo recorded a considerable leap in its new business. While, in 2013, we had been able to conclude new financing deals that were worth around € 2.7 billion, last year, this figure was € 3.6 billion – an increase of more than 35%. In the course of this, we registered growth in new business volume in our foreign core markets, in particular, which also reflected our positive assessment of the market development in the UK, France, the Benelux and Poland. As investor demand for commercial real estate continues to be very high and, moreover, our core markets – above all Germany – still appear to be extremely robust, we assume that the 2015 financial year will be another good one for us.

Message from the Chairman of the Supervisory Board | Message from the Board of Managing Directors | 2014 at a glance | Sustainability | Our references | New location proven service



from left Andreas Rehfus, Andreas Pohl

We will of course be relying here on you, our valued customers, investors and business partners with whom we have established close relationships, which in many cases have existed for a number of years already. We would like to express our sincere thanks to you for your cooperation and your trust and, as your reliable partner for financing and capital market needs, we would be very happy to continue to support your projects. Moreover, we are committed to providing innovative added value solutions for you in the future, too.

Yours faithfully,

Andreas Pohl

Andreas Rehfus

2014 AT A GLANCE

16 January 2014

After the previous Chairman of the Board of Managing Directors, Thomas S. Burkle, left to join the Board of Managing Directors of NORD/LB, it was decided that, in future, Deutsche Hypo will be headed by a management duo consisting of Andreas Pohl and Andreas Rehfus. Furthermore, Mr Pohl assumed the role of Speaker of the Board of Managing Directors.

21 February 2014

Deutsche Hypo was the winner of the Immobilienmanager award 2014 in the category "Financing". The jury honoured the close cooperation between Deutsche Hypo and the Bayerische Versorgungskammer (BVK) in the area of commercial real estate financing. In particular, the jury acknowledged that with this cooperation Deutsche Hypo had found "an innovative response to the changes in the real estate financing market".

20 March 2014

Deutsche Hypo officially opened its new representative office in Warsaw. As part of the Bank's strategy of focusing more strongly on the defined core business regions, with this new office it will be better able to take advantage of the manifold business opportunities in Poland.

2 April 2014

Deutsche Hypo tapped its 5-year Mortgage Pfandbrief benchmark issue, with a maturity now of approx. 3 ¾ years, by € 250 million. This Pfandbrief was originally issued on 15 January 2013 with a volume of € 500 million and with the current volume of € 750 million it has significantly enhanced market liquidity. The issue price was the equivalent of 4 basis points below the original issue spread, at that time, of 1 basis point above mid-swap.

29 April 2014

Deutsche Hypo presented a record result for the 2013 financial year. The Bank increased its result from normal operations, year-on-year, by 27.6 % to € 64.3 million. The main contributing factors were a high net interest income, lower loan loss provisions, improved income from securities and participatory interest as well as lower administrative expenses.

12 May 2014

Deutsche Hypo presented a study on the impact of mega trends in the real estate markets in Germany. The study examined the mega trends of demographic developments, technical progress and the change in values. According to the study, in the coming decades, the mega trends will bring about significant changes in the office, retail and residential markets in Germany. Real estate investors can ensure their medium-term and long-term success by giving serious attention to these trends, at an early stage, and by developing strategies for confronting the inevitable changes.

22 May 2014

NORD/LB Asset Management, jointly with Deutsche Hypo, set up its first real estate debt fund for an institutional investor. The fund invests in a diversified portfolio of new real estate financings that are secured by high-quality real estate in Deutsche Hypo's core markets. By participating in the financing, the investor generates an attractive return.

26 June 2014

Deutsche Hypo published a study on yield development in the core real estate markets. The study findings revealed that the initial level of prime yields on real estate investments in the European core markets will continue to fall for the time being. Furthermore, it forecasted that the general interest rate level would go up again at the end of 2016, at the earliest, although this could already be a little sooner in the United Kingdom. It is only then that slight upward corrections in yields can be expected. Thus, the pressure to invest is pushing up investors' risk appetite.

22 July 2014

Deutsche Hypo issued another benchmark Mortgage Pfandbrief in the amount of € 500 million. The Pfandbrief has a term of 5 years and a coupon rate of 0.625 per cent. Despite historically low yields and against a fragile geopolitical backdrop, the issue met very strong demand and generated an order book with a very high level of granularity.

28 August 2014

Deutsche Hypo announced its half-year results. In the first half-year of 2014, the Bank was able to generate a 9.9 % increase in its result to € 34.5 million and it thus progressed smoothly from its good result in 2013. Net interest income and commission income, in particular, saw positive growth. Even though competition had got noticeably tougher and the regulatory requirements had seen a further increase, the outlook for the full year 2014 remained optimistic.

15 September 2014

Deutsche Hypo presented a study on the prospects for the German housing market. While the major cities are increasingly seeing a housing shortage, many regions are recording rising vacancy rates. Thus, there is an ever-widening divergence in price developments between the various housing markets.

04 December 2014

Deutsche Hypo published a detailed study about the office, retail, logistics, hotel and residential asset classes in the Benelux states. The survey findings underlined the economic recovery in the Benelux states. A positive stimulus is expected for the retail, logistics and hotel markets in the Benelux states.

SUSTAINABILITY

As one of the oldest Pfandbrief banks in Germany, Deutsche Hypo combines many years of tradition and experience in the area of real estate financing with responsible corporate governance and a forward-looking strategy. The concept of corporate sustainability management is firmly anchored in the Bank's policies.

At the heart of sustainability there is a valuable asset – the Bank's employees. Motivated and qualified employees represent the future of Deutsche Hypo and they ensure sustainable business success. Therefore, it is important to create the conditions for an optimal development process. One focal point is promoting gender equality in the specialist and leadership functions. Furthermore, as a training company, Deutsche Hypo supports the development of talented young professionals and would like to retain them in the long term on the basis of its attractiveness as an employer. Moreover, through its information and continuing training programmes, the Bank promotes the acquisition of knowledge and enables the application of these new skills.

In addition, Deutsche Hypo places emphasis on actions that promote a sustainable society and the topic of sustainability has been anchored in its business areas. In this way, it is ensured, besides the economic aspects, the method for managing the business takes into account the sustainability perspective, ultimately, for the benefit of the customer.

Details about this will be published in a separate sustainability report, which is based on the German Sustainability Code and can be accessed on our website and at <http://www.deutscher-nachhaltigkeitskodex.de> soon.



Price ceremony as of 4 February 2015

(from left) Prof. Dr. Michael Manns, Chairman of the Board of Trustees of the Johann-Georg-Zimmermann-Prize, Andreas Rehfus, Member of the Board of Managing Directors, PD Dr. Daniel Nowak, recipient of the Johann-Georg-Zimmermann research prize, Prof. Dr. rer. nat. Peter Lichter, recipient of the Johann-Georg-Zimmermann medal and Prof. Dr. Christopher Baum, President of the Hannover Medical University.

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Johann Georg Zimmermann Prize

The two prizes sponsored by Deutsche Hypo – the Johann-Georg-Zimmermann research prize and the Johann-Georg-Zimmermann medal – are among the highest merit awards for cancer research in Germany. This year, once again, the award ceremony took place in the Hannover Medical School (MHH).

The Johann-Georg-Zimmermann 2014/2015 research prize, endowed with €10,000 – aimed at young medical practitioners in cancer research for their current scientific work – went to PD Dr. Daniel Nowak (Medical Faculty Mannheim at Heidelberg University). For many years, he has focused on researching life-threatening blood diseases and, in particular, myelodysplastic syndromes (MDS). Dr. Nowak, together with Prof. Andreas Trumpp, was involved in realising, for the first time worldwide, the establishment of an “MDS mouse” in the chronic phase of the disease, which enables systematic testing of therapeutic substances in cases of myelodysplastic syndromes.

The Johann-Georg-Zimmermann 2014/2015 medal was awarded to Prof. Dr. rer. nat. Peter Lichter, Head of the Molecular Genetics Division in the German Cancer Research Centre (Heidelberg), in recognition of his lifetime achievement and his ground-breaking findings in the fields of molecular cytogenetics and the structure of genomes, as well as for the development of novel technologies for deciphering the basic mechanisms of cancer genesis.

Christmas Wishing Tree

The Christmas wishing tree has been organised five times already by Deutsche Hypo's employees. Once again, they made it possible to fulfil many Christmas wishes of children and adolescents at the Guldene Sonne therapeutic educational facility in Rehburg-Loccum.

The Guldene Sonne facility works closely with the paediatric and adolescent psychiatric unit of the Auf der Bult children's hospital in Hanover. The reasons why children and adolescents have to stay there are, frequently, because they have experienced violence in their families, because of parent-child relationship dysfunction or also alcohol and drug abuse.

The children's wishes were hung up on the Christmas tree in the new Deutsche Hypo location in the Osterstraße. The wishes were presented by children aged from 1-17 and each had a value of € 20. Altogether, 100 presents were donated with a total value of € 2,000. The employees raised this amount from their own private means.



The chairman of the works council, Dirk Metzner, hands over the presents on behalf of the employees of the Deutsche Hypo.

OUR REFERENCES



GERMANY

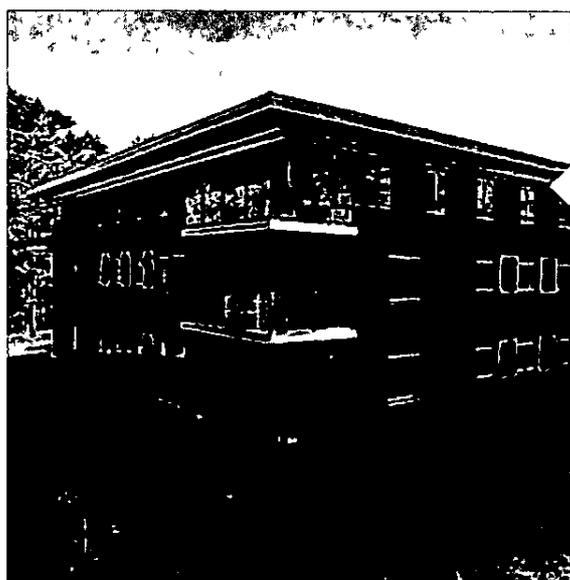
Name Mall of Berlin

Type of property: Shopping centre and hotel property

Location: Berlin

Customer: Arab Investments Ltd and High Gain House Investments GmbH (HGHI)

Financing volume € 600 million



THE NETHERLANDS

Name Portfolio of residential properties

Type of property

Residential properties

Location: The Netherlands

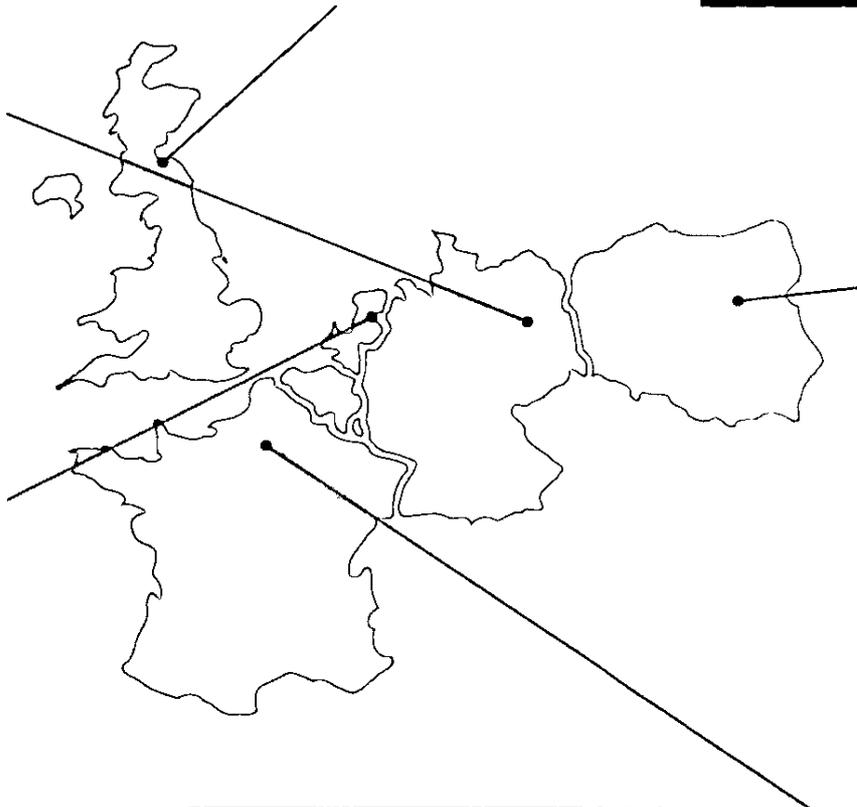
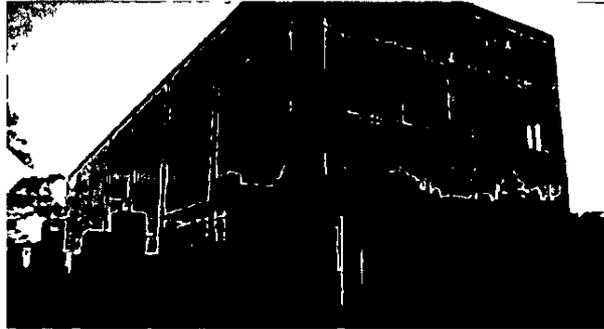
Customer Institutional property funds managed by the PATRIZIA-Group

Financing volume € 331 million

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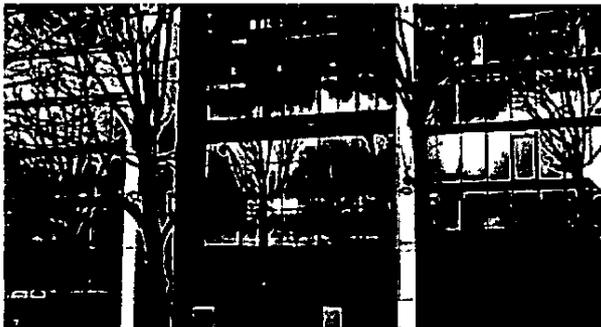
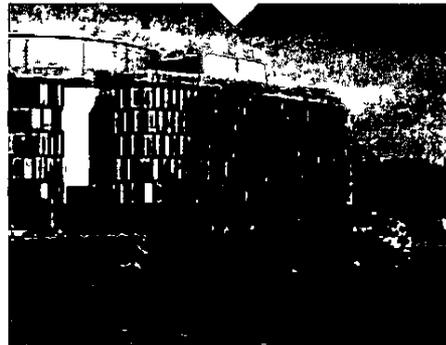
SCOTLAND

Name Quartermile
Type of property Büroimmobilie
Location Edinburgh
Customer: EPIC (Quartermile) Unit Trust
Financing volume GBP 22 million



POLAND

Name: Metropolitan
Type of property Office building
Location Warsaw
Customer RREEF Spezial Invest GmbH on account of the SV "RABW Europa"
Financing volume. € 90 million



FRANCE

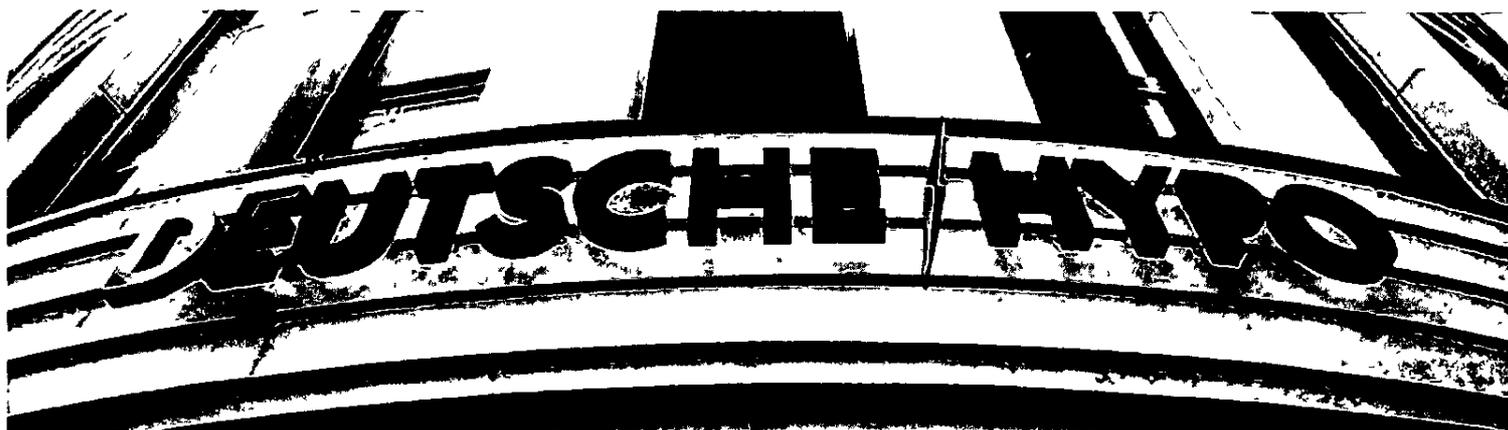
Name Grand Seine
Type of property Office property
Location: Paris
Customer Primonial REIM
Financing volume € 64 million

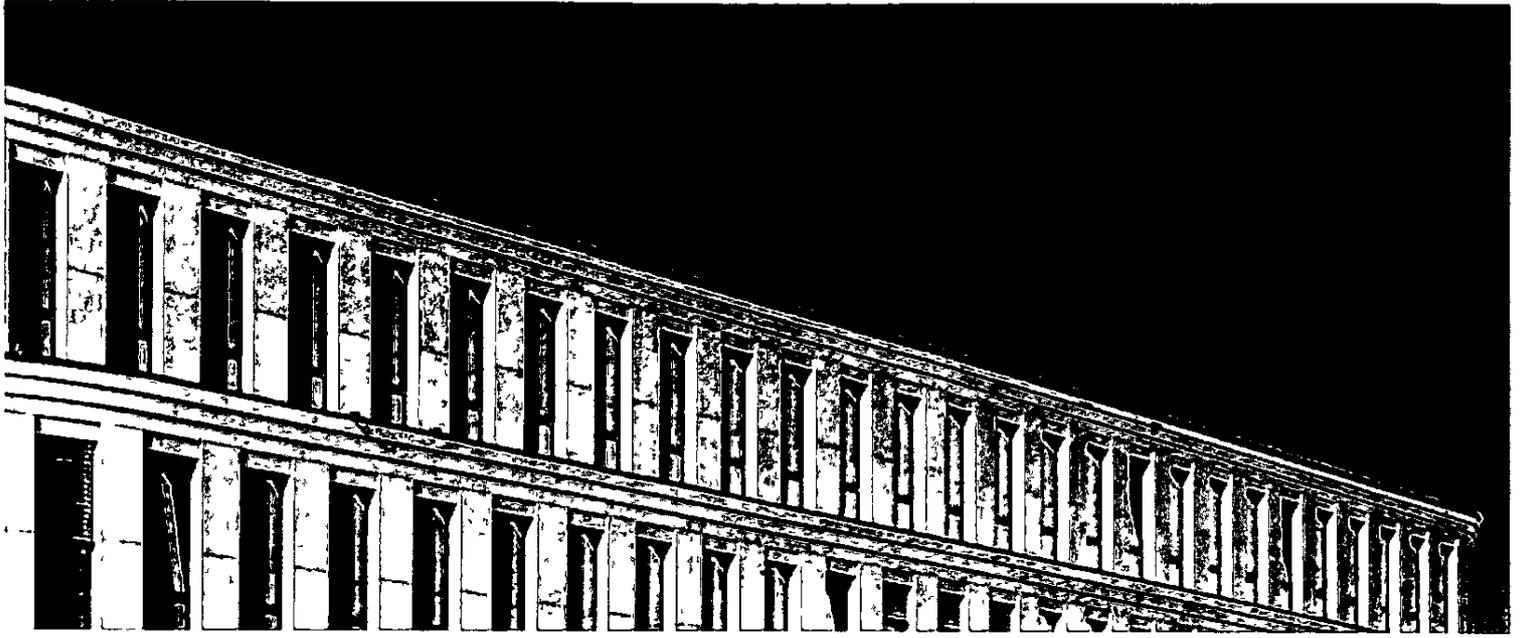


NEW LOCATION, proven service

In November 2014, the employees moved into Deutsche Hypo's newly constructed headquarters in the heart of Hanover. The Bank is the main tenant in the new building and was, thus, able to have a say in the design right from the beginning. The impact on teamwork of moving in together all the employees, who had previously been based in two locations in Hanover, is expected to be positive on account of the improvements in communication and the shorter distances between the individual specialist areas. Thanks to its inner-city location, the new headquarters also improves the employer attractiveness of Deutsche Hypo.

The new building has achieved great improvements in the ecological efficiency of the Bank, hence gold certification is being sought from The German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen e.V.). Moreover, there was a 15 % improvement with respect to the requirements set out in the 2011 German Energy Saving Regulation, the year in which the building was designed. Numerous details make the new building a location that is viable and useful well into the future.





Offices and Conference Rooms

All employees have been given the ideal environment in which to perform their work. Firstly, the ratio of square metres per employee in the new building has been properly allocated for a city centre location. Secondly, each employee has been provided with a height adjustable desk via a motor, which meets ergonomics requirements in an optimal way. Furthermore, most of the conference rooms are equipped with modern media technology. Moreover, a video conferencing room is also available.

The fit-out of the offices was in accordance with modern technical standards that have a good cost-benefit ratio. All the rooms have been designed in such a way so that it is possible to upgrade them at any time. All the offices are equipped with pendant lights with daylight-dependent controls as well as energy saving lamps and bulbs. The intensity of illumination is automatically kept at 500 lux and depends on the level of daylight. If there are no people in the room then the pendant lighting goes off after a predefined period of time. Furthermore, the offices have been designed so that they have an optimal indoor climate, both in summer and winter.





Meeting Points and Cafeteria

There are two newly created meeting points available for employees on each floor. They have been strategically placed in the corridors in order to facilitate an informal exchange of information between the different departments. To this end, every meeting point has a counter and a small seating area. Employees can hold short meetings here, or get together for a quick coffee break.

Apart from the positive impact on communication, at the meeting points, basic refreshments are also provided for the employees.

Drinking water is supplied via free, mains connected water dispensers with cooling and carbonation functions. The cafeteria on the ground floor completes the range on offer. Moreover, two high-quality automatic coffee dispensers with fresh milk supply are also available. The cafeteria can be used for congenial lunch breaks and for events.

The Courtyard

The courtyard of the building in Osterstraße 31 is one of the biggest inner courtyards of Hannover located directly in the city centre. A little relaxation zone has been created here for the employees. The ground floor cafeteria leads out directly to the courtyard, which means that it is possible to go out for some fresh air during lunch and coffee breaks. Various seating areas are available. High quality greenery, which includes a mature ginkgo tree and the roof greenery of the surrounding gangways, completes the charming courtyard.



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New Paths to Financing

Strategic cooperation with the Bayerische Versorgungskammer

At the end of 2013, Deutsche Hypo concluded a strategic framework agreement with the Bayerische Versorgungskammer (BVK) for cooperation in commercial real estate financing. According to this, the BVK will participate in loans that have been acquired by Deutsche Hypo. The agreement, which was concluded without a time limit, was initially for a target amount of € 500 million. Deutsche Hypo will be responsible for the entire servicing required here. The focus of the joint lending will be office and retail properties as well as selected residential portfolios in Germany. Standardised procedures ensure quick decision-making as well as lean and efficient lending. The financing of the Mall of Berlin, in August 2014, was one of the first flagship projects that arose on the basis of this mutual cooperation.

This strategic collaboration between a real estate financier and a pension fund constitutes a novel concept in the market. It represents a pilot project that will bring other innovations in its wake. Thanks to this partnership, Deutsche Hypo is now also able to provide financing with volumes that are well within the three-digit million range. For the BVK, this collaboration opens up access to commercial real estate financing.

The leading German real estate trade journal *immobilienmanager* recognised the strategic cooperation between Deutsche Hypo and the Bayerische Versorgungskammer with its *immobilienmanager* award 2014 in the financing category. The jury acknowledged that with this cooperation, in particular, Deutsche Hypo had found "an innovative response to the changes in the real estate financing market".



Andreas Pohl, speaker of the Board of Managing Directors accepts the *immobilienmanager* award on behalf the Bank

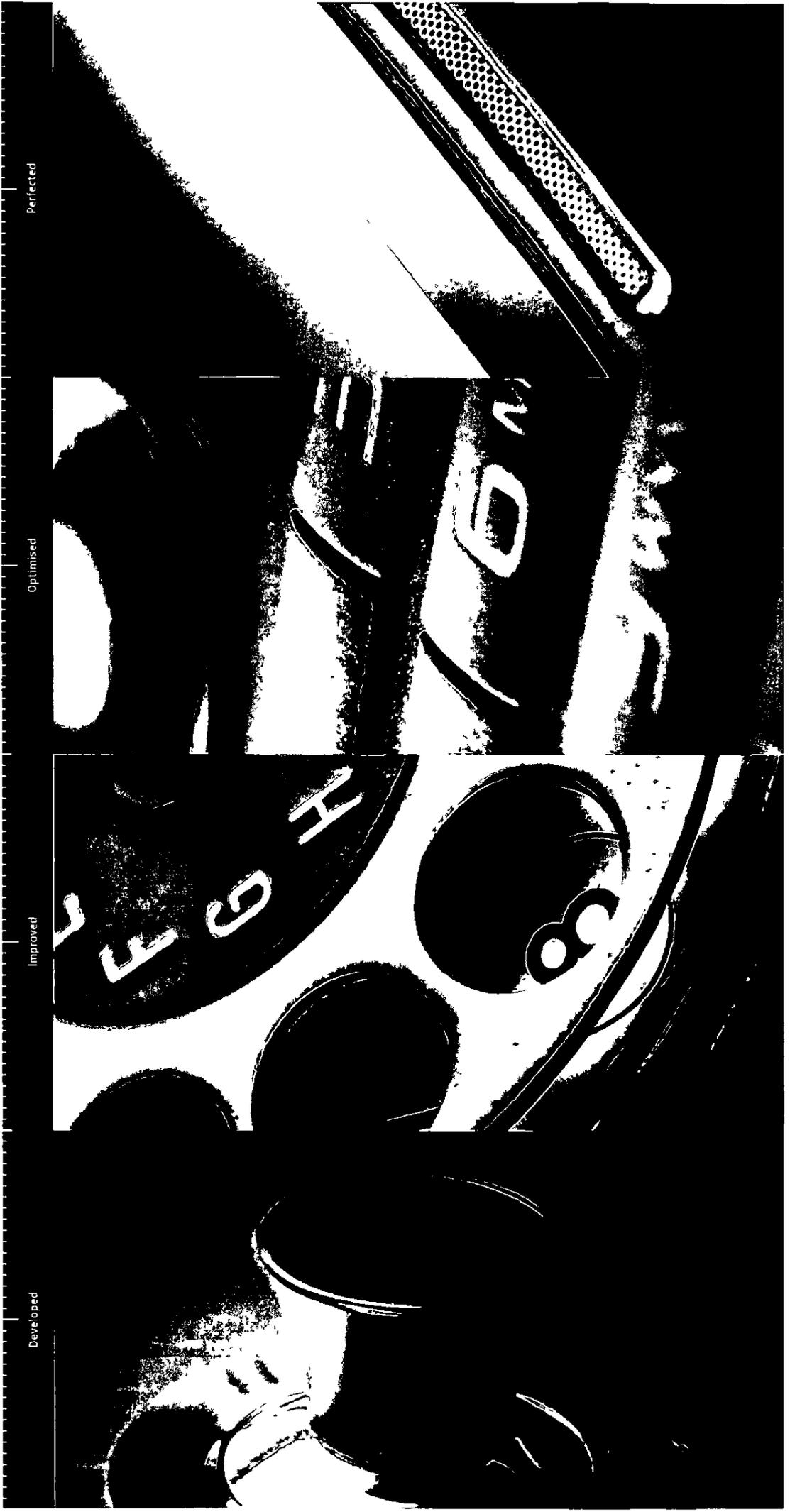
Debt Fund Structuring

NORD/LB Asset Management, jointly with Deutsche Hypo, set up a real estate debt fund for an institutional investor. It was a special fund under German law with an initial volume of € 200 million. The fund invests in a diversified portfolio of real estate financings that are secured by the high-quality real estate in Deutsche Hypo's core markets. The main asset classes are office, residential and retail. By participating in the financing the investor generates an attractive return. Deutsche Hypo has assumed the servicing. NORD/LB Asset Management AG has assumed the management and risk monitoring of the fund.

As the significance of the classic banking function of pure lending dwindles, it is becoming more important for banks to acquire other investors and to structure the financing effectively. In this way, Deutsche Hypo has once again demonstrated its innovative potential.

Precise communication for accurate results

Customer relationships are of utmost value for Deutsche Hypo. With our experts' long time market experience we are able to provide the best possible solutions. We focus on communicating on the same level. We are also available for contact at any given time.



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 Hypothekbank (Actien-Gesellschaft), Hanover, (Deutsche Hypo or the Bank) was founded in 1872 and is one of the most renowned Pfandbrief banks in Germany. Since 2008, it forms a part of the Norddeutsche Landesbank Girozentrale (Anstalt des öffentlichen Rechts), Hanover, Braunschweig, Magdeburg, (NORD/LB) and is the centre of competence for the commercial real estate finance business in the Group.

In its capacity as a German real estate bank with a European focus, it supports its customers in the strategic target markets of Germany, the UK, France, Benelux and Poland as a professional and strategic financing partner. The headquarters of Deutsche Hypo are in Hanover. It also has offices in Hamburg, Frankfurt, Munich as well as Amsterdam, London, Paris and Warsaw.

Deutsche Hypo funds its credit business primarily by issuing mortgage Pfandbriefe and unsecured bonds. The aim is to have the ability to continuously fund at attractive conditions. This plan is achieved, on the one hand, through the quality of the cover pools with the associated ratings of the Pfandbriefe and through the credit rating for unsecured bonds of the Bank.

The business activity of Deutsche Hypo can be divided into two business areas. Commercial real estate finance forms Deutsche Hypo's core business area. This includes all the financing with customers that primarily generate their cash flow from real estate or make significant real estate investments on a regular basis. Commercial real estate finance produces over 80 % of the total net interest and net commission income of the Bank. In the capital market business, Deutsche Hypo has initiated a reduction in the public sector finance portfolio for some years now. The remaining new business primarily serves the purpose of liquidity and cover pool management. Furthermore, this business area handles business in securities, money markets, derivatives with banks as well as funding.

Deutsche Hypo reacts promptly to numerous external influential factors in its regular business operations. These are primarily economic and sector-specific framework conditions that have a direct impact on the development of business in the two business areas and thus on the 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 of a project development, continue to have a significant influence on the Bank's real estate finance portfolio that is relevant in particular for the Bank's business performance. The funding options are influenced, among others, by developments on financial markets. They also have an influence on the liquidity management and the valuation of the public sector finance portfolio. Furthermore, regulatory framework conditions have to be named as an external influential factor for Deutsche Hypo's business and income development.

Group affiliation

Deutsche Hypo is a strategic participatory interest of NORD/LB, which holds 100 % of its shares. As a material subsidiary, Deutsche Hypo is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as of 31 December 2013 were published on 31 July 2014 in the federal gazette.

Since 1 January 2013, there is a control and profit and loss transfer agreement between Deutsche Hypo and NORD/LB. This agreement requires Deutsche Hypo to transfer its profits to NORD/LB. At the same time, NORD/LB is obligated to compensate for any possible loss arising at the level of Deutsche Hypo. The control and profit and loss transfer agreement creates a fiscal tax unit. The contractually closer linkage of the parent and subsidiary means that a leveraging of the synergies and efficiencies within the Group is pursued. By transferring the profits or losses, Deutsche Hypo reports an annual result of zero. Due to this circumstance, the focus in this report will be on the result from normal operations and the profit before taxes and profit and loss transfer.

Deutsche Hypo's goals and strategies

Deutsche Hypo's main corporate goal is to secure and increase its corporate value, profitability and returns over the long term. In future, the Bank attempts to shift the focus of its two business areas more towards commercial real estate finance. When it comes to interesting financings, the aim is that the Bank maintains the reputation as an attractive competitor. A selective and risk-appropriate strengthening of its market position in Germany and abroad is pursued. The strategic target markets of Germany, the UK, France, Benelux and Poland are characterised by high target customer concentration, a large portfolio of real estate and a long-term positive development. The financings in the home market of Germany also remain the largest share of the commercial real estate finance portfolio, whereas the portfolios in the former target regions of the US and Spain continue to be reduced. New business is no longer conducted there.

In addition to the intensive support of customers on the financing side, the Bank is also pursuing closer collaboration with institutional investors such as insurance companies and pension funds that have an interest in investments involving real estate finance. The goal is to use the existing knowledge and to achieve an improved integration of the real estate know-how into the structuring and capital market orientation.

In the capital market business, Deutsche Hypo strives to further reduce its public sector finance portfolio significantly over the next few years. New business will be conducted solely restrictively in this business area and primarily serves as liquidity and cover pool management.

It is Deutsche Hypo's belief that the Bank's economic success must go hand in hand with an intact natural environment and in a society with stable social relationships. For this reason, the Bank continues to expand its sustainability management and will implement additional sustainability measures over the next years. Details on this will be published in a stand-alone sustainability report that is based on the German Sustainability Code and can be viewed on the website and at www.deutscher-nachhaltigkeitskodex.de

Controlling system

Originating from the business and risk strategy, Deutsche Hypo's controlling system focuses on a sustainable increase in corporate value. This value-oriented controlling philosophy is an integral part of the controlling and planning processes and is reflected in the central operating key performance indicators that are aimed at the Bank's profitability, productivity and risk profile. Furthermore, it ensures compliance with the regulatory ratios. The controlling system is completed by non-financial performance indicators that mainly act as early indicators.

Deutsche Hypo's controlling methodology includes, on the one hand, the preparation of medium-term plans, in which the economic development over a five-year period is simulated. On the other hand, there are regular plan-actual comparisons as well as projections for the end of each financial year and beyond. For measuring the Bank's risk, appropriate internal risk management systems have been set up. They evaluate the credit risks, market risks, liquidity risks and operational risks. These analyses are usually included in the regularly recurring reports to the Bank's decision makers and supervisory bodies.

The financial performance indicators Return on Risk Adjusted Capital (RoRaC), Return on Equity (RoE) and Cost-Income-Ratio (CIR) form the central controlling parameters together with the result from normal operations. The CIR is defined as the ratio of the administrative expenses (including write-downs on tangible fixed assets and intangible assets) to the total from the net interest income, net commission income and other operating income. In the calculation of the RoRaC, the proportionality of the net profit and the risk capital required for its achievement is assumed. The calculation of the RoE includes the income before taxes and the capital pursuant to commercial law (not incl. investments by silent partners). On account of its large influence on the Bank's income performance, the development of new business and the portfolio in the core business area of commercial real estate finance is used as the central controlling parameter of the Bank.

Economic report

Macroeconomic and sector environment

Economic performance in Germany and Europe

In Germany, real gross domestic product rose by 1.6 % in 2014 and was significantly higher than in the two years before. The main pillar supporting the economy was again private consumption. It expanded by more than 1.0 %, with private consumption contributing roughly 0.6 percentage points to the growth. Public sector consumption also increased by a similar order of magnitude, rising by 1.0 %. Foreign trade made only a moderate contribution of 0.4 percentage points to growth. The growth in exports was slowed by the only weak economic momentum in the eurozone. After two consecutive years of decline, gross investments again made a contribution to growth in the past year, even if investment activity slowed noticeably due to the economic weakness in the eurozone and the geopolitical conflicts. The German economy proved to be quite resilient overall in an adverse global economic environment.

The economic recovery in the eurozone unfolded only slowly in the year under review, as expected. At first glance, the year 2014 may have begun quite well with a growth rate of 0.3 % in comparison to the previous quarter. These positive figures, however, were due primarily to the upwardly-distorted, weather-related growth rate in Germany (+ 0.8 %). With the temporary loss of Germany as the economic motor, the eurozone expanded at a rate only slightly above zero in the next two quarters. However, economic output rose somewhat more rapidly in the last three months of 2014. In full year 2014, real gross domestic product only rose by 0.9 % in comparison to the previous year.

Development of real estate markets

Global investments in commercial real estate rose by roughly 20 % from financial year 2013 to US\$ 710 billion in 2014. Low interest rates meant a continuation in the overall trend towards high-income real assets and the related increase in global capital flows in the asset class real estate.

Germany

The German investment market for commercial real estate, as well as the global market, continued to profit from low interest rates in the year under review. The transaction volume increased for the fifth time in a row by roughly 30 % to € 39.8 billion. The seven real estate strongholds – Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – produced a total transaction volume of roughly € 23 billion in 2014, which corresponded to a year-on-year increase of roughly 18 %. Investors' high demand for the office asset class remained unchanged in 2014. The corresponding transaction volumes totalled roughly € 17.5 billion. Accordingly, the share of the total volume amounted to roughly 44 %. Coming in a distant second was retail real estate with a transaction volume of roughly € 8.7 billion or respectively a share of 22 %. Logistics real estate accounted for a total of € 3.6 billion, contributing a share of 9 % to the overall result.

The office rental market developed positively in 2014, different from what was expected, with an increase of roughly 3 % in sales volume, whereby the last quarter contributed an above average share of 30 % of total sales. Regionally, the earnings varied greatly, however. While the sale of space in Berlin increased by roughly 36 %, it fell substantially, for example, in Düsseldorf by 22 %. The retail rental market posted a pleasing year-on-year improvement in sales during the financial year 2014, increasing significantly, by roughly 20 %, to 582,400 m². Primarily, large spaces for retailers were in demand so the share of space above 1,000 m² rose from 5 % to 17 %.

Europe

The European commercial real estate markets achieved a transaction volume in the amount of € 218 billion in financial year 2014, which meant an increase of 32 % in comparison to the previous year. The UK remained the top performer on the European investment market. The transaction volume increased to a total of € 70 billion and made up just under a third of the total European transaction volume. The last quarter was particularly good with a volume of roughly € 26.8 billion. In total, the trend continued towards investments outside of London, in part due to the shortage of supply.

In France, the transaction volume increased to € 22 billion, of which the largest share was attributable to the fourth quarter with roughly € 8 billion. The office segment continued to dominate as before, whereby the interest of foreign investors increased above all. Investors remained focused in particular on Paris and the Île-de-France.

Among the Benelux countries, the Netherlands enjoyed a strong performance. The transaction volume almost doubled at roughly € 10 billion. This is due in particular to investors' increasing investment pressure. German investors' demand for top locations in Amsterdam was pronounced. In Belgium, the transaction volume of € 3.3 billion more than doubled from the previous year. The real estate market in Luxembourg also performed very well. The 2014 financial year was the most successful year since 2007, but prime yields fell slightly in comparison to 2013.

In Poland, the transaction volume fell to roughly € 2.7 billion in 2014, whereby investment activities remained dynamic. The office sector clearly dominated with a share of significantly more than 50%. In comparison to 2013, the share of domestic investors as a percentage of the total transaction volume rose to over 10%.

Development of international financial markets

In the past year, financial markets were greatly affected by the activities of central banks and here in particular the European Central Bank (ECB). While the US Federal Reserve took the first steps towards a normalisation of its monetary policy by discontinuing its purchases of government bonds in the autumn of 2014 as planned, and the financial markets were at least prepared for the first increases in interest rates in 2015 through verbal communication, the ECB decided to take various additional measures in the past financial year that were supposed to counter the ongoing drop in the inflation rate in the eurozone by increasing the supply of liquidity. Besides lowering the base interest rates two times to 0.05% and introducing negative interest rates of -0.2% for the deposit facility for the first time, the European Central Bank announced in June the addition of so-called targeted long-term funding operations (TLTRO) and a covered bond purchase programme (CBPP3) at the beginning of September. These measures were supposed to support bank lending to the private economy and help the inflation rate move back towards the desired target range of 2.0%. Through the end of 2014, it was not possible to speak of any noticeable success as a result of these measures due to the crash in the price of crude oil. For this reason, financial markets assumed there would be additional unconventional measures from the ECB, which were also adopted by the ECB in January of the current year in the form of an extensive bond buying programme.

The very expansive monetary policy of the ECB and the prospects of additional measures in the current year 2015 caused a further reduction in interest rates across a broad front. The yields on 10-year German government bonds fell from just under 2.0% at the beginning of 2014 to an all-time low of under 0.6% at the end of the year. 5-year government bonds yielded roughly 0.0% at the end of the year, and shorter maturities already had negative yields. The substantial drop in yields also occurred for almost all other European government bonds.

Money markets rates also fell in the past financial year. The 3-month Euribor dropped from just under 0.3 % at the beginning of 2014 to below 0.1 % at the end of the year. On foreign exchange markets, the various prospects with respect to the future monetary policy of central banks and varying economic performances caused a noticeable decline in the value of the euro against the US dollar, particularly at the end of the year. If the exchange rate was at a good 1.35 EUR/USD at the beginning of the year, it fell to roughly 1.20 EUR/USD at the end of the year.

As far as possible, the high liquidity and the low interest rates ensured a positive underlying sentiment on international financial markets during the financial year. Negative developments took place solely in sub-markets, for example on account of geopolitical developments, and for individual companies due to company-specific news.

Development of the banking sector

Competition in commercial real estate finance increased significantly in 2014. Thanks to the ongoing stable situation on the most important European real estate markets, almost all banks have expanded their financing activities in this business segment. Additionally, insurance companies and pension funds, due to the historically low interest rates, continued to look for alternative investment options and have now established themselves as financiers of large-volume commercial real estate.

In the domestic market, the largest competition in 2014 was seen for so-called core properties in the seven German real estate strongholds. Since the supply of available prime real estate is becoming smaller and smaller, B and C locations as well as B properties in prime locations are increasingly becoming the focus of many investors. Deutsche Hypo anticipates that this trend will also continue in the current year and that competition will also intensify – both in terms of investors and financing. This is especially the case because interest rates will remain low in the near future, there continues to be high liquidity on the market and investors' willingness to take risk is increasing. Despite a noticeable increase in price in individual sub-markets or segments, Deutsche Hypo also continues to see no signs of a bubble in the real estate markets. The number of foreign investors that are involved in the German real estate market increased significantly in the last year. In particular, non-European investors have profited from the advantageous exchange rates. Since real estate prices in their preferred metropolises such as New York and London rose significantly in 2014, they became more interested in properties at prime locations in Germany. For the year 2015, Deutsche Hypo expects another expansion of its activities in the domestic market.

Besides the operating business, regulatory issues also defined the 2014 financial year. New regulatory requirements increased again in the year under review. First-time compliance with the CRR (Capital Requirement Regulation) and the regulatory notifications in accordance with the CoRep (Common Reporting Framework) significantly increased the scope of reporting for banks. Among others, new rules for large exposures and new reporting requirements for the leverage ratio and new liquidity notifications were implemented.

Course of business at a glance

Significant influential factors and developments in the financial year 2014

The past financial year 2014 was shaped by advantageous external conditions for Deutsche Hypo despite the large number of new regulatory requirements. The high liquidity available on account of the monetary policy measures and investors' investment pressure due to low interest rates ensured an ongoing high level of demand for commercial real estate. Despite noticeably intense competition, there were sufficient new business opportunities at all times, which Deutsche Hypo was able to take advantage of, while maintaining relatively stable margins and giving due regard to the high quality requirements of financing. The new business volume in commercial real estate finance increased significantly in comparison to the previous year. The increase resulted in particular from a significant rise in volume in almost all foreign markets. Despite ongoing high premature repayments of loans, the portfolio of commercial real estate finance rose slightly in total. The somewhat positive economic conditions in the target markets and Deutsche Hypo's quality-oriented lending policy ensured the expected ongoing improvement in the quality of the real estate finance portfolio, which also improved the risk result of the core business area, following the trend over the last few years. The portfolio of impaired real estate financings also continued to fall.

The ongoing highly expansive monetary policy of the ECB continued to ensure calm on financial markets for the most part over large portions of the past financial year. There was no major external impact on the capital market business in the past financial year. The positive earnings development was, however, counteracted by the decision of the Austrian Financial Market Supervisory Authority to declare a debt moratorium for Heta Asset Resolution AG. As a result the Bank had to set up a loan loss provision of € 58.5 million for its claims with a nominal volume of € 245.0 million, which were secured in full with a default guarantee from the state of Carinthia.

Due to the increasing emergence of insurance companies, pension funds and utility companies in the market of commercial real estate finance, Deutsche Hypo completed financings together with the aforementioned new market actors in the past financial year. In these cases, the Bank usually acquires and structures large volumes of financing and handles the loan management in full for the whole financing during the entire contractual term. Furthermore, Deutsche Hypo and a capital management company created their first real estate fund for an institutional investor. It has been constructed as a special fund according to German law and invests in a diversified portfolio of commercial real estate financing of Deutsche Hypo. A portion of this investment is intended to hedge lending risks in the form of a cash-collateralised guarantee for the assumption of the mezzanine risk in the underlying portfolio. Both the increasing collaboration with insurance companies, pension funds or utilities companies as well as the creation of the real estate fund expand the business and income opportunities of Deutsche Hypo.

In addition, the new representative office in Warsaw was officially opened in the year under review. Deutsche Hypo considers Poland to be one of the emerging commercial real estate markets in Europe, which will offer diverse business opportunities that the Bank can leverage more effectively with an office in Poland. The already significant expansion in the volume of new business in the past financial year confirmed the Bank's decision to increase its business activities in Poland through the opening of a representative office.

With the implementation of additional measures in the Bank, the efficiency improvement programme SIGN also moved ahead. The cost optimisations that were achieved ensured largely stable administrative expenses from an overall Bank point of view. Higher expenses from new regulatory requirements were almost compensated in full. Furthermore, Deutsche Hypo moved into new headquarters in Hanover at the end of the last year. The improvement in communication and shorter paths between individual departments should have a positive impact on collaboration and result additional synergies in the business processes.

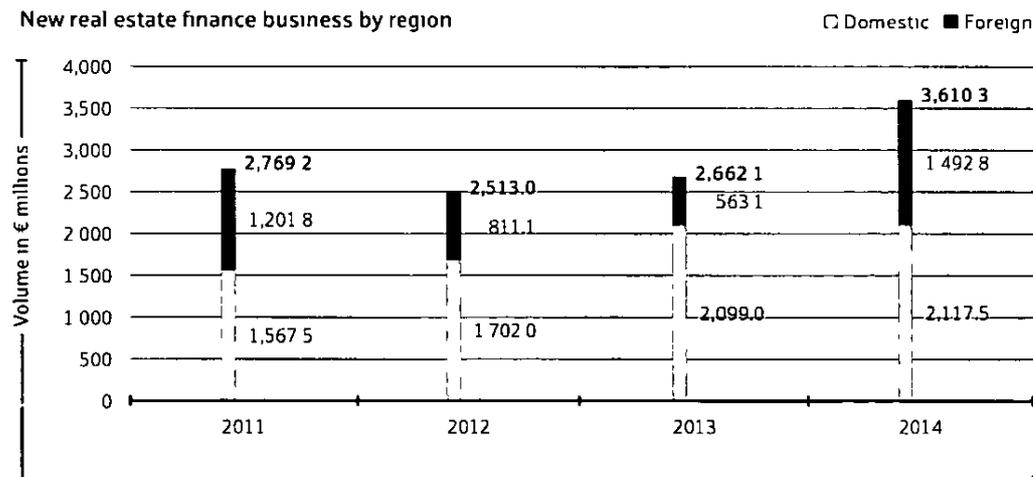
The described developments led to a result from normal operations in the amount of € 41.4 million in the past financial year (2013: € 64.3 million).

Commercial real estate finance business

New business development

The already described good external framework conditions ensured investors' ongoing high demand for real estate in the past year. As expected, Deutsche Hypo was able to use this for a significant year-on-year increase in new business volume in commercial real estate finance. In total (Germany and foreign), new commitments contributed € 3,610.3 million in the past financial year and were thus 35.6% above the volume of € 2,662.1 million in the previous year. The share of new credit commitments shifted somewhat from the home market of Germany towards foreign markets. While domestic commitment volumes totalled € 2,117.5 million, roughly corresponding to the high level of € 2,099.0 million in the previous year, the foreign new business volumes rose significantly to € 1,492.8 million (2013: € 563.1 million). The share of domestic credit commitments as a percentage of the total commitment volumes fell to 58.7% accordingly (2013: 78.8%). This shift shows the positive assessment of the foreign markets. While Deutsche Hypo focused on the German market in past years primarily due to the significantly more stable economic performance, it is now increasingly considering attractive new business opportunities in foreign target markets.

New real estate finance business by region



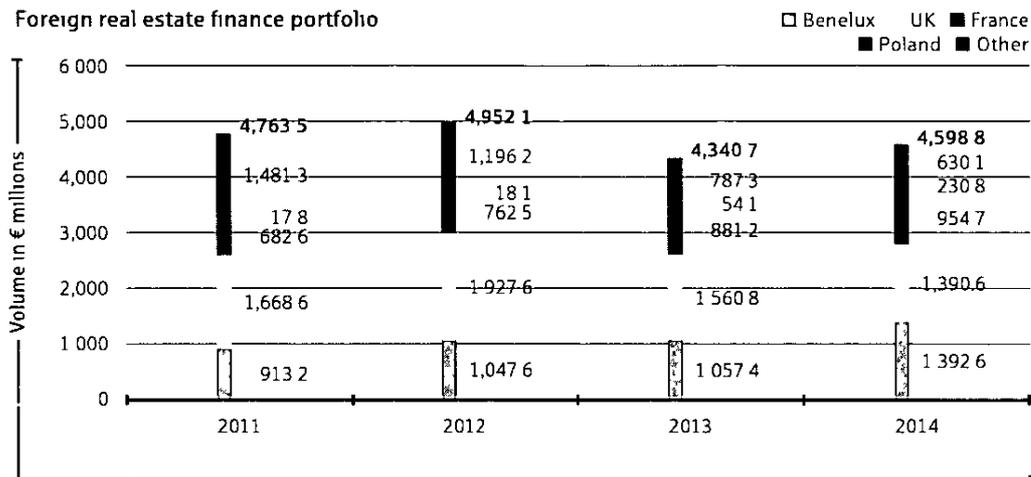
The foreign target markets have to be analysed in a more differentiated way on account of the different external framework conditions. The still foremost requirement of only pursuing new business with counterparties that meet very high requirements in terms of their risk profile and profitability make it necessary to constantly evaluate the current and future developments on (regional) real estate target markets. According to Deutsche Hypo's assessment, the commercial real estate markets in the Benelux countries count among the more interesting commercial real estate markets in Europe on account of the emerging economic recovery and a mostly moderate price level. In line with this assessment, Deutsche Hypo significantly expanded its new business in the Benelux countries to € 658.2 million (2013: € 197.1 million). In addition, the new business volume in the new target market of Poland increased significantly to € 272.0 million in the past financial year (2013: € 20.3 million). Here, Deutsche Hypo continues to expect a positive performance due to the anticipated relatively high economic growth.

Of total new commitments in real estate finance business (Germany and foreign), commercial credit of € 2,841.8 million (2013: € 2,236.4 million) accounts for a share of 78.7 % (2013: 84.0 %). Residential financing totalled € 769.0 million (2013: € 425.7 million) and, as in the previous year, made up a somewhat higher share of the total new business volume. In commercial lending, office real estate totalled € 1,307.7 million and continued to represent almost half of the new business volume.

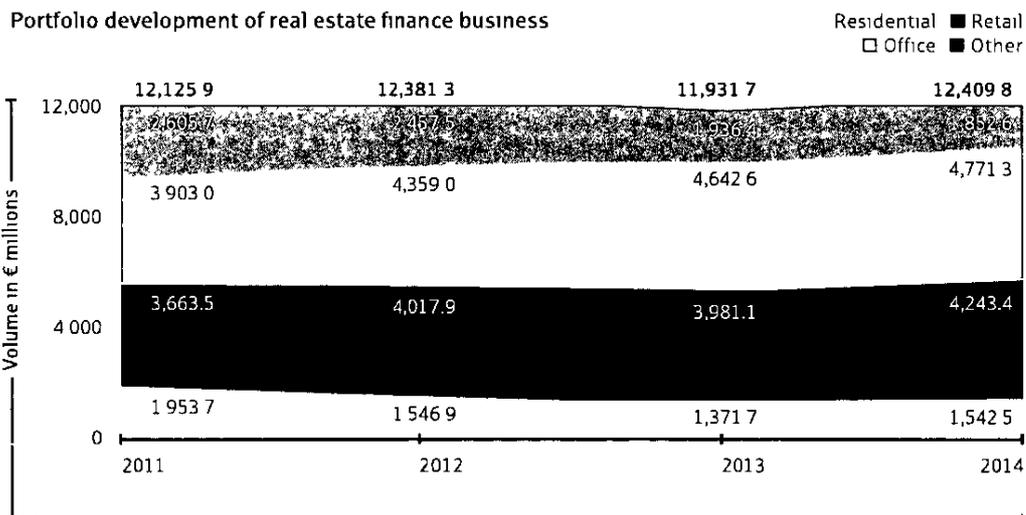
Portfolio development

The outlined development of the new business volume led to a rise of 4.0 %, despite the increase in redemption rates, to € 12,409.8 million in the real estate finance portfolio as of 31 December 2014 (2013: € 11,931.7 million). Furthermore, credit commitments in the amount of € 1,048.7 million (2013: € 1,067.8 million) had not yet been valued as of balance sheet date and were not included in the portfolio as a result. The quality of the real estate finance portfolio continues to take precedence in Deutsche Hypo's core business area. Besides the described quality-oriented lending policy, which has a correspondingly positive impact on the quality of the portfolio, the share of financing that is assigned to poor rating categories continued to decline. For more detailed information on the quality of the real estate finance portfolio, reference is made to the descriptions on the analysis of the credit risk in the expanded risk report. The credit exposure mentioned there is not exactly comparable to the balance sheet portfolios of the real estate financings due to the reliance on the nominal volume including the share of loan commitments.

The lending volume of domestic financings rose slightly in the past financial year to € 7,811.0 million (2013: € 7,591.0 million) and the portfolio of foreign financings grew to € 4,598.8 million (2013: € 4,340.7 million). The share of foreign lending increased slightly from 36.4 % to 37.1 % of the total real estate finance portfolio primarily on account of the higher foreign new business transactions in comparison to the previous year. The increase in foreign financing is due in particular to an expansion of the portfolios in the target markets of Benelux, which rose by € 335.2 million to € 1,392.6 million, and Poland, which rose by € 176.7 million to € 230.8 million. This development corresponds with the new business development in the past year. Benelux now accounts for the highest real estate finance portfolio in the foreign target regions of Deutsche Hypo, since the portfolio in the UK fell slightly to € 1,390.6 million (2013: € 1,560.8 million). In France, financings in the amount of € 954.7 million as of balance sheet date (2013: € 881.2 million) were granted, while the real estate finance portfolios in the non-strategic regions such as Spain and the US continued to fall, as planned, to € 630.1 million (2013: € 787.3 million).



The increases in the real estate finance portfolio were distributed fairly evenly across all property classes. Office real estate continued to represent the main type of property, accounting for a volume of € 4,771.3 million (2013: € 4,642.6 million), while the portfolio of retail real estate rose to € 4,243.4 million (2013: € 3,981.1 million). Residential financing totalled € 1,542.5 million (2013: € 1,371.7 million) and the financing of other real estate amounted to € 1,852.6 million (2013: € 1,936.4 million).



Portfolio development in capital market business

The capital market business was supported by the monetary policy measures of central banks in the past financial year and continued to operate in a very calm environment. In accordance with its strategic focus, Deutsche Hypo continued the reduction of its public sector finance portfolio, as planned. New business was conducted solely restrictively and primarily for liquidity and cover pool management. There were

also again clear reductions in the portfolio, particularly in loans to local authorities, which fell significantly from previous year, by 14.2 % to € 6,362.2 million (2013 € 7,412.5 million), and in the portfolio of securities, which fell by 8.8 % to € 9,254.4 million (2013 € 10,145.2 million)

The funding of the Bank is also assigned to the capital market business. In 2014 Deutsche Hypo purchased its own securities with a volume of € 2,852.2 million (2013 € 3,265.7 million) on the market, of which € 1,613.7 million (2013 € 2,725.0 million) are mortgage Pfandbriefe and € 1,238.5 million (2013 € 540.7 million) are unsecured bonds. The focus of issuance, accounting for 73.7 % of the total volume, involved private placements, as in previous years. Benchmark issues made up 26.3 % of the total volume. The Bank issued a 5-year benchmark with a volume of € 500.0 million in July 2014. In April, the Bank tapped a previous 5-year issue, which had a residual term of just under four years, by € 250.0 million. Both transactions met with solid demand so that the order book was quickly closed.

The market segment of large-volume bonds will increase in significance in the future – according to Deutsche Hypo's assessment – partly, but not only supported by the ECB's current covered bond buying programme. The Bank will continue to systematically service this benchmark market segment, which remains an important source of funding, but will also take advantage of the opportunities that arise in the private placement segment. The market views Deutsche Hypo as a reliable issuer, and the Bank has always been able to rely on a long-term network of reliable, nationally and internationally active capital market partners.

In 2014 Deutsche Hypo also ensured the long-term secondary market support for the Bank's own issues and acquired its own securities with a nominal volume of € 115.0 million in this connection (2013 € 163.0 million). The liquidity outflows resulting from the purchases were replaced without any difficulty in each case. The portfolio of the Bank's own securities totalled a nominal amount of € 67.0 million at the end of the year (2013 € 25.8 million).

Net assets, financial and income position

Income position

Presentation of the income position in the past financial year

in € millions	Total result		Commercial real estate finance		Capital market business		Other business	
	2014	2013 ^{*)}	2014	2013 ^{*)}	2014	2013	2014	2013 ^{*)}
Net interest income	222.3	209.8	180.4	174.2	21.7	16.0	20.2	19.6
Net commission income	4.5	6.6	5.5	6.8	-1.0	-0.2	-0.1	0.0
Administrative expenses ^{**)}	70.2	69.0	39.4	41.6	5.4	5.8	25.4	21.6
Other operating income	-10.5	-6.4	-2.5	0.0	0.0	0.0	-8.0	-6.4
Risk result ^{***)}	-62.2	-83.2	-48.6	-64.9	-25.3	-10.5	11.8	-7.8
Income from securities and participatory interest ^{****)}	-42.5	6.5	0.0	0.1	-42.5	1.1	0.0	5.3
Result from normal operations	41.4	64.3	95.4	74.6	-52.5	0.6	-1.5	-10.9
Extraordinary result	-1.4	6.7	0.0	0.0	0.0	0.0	-1.4	6.7
Interest on investment by silent partners ^{*****)}	8.4	15.9	0.0	0.0	0.0	0.0	8.4	15.9
Profit before taxes and profit and loss transfer	31.6	55.1	95.4	74.6	-52.5	0.6	-1.3	-20.1
CIR	32.5 %	32.8 %	21.5 %	23.0 %	26.1 %	36.7 %	> 100.0 %	> 100.0 %
RoRaC / RoE	3.8 %	7.2 %	21.9 %	14.1 %	-36.2 %	0.5 %	<- 100.0 %	<- 100.0 %

⁾ The amounts from the previous year were corrected. Reference is made to the information in the notes in the financial statements with regards to this.
^{*)} General administrative expenses including write-downs and value adjustments on intangible assets and tangible fixed assets.
^{***)} Write-down and value adjustments on receivables and specific securities as well as allocations to provisions in the credit business.
^{****)} Income from writing up participatory interest shares in affiliated companies and securities treated as fixed assets.
^{*****)} Interest on investments by silent partners is part of the 'Income statement item Profit surrendered under partial surrender agreements or a profit and loss transfer agreement'.

The result from normal operations, from an overall Bank point of view, amounted to € 41.4 million as of balance sheet date (2013: € 64.3 million). The developments in the various business areas varied greatly. The result from normal operations in the core business area of commercial real estate finance rose significantly to € 95.4 million (2013: € 74.6 million) on account of higher income and a significantly better risk result. By contrast, however, the described loan loss provisions in the capital market business affected the results and led to a decline in income on the level of the overall Bank.

From an overall Bank point of view, net interest income totalled € 222.3 million in the year under review, significantly above the previous year's level of € 209.8 million. This performance continued to be due to a stable development of margins with simultaneously slightly higher interest-like fee components in the commercial real estate finance business and one-off income from premature loan repayments. Net interest income in this core business area rose slightly from the previous year to € 180.4 million (2013: € 174.2 million). Contrary to expectations, the net interest income in the capital market business increased, rising to € 21.7 million (2013: € 16.0 million), despite the continuation of the strategic reduction of the portfolio, in particular due to premature repayments. The net commission income from the overall Bank point of view fell slightly, as expected, to € 4.5 million (2013: € 6.6 million), primarily due to slightly higher commission expenses for the assumption of credit risks in the commercial real estate finance business by third parties.

Administrative expenses totalled € 70.2 million (2013: € 69.0 million) and were mostly stable on the level of the previous year. The performance shows the ongoing success of the active cost management and the implementation of measures from the efficiency improvement programme SIGN. These effects were able to compensate in full for the increase in administrative expenses particularly due to regulatory requirements and the first-time expenses from the move to the new main location in Hanover.

The other operating income was € – 10.5 million (2013: € – 6.4 million), which is significantly below the level of the previous year. The ongoing negative result was largely due to the contribution made to the restructuring funds for financial institutions (bank levy). In addition, effects from the discounting of provisions and expenses for third-party managed buildings ensured a further decline in this income item.

The risk result from an overall Bank point of view was € – 62.2 million (2013: € – 83.2 million). The significant improvement primarily results from the positive developments in commercial real estate finance business. The risk result in the core business area improved significantly to € – 48.6 million (2013: € – 64.9 million), as a result of which the trend towards a decline in net expenses from the credit business in past years was continued as expected. The development is primarily the result of a quality-oriented lending policy that led to a successive improvement in the quality of the commercial real estate finance portfolio. By contrast, the risk result in the capital market business was affected by loan loss provisions and negative effects from the buy-back of the Bank's own issues as part of servicing the market.

Due to the loan loss provisions in the capital market portfolio, the income from securities and participatory interest was € – 42.5 million, significantly below the profit of € 6.5 million in 2013. In the past financial year, there were no significant effects on the results due to the strategic reduction of the portfolio in the capital market business or from the reduction of the portfolios of non-strategic business activities in 2014 as compared to 2013 when there were positive effects from the reduction of the MBS portfolio.

Particularly with regard to the measures in connection with the project SIGN, the outcome was an extraordinary result in the amount of € – 1.4 million (2013 € 6.7 million). The substantial decline in comparison to the previous year was due to the loss of last year's one off special effect from the sale of the Bank's own building which was the previous headquarters of Deutsche Hypo. Interest on investment by silent partners in the amount of € 8.4 million (2013 € 15.9 million) was taken into account. This decline is due to the loss of interest expenses from an investment by silent partners, which was converted to capital reserves in 2013.

The Bank reported a profit before taxes and profit and loss transfer, from an overall Bank point of view, in the amount of € 31.6 million (2013 € 55.1 million). Together with the decline in the profit before taxes and profit and loss transfer, the Return on Equity (RoE) was 3.8 %, which was significantly below the level of the previous year (2013 7.2 %). The decline is due to the capital market business. By contrast, the very positive performance in the commercial real estate finance business led to an improvement in the Return on Risk Adjusted Capital (RoRaC) in the core business area to 21.9 % (2013 14.1 %). As measured by the Cost-Income-Ratio (CIR), Deutsche Hypo also distinguished itself in the 2014 financial year with a high degree of operational efficiency. This key performance indicator improved slightly to 32.5 % (2013 32.8 %) due to higher income and simultaneously, for the most part, stable administrative expenses.

Comparison of the development of business and income with the forecast from last year

The slightly positive economic assumptions that formed the basis of last year's forecast for the development of income were met on the whole. In particular, the economic development in Germany may have been less dynamic than expected, but the very accommodating policies of central banks continued to ensure a high level of liquidity, which in turn brought about high demand for commercial real estate due to the low interest rates and a lack of alternative investment opportunities. The expected significant increase in the new business volume in the previous year was achieved with a volume of € 3,610.4 million (2013 € 2,662.1 million), and as a consequence of which last year's expectation of a rise in the real estate finance portfolio as of the reporting date of 31 December 2014 was achieved, despite the ongoing high redemption rates, with a portfolio of € 12,409.8 million (2013 € 11,931.7 million).

For the financial year 2014, Deutsche Hypo forecasted, from an overall Bank point of view, a positive development of income and the achievement of a result from normal operations that would correspond roughly to the income level of € 64.3 million in the previous year. With a result of € 41.4 million, this forecast was not achieved. As expected, the development of income was supported by an ongoing improvement in the risk result to € – 62.2 million (2013 € – 83.2 million) due in particular to the quality of the real estate finance portfolio, but loan loss provisions in the capital market portfolio caused a significant decline in the income from securities and participatory interest. The impact of this could not be compensated in full despite higher than expected net interest income of € 222.3 million from an overall Bank point of view (2013 € 209.8 million). The expected RoE on the level of the previous year was also not achieved with 3.8 % (2013 7.2 %). The forecast of a roughly unchanged CIR was achieved with 32.5 % (2013 32.8 %).

The expected slightly positive development of income in the core business area of commercial real estate finance was exceeded in the past financial year with an increase in the result from normal operations to € 95.4 million (2013 € 74.6 million), particularly due to the slightly higher than expected net interest income of € 180.4 million (2013 € 174.2 million) and the ongoing improvement in the risk result of € – 48.6 million (2013 € – 64.9 million). The RoRaC also rose significantly, contrary to expectations, to 21.9 % (2013 14.1 %).

In capital market business, the Bank was not able to achieve the expected slight improvement in the result from normal operations despite a significant increase, contrary to expectations, in net interest income to € 21.7 million (2013 € 16.0 million) due to the described loan loss provisions. The RoRaC was negative, which was not anticipated in last year's forecast.

Net assets and financial position

Development of the balance sheet

in € millions	31.12.2014	31.12.2013	Change (in %)
Receivables			
Mortgage loans	12,409.8	11,931.7	4.0
Loans to local authorities	6,362.2	7,412.5	-14.2
Other receivables	1,740.5	1,403.0	24.1
Securities	9,254.4	10,145.2	-8.8
Other assets	288.0	382.1	-24.6
Total assets	30,054.9	31,274.5	-3.9
Liabilities			
Mortgage Pfandbriefe	8,834.8	8,739.2	1.1
Public Pfandbriefe	8,807.3	11,022.6	-20.1
Unsecured bonds	2,172.1	2,624.1	-17.2
Other liabilities	8,492.2	7,241.0	17.3
Subordinated liabilities	326.0	336.0	-3.0
Jouissance right capital	83.0	83.0	0.0
Funds for general banking risks	14.4	14.4	0.0
Equity	913.2	913.2	0.0
Other liabilities	411.9	301.0	36.8
Total liabilities	30,054.9	31,274.5	-3.9
Contingent liabilities	791.0	838.2	-5.6
Other obligations	1,048.7	1,067.8	-1.8

The Bank's balance sheet total fell overall by € 1,219.6 million or 3.9 % to € 30,054.9 million in comparison to the previous year. The development was again due primarily to a reduction of 14.2 % or € 1,050.3 million in the portfolio of loans to local authorities to € 6,362.2 million and a reduction of 8.8 % or € 890.8 million in the portfolio of securities to € 9,254.4 million. This scheduled reduction of the public sector finance portfolio is in line with Deutsche Hypo's guiding strategic focus for some years now, with the goal of shifting the relevance of the Bank in the direction of the core business area of commercial real estate finance. Accordingly, the portfolio of real estate finance rose slightly year-on-year, by 4.0 % or € 478.1 million, to € 12,409.8 million. For more information about the portfolio of loans, please refer to the explanations in the course of business.

In the funding of the credit business, there has been a shift towards issued mortgage Pfandbriefe for some years now. An issue of public Pfandbriefe has not taken place for many years. In comparison to the previous year, the portfolio of circulating mortgage Pfandbriefe rose slightly by € 95.6 million to € 8,834.8 million. The portfolio of circulating Public Pfandbriefe fell again significantly, by € 2,215.3 million, to € 8,807.3 million in comparison to the previous year. Unsecured bonds also decreased significantly as of balance sheet date to € 2,172.1 million (2013 € 2,624.1 million). For information on the maturities or the due dates for liabilities, please refer to the explanations in the notes to the financial statements. For additional information on Deutsche Hypo's funding activity in the past financial year, please refer to the explanations in the course of business.

The balance sheet equity remained unchanged at € 913.2 million in comparison to the previous year. Due to the control and profit and loss transfer agreement, Deutsche Hypo transfers profits in full to NORD/LB. Therefore there are no changes in the profit reserves. The total balance sheet equity plus the jouissance right capital, subordinated liabilities and the funds for general banking risks in accordance with Section 340g of the German Commercial Code was € 1,336.6 million and slightly below the amount in 2013 due to the scheduled repayment of subordinated liabilities (2013: € 1,346.6 million). For information on the regulatory equity, reference is made to the explanations in the expanded risk report of this management report.

Off-balance sheet obligations in the form of irrevocable credit commitments fell slightly by € 19.1 million to € 1,048.7 million as compared to the previous year (2013: € 1,067.8 million). Contingent liabilities fell by € 47.2 million to € 791.0 million (2013: € 838.2 million). Other explanations on off-balance sheet obligations are made in the notes to the financial statements.

Rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Long-term liabilities	Financial strength
Moody's	Aa2	Aa2	Prime-2	Baa1	E+

The negative outlook issued in September 2013 by the rating agency Moody's for the long-term rating of Deutsche Hypo continued to apply. Moody's also adjusted its assessment of European banks on 29 May 2014. The reason was the potential impact that the EU's adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) would have. In this connection, a total of 109 European financial institutes received a "negative outlook". On 9 September 2014, Moody's announced an adjustment in its rating methodology for 2015.

General statement on the course of business and the position of the Bank

Deutsche Hypo achieved a result from normal operations of € 41.4 million in the 2014 financial year. The development of the result was significantly affected by loan loss provisions in the capital market business. They outweighed the very positive income development in the core business area of commercial real estate finance, which had already been noticed in the increase in net interest income with a simultaneously very positive development in the risk result due to the high quality of the real estate finance portfolio. Despite the additional expenses in particular from new regulatory requirements, Deutsche Hypo was able to keep administrative expenses stable. The performance clearly shows the success of the active cost management and the implementation of measures in the project SIGN.

A largely positive market environment was used to significantly expand the new business volume in the core business area of commercial real estate finance. In deviation from the previous years, the share of new foreign financings rose considerably. As a result of this, the portfolio of real estate finance was higher as of the reporting deadline of 31 December 2014 than in 2013. According to the strategic focus, the reduction of the public sector finance portfolio continued concomitantly as planned. The funding of the credit business was ensured through the Bank's own issues at all times.

Report on subsequent events

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

Forecast, opportunity and risk report

Forecast report

Development of business and general conditions

Forecast for economic development

Sentiment in terms of economic development in Germany improved significantly at the end of 2014 and the beginning of 2015. In surveys, above all, economic expectations rose noticeably. The low price of oil, the devaluation of the euro and the prospect of an ongoing extremely expansive monetary policy by the ECB in 2015 should lift the prospects of market participants and companies markedly. A significant driver of growth continues to be domestic demand and here, above all, private consumption. Besides the ongoing low inflation and the continuing rise in employment with another slight decline in unemployment, this is also supported by the ongoing strong increases in wages. The German economy is facing a solid upturn according to the Research/Economics Division at NORD/LB. Economic output should increase by 1.9 % year-on-year.

In the eurozone, the slight economic recovery is also expected to continue in 2015. This forecast assumes that the price advantages in crude oil and further monetary policy stimulus can contribute to a gradual rise in economic momentum during the year, and that negative (geo)political developments do not have an impact on the economic performance. The differences in growth will remain high, however, with the German economy again expanding significantly more strongly than the rest of the eurozone. A reduction in unemployment and budget deficits will bring about minor improvements, but no far-reaching success is expected.

Forecast for the development of the target real estate markets

For the full year of 2015, Deutsche Hypo anticipates an ongoing positive development of global investments in commercial real estate.

Germany

Due to the low interest rates and the associated investment pressure, the Bank anticipates that the positive trend on German real estate investment markets will continue for the full year of 2015. Real estate demand should continue to exceed the available supply and the transaction volume should be above the amount from the previous year. In particular, foreign investors should contribute here. As compared to 2014, it is assumed that prime yields will fall by 10 to 15 basis points again. At a level between 4.0 % and 4.5 %, these now represent the lower limit for many investors. Due to investors'

increasing risk appetite, it can be expected that demand for B cities, B locations and types of use such as office and retail will continue to gain momentum in 2015. Overall, it is expected that the differences in returns between core and non-core real estate will continue to fall.

Europe

The continuation of the slight economic recovery in Europe, connected with low interest rates, should also continue to stimulate demand on European real estate markets. It is also assumed that investors' risk appetite will continue to remain high. The trend towards investments in secondary cities and in alternative market segments (such as logistics real estate) should continue. Overall, it is expected that the difference between rents and capital values (both for core and also non-core properties) will remain high.

The UK, particularly London, should remain a strong market for investors. Due to the shortage of supply in London, investors' increasing interest in alternative locations should continue. Similar to the UK, high demand in particular in the metropolis of Paris should remain strong due to international capital inflows. In the Benelux countries, GDP forecasts for 2015 are above the average in the eurozone. Rents and capital values are expected to offer additional opportunities for growth. The interest of investors in markets such as Amsterdam, Brussels and Luxembourg should continue to increase overall. Due to its economic prospects, there are also signs of growth in the Polish commercial real estate market.

Forecast for the development of international financial markets

The developments on international financial markets will also be influenced by the activities of central banks in 2015. As expected, the ECB announced a massive expansion of its bond purchases with a monthly volume of € 60 billion at its first meeting in 2015. Since the measure is initially planned until September 2016, this will result in a total sum of more than 1 trillion euros. For the development of capital market returns in the eurozone, this should remain a critical muting factor over the course of all of 2015, with a sharp rise in yields in the eurozone not being expected. The high liquidity and the ongoing low interest rate level will also continue to ensure positive sentiment on international financial markets. However, negative developments on account of anticipated (geo)political developments or economic performance cannot be ruled out.

Forecast for the development of business

Significant assumptions in the forecast

Deutsche Hypo's multi-year plan, which is compiled annually, provides the basis for the statements on the income forecast. A planning model is used that enables Deutsche Hypo to model the results expected in the future. This includes factors such as new business, the development of the portfolio and the resulting margins. Economic assumptions on the future economic and financial market development as well as with regard to regulatory and internal Group requirements are also incorporated into the planning. The value of the planning is naturally highly dependent on the assumptions. Unexpected developments in external or internal factors can have a noticeable impact on the Bank's results. This includes payment difficulties of individual counterparties in the capital market business.

With regard to the macroeconomic framework data, the planning assumes largely functional market mechanisms and a continuation of the positive trend towards the ongoing calming and stabilisation of international financial markets. It is assumed that Deutsche Hypo will have access to funding on a sufficient scale and on the basis of standard market conditions at all times. It is expected that the implementation of the developed strategic measures and the good condition of the real estate markets as well as the ensuing increase in the demand for credit will lead to a rise in new potential business. A slight decline in the margin level is assumed.

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

- An increase and expansion of the product range, the constant promoting of lucrative, innovative product offers as a basis for ongoing high new business volumes
- Strategic focus on the defined target markets
- Continuation of the project development business and strengthening of the business in real estate investment banking (special and structured financing)
- Intensification of syndication to support attractive projects with a comparatively high financing volume. Parallel expansion of the agency function as a service performance for syndication and exit transactions
- Targeted development of business relationships to new partners that invest in real estate financing
- Run-off of the public sector finance portfolio for a reduction of hidden charges and credit spread risks in the banking book with solely selective new business activity for liquidity and cover pool management
- Strengthening of operating efficiency and disproportionate cost development through the optimisation of processes and structures as well as the leveraging of synergies

Forecast for the course of business in the business areas

Deutsche Hypo seeks to take advantage of the still expected good market environment and achieve a slight increase in the new business volume in the core business area of commercial real estate finance in the 2015 financial year (2014: € 3,610.4 million). This should be supported by the implementation of the mentioned structural and business policy measures. The Bank anticipates being able to use new business to overcompensate for the expected ongoing high redemption rates. For the year end 2015, a slightly higher real estate finance portfolio is expected in comparison to the previous year (2014: € 12,409.8 million).

The development of net interest income in the core business area of commercial real estate finance on the basis of the described assumptions should produce a slight rise in this position (2014: € 180.4 million). As in the 2014 financial year, the risk result is expected to be at a similarly good level in the 2015 financial year due to the continued significant improvement in the previous year and on account of the ongoing high quality of the real estate finance portfolio (2014: € -48.6 million). Due to the expected significantly higher expenses for the assumption of credit risks by third parties, the Bank expects a result from normal operations in the core business area that is slightly below the very high income of € 95.4 million in the 2014 financial year. A somewhat lower RoRaC in the core business area is expected as a result (2014: 21.9 %).

The capital market business was defined by the loan loss provisions in the year under review and will continue to be influenced by the strategic goal of reducing the public sector finance portfolio in the 2015 financial year. Following the development in the 2014 financial year, solely selective new business for liquidity and cover pool management will be pursued. The total portfolio of securities and loans to local authorities will again be significantly reduced as compared to the last years' balance sheet date (2014: € 15,616.6 million). As a result of this, a slight decline in net interest income is anticipated in the capital market business (2014: € 21.7 million). Negative effects in comparison to the year under review are only expected to a moderate extent so that a slightly positive result from normal operations in capital market business is anticipated in total. This implies a positive RoRaC.

Result forecast from an overall Bank point of view

The basis for the result forecast is the described planning premises, the forecast for the course of business in the business areas and the expected development of external influential factors in particular. For the overall Bank, Deutsche Hypo expects that it will significantly exceed the past year's result from normal operations in the amount of € 41.4 million in 2015. The rise in income will primarily be in connection with the anticipated significantly lower extent of the negative effects on income in the capital market business. Positive developments will be observed in a significantly improved risk result (2014: € – 62.2 million) and a substantial improvement in the income from securities and participatory interest (2014: € – 42.5 million).

The net interest income, which is of major importance to Deutsche Hypo, should remain in total roughly on the level of 2014 with € 222.3 million from an overall Bank point of view, despite the planned ongoing reduction of the public sector finance portfolio, on account of the expected slight rise in the net interest income in the core business area of commercial real estate finance.

The income of the overall Bank will be supported again by stable administrative expenses relative to the previous year (2014: € 70.2 million). Despite the anticipated expenses from new regulatory requirements, the success from the cost management of Deutsche Hypo will be noticed again.

The described developments will lead to a largely unchanged CIR from an overall Bank point of view (2014: 32.5%). The expected rise in the overall Bank's result should be reflected in a substantial rise in the RoE (2014: 3.8%).

Opportunities and risks of future business development

The described forecasts relate to the expected developments in the 2015 financial year. Opportunities and risks are primarily seen in Deutsche Hypo's risk result or income from securities and participatory interest that deviate positively or negatively from the forecast. Both income components are significantly affected by the developments of external economic and sector-specific conditions and developments on international financial markets. These can only be planned to a limited extent. Unexpected developments in external factors can have a major impact on the Bank's results.

Furthermore, as a result of financial difficulties of individual capital market counterparties, it is possible that these will have an unexpected impact on the income of the Bank. Uncertainties also remain due to the possibility of new legal requirements for the recovery and resolution of banks,

which provide for the possibility of creditor participation (bail-in) under certain circumstances. For Deutsche Hypo this would possibly be associated with significant effects on the income. In this context, however, there is also the possibility of write-ups on impaired positions from the previous year.

Major types of risks that occur in this connection are counterparty risks, market price risks, liquidity risks and operational risks. In the context of Deutsche Hypo's risk management, the aforementioned risk types are monitored. The following expanded risk report goes into detail on the goals, strategies, structures and processes in risk management. Furthermore, there is an outlook for all risk types in the 2015 financial year.

With regard to the Bank's income, the scope of the potential positive or negative deviations from the forecast values is considered to be significantly lower. Nonetheless, particularly increasing margin pressure on account of competition and a lower new business volume in the core business area of the Bank than forecast are potentially negative factors for the development of income at Deutsche Hypo. In its lending policy, the Bank will also continue to have high expectations in terms of quality and returns in the conclusion of new business, and compliance with the risk principles described below will also be part of the focus when evaluating borrowers in future.

Due to the goal of preventing the types of risks from having a negative impact on the development of income at Deutsche Hypo, the risk management is also automatically combined with opportunities management in the form of a possible positive deviation in the forecast risk result or the income from securities and participatory interest.

General statement on the forecast report with significant opportunities and risks

For the 2015 financial year, Deutsche Hypo assumes a pleasing development of business and a result from normal operations that will significantly exceed the level of € 41.4 million in the past 2014 financial year in particular due to a slightly better risk result and a substantial improvement in the income from securities and participatory interest. The forecast is based on the assumption of ongoing slightly positive external general conditions. Unexpected developments in external influential factors and payment difficulties for individual counterparties in capital market business can have a noticeable impact on the Bank's results.

According to the business strategy, the focus will continue to shift towards the core business area of commercial real estate finance. In expectation of a slight rise in the new business volume in the core business area, it will be possible to continue overcompensating for the high redemption rates in the real estate finance portfolio. From an overall Bank point of view, a stable net interest income is expected despite the ongoing strategic reduction of the portfolio in the capital market business.

Expanded risk report

Risk management

Fundamentals of risk management

Due to the use of the waiver rule in accordance with Art. 7 (1) CRR, formerly Section 2a (1) of the German Banking Act (KWG), which was described in last year's annual report, Deutsche Hypo is not

responsible for the regulatory provisions concerning the requirements for equity on the level of the institute, the requirements for large exposure notification and the calculation and securing of the risk-bearing capacity, the specification of strategies and the establishment of processes for the identification, evaluation, control, monitoring and communication of risks (Section 25a (1) clause 3 no. 1 of the KWG) on the level of Deutsche Hypo after providing notification on 7 June 2013. The aforementioned requirements are transferred to the parent company due to the control of Deutsche Hypo that NORD/LB has in terms of regulatory law.

Despite being released from these responsibilities by exercising the waiver rule, Deutsche Hypo as a Pfandbrief bank is still subject to the rules of the German Pfandbrief Act (PfandBG) in terms of Section 1 of the PfandBG. Section 27 of this Act requires an appropriate risk management system for the identification, assessment, control and monitoring of all risks associated with Pfandbrief business. The implementation of existing requirements from the PfandBG is an integral part of the existing risk management and requires the control of the counterparty, market price and liquidity risks on the level of the cover pools.

Deutsche Hypo has implemented an inter-divisional risk management process and is included in the risk management process of the NORD/LB Group in the regulatory context. In this context, the types of risks that are relevant for Deutsche Hypo (overall risk profile) are identified as part of the strategic sub-process for risk identification. These risks then pass through – depending on their materiality – the operating sub-processes of risk assessment, risk reporting and risk management and monitoring. The sub-processes' content corresponds to the concrete MaRisk requirements, which are made of the risk management and controlling processes in the internal control system (IKS). Deutsche Hypo's IKS aims not only to meet the external requirements, but also acts as a major component of the risk management process and contributes to systematically identifying and reducing process risks. The risk management process for the identification, assessment, control and monitoring of risks is subject to continual review and refinement.

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

Risk management – strategies and goals

The strategic orientation of the NORD/LB Group is determined in compliance with Section 25a (1) of the KWG, among others, on the basis of a consistently developed business and risk strategy. The business and risk strategy of the NORD/LB Group is based on all the significant (in terms of risk) subordinate companies of the NORD/LB Group and thus Deutsche Hypo. Deutsche Hypo prepares an institute-specific, concrete and consistent risk strategy for the Group risk strategy and for the business strategy of the Bank, which is oriented on the overall risk profile of Deutsche Hypo. In 2014 Deutsche Hypo's risk strategy was updated as usual.

Risk management – structure and organisation

The risk organisation of Deutsche Hypo corresponds to the risk policy objectives and includes an efficient risk management process with clearly defined responsibilities and competencies. This is supported by an adequate IT infrastructure and qualified employees, ensuring systematic interaction.

between involved divisions and smooth processes. The risk-related organisation structure and the functions, responsibilities and competencies of the divisions involved in the risk processes are clearly defined down to the level of individual employees. Furthermore, there is an established organisational separation between the market and risk management functions up to and including the level of management. In 2014 Deutsche Hypo refined the existing committee structure on the level of the Supervisory Board. Besides the Lending and Risk Committee, which advises the Supervisory Board on the current and future overall preparedness for risk and the risk strategy, among others, Deutsche Hypo also has, as permanent committees, the Audit Committee, the Remuneration Committee and the Appointments Committee. All four committees serve to support the Supervisory Board in its monitoring functions.

On the level of NORD/LB as the parent institution, boards have been established for handling the risk management process on the Group level and exercising the consulting, monitoring, control and coordination functions. This involves, among others, the Extended Group Board of Managing Directors, the Group Control Committee and the Group Risk Committee. Due to the integration of Deutsche Hypo in the risk management process on the Group level, the results of the previously mentioned boards have an impact on Deutsche Hypo. Deutsche Hypo is included by sending representatives to these boards. Furthermore, on the level of the Group, there is a method board called risk management and various working groups with the aid of which uniform Group standards are ensured for significant methods and reports on risk controlling. Deutsche Hypo is also represented in this method board and in these working groups.

The process-independent review of the effectiveness and appropriateness of the risk management is handled by Deutsche Hypo's Internal Audit Division. On account of the outsourcing of significant responsibilities in Internal Audit to NORD/LB, Deutsche Hypo's Internal Audit is represented by an audit officer who bears responsibility for proper internal audit. This monitoring is handled on the basis of uniform tools.

For the purposes of ensuring that regulatory requirements are adhered to in relation to activities in new products or new markets, a "New Product Process" (NPP) is in place throughout Deutsche Hypo. As a standard process, the NPP regulates the development of new products and the approach taken to new markets, new sales channels and new services. The early identification of risks, the appropriate evaluation 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 the running business operations.

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

Management of risks affecting cover pool

In its capacity as a Pfandbrief bank in terms of Section 1 of the PfandBG, Deutsche Hypo is also subject to the rules set out in the PfandBG. As a result, the risk management system comprises both the classical responsibilities and the identification, evaluation, controlling and monitoring of all risks that are connected with the Pfandbrief business.

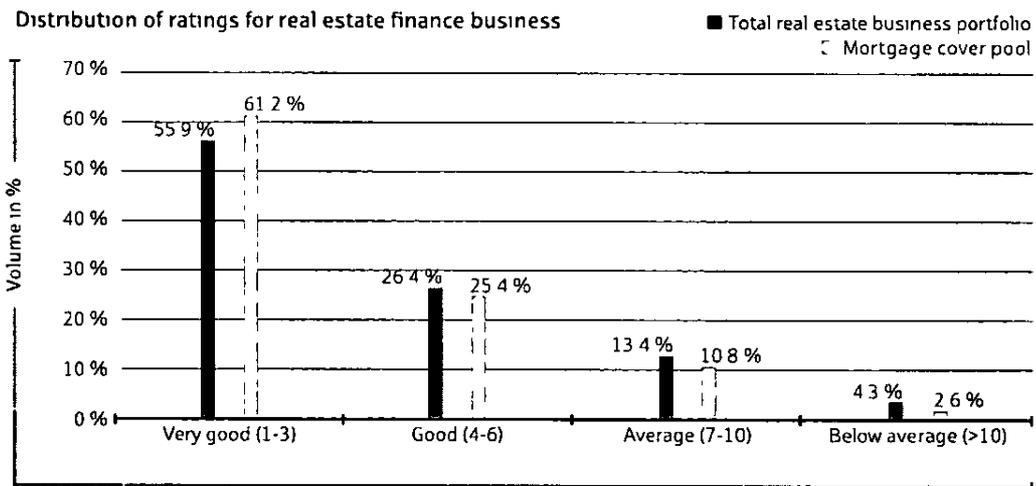
Deutsche Hypo has also established a risk management system designed for the Pfandbrief business. Counterparty, market price and liquidity risks are managed at the level of the cover pools in order to guarantee the high quality standards of the cover assets used for public Pfandbriefe and the high quality of the properties serving as collateral in mortgage business. The goal is to ensure the long-term value and the earnings power of the Bank with a stable and cost-affordable funding basis in connection with a high quality rating for the Pfandbriefe by rating agencies.

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

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

Cover pool of mortgage Pfandbriefe

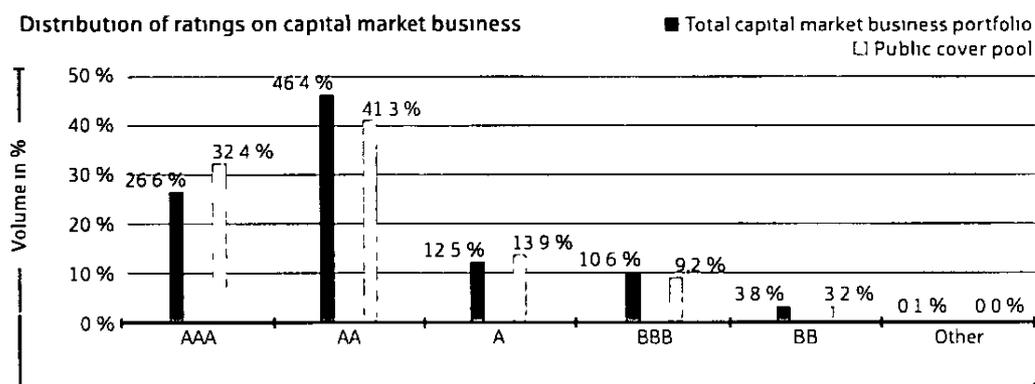
The proportion of good and very good credit ratings in the mortgage cover pool amounted to 86.6% as of 31 December 2014 (2013: 81.8%). In terms of the entire real estate finance portfolio, this share was 82.2% (2013: 78.0%). The distribution of ratings in the mortgage cover pool reflects the good quality of the Pfandbriefe.



Cover pool for Public Pfandbriefe

The share of loans with a very good rating of AAA or AA in the cover pool of Public Pfandbriefe was 73.7 % as of 31 December 2014 (2013: 68.6 %). The average rating in the cover pool amounted to AA – and signals the high quality of the cover pool for issued Pfandbriefe.

Distribution of ratings on capital market business



Risk management – risk-bearing capacity

Due to the usage of the waiver rule, the risk-bearing capacity (RBC) of Deutsche Hypo is monitored on the level of the NORD/LB Group. The RTF model of the NORD/LB Group consists of three levels of analysis: the going concern (authoritative monitoring level for an evaluation of the risk-bearing capacity), gone concern (secondary condition) and regulatory (strict secondary condition) in which the significant risks (risk potential) are viewed in each case in relation to the defined risk capital of the individual institutes or the Group. Deutsche Hypo supplies the required information that is consolidated within the scope of the risk-bearing capacity calculation of NORD/LB for the Group. The risk-bearing capacity of the NORD/LB Group is met as of 31 December 2014. The securing of the risk-bearing capacity on the Group level is supported by the use of institute limits for the significant types of risk at Deutsche Hypo. These limits are set by the NORD/LB Group, and their compliance has an early warning character from the perspective of the NORD/LB Group. Corresponding escalation mechanisms have been established for the exceeding of limits.

The monitoring of limits entails that the risk potential for the major risk types is calculated quarterly according to the uniform Group methodology and compared to the respective limits for the Bank. The risk potential is fundamentally based on a Value-at-Risk approach with a confidence level of 95 % and a holding period of 250 trading days (going concern) or a confidence level of 99.9 % and a holding period of 250 trading days (gone concern).

Current developments

As in the previous year, a slightly positive sentiment was observed on money and capital markets in 2014. This led to a further reduction in regard to the hidden charges in the banking book. The risk potential in the going concern (confidence level of 95 %, time horizon of fundamentally 1 year) from the significant risk types is as follows on 31 December 2014:

Composition of risk potential from the significant risk types in the going concern as of 31.12.2014



There were no significant changes from the previous year with regard to the distribution of the overall risk across individual types of risk in the going concern.

Findings from the AQR

The portfolio of Deutsche Hypo was a part of the Asset Quality Review (AQR) in the Group during the 2014 calendar year. Together with the Group-wide stress test, the AQR part of the comprehensive assessment was a complete balance sheet audit of European banks prior to the start of new Europe-wide bank regulation by the ECB. One of the focal points was the real estate portfolio, particularly in Germany, the US, the Netherlands and in the UK. The audit confirmed the quality of the portfolio and did not show any material differences in comparison to the Bank's own evaluation.

Counterparty risk

Deutsche Hypo's counterparty risk consists of the credit risk, including the country risk. The financial investment risk does not have any strategic meaning and is insignificant as a result. The credit risk refers in general to the possibility that a loss may incur 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. The counterparty risk is also assigned to the credit risk and includes the risk that if a contractual party defaults it might no longer be possible to collect an as yet unrealised gain from pending transactions (replacement risk) or that, in the case of a transaction requiring contemporaneous performance, the instance of a counterparty defaulting might mean that the counter-performance can no longer be fulfilled (performance risk).

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

Counterparty risk – goals and strategies

Credit risks are handled on the basis of the Bank's risk strategy for credit risks which, in turn, is part of the overall risk strategy. 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, but at least in rating class 9 and with securities in the form of senior mortgages for the amount of the financing for the property. In the capital market business, Deutsche Hypo also concentrates on doing business with good counterparties with a minimum rating of investment grade, but on average "A" or with a comparable rating. Deutsche Hypo only pursues business with customers/counterparties that lie outside of the aforesaid credit rating focus after careful consideration of the opportunities and risks.

Furthermore, no individual credit exposure may reach an order of magnitude that can significantly compromise the economic stability of the Bank. For the early identification and reduction of credit risks, all borrowers and counterparties that exhibit an elevated level of risk will be determined in an early warning process defined for this.

In order to meet the specific requirements for each business area, the Bank has drawn up financing principles that take the form of binding guidelines for new business for the Bank in the strategic business area that was classified as relevant for risk. The risk-related evaluation of the commitments was handled on the basis of a procedure specifically developed for the business areas (e.g. rating module).

Deutsche Hypo's aim is to achieve a competitive level of profitability and take into account efficiency and flexibility in terms of active management of the credit risk items in order to minimise the unanticipated losses. Credit operations and controlling the credit risk is a core competency of Deutsche Hypo, and one that is permanently being further developed and expanded.

Counterparty risk – structure and organisation

All the organisation structures derived from the framework conditions and the processing procedures are included in the written policy of Deutsche Hypo. The credit risk related organisational structure and the functions, responsibilities and competencies of the divisions involved in the risk processes are clearly defined down to the level of individual employees. The processes in the credit business are characterised by a clear structural and organisational separation of the market division and the back office division up to and including the level of management. In the back office division, there is a separation between the credit risk controlling, the credit risk management and the special credits management.

Credit decisions as defined in MaRisk are all decisions on new loans, loan increases, loan takeovers, loan extensions and significant changes to risk-relevant properties of loans. Loan decisions are always made by two authorised employees or, for specific sizes of loans, by decision-making committees (e.g. the full Board of Managing Directors). One person is always assigned 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. The market division has no authority to approve credits on its own.

Before the loan decision is made by the responsible employee, two additional votes, namely one vote from the market division and one from the back office division must first be present. The responsibility of the authorised employees is basically based around the total commitment of the borrower or borrower unit to which the customer is to be allocated and around the rating class as determined in the credit review for the borrower or borrower unit concerned. This ensures that the basis of the loan decision is not simply the amount of the requested loan. Rather, the risk potential inherent in the total commitment is taken into account.

Counterparty risk – controlling and monitoring

Deutsche Hypo's credit risk is controlled and monitored primarily through the stipulation of financing principles, the limit system and the rating system.

Financing principles

The financing principles are an instrument in the risk management and must be applied by all the institutions affiliated with the Group. The financing principles are set ex ante by the back office division and the market division, and should at least meet the expectations for potential business. The financing principles document the uniform, Bank-internal understanding of the necessary benchmarks for starting business and contracting in a certain market segment. They are intended for effective pre-selection and do not anticipate definitive decisions in individual cases. The annually checked financing principles are reviewed by the respective analysts by means of a check list.

For Deutsche Hypo, the following criteria apply as a minimum risk standard in the real estate finance business. Approval by the Board of Managing Directors must be obtained in the case of non-compliance.

- The redemption structures and the loan maturities ensure the redemption of the loans within the remaining term of the financed real estate.
- The real estate and the overwhelming share of the portfolio in the case of multi-family home portfolios are inspected by a Bank employee or an expert hired by the Bank prior to the credit decision.
- The financing must run off within the market values upon the initial decision with due regard for the mitigants and/or additional securities.
- On the part of the borrower, it is usually necessary to contribute an appropriate amount of equity in the form of cash and/or individual performance of 20 % of the total cost (orientation amount) in advance. A substitute in the form of perfect (in terms of credit rating) co-liability conditions/recoverable guarantees/recoverable additional collateral is possible.

The focus is on the property types of office, retail/shopping centre, multi-family homes and properties with a mix of the aforementioned types of use and selectively set to hotel and logistics real estate.

Limit system

Deutsche Hypo is included in the limit systems for risk concentration of the NORD/LB Group as part of strategic limiting. There are limits on the concentration of counterparty, country and sector risks. This system combines, monitors and controls all the counterparty risk concentrations in the Group. The Group-wide binding limits are considered. Deutsche Hypo supplies the information required for this and will in turn inform its own borrowers about Group-wide concentrations of risks. If the limits are exceeded, uniform Group rules for the monitoring and reduction of the affected unit will apply. In this case, there are various limits for each business area at Deutsche Hypo. The limiting of risk is handled on the level of

the country risk, sector risks and on the basis of individual risk bearers all the way to limiting the risk on an individual mortgage property. In order to avoid risk concentrations at the borrower level, limits are in place for economic units that extend beyond the rules for borrower units (borrower unit in terms of Section 19 (2) of the KWG and groups of affiliated customers in terms of Article 4 of the CRR) and that also take into account secondary risks such as e.g. tenant liabilities. 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 12-month period. This rating score is then permanently updated as part of the annual credit rating assessment and any assessment carried out following a particular occurrence. The rating modules in use were developed as part of cooperation projects involving the savings bank group and the Landesbanks. The evaluation of the credit rating of customers in combination with a risk-adjusted pricing of the loan leads to the compensation of the expected losses.

Treatment of conspicuous exposures

The use of sophisticated credit rating evaluation processes cannot prevent the credit ratings of individual borrowers from deteriorating over time. Exposures with early warning criteria 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. This involves intensively monitored exposures.

Exposures in certain risk classes are transferred to Special Credit Management and can be assumed by this department (drawing right). This department is responsible for having an influence early on and introducing a restructuring process 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 option to restructure, an effort is made to optimise the income from the collateral in the case of unwinding. The Special Credit Management is also the centre of competence for risk provisioning and has to ensure a reasonable measurement of the risk provision at all times. In order to ensure the latter, the Special Credit Management Department sets the amount of the risk provisioning within the scope of the competency rules.

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

Framework conditions for the credit business with the public sector and banks

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

Counterparty risk – collateral

Deutsche Hypo accepts collateral located in Germany and abroad in order to reduce its credit risk. With regard to commercial real estate finance, loans are generally secured by means of a mortgage in the amount of the loan. In exceptional cases, mortgage collateral can be omitted. A requirement for this is a good credit rating and the observance of the limit for financing not collateralised by mortgages.

The value of the property and thus the value of the related securities is monitored on a regular basis, generally at least annually. If there have been any influential factors that are of relevance to the value of the security, a revaluation must be carried out. Deutsche Hypo's credit guidelines and lending principles set out definitions of the basic types of security and properties being mortgaged that may be used as security, and the maximum share of the value of the collateral or of the financed property that can be lent. Both the fair value and the lending value calculated in accordance with the strict provisions of the German Regulation on the Determination of Mortgage Lending Value (BelWertV) are applied. The latter has a direct impact on the eligibility as cover of the loans and thus influences the volume of the cover pool available as security for Pfandbriefe issued by Deutsche Hypo, in accordance with the terms of the 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 institutes and liquid funds provided as collateral are taken into account for the purposes of risk assessment in the loan portfolio and the easing of capital requirements as stipulated in the CRR.

Counterparty risk – measurement

The direct quantification of the credit risk takes place for the Bank on the one hand on the level of the NORD/LB Group and on the other on the level of the individual institute of Deutsche Hypo. The explanations below on the measurement of the credit risk include the general description of the methods and processes that are used on the level of NORD/LB for the measurement of the credit risk. Credit risk is measured using the risk key figures of expected loss and unexpected loss. These are calculated on the basis of the probability of default that is determined from the rating scores and the anticipated loss amount per loan, taking account of any collateral. The expected loss is the expected default in the loan portfolio over the next twelve months. To cover expected losses, the Bank collects a risk premium as part of its margin. The amount of this premium for each individual loan depends on the rating or probability of default and on the expected loss ratio. The unexpected loss for the credit risk is quantified using an economic credit risk model for different confidence levels and a time horizon of one year. The credit risk model used by the NORD/LB Group incorporates correlations and concentrations into the risk assessment. The credit risk model calculates the unexpected loss at the level of the portfolio as a whole. Incorporated into these calculations are the probability of default (PD) and loss given default (LGD) ratio calculated using internal ratings and determined for each individual transaction taking the security situation into account.

The credit risk model can be used to study sub-portfolios and their share of the unexpected loss. Such analysis also has a direct impact on the fundamental structure of the limit system and on the setting of specific individual limits. In this way, it is possible to manage risk concentrations in the portfolio appropriately. Deutsche Hypo uses the internal ratings based approach (IRBA) to calculate the regulatory capital backing required for credit risks pursuant to the CRR.

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

Counterparty risk – reporting

Deutsche Hypo prepares a risk report quarterly. This provides the Board of Managing Directors and the Supervisory Board with detailed information on the Bank's risk situation. This report includes the credit risk sub-report, which contains a summary and analysis of all material structural characteristics and parameters that are of relevance for 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 financing and capital market business. In addition, there are quarterly reports on the monitoring of project developments and monthly reports on conspicuous exposures as part of the early warning system and on the development of the risk provisioning.

Counterparty risk – analysis of the credit exposure

The credit exposure, a key reference indicator in credit risk controlling, represents the quantification of all risk-encumbered transactions. Its calculation is based on drawdowns – at nominal value in the case of guarantees or carrying amount in the case of securities, or on the credit equivalent amounts of derivatives, including add-ons and taking account of netting. Irrevocable credit agreements are usually included in the credit exposure at 75%. Irrevocable credit commitments 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 2014 was € 31,771.6 million, down € 1,984.1 million or 5.9% as compared to the end of 2013. The volume increased by € 386.7 million to € 13,703.4 million in commercial real estate financing. Credit exposure to loans to local authorities fell significantly, by € 1,067.6 million, to € 6,377.0 million, in accordance with the reduction of the portfolio as planned in the strategic focus. There was an overall decline of € 1,303.3 million in the portfolio of securities and derivatives and in the other financing products. This development reflects the business policy of the Bank, which aims to turn the Bank into a pure real estate finance bank. In the capital market business (loans to local authorities and securities), basically no new business was pursued so that a corresponding reduction in the portfolio occurs as a result of running-off maturities.

The focus of the credit exposure continued to be on the very good to good IFD classes. This classification corresponds to the standard IFD ratings scale as agreed on by the banks, Sparkassen and associations that together form the Initiative Finanzstandort Deutschland (IFD). The aim of this scale is to make it easier to compare the ratings awarded by individual credit institutions. The rating classes of the 18-level DSGV rating master scale used throughout Deutsche Hypo can be translated directly into the IFD classes. The proportion of total exposures in the rating class "very good to good" was 79.2%, and again above the level in 2013 (76.7%). The reason was mainly the high shares of exposure to governments, public authorities and financial institutes that have a very good credit rating. Likewise, there was an improvement in the real estate finance area.

Fundamentals of the Bank | Economic report | Report on subsequent events | Forecast opportunity and risk report

The percentage of non-performing loans (NPL) increased, due to the developments in connection with Heta Asset Resolution AG, from 1.2 % to 1.7 % of total exposure. The absolute volume rose by € 122.8 million to € 530.8 million.

In the following, the breakdown of the credit exposure by rating categories is described in table form. The hedging transactions completed for the purpose of active RWA control in the years 2012 and 2014 were for the credit portfolios in commercial real estate finance and involved cash-covered guarantees. These transactions are not included in the pure mezzanine risk of the underlying portfolios because of their impact.

Breakdown of total credit exposure by rating category

31.12.2014 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Very good to good	8,566.3	6,273.3	8,013.3	1,715.0	606.1	25,173.9	79.2 %
Good / satisfactory	2,769.3	0.4	328.7	25.0	25.3	3,148.7	9.9 %
Still good / sufficient	1,298.6	0.0	365.6	0.0	59.4	1,723.6	5.4 %
Elevated risk	500.5	0.0	337.3	0.0	0.0	837.8	2.6 %
High risk	29.7	53.2	78.3	0.0	0.0	161.1	0.5 %
Very high risk	195.6	0.0	0.0	0.0	0.0	195.6	0.6 %
Default (=NPL)	343.4	50.2	137.2	0.0	0.0	580.8	1.7 %
Total	13,703.4	6,377.0	9,260.5	1,740.0	690.7	31,771.6	100.0 %

31.12.2013 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Very good to good	7,332.0	7,314.8	8,726.5	1,696.1	814.9	25,884.4	76.7 %
Good / satisfactory	2,932.5	19.1	442.4	219.7	7.9	3,621.6	10.7 %
Still good / sufficient	1,494.7	56.8	430.9	25.5	61.9	2,069.7	6.1 %
Elevated risk	518.5	2.7	462.5	0.0	0.0	983.6	2.9 %
High risk	212.0	51.2	106.2	0.0	0.0	369.4	1.1 %
Very high risk	418.9	0.0	0.0	0.0	0.0	418.9	1.2 %
Default (=NPL)	408.0	0.0	0.0	0.0	0.0	408.0	1.2 %
Total	13,316.7	7,444.6	10,168.5	1,941.3	884.7	33,755.7	100.0 %

The Bank's credit exposure in the real estate finance business amounted to roughly € 13,703.4 million at year end (2013: € 13,316.7 million), and 92.2 % of it (2013: 88.3 %) consisted of financing for customers that have a rating of at least satisfactory. As a result of the ongoing improvement, NPLs totalled 2.5 % of the total loan exposure, after being 3.1 % in 2013. The overwhelming majority of the NPL portfolio was filled by foreign financing, largely in the Netherlands and Spain. In total, the development of the NPL exposure showed that the level had again reached the long-term average that was observed before the crisis.

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

31 12 2014 in € millions	Domestic	Share in total exposure	Foreign	Share in total exposure	Total exposure	Share in total exposure
Very good to good	4,730.2	34.5 %	3,836.2	28.0 %	8,566.3	62.5 %
Good / satisfactory	2,357.1	17.2 %	412.2	3.0 %	2,769.3	20.2 %
Still good / sufficient	1,150.7	8.4 %	147.9	1.1 %	1,298.6	9.5 %
Elevated risk	288.1	2.1 %	212.4	1.5 %	500.5	3.7 %
High risk	4.5	0.0 %	25.1	0.2 %	29.7	0.2 %
Very high risk	46.7	0.3 %	149.0	1.1 %	195.6	1.4 %
Default (=NPL)	65.5	0.5 %	277.9	2.0 %	343.4	2.5 %
Total	8,642.8	63.1 %	5,060.5	36.9 %	13,703.4	100.0 %

31 12 2013 in € millions	Domestic	Share in total exposure	Foreign	Share in total exposure	Total exposure	Share in total exposure
Very good to good	4,365.1	32.8 %	2,966.9	22.3 %	7,332.0	55.1 %
Good / satisfactory	2,244.4	16.9 %	688.1	5.2 %	2,932.5	22.0 %
Still good / sufficient	1,345.4	10.1 %	149.4	1.1 %	1,494.7	11.2 %
Elevated risk	422.1	3.2 %	96.4	0.7 %	518.5	3.9 %
High risk	31.7	0.2 %	180.4	1.4 %	212.0	1.6 %
Very high risk	123.4	0.9 %	295.5	2.2 %	418.9	3.1 %
Default (=NPL)	69.5	0.5 %	338.5	2.5 %	408.0	3.1 %
Total	8,601.5	64.6 %	4,715.1	35.4 %	13,316.7	100.0 %

Breakdown of the total credit exposure by class and region:

31 12 2014 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Eurozone	11,621.1	6,198.2	7,871.8	1,136.8	603.7	27,431.6	86.3 %
<i>of which, Germany</i>	8,642.8	4,767.4	3,140.5	438.8	603.6	17,593.2	55.4 %
Other EU	1,730.4	8.2	300.7	79.9	0.0	2,119.3	6.7 %
Other Europe	0.0	170.6	15.8	12.7	0.0	199.0	0.6 %
North America	351.9	0.0	781.7	510.6	5.4	1,649.6	5.2 %
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	284.1	0.0	0.0	284.1	0.9 %
Other	0.0	0.0	6.4	0.0	81.6	88.0	0.3 %
Total	13,703.4	6,377.0	9,260.5	1,740.0	690.7	31,771.6	100.0 %

31 12 2013 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Eurozone	11,087.8	7,248.3	8,579.7	1,162.1	770.6	28,848.6	85.5 %
<i>of which, Germany</i>	8,601.5	5,784.2	3,440.1	526.8	757.1	19,109.7	56.6 %
Other EU	1,717.8	26.9	290.8	163.0	0.0	2,198.5	6.5 %
Other Europe	0.0	169.3	89.9	14.0	6.1	279.3	0.8 %
North America	511.0	0.0	723.3	602.3	15.9	1,852.5	5.5 %
Central America	0.0	0.0	6.0	0.0	0.0	6.0	0.0 %
Middle East / Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Asia	0.0	0.0	478.7	0.0	0.0	478.7	1.4 %
Other	0.0	0.0	0.0	0.0	92.1	92.1	0.3 %
Total	13,316.7	7,444.6	10,168.5	1,941.3	884.7	33,755.7	100.0 %

The amounts as of 31 12 2013 were corrected

Fundamentals of the Bank | Economic report | Report on subsequent events | Forecast, opportunity and risk report

The breakdown of the total credit exposure by class and region shows that 93.6 % (2013 92.8 %) of the entire exposure is in Europe. The share of the loan exposure as a percentage of the total exposure in Germany amounted to 55.4 % (2013 56.6 %).

The Bank's exposure to countries referred to as the PIIGS countries amounted to € 3,052.4 million (2013 € 3,212.5 million). This included the use of credit plus full inclusion of existing payout obligations. The Bank's aforementioned exposure to the PIIGS countries did not include the existing real estate finance business in these countries with a volume of € 234.9 million (2013 € 320.4 million). The exposure of € 3,052.4 million was distributed with € 2,032.5 million (2013 € 2,077.6 million) for governments, public authorities and municipalities, and € 1,019.9 million (2013 € 1,134.9 million) for banks and other institutions.

Portugal accounted for € 295.3 million (2013 € 322.5 million), Ireland for € 198.4 million (2013 € 239.7 million), Italy for € 1,437.9 million (2013 € 1,409.0 million), Spain for € 1,120.8 million (2013 € 1,241.3 million). In Italy, € 89.9 million (2013 € 79.3 million) was attributable to corporate loans and € 1,348.0 million (2013 € 1,329.7 million) to the public sector. In Spain the exposure to companies (not including real estate finance) totalled € 376.0 million (2013 € 376.1 million), to the public sector € 190.8 million (2013 € 261.6 million), to banks € 554.0 million (2013 € 603.6 million).

Due to the European support measures and the currently emerging calm in the European sovereign debt crisis, Deutsche Hypo does not see any acute risk of default at the present time. Nonetheless, the exposure to the PIIGS countries is a permanent focus of risk monitoring. The strategic orientation sets forth that in advantageous market conditions the sale of securities will take place if this is possible in a way that largely protects the income statement. Through 2018 the portfolio will fall by more than 50 % – if things develop as planned – and will decline by € 2,210.6 million to € 841.9 million over the next ten years.

Non-performing loans in real estate finance business

Where there are objective indications of acute default risks affecting the balance-sheet credit business, Deutsche Hypo establishes specific loan loss provisions. The write-down requirement is based on an analysis of the expected interest and principal payments and the proceeds from the realisation of collateral, and also on the extent to which claims can be serviced. Risk provisioning for off-balance-sheet business, such as guarantees and credit commitments, is carried out by creating a provision 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 total loan loss provisions and provisions for the commercial real estate finance business fell by € 2.1 million as compared to the previous year, totalling € 149.6 million in 2014. The overwhelming majority was attributable to the eurozone with € 143.7 million (2013 € 113.1 million). The portfolio in the UK and the US fell to € 0.0 million (2013 € 11.9 million) and € 5.9 million (2013 € 26.8 million) due to the processing of impaired credit. The amount of loan loss provisions and provisions as a proportion of the total credit exposure as of 31 December 2014 was 0.47 % (2013 0.45 %).

The table below shows a comparison of the credit exposure of impaired credit and the total impairments, consisting of loan loss provisions and provisions

in € millions	Credit exposure of impaired loans		Portfolio of loan loss provisions and provisions	
	31 12 2014	31 12 2013	31 12 2014	31 12 2013
Eurozone	291.9	247.2	143.7	113.1
Other EU	0.0	79.2	0.0	11.9
North America	33.9	43.6	5.9	26.8
Total	325.8	369.9	149.6	151.7

The portfolio of overdue, unimpaired credits also fell year-on-year to € 17.7 million (2013: € 38.1 million). The period of default for a majority of this credit exposure (€ 17.1 million) was less than 90 days. The overdue or impaired loans are secured by standard collateral, which is valued using the applicable lending principles.

Counterparty risk – outlook

The positive development on real estate markets also continued in 2014. The Bank assumes that this will also hold true in 2015. Accordingly, Deutsche Hypo does not anticipate an increase in the risk provisioning required for this business area.

In the area of capital market and public sector lending business, a further calming of the crisis in the eurozone countries was observed in 2014. In particular, the increases in spreads observed in previous years and the worsening of credit ratings slowed significantly. Nonetheless, it is necessary to wait for future developments since it cannot be completely ruled out that individual capital market counterparties will have payment difficulties.

Depending on the specific general conditions of the individual countries and their public authorities, this can lead to substantially different developments with regard to country-specific credit risks. 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 incur following changes in the market parameters.

Market price risk – goals and strategies

Deutsche Hypo does not currently have a trading book in accordance with Article 4 (86) CRR. Trading book activities will also not take place in future. In general, market price risks are not of major strategic significance for Deutsche Hypo, which is reflected in the low share of market price risks as a percentage of the total risk in the going concern analysis. In accordance with the Bank's risk strategy requirement and its importance and order of magnitude, Deutsche Hypo's positioning in the money, foreign exchange and capital markets is primarily based on the needs of customers and the support of the market divisions and overall Bank management. A further opportunistic positioning – particularly with the goal of achieving the short-term realisation of speculative profits – is not pursued and is also not planned.

Market price risk – structure and organisation

Against the background of the risk-related organisational structure, diverse divisions are involved in the management of market price risks. The controlling of the strategic market price risk banking book positions is handled by the Asset-Liability Committee (ALCO) at Deutsche Hypo, and the operative implementation by Treasury. In the context of the requirements laid down by ALCO and in accordance with the market price risks and counterparty limits as well as the risk strategy requirements, Treasury decides on and manages the business activities in the capital market business. The ensuring of the correctness of the transaction data in the data processing systems and the proper processing of the financial market business is handled by Treasury Operations in the market price risk management process. Controlling and Treasury Operations are functionally and organisationally independent of the Treasury. Controlling is responsible for the tasks involved with risk evaluation, the controlling and monitoring process and the reporting.

Market price risk – controlling and monitoring

A major component of the monitoring process is the audit of compliance with the pre-set limits and early identification of risks, e.g. through traffic light systems or P&L analyses. Escalation processes are implemented for violations of the limit. In addition to compliance with the already described institute limits, other institute-individual limits are used for market price risks that may refer both to economic and to balance sheet positions. The limits for market price risks are measured such that the support of the customer business and the liquidity management are ensured through the business strategy. The limits also cover the risks resulting from the investment of equity. Furthermore, the impact of stress tests is analysed regularly.

The VaR figures are calculated on the basis of a historical simulation process. The portfolio is valued on the basis of the historical changes in the market price. The VaR performance indicators for the risk of a change in interest rates are determined with due regard for credit spread risks from securities in current assets. In addition, the VaR performance indicators for the risk of a change in interest rates are calculated with due regard for credit spread risks in the banking book.

The management of currency risks is primarily handled by minimising currency results in the income statement in accordance with the German Commercial Code. To achieve these goals, the open nominal overhangs per currency are closely controlled. Compliance with the aforementioned limits is monitored daily.

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

Market price risk – reporting

The Board of Managing Directors is briefed on a daily basis on interest rate risks, income from the Bank's interest maturity transformation, and risk concentrations relating to individual currencies and maturities. In addition, there is daily reporting on the credit spread risks in the banking book. Daily reports on foreign currency risks are also sent to Treasury. The hidden charges in the banking book are calculated at least quarterly and reported to the Board of Managing Directors and the Supervisory Board in a risk report.

In this connection, Deutsche Hypo also regularly conducts analysis on the institute-specific impact of capital market induced stress events on the amount and composition of the hidden charges in the banking book. The first analysis took place as of 31 December 2014.

In addition to this, the Board of Managing Directors is informed weekly about the impact of stress scenarios as part of the ALCO meeting. The results of the backtesting are reported at least quarterly. The Bank's Supervisory Board is advised on the market price risks in a comprehensive quarterly report. Independently of the regular reporting cycles, ad hoc information is provided to the full Board of Managing Directors and the Supervisory Board through a standardised reporting process in the case of significant events relevant to market price risk.

Market price risk – developments and outlook

The development of the risk of a change in interest rates at Deutsche Hypo was on a moderate level in the year under review, as expected. The following table shows the development of the Bank's market price risks in comparison to the previous year.

Market price risks in € thousand	31.12.2014	31.12.2013
VaR *) Interest rate risk (Going concern) portfolio of "entire bank"	2,113	1,341
Standard risk **) Interest rate risks portfolio "operating"	22,655	18,280

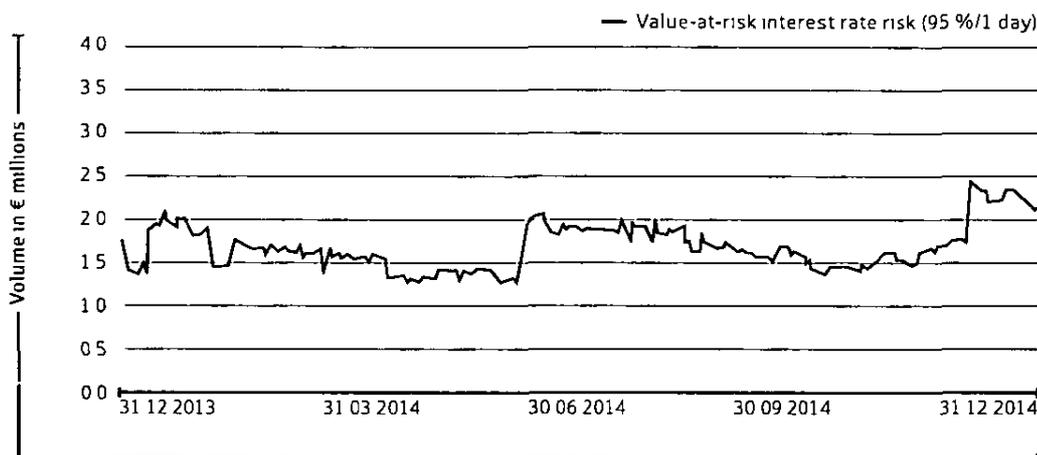
*) Confidence level 95 % 1 day holding period **) Parallel shift 100BP

The increase in the VaR in the going concern analysis as compared to the previous year is not based on an increase in the risk appetite of Deutsche Hypo, but rather an extension of the investment period for a portion of the perpetually available equity, which comes with an increase in the available limit.

The daily calculated VaR for the interest rate risk fluctuated in the reporting period between € 1.3 million and € 2.4 million in 2014. The average value of € 1.7 million for the year confirms Deutsche Hypo's low risk appetite. The interest rate risk is for the most part related to the investment of perpetual equity. The utilisation of the VaR limit for interest rate risks averaged 61 % over the year (2013: 33 %). The Bank did not exceed this limit at any time.

The development of the VaR in 2014 (95 % confidence level, 1 day holding period) is shown in the chart below. Credit spread risks in the banking book are not included.

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



In 2014 the Bank continued the successfully pursued successive reduction in the positions in the banking book identified as having a credit spread risk in past years. The amount of the exposure totalled € 16,297.2 million as of 31 December 2014 (2013: € 18,264.1 million) and fell by € 1,966.9 million. A decline in hidden charges in the banking book was determined as compared to 2013.

The systematic pursuit of the conservative risk-strategic goals and the attentive monitoring of the market developments in 2015 are also the focal points of controlling for the market price risk at Deutsche Hypo. In this context, this includes the strategy for a reduction in the positions that have credit spread risks in a way that protects the income statement, among others. For 2015, Deutsche Hypo continues to expect the risk of a change in interest rates on a moderate level.

Deutsche Hypo will continue the ongoing development of the risk models and the risk management process both on the level of the individual Bank and in the refinement of the integration of Deutsche Hypo in the risk management process of the NORD/LB Group in 2015.

Liquidity risk

Liquidity risk encompasses the following risks: being unable to meet payment obligations or unable to meet them on time (classic liquidity risk), having to accept a potential negative impact on income due to a change in the funding conditions on money and capital markets (refinancing risk) and being forced due to low liquidity levels to enter into transactions in some markets on the basis of conditions that do not correspond to the fair market value (market liquidity risk).

Liquidity risk – goals and strategies

For the Bank, the securing of liquidity available at any time, both under normal and stress scenarios is a strategic necessity. In the funding of the business activities of the market divisions, Deutsche Hypo fundamentally pursues the strategy of term-congruent funding. Involvement in open funding positions has low strategic significance for Deutsche Hypo. Liquidity risk limits cap the risk of a negative impact on income due to a change in the liquidity spreads related to an open liquidity risk position. In the

measurement of the amount of the liquidity risk limits, the factors of securing sufficient liquidity, the risk-bearing capacity of the NORD/LB Group and the use of the opportunities are taken into account with respect to the contribution to profits from bank-typical liquidity spreads

Global Liquidity Policy (GLP) at the Bank describes the strategic framework for securing sufficient liquidity. In the case of a liquidity crisis, the management of the liquidity risk in accordance with the GLP concept is assumed by an independent team in close coordination with the Board of Managing Directors and – depending on the type of crisis – with crisis managers from NORD/LB

In terms of a complete consideration of the Bank's liquidity costs, benefits and risks in the income and risk management, Deutsche Hypo's goal is to offset these components internally in accordance with their cause. In this context, Deutsche Hypo invested heavily in this area in 2014 and refined the existing liquidity transfer pricing system in accordance with the requirements of MaRisk. The business policy principles and the responsibilities arising with the liquidity transfer pricing system both in regard to the application and the refinement of the liquidity transfer price system are formulated in the binding Group-wide Group Transfer Pricing Policy

Liquidity risk – structure and organisation

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

The Board of Managing Directors sets framework conditions, jurisdictions, processes and risk tolerance for the liquidity risk and is responsible for the design of the liquidity risk strategy and for the effective implementation of the liquidity risk management. The ALCO at Deutsche Hypo assumes responsibility for the management of the banking book positions, which includes in particular the strategic liquidity positions. Treasury handles the operating liquidity risk management. It is also responsible for the management of the intraday liquidity positions. As an independent monitoring unit, Controlling defines the applied processes for the measurement, limiting and monitoring of liquidity risks and carries out the operative monitoring and reporting functions. Reporting is responsible for the determination, monitoring and reporting of key liquidity indicators to the regulators in accordance with the German Liquidity Regulation (LiqV). Controlling handles the liquidity notifications in accordance with CRR

Liquidity risk – controlling and monitoring

In addition to compliance with the institute's limit, the Bank also uses volume structure limits for the refinancing risks to control and monitor the liquidity risks. The monitoring of the limit utilisation of the volume structure limits takes place on the basis of the liquidity outflow statement of the entire position. The calculated balances for the individual maturity bands from one month up to 30 years may not exceed the approved volume structure limits. If limits are exceeded, they are reported to the Board of Managing Directors. Furthermore, the refinancing risks from significant foreign currencies are determined and capped through volume structure limits

The classic liquidity risk is limited and controlled by a dynamic stress test scenario. The scenario describes the most likely crisis situation from an expert's point of view. A difference is made between deterministic payment flows and variable or unforeseeable payment flows. The amount and maturity of the deterministic payment flows is known at the time of the report, while the amounts and/or maturities of the variable payment flows are unknown and modelled by using suitable stress assumptions. Compliance with the limits is monitored daily. To assess the materiality of individual foreign currencies, a standardised process is used. If individual foreign currencies are classified as significant, the classic liquidity risk is also monitored in these foreign currencies.

In addition, there are further static stress tests. They model both the institution's own and the market's crisis scenarios. The goal is to avoid liquidity shortages in cases of crises. Additional liquidity may be secured in the case of stress by maintaining a liquidity buffer consisting of free, highly liquid securities in accordance with the requirements of MaRisk.

The market liquidity risks are implicitly considered according to their market liquidity by differing between the securities in the calculation of the classical liquidity risk. By using the detailed security classes concept, the classification takes place on the basis of the degree of liquidity in the individual security, with assignment to various main classes with multiple sub-classes (depending on e.g. central bank eligibility and rating). In addition, the market liquidity in the calculation of the market price risk is considered.

Liquidity risk – reporting

The report on the dynamic stress scenario will be provided daily to Treasury and the Board of Managing Directors. The use of the required liquidity buffer is reported to Treasury on a daily basis. The liquidity outflow statement and the utilisation of the volume structure limits and the institute limit for the cash value refinancing risk are provided to the Treasury every day. Furthermore, the summary report on the classical liquidity risk and the refinancing risk takes place within the framework of the quarterly risk report.

Liquidity risk – developments and outlook

Deutsche Hypo had sufficient access to the money and capital markets at all times in 2014. The total issue volume was € 2,852.2 million (2013: € 3,265.7 million) and, measured in terms of the Bank's need, made it possible to place sufficiently covered and unsecured issues for an acceptable liquidity adequacy on the market.

There was no unsecured funding requirement as of 31 December 2014, as in the previous year, on account of the forward-looking liquidity management and the largely term-congruent funded new business.

The distance to illiquidity from the dynamic liquidity stress test (LST) used for internal controlling and limiting moved between 183 and 365 days in 2014. As of 31 December 2014, the distance to illiquidity was 316 days. The requirement for the green phase in the traffic light system is to maintain a minimum value of 180 days, which was met over the entire year. Likewise, the Bank met the requirements for the maintained liquidity buffer in accordance with MaRisk throughout the course of 2014.

The active management of liquidity and careful observation of the markets meant that Deutsche Hypo's liquidity was ensured at all times in 2014. The liquidity performance indicator in accordance with the German Liquidity Regulation (LiqV) was always significantly above the required regulatory minimum amount of 1.00 and amounted to 1.58 as of 31 December 2014.

While Deutsche Hypo increasingly invested resources in the ongoing development of the reporting in accordance with CRR in 2014, it will focus its efforts in 2015 on the expansion and refinement of the internal reporting and the fulfilment of the new requirements in the area of European regulatory reporting. An increase in the liquidity risks is not expected in 2015.

Operational risk

Operational risks are possible events which are not intended from the Bank's point of view and which occur on account of the insufficiency or the failure of internal processes, employees and technology or through external influences and lead to damage or a significant negative consequence for the Bank (e.g. breach of law). Legal risks are included, but strategic risks and business risks are not included. According to this definition, legal risks and the risks of changes in laws, compliance risks, outsourcing risks, dilution risks, fraud risks and vulnerability risks in emergency and crisis management are included in operational risk.

Operational risk – goals and strategies

The guidelines for dealing with operational risks are expressed in Deutsche Hypo's risk strategy. Fundamentally, operational risks should be avoided or transferred if this is economically sensible. Conscious involvement in operational risks has no strategic significance for Deutsche Hypo. The Bank protects itself from operational risks if the cost of the protection does not exceed the amount of the expected damage or if there may be significant reputation effects. Furthermore, there are framework conditions in the form of technical and organisational measures, contractual provisions and working instructions to reduce the operational risk as much as possible. Not only specific contingency plans and appropriate insurance coverage, but also every employee's sensibility for risks play a key role here.

The causes of risks and the concentration of risks should be identified through a continuous analysis of cases involving losses and risk indicators as well as the application of the risk assessment methods. A functioning IKS prevents operational risks. The appropriateness and effectiveness of the IKS is checked with regard to risk at regular intervals.

Deutsche Hypo uses the possibilities of outsourcing processes with due regard for the regulatory requirements in accordance with MaRisk. The outsourced functions should continue to meet the Bank's performance and quality standards. The goal in this context is to increase efficiency, optimise processes, concentrate on core competencies, reduce risk potential, lower costs and make costs more flexible. Processes that represent strategic core competencies usually remain within Deutsche Hypo. The risk of outsourcing is kept as low as possible by taking suitable measures.

Operational risk – structure and organisation

The Board of Managing Directors, Controlling and all other departments are included in the process of managing operational risks. The Board of Managing Directors determines the fundamental treatment of operational risks in light of the risk situation on the level of the overall Bank. Within the set framework conditions, responsibility for the controlling of the operational risks is decentralised and lies with the individual departments. Controlling handles the central tracking of operational risks and the independent reporting. Some tasks are also assumed by NORD/LB within the scope of outsourcing.

Operational risk – controlling and monitoring

Deutsche Hypo is closely integrated into the standardised Group methods as a subsidiary of NORD/LB. NORD/LB's developed methods and processes for the management of operational risks are applied to Deutsche Hypo. They are adjusted to the extent that they are appropriate with regard to Deutsche Hypo's type and scope, structure and operational risk situation.

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

The inclusion of Deutsche Hypo in the risk management on the Group level means that the operational Value-at-Risk limits (OpVaR) for Deutsche Hypo are determined by NORD/LB in light of the risk-bearing capacity on the level of the NORD/LB Group, and compliance with them plays a central role in the management of operational risks at Deutsche Hypo.

Operational risk – reporting

In the course of the ongoing risk management process, the results from the recorded loss events in terms of risk indicators and risk assessment are analysed and communicated quarterly to the Board of Managing Directors. The regular reports contain not only the limit utilisation of the OpVaR limit set by the NORD/LB Group, but also, among others, the information from the loss event database on the status of the risk indicators, the results of the scenario analyses and the risk assessment of the ongoing legal disputes and externally outsourced significant activities. The Supervisory Board is also informed on a quarterly basis as part of a detailed risk report on the status of operational risks facing Deutsche Hypo.

Operational risk – developments and outlook

For the year 2015, the plan is to complete the introduction of the refined method of the risk assessment at Deutsche Hypo. Furthermore, the Bank plans to expand the early warning system. In this context, the introduction of additional risk indicators and the overhauling of existing ones is planned.

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

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

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

- Deutsche Hypo's Accounting is responsible for the preparation of the annual financial statements and the management report. The accuracy and completeness of the obligatory accounting circumstances from supplying divisions is handled there and subject to adequate controls. The functions of the Bank's divisions involved in the accounting process are separated. Areas of responsibility are clearly allocated.
- The IT systems and files used in the accounting process are protected against unauthorised access, manipulation and loss by means of regular data backups and corresponding access restrictions.
- The permanent monitoring of the IT systems by appropriately trained employees of the Bank and external systems partners reduces the risk of downtime and ensures high availability.
- The Bank has implemented an appropriate system of guidelines and instructions in an organisational manual that takes the form of an organised structure and workflows.
- All accounting processes are subject to consistent manual and automated controls according to the four eyes principle.
- Bookkeeping files that are received or forwarded are checked for completeness and accuracy, for example by means of random sampling. The software used contains specific plausibility tests within its programming.
- The plausibility of the data that is calculated in the accounting process is regularly checked.
- Internal Audit checks the observance of the IKS independently of processes.

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

Regulatory equity resources

Due to the exercising of the waiver rule, the obligations to provide individual bank reports and compliance with the equity and capital requirements in accordance with CRR, part 2 and 3, do not apply to Deutsche Hypo on the level of the individual institute. For the reports on the equity resources on the Group level and for internal controlling, Deutsche Hypo calculates and will also continue to calculate, after exercising the waiver rule, the equity and risk-weighted assets (RWA) that are consolidated in the reports prepared by NORD/LB for the Group. The Bank also calculates the equity ratio, which compares all the existing capital components with the equity requirements calculated in accordance with the regulatory provisions. In accordance with the regulatory requirements, a total of € 1,254.9 million (2013 € 1,192.6 million) were included for regulatory minimum capital requirements in the Group. This meant a rise of € 62.3 million as compared to the end of 2013. At the same time, the RWA fell by 8.0%. As a result, the equity ratio improved to 17.1% (2013 15.0%).

Summary of the risk position

Independently of the exercised waiver rule, the Bank will also continue its consciously conservative risk policy. An authoritative factor in the regulatory context is both the risk limits provided by the NORD/LB Group and other risk-strategic objectives that Deutsche Hypo must comply with. Besides the Group strategy specifications, the requirements contained in the rules of the German Pfandbrief Act (PfandBG), which are binding for the Bank, were also met at all times.

Overall, a slight economic recovery was noticed on real estate markets in the year under review. This supported the clear decrease in the credit exposure to impaired loans. The portfolio of loan loss provisions and provisions in the credit business also fell slightly. The trend towards recovery was also seen in the ongoing improvement in the quality of the loan portfolio. The noticeable positive basic sentiment on money and capital markets in recent years also had a beneficial effect on the general risk situation in the area of capital market business in 2014. However, this was obscured by the loan loss provisions in connection with Heta Asset Resolution AG. The hidden charges in the banking book fell in 2014.

Due to the ongoing development and the default guarantee of the state of Carinthia, there is also the latent risk of additional risk provisioning measures in 2015.

Independently of this, Deutsche Hypo will continue to reduce the public sector finance portfolio in a way that protects the income statement, in part due to the background of the current political discussion with regard to the high level of debt in some EU countries. Deutsche Hypo will be able to reduce the risks in the banking book as a result.

Hanover, 11 March 2015

The Board of Managing Directors



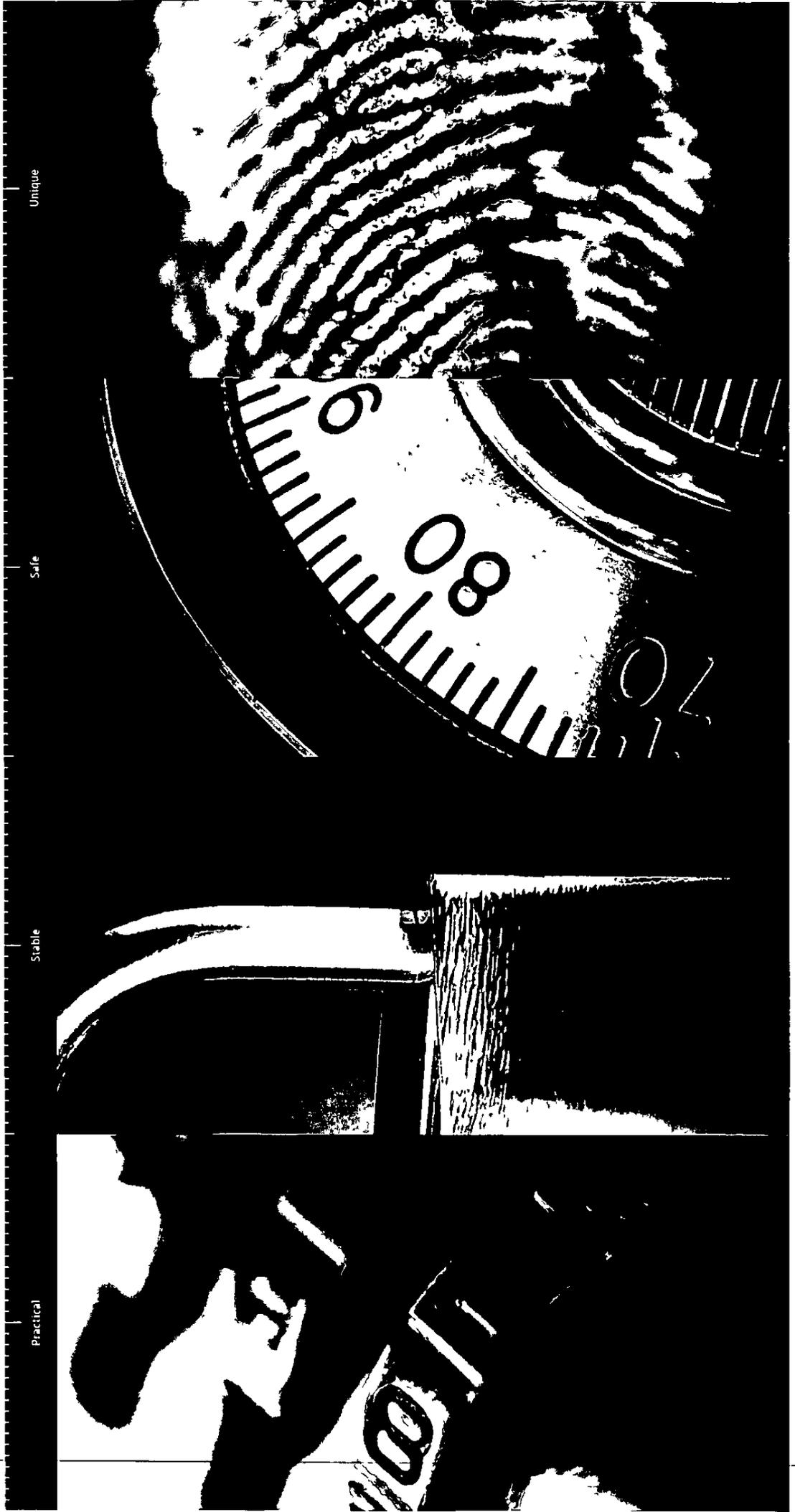
Pohl



Rehfus

Regular **development** for secure **transactions**

Deutsche Hypo's strategic approach to business implies a constant observation of the real estate markets as well as the ability to react to market shifts in a flexible manner. This way, we are able to provide appealing products next to our know-how and reliability – all of which are core elements of a stable bond between customer and bank.



Practical

Stable

Safe

Unique

ANNUAL FINANCIAL STATEMENTS

Balance sheet as of 31 December 2014

**Income statement for the period
from 1 January to 31 December 2014**

Statement of changes in equity

Cash flow statement

Notes

BALANCE SHEET AS OF 31 DECEMBER 2014

ASSETS

	€	€	€	31 Dezember 2013 (in € thousand)
1 Cash reserve				
a) Cash on hand		0 00		0
b) Credit with central banks		41 883 369 14		64 347
of which				
with the Deutsche Bundesbank				
€ 41 883 369 14 (PY € 64 347 thousand)				
			41 883 369 14	64 347
2 Receivables from financial institutions				
a) Mortgage loans		21 386 267 00		25,891
b) Loans to local authorities		1 299 495 894 45		1 742 388
c) Other receivables of which		1 633 504 287 25		1 262 646
due daily				
€ 1 329,865 948 31 (PY € 829 397 thousand)				
			2 954 386 443 70	3,030,925
3 Receivables from customers				
a) Mortgage loans		12 388,419 707 23		11 905 859
b) Loans to local authorities		5,062,691 745 95		5 670,066
c) Other receivables		106 957 526 84		140 344
			17 558 068 980 02	17,716,269
4 Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers	4 025 474 709 75			4 449 933
of which eligible as collateral at the				
Deutsche Bundesbank*				
€ 2 140 831 652 03 (PY € 2 781 707 thousand)				
bb) from other issuers	5 228 945 732 32			5 695 268
of which eligible as collateral at the				
"Deutsche Bundesbank"				
€ 4 475,244 444 60 (PY € 5 086 908 thousand)				
		9 254 420 442 07		
c) Own bonds		66 925 828 89		27 169
Nominal amount				
€ 67 018 000 00 (PY € 25 761 thousand)				
			9 321 346 270 96	10 172,370
5 Participatory interest			76,949 43	77
6 Shares in affiliated companies			51 137 41	51
7 Intangible Assets				
b) Purchased licenses industrial property as				
well as licenses to those rights and assets		369 421 00		424
d) Payments made on account		488 387 90		416
			857,808 90	840
8 Tangible assets			2 396 069 35	1 116
9 Other assets			98,988,187 18	180 420
10 Accrued and deferred items				
a) from the issue and loan transaction		57 658 980 74		87 619
b) others		19 200 358 43		20,494
			76,859 339 17	108,113
Total assets			30 054 914 555 26	31 274 528

Balance sheet as of 31 December 2014 | Income statement for the period from 1 January to 31 December 2014 |
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LIABILITIES

	€	€	€	31. Dezember 2013 (in € thousand)
1 Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		173 982 046 19		176 367
b) Issued registered public Pfandbriefe		537 086,319 86		563 774
c) Other liabilities		6 831 740 272 50		5,925 640
of which due daily				
€ 512 474,351 06 (PY € 623 256 thousand)				
		7 542 808,638 55		6 665 781
2 Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		844 107 670 40		859 373
b) Issued registered public Pfandbriefe		6,615 371 244 78		7 093 067
d) Other liabilities		1 660 501 902 00		1 315 388
with which due daily				
€ 12,815,107 42 (PY € 34 419 thousand)				
		9 119,980,817 18		9 267 828
3 Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7 816 703 812 49			7 703 482
ab) public Pfandbriefe	1 654 881 109 16			3 365 743
ac) other bonds	2 172,129 407 19			2,624,142
		11 643 714 328 84		
			11,643,714 328 84	13 693,367
4 Other liabilities			279 051 906 95	149 413
5 Accrued and deferred items				
a) from the issue and loan transaction		60 754 141 09		76 705
b) other		12 831 199 21		14 289
			73,585 340 30	90,994
6 Provisions				
a) Provisions from pensions and similar obligations		33 635 937 99		30 011
b) Tax provisions		4,328 207 45		7 960
c) Other provisions		21 237 754 81		22,602
			59,201,900 25	60 573
7 Subordinated liabilities			326,000,000 00	336,000
8 Jouissance right capital			83 000,000 00	83 000
9 Funds for general banking risks			14 400 000 00	14 400
10 Equity				
a) Subscribed capital		80 640 000 00		80,640
Capital held by silent partners		75 000 000 00		75 000
b) Capital reserves		481 313 877 23		481 314
c) Profit reserves				
ca) statutory reserves	18 917 799 60			18 918
cd) other profit reserves	257 299 946 36			257 300
		276 217 745 96		
			913 171,623 19	913 172
Total liabilities			30,054,914,555 26	31,274,528
1 Contingent liabilities				
b) Liabilities arising from sureties and guarantee agreements		790 999 155 41		838 183
			790,999,155 41	838,183
2 Other obligations				
c) Irrevocable credit commitments		1 048 711 898 56		1 067 841
			1,048 711 898 56	1,067 841

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

	€	€	€	1 January 2013 – 31 December 2013 (In € thousand)
1 Interest income from				
a) Credit and money market transactions	679 995 742 59			751 424
b) Fixed interest bearing securities and book entry securities	<u>276 910 177 50</u>			<u>302 114</u>
		956 905 920 09		<u>1 053 538</u>
2 Interest expenses		<u>734 654 920 28</u>		<u>843 769</u>
			222 250 999 81	<u>209 769</u>
3 Current income from				
b) Participatory interests		0 00		1
			0 00	1
4 Commission income		15 297 500 03		13 740
5 Commission expenses		<u>10 839 111 81</u>		<u>7 114</u>
			4 458 388 22	<u>6 626</u>
6 Other operating income			3 158 493 01	<u>3 208</u>
7 General administrative expenses				
a) Personnel expenses				
aa) wages and salaries	36 180,885 92			36,555
ab) social security and expenses for pension plans and for support of which for pension plans € 1 567 716 10 (PY € 2,671 thousand)	<u>6 843 700 40</u>			<u>6 649</u>
		43 024 586 32		
		<u>26 519 826 76</u>		<u>24 885</u>
b) Other administrative expenses			69,544,413 08	<u>68 089</u>
8 Write-downs and value adjustments of intangible assets and tangible fixed assets			635 882 58	<u>860</u>
9 Other operating expenses			13 660 653 85	<u>9 645</u>
10 Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business		<u>62,168 090 85</u>		<u>83,238</u>
			62 168 690 85	<u>83 238</u>
11 Write-downs and value adjustments on participatory interest shares in affiliated companies and on securities treated as fixed assets		<u>42 472 555 12</u>		0
			42 472 555 12	0
12 Income from writing up participatory interest shares in affiliated companies and securities treated as fixed assets		0 00		6 529
			0 00	6 529
13 Result from normal operations			41 385 685 56	<u>64 301</u>
14 Extraordinary income		0 00		13 856
15 Extraordinary expenses		<u>1 352 309 15</u>		<u>7 111</u>
16 Extraordinary result			- 1 352 309 15	<u>6 745</u>
17 Taxes on income		2,799,782 64		5 564
18 Other taxes not included under item 9		<u>15 827 51</u>		<u>16</u>
			2 815 610 15	<u>5 580</u>
19 Profit surrendered under partial surrender agreements or a profit and loss transfer agreement			37 217 766 26	<u>65 466</u>
20 Profit for the period			0 00	0
21 Transfer to profit reserves			0 00	0
22 Balance sheet profit			0 00	0

Balance sheet as of 31 December 2014 | Income statement for the period from 1 January to 31 December 2014 |
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STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Balance sheet profit	Total equity
As of 1 January 2014	80,640	75,000	481,314	276,218	0	913,172
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	0	0	0	0	0	0
Conversion of capital held by silent partners	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0
As of 31 December 2014	80,640	75,000	481,314	276,218	0	913,172

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Balance sheet profit	Total equity
As of 1 January 2013	80,640	150,000	406,314	260 996	15,222	913 172
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	0	0	0	15,222	- 15,222	0
Conversion of capital held by silent partners	0	- 75 000	75 000	0	0	0
Profit for the period	0	0	0	0	0	0
As of 31 December 2013	80,640	75,000	481,314	276,218	0	913,172

CASH FLOW STATEMENT

in € thousands	2014	2013
1 Net result before extraordinary items	1,352	-6,745
Non-cash items contained in the net result and transfer to the cash flow from current operations		
2 Write-downs, value adjustments and write-ups to receivables, fixed and financial assets	108,213	77,443
3 Increase/decrease in reserves	911	-1,746
4 Other non-cash expenses/income	0	0
5 Profit/loss from the disposal of financial assets	-348	-6,464
6 Profit to be surrendered under a profit and loss transfer agreement	28,818	49,600
7 Other adjustments (balance)	-207,989	-186,011
8 Subtotal	-69,043	-73,923
Change in assets and liabilities from current operations		
9 Receivables		
a from financial institutions	33,243	1,415,390
b from customers	75,720	1,254,517
10 Securities (if not financial assets)	-39,862	131,406
11 Other assets from current operations	69,913	-27,637
12 Liabilities		
a to financial institutions	937,873	-1,728,243
b to customers	-135,964	-435,151
13 Securitised liabilities	-2,020,284	-924,482
14 Other liabilities from current operations	157,416	-78,946
15 Interest and dividends received	989,037	1,136,643
16 Interest paid	-753,382	-875,998
17 Extraordinary deposits	0	0
18 Extraordinary disbursements	-4	-164
19 Income tax payments	-5,382	-6,194
20 Cash flow from current operations	-760,719	-212,782
21 Proceeds from disposals of		
a financial assets	1,195,832	1,294,430
b tangible fixed assets	55	16,191
22 Disbursements for investments in		
a financial assets	-356,855	-999,493
b tangible fixed assets	-1,780	-59
23 Proceeds from the disposal of consolidated companies and other business units	0	0
24 Disbursements for the acquisition of consolidated companies and other business units	0	0
25 Changes in funds from other investment activities (balance)	-190	6,771
26 Cash flow from investment activities	837,062	317,840
27 Proceeds from equity allocations (capital increases, disposal of own shares, etc.)	0	0
28 Disbursements to company owners		
a dividend payments	0	0
b other disbursements	-39,207	-40,998
c profit and loss transfer	-49,600	0
29 Changes in funds from other capital (balance)	-10,000	-32,000
30 Cash flow from financing activities	-98,807	-72,998
31 Cash change in finance funds	-22,464	32,060
32 Exchange-rate and valuation-related changes in finance funds	0	0
33 Finance funds at the start of the period	64,347	32,287
34 Finance funds at the end of the period	41,883	64,347

Balance sheet as of 31 December 2014 | Income statement for the period from 1 January to 31 December 2014 | Statement of changes in equity | Cash flow statement | Notes

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. Accounting regulations

The annual financial statements of Deutsche Hypothekenbank (Aktien-Gesellschaft), Hanover, (Deutsche Hypo or the Bank) for the 2014 financial year have been prepared in accordance with the provisions of the German Commercial Code (HGB) in conjunction with the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG) and the German Pfandbrief Act (PfandBG). The annual financial statements comprise the balance sheet, the income statement, the cash flow statement, the statement of equity, and the notes. The breakdown of the balance sheet and the income statement is based on forms 1 and 3 of the RechKredV.

Since 1 January 2013, there is a profit transfer agreement between Deutsche Hypo and Norddeutsche Landesbank Girozentrale (Anstalt öffentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB). This also results in a fiscal tax unit. For this reason, solely the disclosure of the income taxes that relate to previous years and foreign branches are reported on the level of Deutsche Hypo. They are calculated on the basis of the taxable result at the applicable income tax rate.

2 Adjustment of the figures from the previous year due to reporting changes

In comparison to the previous year, minor changes were made in the disclosure of certain interest-like fee components in the credit business and in a portion of the expenses from the discounting of pension provisions. The following adjustments to the figures from the previous year were made for the described reasons:

in € thousands	before adjustment	adjustment	after adjustment
1 Interest income	1,054,168	- 630	1,053,538
4 Commission income	13,110	630	13,740
7 General administrative expenses	69,060	- 971	68,089
9 Other operating expenses	8,674	971	9,645

3. Accounting and valuation principles

Receivables from financial institutions and customers are reported at their nominal value (Section 340e (2) of the German Commercial Code). Any differences between the nominal value and the pay-out value 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 stand in relation to identifiable risks in the credit business. Uncollectable receivables are written down. Account is taken of contingent credit risks in the form of a general loan loss provision. The calculation of the general loan loss provision is handled 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 amortised historical cost if they involve securities held as fixed assets. With a sustained impairment considered likely, unscheduled write-downs are reported in accordance with Section 253 (3) of the German Commercial Code. Write-ups are performed pursuant to Section 253 (5) of the German Commercial Code in cases where the reasons for an unscheduled write-down cease to apply. Securities from the liquidity reserve are valued in accordance with the lower-of-cost-or-market principle in accordance with Section 253 (4) of the German Commercial Code. There continues to be no trading portfolio. If there are securities transferred under repurchase agreements, this will take place as part of real securities repurchase transactions which are reported in accordance with the requirements of Section 340b (4) of the German Commercial Code.

Participatory interest and shares in affiliated companies are measured at the lower-of-cost-or-market value. Write-ups will be performed pursuant to Section 253 (5) of the German Commercial Code in cases where the reasons for a write-down cease to apply.

Applying Section 340c (2) of the German Commercial Code, the expenses arising from write-downs on participatory interest, shares in affiliated companies and securities treated as fixed assets are offset against write-ups on these assets, and the resulting income or expense is reported under income from financial assets on the income statement. 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. Minor-value assets are depreciated for reasons of materiality in accordance with Section 6 (2a) of the German Income Tax Act (EStG).

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

The tax claim from the amendment to Section 37 of the German Corporate Tax Act (Körperschaftsteuergesetz) is reported at its net present value applying a discount rate of 3.9 %. The pay-out commenced in 2008 consisting of ten equal annual instalments.

Liabilities, as a general rule, are reported at their settlement amount. Any difference between the nominal value and pay-out amount is reported under accruals and deferrals, which are written back on a scheduled basis.

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The pension provisions are calculated by independent actuaries using an expectancy cash-value method, the projected unit credit method, applying the provisions of the BilMoG. In this process, the pensions being paid on the reporting date and the portion of the expectancies accruing (or earned) during the service period at the reporting date are evaluated. Allowance is also made for increases expected in the future as a result of pay rises or pension adjustments. The cash value of the obligation is calculated by discounting the expected future benefits (settlement value pursuant to Section 253 (1), clause 2 of the German Commercial Code) in accordance with Section 253 (2), clause 1 of the German Commercial Code at the average market rate of interest over the past seven years reflecting their residual term. Use is made of the simplification rule set out in Section 253 (2), clause 2 of the German Commercial Code, in that the average market interest rate is applied on a flat-rate basis for a residual term of fifteen years. The calculations of the pension provisions for the period to 31 December 2014 are based on the following actuarial assumptions

	31 12 2014	31 12 2013
Actuarial interest*)	4.54 %	4.88 %
Mortality	Heubeck RT 2005 G	Heubeck RT 2005 G
Expectancy	2.00 % p.a.	2.00 % p.a.
Pension dynamics	2.75 % / 2.87 % / 1.00 %	2.75 % / 2.87 % / 1.00 %

*) In conducting the appraisal calculation, an interest rate of 4.54 % was assumed for 31 December 2014, which slightly deviates from the market interest rate of 4.53 % as published by Deutsche Bundesbank for the remaining term of 15 years.

For a small portion of the calculated obligation, there is a fund asset in the amount of € 4,526 thousand (2013: € 4,479 thousand) that is netted with the pension provisions under application of Section 246 (2) of the German Commercial Code.

The higher obligation cash value arising from the application of the German Accounting Law Modernisation Act (BilMoG) compared with the rules under commercial law is to be collected in application of Section 67 (1) of the Introductory Act to the German Commercial Code by no later than 31 December 2024 in instalments of at least one fifteenth each financial year (€ 570 thousand). This is reported in the income statement under extraordinary expenses. The measurement of pension provisions produced a shortfall of € 8,551 thousand at the time of the initial application of the German Accounting Law Modernisation Act (BilMoG). As of 31 December 2014, the shortfall was € 5,701 thousand (2013: € 6,271 thousand).

The other provisions, which are mainly provisions in human resources, and tax provisions are set at the level of the settlement amount that is required on the basis of a reasonable commercial assessment. Pursuant to Section 253 (2) clause 1 of the German Commercial Code, with a residual term of more than one year, they are discounted at the average market rate of interest for the past seven financial years reflecting their residual term. The applicable discount interest rate is determined by the "Deutsche Bundesbank" in accordance with the German Provision Discounting Ordinance (Rück-AbzinsV) and announced monthly. The disclosure of expenses and income from the compounding or discounting of provisions takes place in the net interest income for provisions from the credit business and in other operating income for provisions from the non-bank business.

Contingent liabilities and other liabilities are reported at their nominal amounts in the balance sheet. Contingent liabilities will lead to possible disbursements in future, albeit based on events in the past. These obligations will be brought about by the occurrence of uncertain events in the future. The amount which will have to be settled cannot be estimated with any adequate degree of reliability. No

provision has been set aside for obligations stated at nominal values because the loss is considered less likely to occur. The assessment of probability is based on the estimated creditworthiness of the issuers of reference (credit default swaps) or of the borrowers (guarantees in mortgage business) on the reporting date.

4 Currency conversion

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

The following deferral criteria apply to the special cover:

The risk associated with changes in the exchange rate is eliminated in full or in part within the scope of all the transactions conducted in one currency. The assessment of whether there is a risk arising from changes in the exchange rate is determined by the overall position for each currency, i.e. the combination of all the transactions in a particular currency which do and do not have an effect on the balance sheet. As a general rule, there is special cover for all transactions in foreign currencies. Excesses are generally insignificant and have a term of up to one year.

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

When comparing the receivables and the liabilities in a particular currency irrespective of the dates on which the respective transactions mature, it is ensured that a lack of matched maturities can be remedied by appropriate follow-up transactions. Assets and liabilities in a foreign currency are converted at the mean spot exchange rate on the reporting date. Forward transactions are valued using the split forward price method (swap price and forward margin), as they are concluded to hedge interest-bearing items. All foreign exchange rates are calculated by and taken from the European System of Central Banks.

The adjusting items created from valuing swap and forward exchange transactions at current rates are reported separately under other assets or other liabilities as appropriate. Expenses arising from currency conversion are included in the income statement. Income arising from the currency conversion is taken into consideration insofar as it is based on specially covered transactions, or if the assets and liabilities being converted have a residual term of one year or less. These expenses and this income are reported either under other operating expenses or under other operating income. In the past financial year, there was other operating income from currency conversion in the amount of € 194 thousand (2013: € 241 thousand). The amount of net assets denominated in foreign currency totalled € 3,964.5 million as of the reporting date (2013: € 4,263.3 million), the amount of the liabilities denominated in the foreign currency was € 689.9 million (2013: € 914.4 million).

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5 Derivatives

The Bank uses derivative financial instruments to manage the general interest rate risk (overall bank management). In addition, the Bank holds derivative financial instruments to hedge foreign currency risks, as well as credit derivatives in the portfolio. All derivatives are assigned to the non-trading portfolio. Derivatives from the non-trading portfolio are governed by the principle of non-accounting of pending transactions. The Bank checks the requirement for provisions for contingent losses with regard to the banking book on the respective reporting date. There was no creation of balance sheet valuation units.

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.

Deutsche Hypo provides the security for the credit default swaps (CDS) contained in the portfolio. The issuers of reference are European states as well as a US federal state. The nominal volume of the CDS is reported under contingent liabilities. Deutsche Hypo provides the security for the total return swaps (TRS) contained in the portfolio. The issuers of reference are US regional authorities. TRS are not reported as pending transactions.

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

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

Notes on the balance sheet

7. Receivables from financial institutions and customers

in € thousands	31 12 2014	31 12 2013
Receivables from financial institutions		
Breakdown of residual maturities		
- due daily	1,329,866	829,397
- up to three month	156,663	185,324
- more than three months and up to one year	153,354	180,059
- more than one year and up to five years	727,024	1,116,089
- more than five years	250,704	339,984
- proportionate interest in total	336,775	380,072
Balance sheet item	2,954,386	3,030,925
of which from affiliated companies	75,404	195,321
Receivables from customers		
Breakdown of residual maturities		
up to three months	580,287	700,468
more than three months and up to one year	1,754,466	2,240,943
- more than one year and up to five years	7,239,399	6,900,975
- more than five years	7,854,271	7,732,282
- proportionate interest in total	129,646	141,601
Balance sheet item	17,558,069	17,716,269
of which from investors and investees	1,649	2,215

8 Bonds and other fixed interest securities

in € thousands	31 12 2014	31 12 2013
Balance sheet item	9,321,347	10,172,370
of which from affiliated companies	1,241,656	1,241,074
due in the following year	2,248,575	1,159,194
of which exchange-eligible and listed on exchanges	8,223,641	9,120,716
of which exchange-eligible and not listed on exchanges	1,097,706	1,051,654

For securities in fixed assets with a carrying value of € 1,200.4 million (2013: € 2,646.2 million) and a fair value of € 1,133.8 million (2013: € 2,445.5 million), a write-down to the lower value of € 66.6 million (2013: € 200.7 million) was not applied. In these cases, the Bank does not anticipate a long-term impairment, since a review of the credit rating of the issuer in question in the individual case did not reveal any signs that a long-term impairment was justified.

9. Participatory interest and shares in affiliated companies

Participatory interest and shares in affiliated companies continued not to contain any marketable securities as of balance sheet date. There are no disclosures in accordance with Section 285 clause 11 of the German Commercial Code on account of the application of Section 286 (3) clause 1 number 1 of the German Commercial Code.

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10. Fixed asset schedule

in € thousands	Historical costs			Depreciation		Book value on	Book value on
	01 01 2014	Additions	Disposals	Accumulated	in 2014	31 12 2014	31 12 2013
Intangible assets	8,125	190	–	7 457	173	858	840
Tangible assets*)	4,240	1,780	550	3,074	463	2,396	1,116
Securities in fixed assets						9,254,421	10,145,202
Participatory interest						77	77
Shares in affiliated companies						51	51

) Tangible assets solely comprise of business and office equipment.

11 Other assets

Other assets totalled € 98,988 thousand (2013 € 180,420 thousand) and primarily included adjustment items from foreign currencies in the amount of € 88,289 thousand (2013 € 162,393 thousand)

12 Accrued and deferred items

in € thousands	31 12 2014	31 12 2013
Assets		
Issuing discount from bonds	20,682	23,108
Premium on claims	36,977	64,511
Swap upfront payments	19,020	20 405
Other	180	89
Balance sheet item	76,859	108,113
Liabilities		
Discount from claims	14 428	17 785
Premium on bonds	24,177	37,319
Processing fees and interest compensation	22,149	21,601
Swap upfront payments	12,816	14,289
Other	15	0
Balance sheet item	73,585	90,994

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

in € thousands	31 12 2014	31 12 2013
Liabilities to financial institutions		
Breakdown of residual maturities		
- due daily	512,474	623,256
- up to three months	3 972 434	2,789,626
- more than three months and up to one year	1,192,206	903,819
- more than one year and up to five years	1 307,555	1,686,901
- more than five years	254,489	318 459
- proportionate interest in total	303,651	343 720
Balance sheet item	7,542,809	6,665 781
of which from affiliated companies	2 091 495	1,971,334
Liabilities to customers		
Breakdown of residual maturities		
- due daily	12 815	34 419
- up to three months	647,111	129,618
- more than three months and up to one year	304,927	468 999
- more than one year and up to five years	2,326,114	2,042,300
- more than five years	5,637 442	6,389,038
- proportionate interest in total	191 572	203,454
Balance sheet item	9,119,981	9,267,828
of which from affiliated companies	812	603
Securitised liabilities		
due in the following year	3,059,124	4 103 274
of which to affiliated companies	1,533 588	1 916 893

14 Other liabilities

Other liabilities totalled € 279,052 thousand (2013 € 149,413 thousand) and primarily included adjustment items from foreign currencies in the amount of € 255,616 thousand (2013 € 113,164 thousand) and pro-rata interest on subordinated liabilities and capital held by silent partners in the amount of € 15,202 thousand (2013 € 23,143 thousand)

15 Subordinated liabilities

Subordinated liabilities fell during the year under review from € 336 0 million to € 326 0 million. They are subject to nominal interest rates from 4 0 % to 6 75 % and fall due from 2015 to 2027. Early repayments and conversions are excluded. One subordinated liability exceeds 10 0 % of the total amount reported. It is a liability of € 90 0 million subject to an interest rate of 6 12 % and due on 27 January 2020. Early repayment will only be possible in the event of additional payments to the lender or its legal successor due to changes in taxation. The disclosed liabilities comply with the requirements for additional capital in accordance with Article 63 of the Capital Requirements Regulation (CRR).

Subordinated liabilities of € 6 0 million (2013 € 16 0 million) shall fall due within the next two years. Interest expenses in the year under review amounted to € 18 3 million (2013 € 19 4 million). As of balance sheet date, there were subordinated liabilities to affiliated companies in the amount of € 90 0 million (2013 € 90 0 million).

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16 Jouissance right capital

Reported jouissance right capital totalled a nominal amount of € 83.0 million (2013: € 83.0 million). The jouissance rights meet the requirements for additional capital in accordance with Article 63 of the Capital Requirements Regulation (CRR). The terms run to 31 December 2015 (€ 23.0 million), 31 December 2016 (€ 40.0 million) and 31 December 2017 (€ 20.0 million). Jouissance rights of € 63.0 million (2013: € 23.0 million) will fall due within the next two years. There continues to be no approved jouissance right capital.

17 Notes on the development of equity

Deutsche Hypo held subscribed capital of € 80.6 million on 31 December 2014, which is divided into 13,440,000 individual shares and is the same as in 2013. The Board of Managing Directors was authorised, until 19 January 2014 and with the approval of the Supervisory Board, to increase the Bank's share capital on one or more occasions but by no more than a total of € 40.2 million by issuing up to 6,700,000 new bearer shares in exchange for cash deposits in accordance with Section 202 et seq. of the Joint Stock Companies Act (AktG). The right was not exercised. There was no approved capital as of 31 December 2014.

There was still a contract about an investment held by silent partners in the amount of € 75.0 million subject to an interest rate of 11.2% and with an indefinite term as of balance sheet date. In accordance with Article 62 of the Capital Requirement Regulation (CRR), existing investments by silent partners are allocated to the Bank's liable equity.

18 Contingent liabilities and other obligations

in € thousands	31.12.2014	31.12.2013
Liabilities arising from sureties and guarantee agreements	790,999	838,183
of which credit default swaps	595,033	573,245
of which sureties in the mortgage business	195,966	264,938

Other obligations consist only of irrevocable credit commitments from mortgage loans € 1,048.7 million (2013: € 1,067.8 million).

19 Transactions not included on the balance sheet and other financial obligations

Deutsche Hypo is a member of the security reserve of Landesbanks and giro centres. The membership amounts are measured on the basis of the risk-oriented principles in accordance with the Articles of Association. Reserve liabilities of roughly € 16.7 million resulted on the reporting date (2013 € 22.0 million). If a case of support occurs, the reserve liability can be requested. Deutsche Hypo concluded rental and lease agreements for buildings the Bank uses and the fleet of vehicles and certain business and office equipment. There are no significant risks with an impact on the assessment of the Bank's financial position. All agreements concluded by the Bank in this form fall within the norm both individually and collectively.

20 Securities repurchase transactions

As of the reporting date, the Bank concluded 47 (2013: 50) repo transactions where securities with a book value of € 2,528.4 million (2013: € 2,602.1 million) were transferred. The securities were used to hedge liabilities to financial institutions.

21 Open market transactions

As of 31 December 2014, securities with a nominal value of € 1,490.8 million (2013: € 724.6 million) for overdraft facilities and open market transactions were blocked with the Deutsche Bundesbank, of which € 51.0 million (2013: € 0.0 million) is attributable to own bonds. They were used to hedge liabilities to financial institutions. As of the reporting date, use had been made of open market loans worth a total of € 1,200.0 million (2013: € 0.0 million).

Notes on the income statement

22. Other operating income

Other operating income totalled € 3,159 thousand (2013: € 3,208 thousand) and included income from the release of provisions of € 1,056 thousand (2013: € 2,008 thousand), ongoing income from leases in the amount of € 919 thousand (2013: € 210 thousand), and cost reimbursements of € 586 thousand (2013: € 382 thousand).

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23 Other operating expenses

Other operating expenses of € 13,661 thousand (2013 € 9,645 thousand) mainly included the contribution to the restructuring funds for financial institutions (bank levy) of € 5,360 thousand (2013 € 6,204 thousand), expenses in connection with the discounting of provisions in the amount of € 4,488 thousand (2013 € 3,122 thousand) and expenses for third-party managed buildings in the amount of € 2,631 thousand (2013 € 0 thousand)

24. Extraordinary income

Deviating from last year, extraordinary income as the sale of a building for own use (2013 € 13,856 thousand) did not occur. In terms of income taxes, this income does not have any impact on account of the fiscal tax unit.

25 Extraordinary expenses

Extraordinary expenses of € 1,352 thousand (2013 € 7,111 thousand) were due to the implementation of measures in connection with the efficiency improvement programme SIGN as well as allocations to pension provisions in accordance with Art. 67 (1) clause 1 EGHGB in the amount of € 570 thousand (2013 € 570 thousand). In terms of income taxes, these expenses do not have any impact on account of the fiscal tax unit.

26 Profit surrendered under partial surrender agreements or a profit and loss transfer agreement

As of 31 December 2014, the profit surrendered under partial surrender agreements or a profit and loss transfer agreement totalled € 37.2 million (2013 € 65.5 million). Due to the profit and loss transfer agreement, € 28.8 million (2013 € 49.6 million) was transferred to NORD/LB. In addition, interest on the capital held by silent partners in the amount of € 8.4 million (2013 € 15.9 million) was taken into account in this result.

Other disclosures

27 Services rendered to third parties

Deutsche Hypo rendered services in particular in connection with the management of the real estate financings in the portfolio of NORD/LB. For this, the Bank received service fees that were included in the commission income.

28. Cover analysis (in accordance with Section 28 of the PfandBG)**Revolving Pfandbriefe and the cover assets used with disclosure of the maturity structure**
(Section 28 (1) PfandBG)**Mortgage Pfandbriefe**

in € millions	Nominal		Net present value		Risk net present value*)	
	31 12 2014	31 12 2013	31 12 2014	31 12 2013	31 12 2014	31 12 2013
Mortgage Pfandbriefe	8,744	8,648	9,276	9,037	9,008	8,734
of which derivatives	-	-	47	25	14	-28
Cover pool	8,988	9,366	9,996	10,153	9,588	9,729
of which derivatives	-	-	12	25	36	70
Excess cover	244	718	720	1,116	580	995

*) For the calculation of the risk net present value the dynamic approach in accordance with PfandBarwertV is used

in € millions	31 12 2014		31 12 2013	
	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	1,207	1,028	549	1,033
more than 0.5 years up to 1 year	705	1,057	950	969
more than 1 year up to 1.5 years	1,763	588	1,207	470
more than 1.5 years up to 2 years	227	662	706	980
more than 2 years up to 3 years	1,185	1,104	1,690	1,204
more than 3 years up to 4 years	1,333	1,092	1,060	980
more than 4 years up to 5 years	1,261	983	775	1,025
more than 5 years up to 10 years	766	2,142	1,440	2,377
more than 10 years	297	332	271	328
Total	8,744	8,988	8,648	9,366

Public Pfandbriefe

in € millions	Nominal		Net present value		Risk net present value*)	
	31 12 2014	31 12 2013	31 12 2014	31 12 2013	31 12 2014	31 12 2013
Public Pfandbriefe	8,633	10,813	10,608	12,302	10,026	11,698
of which derivatives	-	-	13	5	5	-3
Cover pool	9,146	11,487	11,194	13,097	10,376	12,307
of which derivatives	-	-	1	7	6	12
Excess cover	513	674	586	795	350	609

*) For the calculation of the risk net present value the dynamic approach in accordance with the PfandBarwertV is used

in € millions	31 12 2014		31 12 2013	
	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	562	1,016	1,672	1,156
more than 0.5 years up to 1 year	742	521	476	672
more than 1 year up to 1.5 years	478	983	561	1,153
more than 1.5 years up to 2 years	581	349	740	694
more than 2 years up to 3 years	899	1,145	1,098	1,343
more than 3 years up to 4 years	539	970	909	1,235
more than 4 years up to 5 years	575	544	534	888
more than 5 years up to 10 years	1,880	1,833	2,104	2,010
more than 10 years	2,377	1,785	2,719	2,336
Total	8,633	9,146	10,813	11,487

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

in € millions (as of each 31 December)	Germany		Belgium		Eur Union		France	
	2014	2013	2014	2013	2014	2013	2014	2013
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	-	-	-	-	19	18	-	-
of which uncovered debt securities in terms of Art. 129 of Ordinance (EU) No. 575/2013	-	-	-	-	-	-	-	-
Claims in terms of Section 19 (1) clause 3 of the PfandBG	327	477	75	-	-	-	-	25
Total	327	477	75	-	19	18	-	25

in € millions (as of each 31 December)	Italy		Japan		Netherlands		Austria	
	2014	2013	2014	2013	2014	2013	2014	2013
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	127	202	-	-	-	-	-	-
of which uncovered debt securities in terms of Art. 129 of Ordinance (EU) No. 575/2013	-	-	-	-	-	-	-	-
Claims in terms of Section 19 (1) clause 3 of the PfandBG	31	40	149	229	25	-	150	275
Total	158	242	149	229	25	-	150	275

in € millions (as of each 31 December)	Portugal		Spain		USA		Other*)	
	2014	2013	2014	2013	2014	2013	2014	2013
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	-	20	-	50	-	-	66	60
of which uncovered debt securities in terms of Art. 129 of Ordinance (EU) No. 575/2013	-	-	-	-	-	-	-	-
Claims in terms of Section 19 (1) clause 3 of the PfandBG	-	-	53	54	74	-	-	-
Total	-	20	53	104	74	-	66	60

) Other supranational organisations

Other cover assets for public Pfandbriefe (Section 28 (1) clauses 4 and 5 of the PfandBG in conjunction with Section 20 (2) clause 1 and 2 of the PfandBG) were not available in either the previous year or as of 31 December 2014

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 2014	31 12 2013
up to and including € 300 000	36	53
between € 300,000 and including € 1 million	114	144
between € 1 million and including € 10 million	2 219	2 455
more than € 10 million	5 523	5,264
Total	7,892	7,916

Breakdown of receivables by area and type of use

in € millions (as of each 31 December)	Germany		Belgium		France	
	2014	2013	2014	2013	2014	2013
Apartments	12	16	-	-	1	-
Detached family homes	15	29	-	-	-	-
Multifamily homes	620	647	-	-	177	108
Office buildings	1,231	1,303	18	12	358	355
Commercial buildings	2,113	1 969	-	-	235	244
Industrial buildings	12	13	-	-	-	-
Other commercially used building	517	486	-	-	-	-
New buildings not yet completed or not yet a source of income	363	267	-	-	-	10
Building sites	26	52	-	-	-	-
Total	4,909	4,782	18	12	771	717

in € millions (as of each 31 December)	UK		Netherlands		Austria	
	2014	2013	2014	2013	2014	2013
Apartments	-	-	23	31	-	-
Detached family homes	-	-	64	64	-	-
Multifamily homes	-	1	81	63	-	-
Office buildings	630	656	304	312	-	-
Commercial buildings	275	261	161	174	12	12
Industrial buildings	-	-	-	-	-	-
Other commercially used building	13	104	130	142	-	-
New buildings, not yet completed or not yet a source of income	-	43	-	-	-	-
Building sites	21	15	-	-	-	-
Total	939	1,080	763	786	12	12

in € millions (as of each 31 December)	Poland		Spain		USA	
	2014	2013	2014	2013	2014	2013
Apartments	-	-	-	-	-	-
Detached family homes	-	-	-	-	-	-
Multifamily homes	-	-	-	-	34	49
Office buildings	103	6	20	20	154	210
Commercial buildings	33	-	85	159	13	21
Industrial buildings	-	-	-	-	-	-
Other commercially used building	-	-	19	20	19	33
New buildings, not yet completed or not yet a source of income	-	-	-	-	-	-
Building sites	-	-	-	-	-	9
Total	136	6	124	199	220	322

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

in € millions	31 12 2014		31 12 2013	
	Total amount of payments overdue by at least 90 days	Total amount of these claims if the overdue amount totals at least 5 % of the claim	Total amount of payments overdue by at least 90 days	Total amount of these claims if the overdue amount totals at least 5 % of the claim
Spain	30	70	29	70
France	14	60	–	–
Germany	04	17	–	01
Netherlands	–	–	03	36
USA	–	–	04	84
Total	48	147	36	191

Foreclosure / sequestration (Section 28 (2) Clause 4 PfandBG)

	As of 31 December					
	Foreclosures pending		Sequestration pending		Foreclosures executed	
	2014	2013	2014	2013	2014	2013
Properties used for living	3	5	–	1	3	–
Properties used for commercial purposes	3	5	1	3	2	5
Total	6	10	1	4	5	5

In the financial year 2014, Deutsche Hypo did not acquire any property to save existing mortgages, as in the prior year

Total overdue interest (Section 28 (2) Clause 4 PfandBG)

in € millions	31 12 2014	31 12 2013
Properties used for living	–	–
Properties used for commercial purposes	63	93
Total	63	93

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

in € millions (as of 31 December)	Germany		Belgium		Eur Umon		Finland	
	2014	2013	2014	2013	2014	2013	2014	2013
Central state	151	221	–	–	79	121	–	–
Regional authority	2,733	3,160	105	266	–	–	14	59
Local authority	57	150	–	–	–	–	–	–
Other	2,004	2,993	140	140	311	313	–	–
Total	4,945	6,524	245	406	390	434	14	59

in € millions (as of 31 December)	France		UK		Italy		Japan	
	2014	2013	2014	2013	2014	2013	2014	2013
Central state	–	–	–	–	317	336	–	–
Regional authority	89	89	–	–	520	503	10	90
Local authority	–	–	–	–	–	–	–	–
Other	50	125	64	60	90	79	–	21
Total	139	214	64	60	927	918	10	111

in € millions (as of 31 December)	Canada		Latvia		Netherlands		Austria	
	2014	2013	2014	2013	2014	2013	2014	2013
Central state	–	–	–	–	–	–	659	654
Regional authority	151	134	18	19	130	160	44	45
Local authority	–	–	–	–	–	–	–	–
Other	74	65	–	–	290	290	222	382
Total	225	199	18	19	420	450	925	1,081

in € millions (as of 31 December)	Poland		Sweden		Switzerland		Slovenia	
	2014	2013	2014	2013	2014	2013	2014	2013
Central state	86	85	–	–	–	–	–	30
Regional authority	–	–	16	17	70	69	–	–
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	100	100	–	25
Total	86	85	16	17	170	169	–	55

in € millions (as of 31 December)	Spain		Hungary		USA		Other*)	
	2014	2013	2014	2013	2014	2013	2014	2013
Central state	–	–	44	44	–	–	–	–
Regional authority	65	159	–	–	256	293	–	–
Local authority	–	–	–	–	–	–	–	–
Other	48	48	–	–	–	–	139	142
Total	113	207	44	44	256	293	139	142

) Other supranational organisations

As of 31 December 2014, payments for public sector receivables that were overdue by at least 90 days amounted to € 0 (2013 € 1 thousand)

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

Mortgage Pfandbriefe

		31 12 2014	31 12 2013
Pfandbriefe in circulation	in € millions	8 744	8,648
of which share of fixed-rate Pfandbriefe (Section 28 (1) clause 9 of the PfandBG)	%	77 61	73 03
Cover pool	in € millions	8,988	9,366
of which total amount of claims that exceed the limits in accordance with Section 13 (1) of the PfandBG (Section 28 (1) clause 7 of the PfandBG)	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 2 of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 3 of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which share of fixed-rate cover pool (Section 28 (1) clause 9 of the PfandBG)	%	60 54	56 68
	AUD	–	–
Net cash value in accordance with Section 6 of the German Pfandbrief Net Present Value Regulation (Pfandbrief-Barwertverordnung) for each foreign currency (in € millions)	CAD	–	–
	CHF	35 3	92 0
	GBP	455 2	571 3
	JPY	24 0	26 2
Section 28 (1) clause 10 of the PfandBG (net of assets and liabilities)	SEK	–	–
	USD	151 3	88 3
Volume-weighted average of age of claims (past term since credit award seasoning) Section 28 (1) clause 11 of the PfandBG	Years	4 8	4 8
Average weighted loan-to-value ratio (Section 28 (2) clause 3 of the PfandBG)	%	57 50	57 77
Average weighted loan-to-value ratio on a market basis	%	44 85	45 61

Public Pfandbriefe

		31 12 2014	31 12 2013
Pfandbriefe in circulation	in € millions	8 633	10,813
of which share of fixed-rate Pfandbriefe (Section 28 (1) clause 9 of the PfandBG)	%	92 78	92 40
Cover pool	in € millions	9,146	11 487
of which total amount of claims that exceed the limits of Section 20 (2) of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which share of fixed-rate cover pool (Section 28 (1) clause 9 of the PfandBG)	%	79 15	77 50
	AUD	16 7	16 7
Net cash value in accordance with Section 6 of the German Pfandbrief Net Present Value Regulation (Pfandbrief-Barwertverordnung) for each foreign currency (in € millions)	CAD	180 3	166 9
	CHF	35 3	– 163 1
	GBP	212 9	191 1
	JPY	– 19 2	1 3
Section 28 (1) clause 10 of the PfandBG (net of assets and liabilities)	SEK	8 5	9 3
	USD	1,105 7	1,000 6

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

Cover for bonds in circulation

in € millions	Mortgage Pfandbriefe		Public Pfandbriefe	
	31 12 2014	31 12 2013	31 12 2014	31 12 2013
Ordinary cover				
Receivables from financial institutions				
Mortgage loans	1	1	-	-
Public sector loans	-	-	1,266	1,702
Receivables from customers				
Mortgage loans	7 891	7 915	-	-
Public sector loans	-	-	5 109	5 708
Bonds of public sector issuers	-	-	2,771	4,077
	7,892	7,916	9,146	11,487
Substitute cover				
Other receivables from financial institutions				
	461	780	-	-
Bonds and other fixed income securities				
	635	670	-	-
	1 096	1 450	-	-
Total value of cover	8,988	9,366	9,146	11,487
Total amount in circulation requiring cover	8,744	8,648	8,633	10,813
Surplus cover	244	718	513	674

30 Derivatives

The nominal volume of the different types of forward transactions in the portfolio as of 31 December 2014 is shown in the tables below in accordance with Section 36 of the RechKredV

Forward transactions include forward exchange transactions used to hedge against positions in GBP, USD, JPY and CHF and due to expire on 22 August 2016 at the latest. The remaining positions shown are all OTC products used to hedge against interest rate and currency risks and to improve and/or safeguard margins in credit business and investments in foreign securities.

Market values represent the current value of the derivatives at market conditions (yield curves, forex rates, etc.) including accrued interest. The book values are comprised of pro-rata interest and upfronts. The figures determined in this way are summarised in the following tables by product group. This is in line with the requirements of Section 285, clause 19 of the German Commercial Code.

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31 12 2014 in € millions	Nominal amount / Residual term			Total	Fair value	Book value	Balance sheet item
	<= 1 year	1-5 years	> 5 years				
Currency-related transactions							
Forward exchange transactions	1,189	23	–	1,212	– 22	1	Assets 2, Liabilities 1
Cross-currency-Swaps	590	1,012	923	2 525	– 370	9	Assets 2 und 10, Liabilities 1 und 5
Interest rate-related transactions							
Interest rate swaps	4,403	13,842	14,845	33,090	– 425	– 32	Assets 2 und 10, Liabilities 1 und 5
Credit derivatives							
Total return swaps	18	78	329	425	– 10	– 7	Assets 2, Liabilities 1
Credit default swaps	–	595	–	595	– 9	0	
31 12 2013							
in € millions	Nominal amount / Residual term			Total	Fair value	Book value	Balance sheet item
	<= 1 year	1-5 years	> 5 years				
Currency-related transactions							
Forward exchange transactions	1,136	23	–	1,159	– 2	1	Assets 2, Liabilities 1
Cross-currency-Swaps	494	1,583	955	3 032	– 85	7	Assets 2 und 10, Liabilities 1 und 5
Interest rate-related transactions							
Interest rate swaps	5,416	14,117	15 515	35,048	– 80	– 30	Assets 2 und 10, Liabilities 1 und 5
Credit derivatives							
Total return swaps	–	94	422	516	– 14	– 8	Assets 2, Liabilities 1
Credit default swaps	–	573	–	573	– 28	0	

The netted fair values of € – 835.7 million (2013: € – 208.7 million) gave rise to positive fair values of € 2,671.5 million (2013: € 2,066.6 million) and negative market values of € 3,507.2 million (2013: € 2,275.3 million).

To hedge the default risks of counterparties after netting, Deutsche Hypo has entered into security agreements with most of its business partners. As of 31 December 2014, the Bank provided security of € 1,286.0 million (2013: € 801.9 million), and received security of € 460.3 million (2013: € 536.8 million).

31 Members of the Board of Managing Directors

ANDREAS POHL

– Speaker of the Board of Managing Directors since 1 January 2014 –

ANDREAS REHFUS

The members of the Board of Managing Directors have not held any mandates in supervisory boards of corporations

32 Members of the Supervisory Board

DR GUNTER DUNKEL

Hanover

Chairman of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

– Chairman of the Supervisory Board –

ECKHARD FORST

Hanover

Member of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

– Vice-Chairman of the Supervisory Board –

DR JOHANNES-JORG RIEGLER

Hanover

Vice-Chairman of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

(until 28 February 2014)

THOMAS KRUGER

Hanover

Member of the Board of Managing Directors of VGH Versicherungen

DIRK METZNER

Hanover

Bank employee

FRANK WOLFF

Hanover

Bank employee (until 11 June 2014)

ANDREA BEHRE

Hanover

Bank employee (since 11 June 2014)

Balance sheet as of 31 December 2014 | Income statement for the period from 1 January to 31 December 2014 | Statement of changes in equity | Cash flow statement | Notes

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

The emoluments paid to the Board of Managing Directors for the 2014 financial year totalled € 892 thousand (2013 € 1,263 thousand). Former members of the Board of Managing Directors and their surviving dependants received € 1,516 thousand (2013 € 1,484 thousand). Provisions for pension obligations owed to this group of people totalled € 11,826 thousand as of 31 December 2014 (2013 € 11,454 thousand). The measurement of pension provisions produced a shortfall of € 2,020 thousand at the time of the initial application of the BilMoG. The shortfall will be made up by the contribution of one-fifteenth of the amount (€ 135 thousand) every year until 2024 in accordance with Art. 67 (1) clause 1 of the EGHGB. As of 31 December 2014, the shortfall was € 1,346 thousand (2013 € 1,481 thousand). The Supervisory Board received a net fixed payment of € 111 thousand (2013 € 108 thousand).

34. Size of workforce on average over the year

	2014	2013
Female employees	165	173
Male employees	223	237
Total	388	410

35 Auditor's fees

in € thousands	2014	2013
Audit financial statements	667	629
Other confirmations	236	248
Other services	36	0
Total	939	877

36 Group affiliation

According to Section 271 (2) of the German Commercial Code, Deutsche Hypo is a company affiliated with NORD/LB and is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as of 31 December 2013 were published in the federal gazette on 31 July 2014.

Hanover, 11 March 2015

The Board of Managing Directors



Pohl



Rehfus

RESPONSIBILITY STATEMENT

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

Hanover, 11 March 2015

The Board of Managing Directors



Pohl



Rehfus

AUDITOR'S REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements, the cash flow statement and the statement of changes in equity – together with the bookkeeping system, and the management report of the Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover, for the business year from January 1 to December 31, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Deutsche Hypothekenbank (Actien-Gesellschaft) in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hanover, 11 March 2015

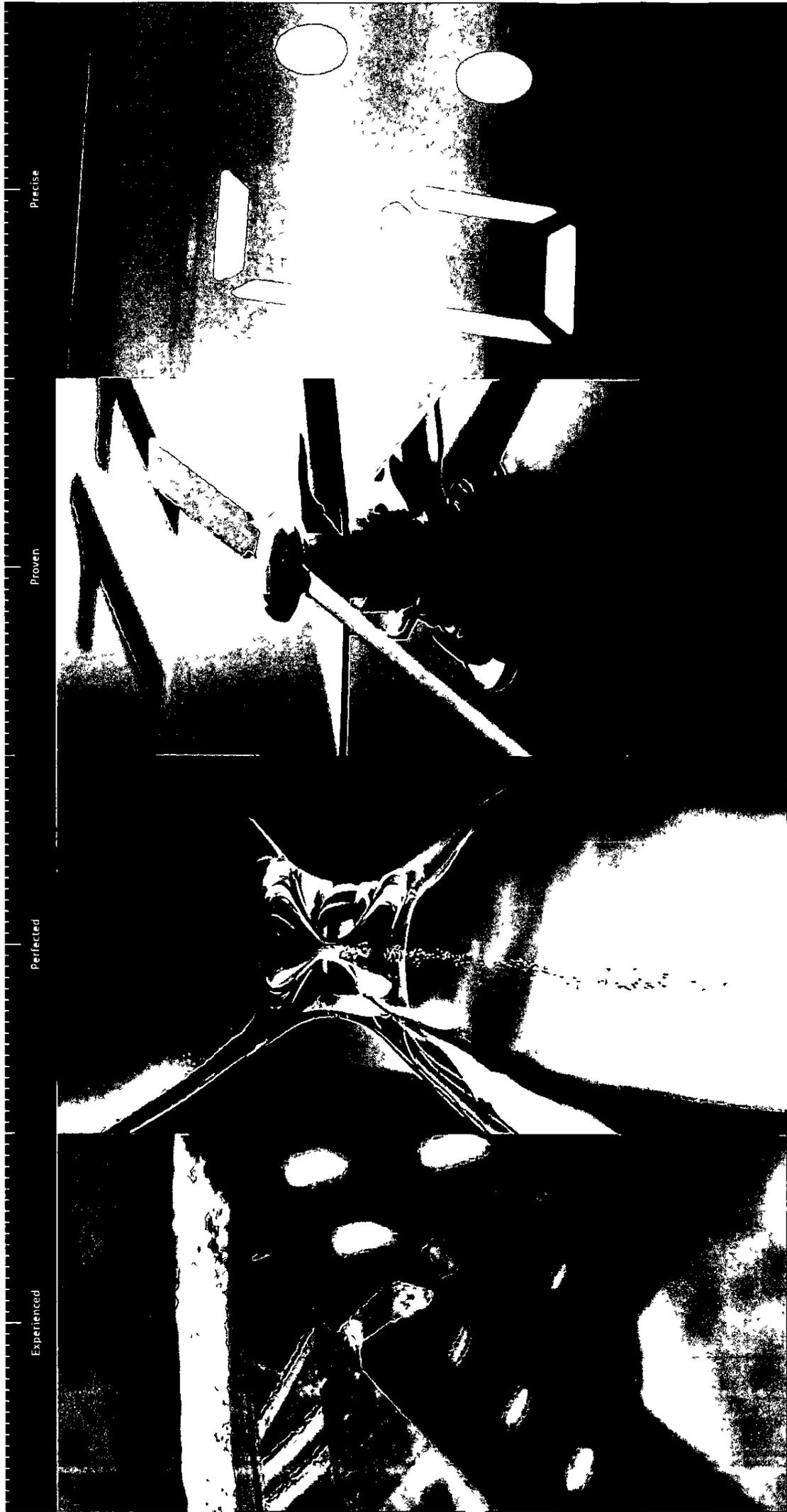
KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz
Wirtschaftsprüfer
(German Public Auditor)

Ehlers
Wirtschaftsprüfer
(German Public Auditor)

Strong performance thanks to full precision

In the planning and realisation of commercial real estate, there are many details that have to be taken into consideration – this also counts for the financing. Especially since modifications can occur during the construction phase. An experienced partner like the Deutsche Hypo is a valuable companion in such times.



Experienced

Perfected

Proven

Precise

PERSONNEL REPORT

In the year under review, the general conditions for personnel work were characterised, in particular, by the Bank's ambitious profit targets and, at the same, the need for a high level of cost discipline, as well as by the increase in regulatory requirements. This challenging trio is embedded in the personnel department's commitment to ensuring that staffing levels at Deutsche Hypo are appropriate, at all times, in terms of numbers and quality. That is why one of the personnel department's key strategic premises is to guide the development of all employees in terms of employee numbers and personnel costs and to ensure that it is ongoing, structured and tailored to requirements.

After all, behind everything that the Bank provides for its clients is its most important resource – the people who work there. Therefore, for the personnel function, an obvious imperative is to manage the balance between the interests of the company and those of the employees. Deutsche Hypo works at this day after day in order to enhance its attractiveness as an employer.

Remuneration system

Deutsche Hypo's remuneration system is aligned with its business and risk strategies and also supports them. Its objectives are sustainability and continuity in order to instil responsible and risk-conscious behaviour among employees and to ensure long-term business success. Moreover, the design of the remuneration system should ensure that staffing levels are appropriate in terms of numbers and quality and, in particular, enhance employer attractiveness. An important aim of Deutsche Hypo's remuneration system is to constitute a framework for creating remuneration-based incentives that are strategy-consistent.

In the year under review, the bank became a systemically important institution according to the Bank Remuneration Ordinance. For the first time, therefore, the Bank identified so-called risk takers on the basis of an own risk analysis. Moreover, the Bank had to comply with other rules applicable to systemically important institutions under the Bank Remuneration Ordinance.

Deutsche Hypo, as a member of the (German) Private Banking Employers' Association, is bound by a collective bargaining agreement and thus, the collective bargaining agreements for both the private banking as well as the public banking sectors are applicable. That is why, besides a fixed salary that is paid in twelve equal instalments, employees under the collective bargaining agreement receive a special payment in the amount of an additional month's salary. Employees not bound by the collective bargaining agreement receive a fixed basic annual salary that is paid in twelve equal instalments.

Variable remuneration for all employees is determined on the basis of a formal and transparent process. In the course of this, the following are taken into consideration: the Bank's overall result from a risk-oriented perspective, the profit contribution from the organisational units and the individual's own contribution to the performance.

The level of the variable component of the remuneration is limited to 100% of the fixed remuneration.

Personnel Development

"He who stops being better stops being good." This quote from Oliver Cromwell elucidates the guiding principle of personnel development at Deutsche Hypo. In 2014, in order to reinforce more intensely in the Bank the principle of lifelong learning, as well as the importance of personnel development as a management responsibility, the works agreement pertaining to the "annual performance appraisal"

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was extended to include the "annual development appraisal" The annual development appraisal facilitates a targeted discussion between the manager and the member of staff about strengths, areas that need some work and the next development steps for the member of staff

Furthermore, within the scope of technical qualifications, the personnel development concept for the lending business was extended to include the areas of credit risk management and special loans management The concept thus covers all the front and back office areas that are relevant for the credit process

Besides training sessions and seminars as well as numerous development measures as part of operational practice, in-service training constitutes an important element of personnel development at Deutsche Hypo For this reason, Deutsche Hypo supports employees who undergo in-service training in specialist, or bank-specific subjects In order to have rules that are in the interests of both the Bank and its employees and which can also be applied in times when the cost pressure is more intense, in 2014, the Bank and the Works Council concluded a works agreement pertaining to the promotion of in-service training

In the year under review, within the scope of supporting and developing high potential talent, Deutsche Hypo carried out an orientation centre for the first time The orientation centre has replaced the earlier personnel development AC and focuses both on leadership potential as well as on potential for an advanced specialist career Subject to certain conditions, orientation centre participants have the possibility of being admitted to the Bank's "individual development support" programme Within the framework of this, over the course of three years, they are provided with additional individual assistance and support in their development by the personnel department

Furthermore, in 2014, the series of management development modules, which started in 2013, continued successfully In the year under review, a total of five modules, with varying emphases, took place

Promoting and Recruiting Young Talent

During the 2014 financial year, Deutsche Hypo also provided training for the classic profession of qualified German bankers (Bankkaufleute) This training has been expanded to include an international course of study leading to a Bachelor of Arts (B.A.), which is offered in cooperation with Leibniz University of Applied Sciences (Fachhochschule) In the year under review, the number of trainees and dual-track students was 12 altogether On account of its targeted campaign for recruiting young talent, Deutsche Hypo was able to increase both the quality as well as the number of applications, which was in contrast to the overall trend in the sector

In the year under review, the training cooperation project with NORD/LB continued successfully and was optimised Firstly, trainees from the parent company were assigned to real estate banking in Deutsche Hypo in Hanover Furthermore, trainees from Deutsche Hypo were given the opportunity to observe the workings of different specialist departments at NORD/LB

Besides traditional vocational training, Deutsche Hypo also offers qualified university graduates the opportunity of participating in graduate training programmes The Bank hopes that, in this way, it is able to provide an even more attractive offer for young talent and to introduce them, in a targeted and

practical way, to challenging tasks. In the year under review, the appropriate graduate trainee concept was revised and will serve as a basis for Deutsche Hypo for filling similar trainee positions regularly in the future, too, with qualified graduates.

The Bank, in addition, offers interested students the opportunity of gaining an initial insight into the business field of a real estate and Pfandbrief bank through work placements. Cooperations for dissertations are possible but are subject to certain conditions. In the year under review, the Bank provided a total of six work placements.

Work/Life Balance and Social Welfare

The compatibility of family and career is a high priority for Deutsche Hypo. It is also the title of a works agreement that underpins this. Since 2008, the Bank, together with an external service provider, has offered its employees nursery places, holiday childcare, emergency care facilities and elder care.

In the year under review, alternating telework was developed further as another step towards supporting work/life balance. Overall, thus, 23 employees make use of the possibility to perform part of their work from home.

Besides the compatibility of family and career, for the Bank the health of its employees is also important. Within the scope of health promotion, Deutsche Hypo offers, for example, occupational welfare counselling, which is carried out by an external provider. In addition, all employees aged 45 years and above are offered, by the Bank, a medical check-up in conjunction with health coaching, every three years. Furthermore, in the year under review, the Bank laid the foundation for a stronger, needs-based organisation of occupational health management. Moreover, it also promoted "healthy" leadership by raising awareness among managers and providing the appropriate skills.

Cooperation with the Works Council

Within the framework of a constructive cooperation with the Works Council based on trust, we were always able to find good solutions and responses to the manifold challenges. We would like to extend our sincere gratitude and appreciation for this to our employer and employee representatives.

	31.12.2014	31.12.2013	31.12.2012
Employees	387	410	420
of which male	220	237	242
of which female	167	173	178
Employee structure			
Trainees	12	11	13
Average age	44.4	43.5	43.0
Other			
Illness rate	3.03	4.49	3.17
10-year service anniversary	6	7	11
25-year service anniversary	4	4	7
40-year service anniversary	4	2	3

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CORPORATE GOVERNANCE REPORT

For Deutsche Hypo, transparent and responsible corporate governance is of great importance. Against this backdrop, the Bank supports the objectives and purpose of the German Corporate Governance Code and keeps in view the modifications and amendments that are made by the Government Commission of the German Corporate Governance Code.

In 2014, apart from clarifications in model tables, there were no changes to the Corporate Governance Code. The Government Commission confirmed this in its press release from 25 June 2014. Moreover, in this release it announced that, in future, it would focus less on developing new recommendations and suggestions but, instead, on analysing and commenting on new third party regulatory initiatives. In principle, according to the press release, before issuing any regulations or recommendations, the Commission should bear in mind that every regulation limits freedoms and restricts the individual accountability and self-regulation of citizens and of businesses.

It is in the interests both of the Government Commission as well as of Deutsche Hypo's Supervisory Board to take greater account of women when seeking to fill positions on the Supervisory Board. That is why, in 2014, the Board explicitly welcomed the appointment of Ms Andrea Behre to the Supervisory Board as employee representative.

The Supervisory Board regularly reviews the efficiency of its work and that of the Board of Managing Directors. For this purpose a standardised group questionnaire is used. The Chairman of the Supervisory Board presented the results of the 2014 efficiency review at the meetings of the Appointments Committee and the Supervisory Board, on 5 December 2014, and had an in-depth discussion about them with the members of the respective committees. In the course of this, no measures were identified as being necessary for enhancing efficiency, nor for improving the work of the Supervisory Board and the cooperation between the Supervisory Board and the Board of Managing Directors.

In 2014, the applicable version of the German Corporate Governance Code was the one from 10 June 2013 and, after marginal modifications, the version from 24 June 2014. On 5 December 2014, Deutsche Hypo's Board of Managing Directors and Supervisory Boards adopted the 'Declaration of Conformity', which has to be submitted annually. The Declaration of Conformity has been published on Deutsche Hypo's website. The text is worded as follows:

Declaration of Conformity 2014

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

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

Since the last Declaration of Conformity dated 4 December 2013, Deutsche Hypothekbank (Actien-Gesellschaft), Hanover has implemented the recommendations of the Government Commission on the German Corporate Governance Code dated 24 June 2014 with the following exceptions:

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

The members of the Supervisory Board were covered by D&O insurance without an appropriate deductible (Code section 3 8),

Regarding the granting of pension commitments (for members of the Board of Managing Directors), the Supervisory Board has not specified any conditions for the pension level, including length of service on the Board of Managing Directors, and the resulting annual and long-term expense for the company (Code section 4 2 3),

The remuneration of the members of the Board of Managing Directors and of the Supervisory Board as well as the essential content of commitments of benefits to be granted in the event of termination of the function of the members of the Board of Managing Directors are not disclosed on an individualised basis in the annex to the consolidated financial statements. The remuneration components are also not disclosed on an individualised basis for financial years commencing after 31 December 2013 using the model tables provided (Code sections 4 2 4, 4 2 5 and 5 4 6),

The financial statements for the financial year 2013 were published on 30 April 2014, the half-year financial report 2014 was published on 29 August 2014. This meant that the respectively recommended periods of 90 days from the end of the financial year and 45 days from the end of the reporting period (Code section 7 1 2) were not met. However, the publication of said reports took place in compliance with the statutory deadlines stipulated in Section 325 of the German Commercial Code (HGB) and Articles 37v and 37w of the German Securities Trading Act (WpHG).

Deutsche Hypothekbank (Actien-Gesellschaft) Hanover herewith declares that it will in future fulfil the recommendations of the Government Commission on the German Corporate Government Code in their version dated 24 June 2014, doing so with the exception of the aforementioned instances under 1 a) to 1 e).

Explanations

Codes section 2 3

The shares in Deutsche Hypo are held in their entirety (100 per cent) by NORD/LB, with the consequence that there are no "free" shareholders. The recommendations set down in Code section 2 3 are based on the holding of Annual General Meetings of stock corporations which have various different shareholders. This is not the case where Deutsche Hypo is concerned, and for this reason the said recommendations will not be implemented.

Codes section 3 8

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

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

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Codes section 4 2 3

Pension commitments are basically granted to members of the Board of Managing Directors taking into account the specific individual circumstances. The Supervisory Board will seek a pension level which takes into account these circumstances (including area of responsibility, position on the Board of Managing Directors and length of service on the Board of Managing Directors) and is also in reasonable proportion with other existing pension commitments. The assessment of the individual case is influenced by various factors which are difficult to define within a standard framework. The Supervisory Board has therefore not defined standard framework conditions.

Code sections 4 2 4, 4 2 5 and 5 4 6

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

The Extraordinary General Meeting of Deutsche Hypothekbank held on 13 November 2006 adopted a resolution with the requisite majority as per Section 286 (5) of the German Commercial Code (HGB) to the effect that individualised disclosure of the compensation of members of the Board of Managing Directors would not be undertaken. At the Annual General Meeting of Deutsche Hypothekbank held on 25 May 2011, a resolution was adopted to the effect that the details on the compensation of each individual member of the Board of Managing Directors as required by section 4 2 4 of the German Corporate Governance Code will not be disclosed in the company's annual financial and consolidated statements.

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

Codes section 7 1 2

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

Hanover, 5 December 2014

The Supervisory Board

The Board of Managing Directors

Emoluments for the members of the Board of Managing Directors

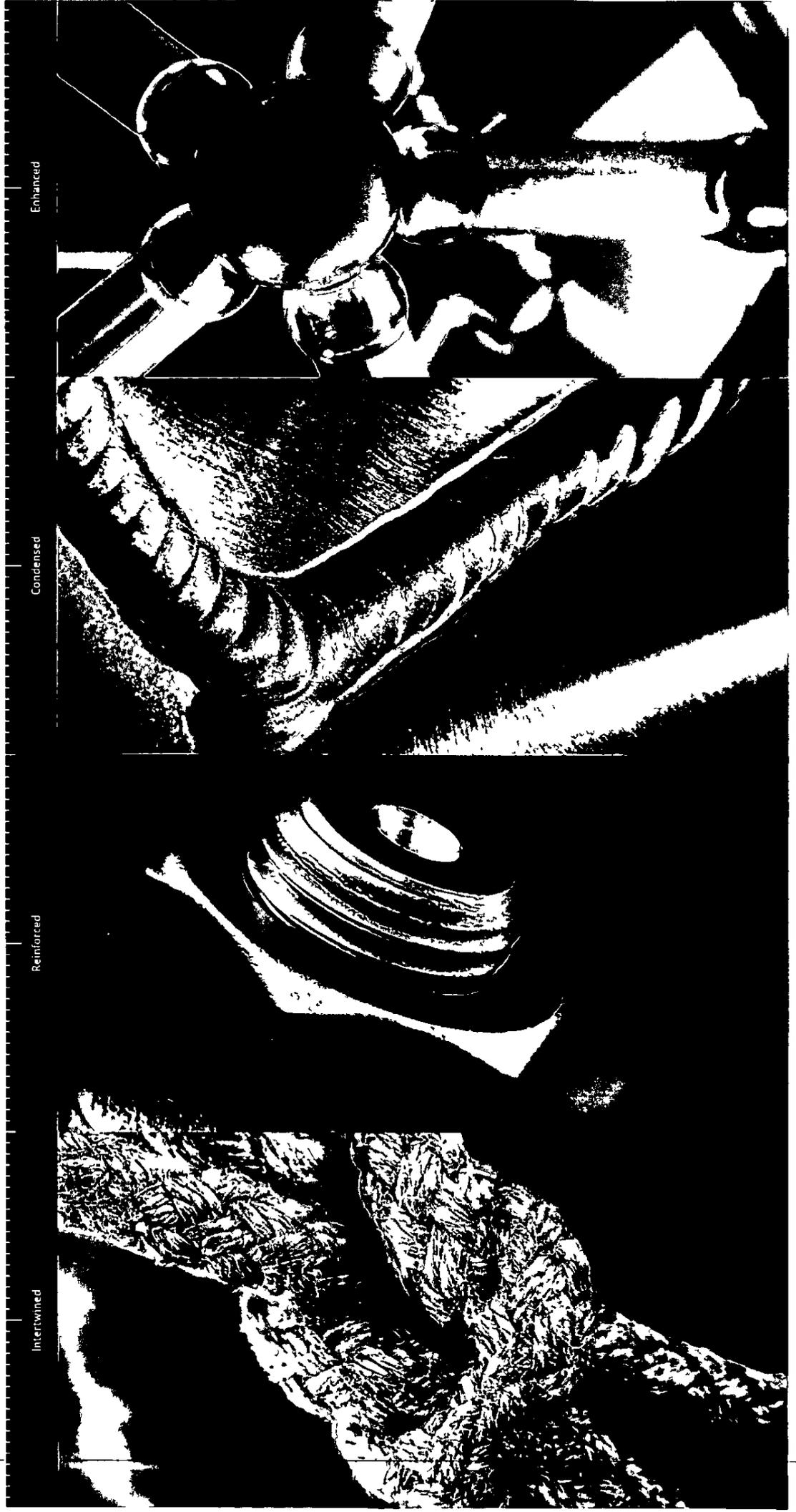
The emoluments paid to the Board of Managing Directors for the 2014 financial year totalled € 892 thousand (2013: € 1,263 thousand). Deutsche Hypothekbank does not have a stock option programme.

Emoluments for the members of the Supervisory Board

The Supervisory Board received a fixed payment of € 111 thousand (2013: € 108 thousand) including VAT.

Shared **success** through tight **collaboration**

Regardless of the size and volume of a project, Deutsche Hypo is a service-orientated provider for its customers. Professional consultancy and an optimal account management represent the foundation of our reliable customer relationships.



Intertwined

Reinforced

Condensed

Enhanced

REPORT OF THE SUPERVISORY BOARD

In 2014, the Supervisory Board and the committees it has created performed the duties required of them by law, under the Bank's Articles of Association and the German Corporate Governance Code. The Board of Managing Directors provided the Supervisory Board with regular, timely and comprehensive information about the business performance, the risk situation, as well as about the strategic alignment and the Bank's business situation. The regular reports included quarterly risk reports prepared in accordance with the provisions of MaRisk as well as monthly reports on the Bank's business performance and income situation. Moreover, fundamental issues, such as adjustments to the business and risk strategies, were thoroughly discussed with the Board of Managing Directors.

The Supervisory Board and the committees advised and monitored management and passed resolutions on the issues which were presented to them and which, according to the Articles of Association and the rules stipulated within their framework, required a decision by these committees. The respective resolutions were always submitted to the Supervisory Board within the appropriate period of notice. Insofar as a resolution was required between meetings, the respective resolutions were made using a written circulation procedure.

In accordance with the provisions of the German CRD IV-Transposition Act, the Supervisory Board reorganised its committees with effect from 1 January 2014. Thus, within Deutsche Hypo there now exist a Lending and Risk Committee, an Audit Committee, an Appointments Committee as well as a Remuneration Committee. The purpose of the committees is to enhance the efficiency of the work of the Supervisory Board. They deal with complex issues and usually prepare the resolutions of the Supervisory Board.

In 2014, the Supervisory Board held four ordinary meetings and one constitutive meeting, each of which was attended by all of the members, with the exception of four separate absences. At the meetings, the respective chairs of the committees, in turn, reported to the Supervisory Board on the work in the committees. In between the meetings, too, information was shared on an ongoing basis. Thus, the Speaker of the Board of Managing Directors was in regular and close contact with the Chairman of the Supervisory Board in order to discuss important issues and decisions with him personally.

As of 28 February 2014, after the resignation of Dr. Johannes-Jörg Riegler, the Supervisory Board consisted of only five members for the rest of the year. On 11 June 2014, the Annual General Meeting appointed Thomas S. Burkle as a new Supervisory Board Member with effect from 1 January 2015. The term of the Supervisory Board mandate of the employee representative, Mr. Frank Wolff, expired as scheduled at the Annual General Meeting. Ms. Andrea Behre took over his position in the Board.

The Lending and Risk Committee, which dealt mainly with the development of the loan portfolio and its risks, met four times during the past year. The Audit Committee met twice, with its meetings focusing especially on the annual financial statement and half-yearly financial report as well as the results of the internal and external audits. Furthermore, the Remuneration Committee had two meetings and

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the Appointments Committee had one meeting. While the Remuneration Committee focuses mainly on monitoring the appropriateness of the organization of the remuneration systems for managers as well as for employees, the Appointments Committee, in particular, submits nominations for suitable Supervisory Board candidates about whom the Annual General Meeting ultimately decides.

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, which was elected by the Annual General Meeting and engaged by the Supervisory Board, audited the financial statements for the 2014 financial year and issued an unqualified audit certificate. It 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 for the members of the Supervisory Board and of the Audit Committee to take questions and provide additional information. The auditor took part in the meetings of the Supervisory Board held to discuss the annual financial statements and in the Audit Committee's meetings and reported on the findings of the audit.

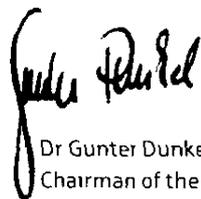
The audit report was discussed in full by the members of the Supervisory Board. The Supervisory Board agreed to the findings of the auditor's report. At its meeting on 20 March 2015, the Supervisory Board approved the management report and the annual financial statements as of 31 December 2014. The 2014 annual financial statements have thus been adopted.

Pursuant to Section 312 of the Joint Stock Companies Act (AktG), the Board of Managing Directors prepared a report on relations with affiliated companies that was likewise audited by the auditor and also awarded an unqualified audit certificate. The dependency report and auditor's report on the latter were approved by the Supervisory Board. Furthermore, the Supervisory Board confirmed that there were no objections to the declaration by the Board of Managing Directors at the end of this report.

The Supervisory Board would like to express its gratitude to the Board of Managing Directors and all the employees for their successful work and great commitment in 2014.

Hanover, 20 March 2015

The Supervisory Board



Dr Gunter Dunkel
Chairman of the Supervisory Board

CORPORATE BODIES

Supervisory Board

DR GUNTER DUNKEL

Hanover

Chairman of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

– Chairman –

ECKHARD FORST

Hanover

Member of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

– Vice Chairman –

DR JOHANNES-JORG RIEGLER

Hanover

Vice chairman of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

until 28 02 2014

THOMAS S BURKLE

Hanover

Member of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

since 01 01 2015

THOMAS KRUGER

Hanover

Member of the Board of Managing Directors of VGH Versicherungen

DIRK METZNER

Hanover

Bank employee

FRANK WOLFF

Hanover

Bank employee

until 11 06 2014

ANDREA BEHRE

Hanover

Bank employee

since 11 06 2014

Committees of the Supervisory Board from 01.01. to 28.02.2014

Lending and risk committee

DR JOHANNES-JORG RIEGLER

– Chairman –

DR GUNTER DUNKEL

ECKHARD FORST

THOMAS KRUGER

– Substitute Member –

Audit committee

DR JOHANNES-JORG RIEGLER

– Chairman –

FRANK WOLFF

THOMAS KRUGER

ECKHARD FORST

– Substitute Member –

Appointments committee

DR GUNTER DUNKEL

– Chairman –

ECKHARD FORST

DR JOHANNES-JORG RIEGLER

Remuneration committee

DR GUNTER DUNKEL

– Chairman –

ECKHARD FORST

DR JOHANNES-JORG RIEGLER

DIRK METZNER

Committees of the Supervisory Board from 01.03. to 11.06.2014

Lending and risk committee

ECKHARD FORST
– Chairman –

DR GUNTER DUNKEL

THOMAS KRUGER

Audit committee

ECKHARD FORST
– Chairman –

FRANK WOLFF

THOMAS KRUGER

Appointments committee

DR GUNTER DUNKEL
– Chairman –

ECKHARD FORST

THOMAS KRUGER

Remuneration committee

DR GUNTER DUNKEL
– Chairman –

ECKHARD FORST

THOMAS KRUGER

DIRK METZNER

Committees of the Supervisory Board from 11.06. to 31.12.2014

Lending and risk committee

ECKHARD FORST

– Chairman –

DR GUNTER DUNKEL

THOMAS KRUGER

Audit committee

ECKHARD FORST

– Chairman –

DR GUNTER DUNKEL

THOMAS KRUGER

Appointments committee

DR GUNTER DUNKEL

– Chairman –

ECKHARD FORST

THOMAS KRUGER

Remuneration committee

DR GUNTER DUNKEL

– Chairman –

ECKHARD FORST

THOMAS KRUGER

DIRK METZNER

Committees of the Supervisory Board from 01.01.2015

Lending and risk committee

THOMAS S BURKLE

– Chairman –

ECKHARD FORST

DR GUNTER DUNKEL

THOMAS KRUGER

– Substitute Member –

Audit committee

ECKHARD FORST

– Chairman –

DR GUNTER DUNKEL

THOMAS KRUGER

THOMAS S BURKLE

– Substitute Member –

Appointments committee

DR GUNTER DUNKEL

– Chairman –

ECKHARD FORST

THOMAS S BURKLE

Remuneration committee

DR GUNTER DUNKEL

– Chairman –

ECKHARD FORST

THOMAS S BURKLE

DIRK METZNER

Board of Managing Directors

ANDREAS POHL

Hanover

– Speaker of the Board of Managing Directors –

ANDREAS REHFUS

Hanover

Executive manager

Michael Muller

Departmental managers

Sabine Barthauer

Raimund Ferley

Markus Henzel

Dirk Hunger

Stefan Leise

Dirk Neugebauer

Stefan Schrader

Ralf Vogel

Carsten Dickhut

Arabel Foth

Dr. Peter Hinze

Dieter Koch

Uwe Menninger

Dirk Schonfeld

Thomas Staats

Dr. Wulfgar Wagener

Public trustees

WOLFDIETRICH KUHNE

Hanover

Degree in business, auditor, tax advisor

– Trustee –

BURKHARD SCHERRER

Hanover

Retired lawyer and notary public

– Deputy trustee until 31.05.2014 –

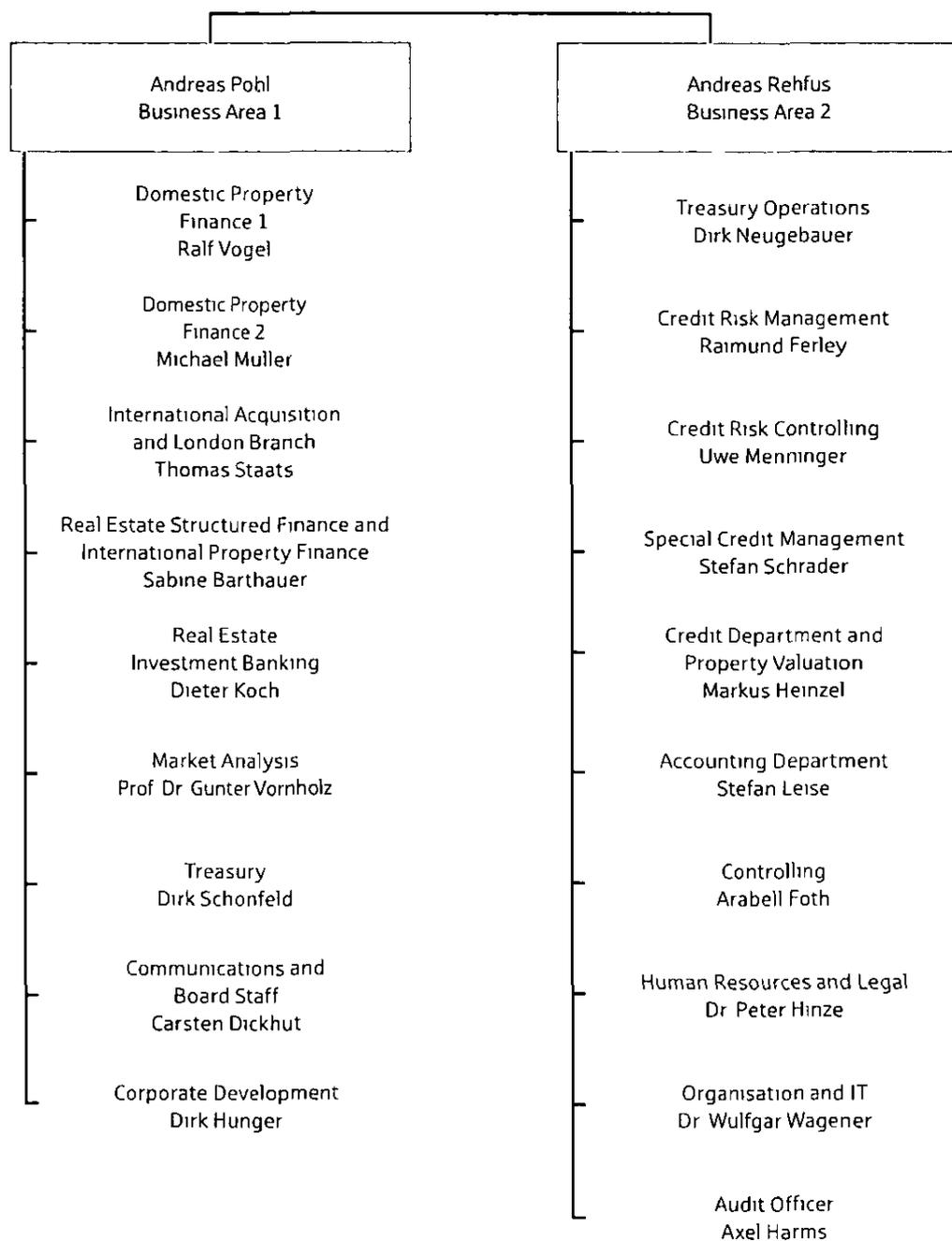
ANDREAS WOLFF

Ronnenberg

Lawyer

– Deputy trustees since 01.06.2014 –

ORGANISATIONAL STRUCTURE



ADDRESSES IN GERMANY AND ABROAD

Management

30159 Hanover

Osterstraße 31 Tel +49 511 3045-0 Fax +49 511 3045-459 www.Deutsche-Hypo.de

Domestic locations

60311 Frankfurt/Main

Goetheplatz 2 Tel +49 69 2193518-13 Fax +49 69 2193518-15

20457 Hamburg

Brodstrangen 4 Tel +49 40 37655-310 Fax +49 40 37655-305

30159 Hanover

Osterstraße 31 Tel +49 511 3045-591 Fax +49 511 3045-599

80538 Munich

Widenmayerstraße 15 Tel +49 89 512667-0 Fax +49 89 512667-25

Foreign locations

UK London EC2V 7WT

One Wood Street Tel +44 207 4294700 Fax +44 207 4294701

France 75002 Paris

23, rue de la Paix Tel +33 1 550484-85 Fax +33 1 550484-89

The Netherlands 1077 XX Amsterdam

Strawinskylaan 625 Tower B, Level 6 Tel +31 20 6914551 Fax +31 20 6919811

Poland 00-021 Warszawa

ul Chmielna 25 Tel +48 22 8280253 Fax +48 22 6924428

Supervisory body

European Central Bank (ECB) Kaiserstraße 29 60311 Frankfurt am Main

Bundesanstalt für Finanzdienstleistungsaufsicht Graurheindorfer Straße 108 53117 Bonn

GLOSSARY

Backtesting

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

Cost-income ratio (CIR)

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

Credit Default Swap (CDS)

CDSs belong to the group of credit derivatives. In this case, the secured party transfers only the isolated credit default risk to the party granting security.

Credit spread risk

The risk of potential changes in value that arises if the individual credit spread of the issuer, borrower or debtor, which is used in the context of a market assessment of the position, changes.

Derivative or derivative financial instrument

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

Expected Loss (EL)

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

IFD risk class default (Non performing loans – NPL)

This refers to loans for which the debtors have already fallen into arrears in fulfilling their contractual obligations.

Confidence level

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

Deferred taxes

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

PfandBarwertV

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

Rating

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

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Risk-bearing capacity

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

Scoring procedure

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

Hedging instrument

Derivative or non-derivative financial instruments where it is expected that their fair value or cash flows will offset changes to the fair value or cash flow of a designated basic transaction in an effective hedging relationship

"Using Synergies in the Group" (SIGN)

An efficiency improvement programme launched at Deutsche Hypo in 2012. As well as cost optimisations, closer ties to NORD/LB are envisaged through procedural and methodological adjustments

Spread

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

Stress testing

Future analysis that institutions apply in addition to the regular risk control mechanisms and with which they simulate the impact of unusual but potentially possible events

Swap

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

Total Return Swap (TRS)

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

Unexpected Loss

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

Value-at-risk (VaR)

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

Waiver provision

Exceptional provision pursuant to section 2a German Banking Act (KWG), old version, that enables banks affiliated to the group to be exempted from the minimum capital requirements, the requirements relating to large exposure reports as well as the requirements for proper business organisation pursuant to section 25a (1) KWG, provided the requirements set out in the law are satisfied. The responsibility for these requirements then passes to the upstream institute

DEUTSCHE/HYPO

Member of NORD/LB

Deutsche Hypothekenbank

(Actien-Gesellschaft)

Osterstraße 31

30159 Hannover

Telefon +49 511 3045-0

Telefax +49 511 3045-459

Mail@Deutsche-Hypo.de

www.Deutsche-Hypo.de