DEUTSCHE HYPO
Member of NORD/LB

ANNUAL REPORT 2013

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.- 31.12.2013	01.01.- 31.12.2012	Change (in %)
New business figures			
Commercial real estate finance business	2,662.1	2,513.0	5.9
Domestic finance	2,099.0	1,702.0	23.3
Foreign Finance	563.1	811.1	– 30.6
Funding volume	3,265.7	4,254.1	– 23.2
Mortgage Pfandbriefe	2,725.0	2,311.3	17.9
Public Pfandbriefe	0.0	96.0	– 100.0
Unsecured	540.7	1,846.8	– 70.7

in € millions	31.12.2013	31.12.2012	Change (in %)
Portfolio figures			
Commercial real estate finance business	11,931.7	12,381.3	– 3.6
Domestic finance	7,591.0	7,429.2	2.2
Foreign finance	4,340.7	4,952.1	– 12.3
Loans to local authorities	7,412.5	8,867.1	– 16.4
Securities	10,145.2	10,450.2	– 2.9
Funding capital	29,627.0	32,779.4	– 9.6
Mortgage Pfandbriefe	8,739.2	8,297.9	5.3
Public Pfandbriefe	11,022.6	12,219.4	– 9.8
Unsecured	2,624.1	3,490.7	– 24.8
Other liabilities	7,241.1	8,771.4	– 17.4
Equity *)	1,346.6	1,378.6	– 2.3
Balance sheet total	31,274.5	34,578.2	– 9.6

in € millions	01.01.- 31.12.2013	01.01.- 31.12.2012	Change (in %)
Income figures			
Net interest income	210.4	209.8	0.3
Net commission income	6.0	7.3	– 17.8
Administrative expenses **)	69.9	73.2	– 4.5
Risk result (including allocation Section 240g HGB)	– 83.2	– 72.0	– 15.6
Income from securities and participatory interests	6.5	– 17.1	>100.0
Result from normal operations	64.3	50.4	27.6
Extraordinary result	6.7	– 4.3	>100.0
Interest on investments by silent partners	15.9	17.2	– 7.6
Profit before taxes and profit and loss transfer agreement	55.1	28.9	90.7

in %	31.12.2013	31.12.2012	
Other information			
Cost-income ratio	33.1	34.4	

*) including funds for general banking risks , jouissance right capital and subordinated liabilities
**) including write-downs and value adjustments of intangible assets and tangible fixed assets

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

ANNUAL REPORT 2013

WE HAVE A CENTRE OF COMPETENCE:

Benedikt von Abendroth, Carolin Albers, Ingo Albert, Alois Algermissen, Anne-Kathrin Apel, Elena Argun, Jens Assmann, Wolfgang Aust, Hans-Hermann Baltz, Malgorzata Barbara Baniecka, Angela Bank, Sabine Barthauer, Susie Bassett, Christopher Batke, Isabel Bauke, Jürgen Becksvoort, Michaela Behnsen, Ulrike Behnsen, Andrea Behre, Dana Beitz, Lara Bengsch, Nadja Bengsch, Alica Bergmann, Andreas Bergmeier, Marco Bertram, Olaf Beuleke, Wouter de Bever, Sebastian Biel, Heike Bien, Kathrin Biering, Gunter Bierwisch, Carsten Bläck, Gisela Blümm, Martina Blum, Cornelia Bock, Marianne Böx, Stefanie Bojahr, Andrea Booth, Ines Bornemann, Oliver Boser, Lisa Bosetzky, Jasmin Bothe, Michael Brämer, Kirsten Brandt, Alexander Braun, Jens Breithecker, Anja Brendel, Brigitte Brenning, Iris Brünau, Marc Brune, Volker Brunner, Jochen Bucek, Carsten Bühring, Thomas Stephan Bürkle, Lars Busch, Janina Butterbrodt, José Luis Calderón Martínez, Anne-Isabelle Carbonnières, Juan Manuel Casas Guillen, Petra Casjens, Yvonne Coppel-Tamms, Bettina Cramer, Ursula Czech, Sandra Debbrecht, Katrin-Genevieve Deitermann, Ulrich Deppe, Carsten Dickhut, Frank Dittmann, Daniela Dreier, Beate Droste, Jürgen Eckert, Nicole Edle von Wölfel, Jens Ehlerding, Ernst-August Endrulat, Carina Engelbrecht, Klaus Engelbrecht, Pervin Evelek, Tobias Faust, Matthias Feifer, Raimund Ferley, Christian Fischer, Kai Fischer, Arabell Foth, Eric Mark Fowell, Jörg Franz, Michael Frech, Christine Frenzen, Oliver Frerking, Chiquita Sandra Freudel, Andreas Froebus, Björn Fuhr, Britta Gabriel, Christian Gail, Julio Garcia Garcia, Nikola Gaulke, Michael Gehrig, Melanie Geldmacher, Christoph Gennrich, Maria Germann, Annett Gierschner, Larissa Gieselmann, Michael Glatzer, Melanie Glende, Kristoffer Globig, Susanne Gödecke, Elke Görg, Rüdiger Göricke, Sabine Gößmann, Silvia Golbeck, Katja Gramatte, Claudia Grau, Georg Greive, William Groen, Elke Großer, Detlev Grote, Christian Gudat, Cristina Guilherme, Petra-Ingeborg Haake, Christina Händel, Lars Haftmann, Ralf Hagendorff, James Robert Aikman Hall, Burghard Hanke, Christian Hansel, Dr. Bernd Hansen, Thomas Hansen, Kevin Harmer, Axel Harms, Jan Hartmann, Tina Hartmann, Iris Hauser, Albrecht Heinecke, Stefan Heinitz, Markus Heinzel, Christian Hellwinkel, Birger Helm, Heini Katariina Hemminki, Irene Henning, Janina Herrmann, Miriam Herzog, Janos Hielscher, Ralf Hinrichs, Dr. Peter Hinze, René Hodko, Achim von Hoegen, Anne-Kathrin Hoepfner, Raimo Höpfner, Christoph Hötzel, Nils Hoffmann, Monika Hofschulte, Marcel Holk, Karin Hornbostel, Dario Horst, Simone Huch, Klaudia Hüskes, Thomas Hundertmark, Dirk Hunger, Tanja Hußmann, Malte Ilginnis, Axel Intemann, Peter Jabs, Anna-Dorothea Jäger, Amely Jessop, Thorsteinn Jonsson, Ute Jürges, Frank Junge, Georg Kaisler, Dirk Kallikat, Christina Kanning, Gudrun Karges, Brit Kaufmann, Melanie Kautzner, Kerstin Kelm, Dorothea Kind, Kristina Kirchner, Andreas Kirschner, Jürgen Klebe, Lutz Klinkmann, Florian Knaul, Tobias Knoche, Detlef Koch, Dieter Koch, Gerald Kölle, Heiko Kollmann, Jörg Kopp, Jutta Carola Kopp, Wolfgang Koppert, Renate Koppitz, Gabriele Kornweih, Stefanie Kortmann, Stefan Kriegs, Ulrich Krogmeier, Regina Kubina, Elke Kücken, Roger Kücken, Frank Kühne, Silke Kues, Marcel Kujawski, Andrea Kuschel, Eike Oliver Laase, Bernd Lademann, Thomas Lang,

OUR STAFF

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

CONTENT

In 1932 a Danish carpenter invented the world's most famous stacking brick. Few toys have ever united as many people, generations and of course also bricks as this Scandinavian classic.

Teamwork = (Fairness + Solidarity) x Communication

In its commercial real estate financing Deutsche Hypo concentrates on regions with a strong real estate portfolio and positive long-term prospects. The strategic target markets are Germany, France, Benelux, UK and Poland. At its locations in Germany and abroad the Bank offers a pronounced local know-how and many years of experience. In conjunction with their colleagues at the head office in Hanover, the agents realise tailor-made financing solutions for their customers. The basis of these financing activities is the established Pfandbrief business, by means of which the Bank ensures long-term stable funding. Successful communication and perfect teamwork make an essential contribution to success in the real estate financing and capital market business.

FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Customers
and Business Partners of Deutsche Hypo,

Change itself is not the only challenge the for individual credit institutions. The speed at which it has occurred over the last ten years, particularly in the area of Landesbanks, is particularly difficult. It is enough to recall the discontinuation of the “guarantor liability” (Gewährträgerhaftung), the historic financial and economic crisis and last but not least the subsequent wave of regulation that continues.

The ability of the NORD/LB Group to overcome these challenging times is proof of the strength and resilience of our diversified business model. From the very beginning, the decision to do business in various sectors has paid off. This has let a negative cyclical impact in one business segment be balanced out by the profits in another one.

Deutsche Hypo has developed into an important source of earnings in the NORD/LB Group. Our centre of competence for commercial real estate finance had impressive results in financial year 2013. Furthermore, Deutsche Hypo has now positioned itself exceptionally well in the commercial real estate finance market and is also one of the top addresses in Germany for commercial real estate finance. By successfully concluding transactions such as the framework agreement with the Bayerische Versorgungskammer in September 2013, we continue to prove our innovativeness.

The implementation of the efficiency improvement programme through 2016 also moved along very well. On the one hand, it has been possible to integrate Deutsche Hypo more tightly into NORD/LB and leverage synergies as a result. On the other hand, Deutsche Hypo’s administrative expenses have already fallen significantly. The Bank has a more efficient structure and is headed in the right direction to achieve its ambitious income and cost objectives over the next few years. Overall, Deutsche Hypo can look back on a very successful financial year 2013.

Many things suggest that Deutsche Hypo will continue its positive development in 2014. It will not only solidify its market position and significance for the NORD/LB Group, but also continue to present itself as an attractive financing and business partner for you and your projects.

With best regards,

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

FOREWORD BY THE BOARD OF MANAGING DIRECTORS

Dear Customers
and Business Partners,

Like other companies, Deutsche Hypo's future viability also greatly depends on the sustainability of our business model. Only if you have defined a clear strategic orientation, offer the right products and are active in the right markets will you have long-term success. No less important is the way we run our business. Since this has a major impact on the Bank's most important asset: its relationship to you, our customers and business partners. This perspective has caused us to take timeless values and attributes to derive future formulas that describe how we can solidify our partnership and simultaneously ensure our joint success. The formulas for the future are a recurring theme in our Annual Report 2013.

The annual year 2013 has once again been a very special one – particularly for banks: The banking sector had to balance the tension of increased regulation, an improving economy and an historic low interest phase. Even if the direct after-effects of the financial and economic crisis continually subside, the financial sector continues to be in transition and closely monitored by regulators and the public. As a real estate financier, we are also confronted by numerous changes, whether they consist of new regulatory requirements, new competitive structures or internal optimisation processes.

In this challenging environment, Deutsche Hypo achieved the best result in the Bank's history in 2013. Major drivers of this positive development were the ongoing high operating income and a significant reduction in the risk provision for the commercial real estate finance business. At the same time, we succeeded in substantially lowering our administrative expenses – with the successful implementation of our efficiency improvement programme from 2012 bearing fruit. Furthermore, our capital and liquidity situation continued to improve. We can be very satisfied with the course of financial year 2013.

Deutsche Hypo remains a sought-after address both on the real estate financing and also the capital market. To this end, we again demonstrated our strong funding basis as a successful Pfandbrief bank last year and issued securities with a volume of just under € 3.3 billion, of which € 2.7 billion were made up of Mortgage Pfandbriefe. This enabled us to fund at comparatively favourable terms and by doing so to reinforce our competitive position in the commercial real estate financing business.

from left: Andreas Pohl, Andreas Rehfus

Due to investors' uninterrupted interest, the major commercial real estate markets in Europe will maintain their positive trend. Germany will continue to attract the greatest demand and in all likelihood will repeat the achieved transaction volume of about € 30 billion in 2013. On account of these good market prospects, our stable earnings and our excellent customer relationships, we are generally confident that 2014 will follow in the footsteps of the successful year in 2013. Therefore, Deutsche Hypo's formula for the future has a plus sign in front of it.

Above all we would like to express our heartfelt thanks to you, our customers, investors and business partners for the confidence that you have had in us for many years. We assure you that Deutsche Hypo will support you as the same reliable and innovative financing partner it has always been, and we look forward to much joint success in 2014 as well.

Yours faithfully,

Andreas Pohl Andreas Rehfus

THE YEAR 2013 AT A GLANCE

15 January 2013

Deutsche Hypo successfully issues a mortgage Pfandbrief in benchmark format with a volume of € 500 million. The five-year Pfandbrief offers a coupon of 0.875 %. In particular, there was high demand for the Pfandbrief in Germany and the German-speaking area. The order book was oversubscribed by almost 20 %.

6 May 2013

Deutsche Hypo presents a study on the development of the real estate investment market. According to it, the recovery of the real estate investment market in Germany will continue. A critical factor for this is in particular that the reputation of Germany as an investment location continues to improve internationally.

29 May 2013

Deutsche Hypo and NORD/LB sign a control and profit and loss transfer agreement. The conclusion of the control and profit and loss transfer agreement ensures a closer interlinking of the parent and subsidiary, and will simplify collaboration internally.

31 May 2013

The rating agency Moody's lifts the long-term ratings of Deutsche Hypo. The reason for this is mainly the conclusion of the control and profit and loss transfer agreement.

1 June 2013

Deutsche Hypo no longer has an office in Madrid due to the increasing focus on the defined core business regions of Germany, the UK, France, Benelux and Poland. In March, Deutsche Hypo streamlined its activities in Germany and closed its Dusseldorf office as planned.

3 June 2013

Deutsche Hypo issues another benchmark mortgage Pfandbrief in the amount of € 500 million. The Pfandbrief has a term of seven years with a coupon of 1.375 %. The investors include central banks, corporate banks, asset managers, funds and insurance companies in the German-speaking zones, central Europe and Asia.

27 June 2013

The cornerstone is laid for the future headquarters of Deutsche Hypo in Osterstraße in Hanover. Numerous guests, including local politicians, took part in the event.

1 July 2013

Thomas Krüger is appointed to the Supervisory Board of Deutsche Hypo, effective 1 July 2013. The 61-year-old physicist has been a member of the Board of Managing Directors at VGH for five and a half years and is considered a long-standing capital market expert.

4 July 2013

Deutsche Hypo publishes a study on the significance of the refurbishments in the commercial real estate market. The modernisation and renovation of retail and office properties offers enormous potential for growth according to the study. The reason for this development is primarily the ageing of existing buildings.

29 August 2013

Deutsche Hypo announces its half-yearly financial result. The Bank is able to improve its result from ordinary business activity in the first half of 2013 as compared to the same period from the previous year. Above all in commercial real estate finance, income rises significantly. This again underlines Deutsche Hypo's good market position.

23 September 2013

Deutsche Hypo publishes the study "Prospects for the retail real estate investment markets in Germany". The study finds that classic retail will also lose market share to e-commerce in future and thus grow only slightly.

25 September 2013

Bayerische Versorgungskammer will invest in loans that were acquired by Deutsche Hypo in the future. The focus of the joint awarding of loans is office and retail real estate as well as selected residential portfolios in Germany. The strategic collaboration with Bayerische Versorgungskammer expands Deutsche Hypo's business model and strengthens its market position.

9 October 2013

Deutsche Hypo's booth at this year's real estate trade fair EXPO REAL is again a contact point for many customers and prospective investors. The Bank draws a positive conclusion overall from its appearance at the trade fair. The booth was well filled on three trade fair days.

9 December 2013

Thomas S. Bürkle is appointed to the Board of Managing Directors of NORD/LB on 1 January 2014. He led Deutsche Hypo as Chairman of the Board of Managing Directors for one and a half years and significantly improved the collaboration between the parent company and subsidiary during this time. Andreas Pohl as speaker and Andreas Rehfus will lead Deutsche Hypo from January 2014 as a two-person Board of Managing Directors.

OUR REFERENCES

UK

Type of property:
Office building
Location: London
Customer: 30CP Unit Trust
Financing volume: GBP 78 million

THE NETHERLANDS

Type of property:
Office building
Location: Rotterdam
Customer: Hannover Leasing Wachstumswerte Europa V
Financing volume: € 38 million

FRANCE

Type of property:
Retail and residential property
Location: Paris
Customer: ECP Group
Financing volume: € 28 million

POLAND

Type of property:
Shopping centre
Location: Warsaw
Customer: Irus Ursus sp. z o.o.
Financing volume:
€ 34 million

GERMANY

Type of property:
Office building with ground-floor workshop areas
Location: Frankfurt/Main
Customer: G&L ARS Erste GmbH & Co. KG (a property company of Groß & Partner Grundstücksentwicklungsgesellschaft and Lang & Cie. Real Estate AG)
Financing volume: approx. € 70 million

1 Introduction

The subject of sustainability assumes an important place for us as a commercial real estate and Pfandbrief bank. Our Board of Managing Directors has defined it as an important area of action over the next few years.

This report is a record of our previous activities, which we publish for transparent corporate communication, even at this early stage of our sustainability efforts. It also forms the basis of our future actions. The plan is to integrate the subject of sustainability firmly in the Bank over the medium term and thus in the corporate controlling and in management. This includes organisational responsibility and the intensification of goals and measures. We will communicate their achievement annually in the future.

2 Our concept

Vision of sustainability

We are convinced that economic success must go hand in hand with an intact natural environment and in a society with stable social conditions.

Today, more than ever before, mankind faces joint challenges such as climate change, the financial and economic crisis and an increasing shortage of resources. As one of the leading commercial real estate financiers, we assume particular responsibility for addressing these developments to the extent we can.

For us, acting sustainably means making a contribution through our actions in order to ensure an ecologically intact and economically and socially stable world for future generations over the long term. Sustainable economics for us means the responsible use of resources and energy, particularly in connection with the sustainable construction of real estate.

Furthermore, we would like to assume responsibility as a provider and buyer of products and services as well as an employer and part of society. For this reason, we integrated responsibility and sustainability as central values in our model and anchored them in our sustainability strategy.

Sustainability strategy

The two primary missions are derived from our vision of sustainability:

- Development into a sustainable bank in order to ensure the success and the continued existence of Deutsche Hypo over the long term.
- Contribution of our share to the maintenance of the achieved prosperity for future generations.

This results in the following goals for us:

- We, as an employer, ensure jobs above all in the region of Hanover and prepare for demographic change and the expected shortage of experts by actively developing staff. This lets us retain talent and high potentials while keeping know-how within the Bank.
- We are advocates for society and encourage our employees to become involved. One focal point of Deutsche Hypo's social engagement since 1972 has been its support of cancer research.
- As a user of resources and energy, we are always increasing our ecological efficiency by saving resources, energy and emissions. This helps us save costs and reduce our ecological footprint.
- As a provider of commercial real estate financing and as a Pfandbriefbank, we consider ecological and environmental aspects during the product development stage. This lets us built up long-term trust with our customers and reduce business and reputation risks.

3 Our governance

As Deutsche Hypo, we are obligated to responsible and transparent governance of the Bank in a way that is focused on its long-term success.

With the aid of our governance, we create the policy framework. In the process, we strive to engage in active and ongoing dialogue with our stakeholders. The controlling of Deutsche Hypo is handled in accordance with the requirements of the German Federal Financial Authority (BaFin).

Corporate governance

As a publicly listed company, we are subject to the requirements of the German Stock Corporation Act (AktG). For this reason we regularly publish a declaration of conformity in accordance with Section 161 of the Stock Corporation Act (AktG) in which we report on our compliance with the Corporate Governance Code, as well as a Corporate Governance Report in our annual reports.

Risk management

The handling of risks is an ongoing process in our Bank. Risk management is an indispensable instrument for controlling the entire Bank and for sustainable corporate policy. The risks are continuously reviewed and adjusted, if need be. In our annual and half-yearly financial reports we provide details of the current risks that we see for our company. It is important for us that the processes, in terms of a risk-oriented corporate culture, are lived by all our employees and managers. Therefore, we promote an open risk culture in the Bank.

Compliance

We understand compliance to be the observance of all the applicable requirements and standards. Together with our parent company NORD/LB, we monitor the statutory conditions for securities compliance and for the avoidance of money laundering, economic crime, terrorism financing and other criminal actions. This lets us ensure that our Bank is protected against risks that threaten the going-concern.

Professional warning system / Ombudsman

In addition to the legal and regulatory requirements for our business activities, we have implemented a warning system that both employees and customers can use. This includes the function of an external ombudsman to whom the person providing the warning can turn if suspicious actions involving criminal acts or improper business processes could affect him or her.

4 Our employees

Our employees are a very critical factor for our success. The people working here – our most important resource – are behind everything the Bank does and offers its customers.

It is essential for us to rely on experienced employees with extensive know-how and young talent with fresh ideas. We view the professional development of our employees as a strategic factor for success.

Salary system

Our salary system is focused on sustainable corporate success and uses strategy related incentives in terms of appropriate and effective risk management. Its appropriateness is checked annually. The goal of the salary system is to provide our employees with both an appropriate and attractive salary. The requirements in the Bank Remuneration Code are complied with at all times.

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

Personnel and organisation development

Besides training and seminars, professional development is an important pillar of staff development. For this reason, we support employees who enroll in part-time degree programmes in technical or bank-specific fields. In order to have policies that meet the needs of the Bank and the interests of employees in times of high cost discipline, we began discussions with the Works' Council in 2013 to promote part-time degree programmes.

In order to further develop managers and equip them for the current and future challenges, we started a modular, multi-month leadership development series with a total of 17 participants in the reporting year. Furthermore, we also initiated a process for promoting a uniform understanding of management. In 2013, the designing of an orientation centre moved ahead and negotiations with the Works' Council are under way. To strengthen the interlinking with NORD/LB, two of our employees have been taking part in the Group-wide qualification programme for risk management since the autumn of 2013.

Encouraging/attracting the next generation

From the very beginning, we have regularly provided training for bank employees. This training has been expanded to include an international Bachelor of Arts course of study, which is offered in cooperation with Leibniz University (Fachhochschule), Hanover. We had 11 trainees and work-study students in 2013. The training cooperation project with NORD/LB, which was launched in 2009, was continued and enhanced in the reporting year. Trainees from NORD/LB were placed with us in the area of commercial real estate financing in Hanover.

Alongside traditional vocational training, we also offer university graduates the opportunity of participating in graduate training programmes. This attractive offer is used to systematically and practically teach the challenging responsibilities to future generations two trainees completed such a programme in the year under review. In addition, the Bank offers interested school pupils the chance to complete work placements at Deutsche Hypo, providing them with their first insight into the workings of a real estate and Pfandbrief bank. We provided a total of five work placements in the year under review. If need be, we also offer cooperation with students for Bachelor's theses.

Family and work

A work-life balance is very important to us. This attitude is backed up by the Company Agreement to 'Promote the Combination of Family and Work'. Since 2008, we have offered nursery places in combination with an external service provider, holiday childcare, emergency care facilities and elderly care for employees.

Another step taken to promote a work-family balance was taken by us and the Works' Council when we concluded a Company Agreement on alternating telework. According to it, employees have the opportunity of doing a portion of their work at home under certain conditions. This offer was already used by 18 employees in the year under review.

Besides the agreement on work and family, health management for our employees is important for us. A building block here is the Bank's health advisory service. In this area, we have been working with an external service provider since 2009. Furthermore, we offer all employees above the age of 45 a medical checkup and health coaching every three years for preventive purposes.

Cooperation with the Works Council

In addition to the aforementioned aspects, there were many other subjects that we negotiated and completed with the Works' Council in the year under review. Above all, we would like to mention a settlement of interests and a social plan in connection with the SIGN project. We would like to thank the Works' Council for the trust-based, constructive working relationship and its professional cooperation in various challenges.

	31.12.2013	31.12.2012	31.12.2011
Employees			
Number on average over the year	410	420	398
Employee structure			
Trainees	11	13	13
Average age	43.5	43.0	42.0
Other			
Illness rate	4.49	3.17	2.54
10-year service anniversary	7	11	18
25-year service anniversary	4	7	10
40-year service anniversary	2	3	3

5 Our economic responsibility

Economic responsibility for us means focusing corporate management on long-term success. This primarily relates to the treatment of our customers.

As a commercial real estate financier, we are convinced that the future belongs to sustainable real estate. The sustainability of real estate extends from resource-protecting and environmentally friendly construction to sustainable operations and environmentally friendly reconstruction and renaturation – so-called refurbishment.

Commercial real estate finance business

As a commercial real estate financier in the core markets of Germany, UK, France, Benelux and Poland, we have a customer base of a few thousands of professional and strongly capitalised real estate investors as potential customers. It is important to treat our customers as equal partners. We can provide our expertise in many ways. This ranges from customised portfolio and project financing to consulting and syndication expertise. For this reason, it goes without saying that we develop solutions with our customers if there are disruptions in the course of the business relationship. That is the reason for our "Special Credit Management" department.

One part of our concept is to connect high quality requirements with financing and to only conclude new business with a prospect for success. Sustainable aspects are already being integrated into the risk assessment at the present time. If a property is planned sustainably, the risk e.g. of a vacancy is lower. For our sustainable core business, we assess exposure within the scope of our risk management according to economic, building-regulatory, ecological, social and ethical aspects. With this integrated approach, we want to identify business and reputation risks early on and management them responsibly. As a result, we also make a contribution by giving our portfolio management a future-oriented focus. At the present time, we cannot yet quantify the quantity of sustainable aspects. However, we are working on a disclosure for the future.

In accordance with this basic attitude, we are also developing financing guidelines for branches that have higher risk potential. Accordingly, we passed two financing guidelines for controversial sectors in November 2012 and will no longer have any business relationships with companies in the defence or pornography industry.

6 Our environment

It is our declared goal to keep the negative ecological impacts of our business activity as low as possible.

For this reason, we consciously try to use as little energy and materials as possible in order to reduce our ecological footprint. Due to our expertise in the financing of commercial real estate, we forecast that the future belongs to ecologically optimised real estate and this offers a good basis for increases in value.

Deutsche Hypo buildings – old and new

As one of the leading commercial real estate financiers, we would like to set a good example. After deciding to move our employees in Hanover to one office, we leased a high-quality ecological building in the centre of Hanover. In September 2011 we presented the plan for a new building at the EXPO REAL in Munich. In the lease agreement, it is agreed that at least the silver standard from the Germany Sustainable Building Council (DGNB) must be achieved. As the future main tenant, we are even striving for the gold standard.

With our move, which is planned for the autumn of 2014, we will move ahead with the publication of an environmental report. Until then we will continue to make a contribution to the environmental friendliness of our employees in the current office space. That is why there are only reusable dishes throughout the office space. The consumption of paper has also been massively reduced since the beginning of 2012 by pre-setting the printers to double-sided printing.

In order to keep our employees' ecological footprint as low as possible, we have taken various measures. Each employee has the opportunity to purchase a discounted job ticket that he can use for the trip to work with public transport. At the present time, roughly 70 % of the employees in Hanover take advantage of this option.

For our new office building in Hanover we consciously did not include employee parking spaces for private usage in the plans. Instead, covered bicycle spaces are planned for employees. Furthermore, our employees are encouraged to choose economically and ecologically beneficial means of transport when planning business trips.

7 Our corporate commitment

As a company in the NORD/LB Group, Deutsche Hypo feels connected to the north and particularly the region of Hanover.

For us, conscientious corporate governance goes beyond the actual business activity and also includes the assumption of social responsibility. Due to clear corporate principles and for the better integration of our employees, we act as a social promoter to an appropriate extent for the size of our Bank.

Price ceremony 2014:

The price recipients on the occasion of the ceremony (from left:) Prof. Dr. Christopher Baum, President of the Hannover Medical University, Prof. Dr. Alexander Knuth, recipient of the Johann-Georg-Zimmermann medal, Prof. Dr. Clemens Schmitt and Dr. Soyoung Lee, recipients of the Johann-Georg-Zimmermann research prize, Andreas Rehfus, Member of the Board of Managing Directors of Deutsche Hypo and Prof. Dr. Michael Peter Manns, Chairman of the Jury of the Johann-Georg-Zimmermann-prize.

Johann-Georg-Zimmermann Association

We attach particular importance to the improvement of health care in Germany. Cancer research is the focal point of our research. The Johann-Georg-Zimmermann prize was created for the 100-year anniversary of our Bank and has now existed for more than 40 years. Each year, medical faculties from Germany, Austria and Switzerland are asked to name scientists that they think have performed exceptional or praise-worthy work in cancer research. A scientific council reviews the recommendations and chooses the winner for the Johann-Georg-Zimmermann research prize – for young junior researchers on the basis of their current scientific work – and the Johann-Georg-Zimmerman medal for – one researcher, scientist or non-scientist who has been especially dedicated to the fight against cancer. The research prize is endowed with € 10,000 and the medals with € 2,500. From the majority of the annually submitted papers, it is clear that the Johann-Georg-Zimmermann prize has resonated and is now widely accepted. Since 1972 we have awarded € 800,000 in prize money. The Johann-Georg-Zimmermann prize is one of the most well-known and best-endowed cancer research prizes in Germany.

Christmas Wishing Tree

Since 2010, Deutsche Hypo's employees have been organising a Christmas wishing tree. The idea is to fulfil the Christmas wishes of children and young people at the "Güldene Sonne", a pedagogical-therapeutic facility in Rehburg-Loccum, not far from Hanover.

The wish lists from the children are sent by the "Güldene Sonne" and hung on Christmas trees at both of Deutsche Hypo's Hanover offices. Each employee may take down a wish. All of the presents cost approximately € 20 and this year range from toys and MP3 players to perfume and cuddly blankets. While 45 children received presents in 2010, the number increased to 75 in 2011 and 2012. At the 2013 Christmas celebration, 100 presents were given. Overall, our employees spent around € 2,000 of their own money on these gifts.

The "Güldene Sonne" works in close cooperation with the children and young people's psychiatric unit at Hanover Children's Hospital. The children and young people who live at the centre have often had to leave their home after experiencing domestic violence, problem relationships or even alcohol and drug abuse.

Other business

As an employer in the region of Hanover, we also provide non-bureaucratic and spontaneous aid if internally there is an opportunity. As a result, we were able to exchange the hardware in our company at the beginning of 2012 by giving a total of 80 computers to schools in Hanover for free.

A travelator consists of the metal elements familiar from escalators arranged as a flat surface. Stepping on a modern travelator increases your speed by a factor of 1.8, thereby ensuring smooth logistics at large airports as well as in shopping centres.

Perspective = Changing Competition x (Trust + Sustainability)

Deutsche Hypo is always adapting to the rapidly changing market environment. In 2013 the intensity of competition as well as regulatory and supervisory requirements increased sharply. Actively facing up to this provides a competitive advantage. Moreover, the topic of sustainability is increasingly a social focus. In order to create long-term positive prospects, Deutsche Hypo integrates sustainability into corporate management and thereby contributes to a stable environment for subsequent generations.

MANAGEMENT REPORT

The figures in the tables and charts in the management report are expressed in thousand euros (€ thousand), million euros (€ million) or billion euros (€ billion). It should be noted that the amounts and percentages quoted in the tables, charts and text are rounded figures, resulting in rounding differences in some cases.

Fundamentals of the Bank

Deutsche Hypo's business model

Formed in 1872, Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (Deutsche Hypo), is a renowned German Pfandbrief bank. It is 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. Deutsche Hypo views itself as a German real estate bank with a European focus and is a reliable partner that stands behind its customers. The strategic target markets are Germany, Great Britain, France, Benelux and Poland. It has its headquarters in Hanover and is also present in Hamburg, Frankfurt, Munich and Nuremberg as well as Amsterdam, London, Paris and, since 2014, Warsaw. The offices in Dusseldorf and Madrid were closed as planned in the past financial year. Deutsche Hypo is also the major issuer of mortgage Pfandbriefe in the NORD/LB Group. It funds its credit business primarily on the basis of the German Pfandbrief Act (Pfandbriefgesetz).

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

The core business area is commercial real estate financing. In this area, Deutsche Hypo combines the financing for customers that primarily generate their cash flow from real estate or regularly make significant real estate investments. The core business area makes a major contribution to the result of the bank and now generates over 80 % of Deutsche Hypo's net interest income, which is particularly important for the performance of the Bank's earnings.

In the capital market business, Deutsche Hypo bundles the public sector financing, which is primarily done with top rated counterparties and with the primary goal of generating good returns with term-congruent funding. Deutsche Hypo is successively reducing the public sector finance portfolio. The Bank does business in securities, money markets and derivatives with banks and in funding, for example, in the form of Pfandbriefe or other registered bonds.

The external factors that Deutsche Hypo encounters and has to react to are primarily the economic and sector environments. In particular, the development of the commercial real estate target markets has a significant impact on the new business and the risk provision in the real estate finance business. In addition, changes in the repayment and extension behaviour as well as changes in connection with the reduction of the NPL portfolio as well as the holding period of real estate and the date of sale for projects significantly influence the real estate finance portfolio. The way in which the financial markets develop has an impact on the funding possibilities, the controlling of liquidity and any need for write-downs in relation to the capital market portfolio. Furthermore, regulatory framework conditions should be mentioned as an external factor that can affect Deutsche Hypo's business development and earnings.

Group affiliation

Deutsche Hypo is a strategic participatory interest of NORD/LB which holds 100 % of its shares. From a risk point of view, Deutsche Hypo represents a material participatory interest of the NORD/LB Group. Deutsche Hypo is included in NORD/LB's consolidated financial statements. NORD/LB's consolidated financial statements as of 31 December 2012 were published on 28 May 2013 in the electronic federal gazette.

In May 2013 Deutsche Hypo and NORD/LD signed a control and profit and loss transfer agreement, which entered into force retroactively on 1 January 2013. Based on this contract, Deutsche Hypo is required to transfer its profits to NORD/LB. At the same time, NORD/LB is required to compensate for any loss at Deutsche Hypo. The control and profit and loss transfer agreement creates a fiscal tax unit.

The signing of the control and profit and loss transfer agreement is a major milestone that ensures an even closer interlinkage of the parent and subsidiary in contractual form as well. Among others, it makes collaboration in the leveraging of synergies and efficiencies easier. As a result of the control and profit and loss transfer agreement, the Group parent makes a clear commitment to Deutsche Hypo. Commercial real estate finance is and remains one of the most significant business segments in the NORD/LB Group.

The profit and loss transfer means that Deutsche Hypo reports an annual result of zero. Against this backdrop, the report will focus on the result from normal operations and the result before taxes and the transfer of profits.

Deutsche Hypo's goals and strategies

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

Deutsche Hypo's goal is to shift the relevance of the two business areas further in the direction of the commercial real estate business. The aim is to maintain the reputation as a professional and high-performing competitor for attractive financing on the German domestic market. A selective strengthening of the market position in Germany and abroad is also taking place in a way that is acceptable in terms of risk. In the future, there will be an even more intensive focus on the defined strategic target markets. At least 60 % of the new business will also be acquired in Germany in the future, as it is the Bank's home market. The portfolio of real estate finance in the former target regions of the USA and Spain will continue to be reduced in the coming years.

In the capital market business, Deutsche Hypo will continue to reduce its public sector finance portfolio. New business in the capital market business will be pursued solely restrictively and will primarily be used for liquidity, cover pool and bank management.

In the NORD/LB Group and thus also in Deutsche Hypo, the leveraging of synergy effects is constantly being checked. Against this backdrop, a closer connection to NORD/LB will be sought through procedural and methodical adjustments. Furthermore, the Bank has been optimising costs with the efficiency improvement programme SIGN – "Using Synergies in the Group" – which was started in 2012. The transfer of the former NORD/LB real estate investments to Deutsche Hypo's portfolio had been completed by the end of 2013 with the exception of a few individual, delayed transfers.

Deutsche Hypo has also planned to increase its sustainability management and implement successive sustainability measures in the coming years. The Bank is convinced that economic success must go hand in hand with an intact natural environment and a society with stable social conditions. The details of this programme have been published in a sustainability report, which was a part of the annual report 2013.

Controlling system

Based on the business and risk strategy, Deutsche Hypo focuses its controlling on a sustainable increase in the Bank's 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, compliance with the regulatory key performance indicators is ensured. The controlling system is completed by the non-financial performance indicators, which 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, there are regular plan-actual comparisons as well as projections for the end of the respective financial year and beyond. Appropriate internal risk management systems have been set up for the Bank's risk measurement. They assess the credit risks, market risks, liquidity risk and operational risks. The analyses are included in a regularly prepared report.

The financial key performance indicators return on risk adjusted capital (RoRaC), return on equity (RoE) and cost-income ratio (CIR) not only show the business income and income before taxes, but are also the key performance indicators for controlling. The CIR is defined as the ratio of the administrative expenses (including the depreciation of property, plant and equipment) to the total of the following income items: net interest income, net commission income and other operating profit. In the calculation of the 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 including capital of silent partners).

Economic report

Macroeconomic and sector environment

Economic performance in Germany and Europe

In 2013 the German economy rapidly recovered from the weakness in the winter of 2012/2013. It was helped by the fact that the Eurozone was able to emerge from the recession in the spring and has continued to recover since then – even if only at a moderate rate. The major pillar supporting the economy in 2013 was again private consumption. In expanding by 0.9 % year-on-year, it made a major contribution to the growth of gross domestic product (GDP). Above all, the labour market improved substantially yet again. The number of employees rose to a seasonally-adjusted amount of almost 42 million at the end of the year and reached the highest level since reunification. In total, real GDP expanded by only 0.4 % year-on-year, however.

The economic performance in the Eurozone provided hardly any surprises in 2013. As expected, the collective currency zone, which had been in recession since the autumn of 2011, was able to slowly climb out on a quarterly basis in the spring, even though the economies in Italy and Spain continued to contract in the second quarter. Despite the ongoing recovery during the year, there was another 0.4 % drop in GDP for the Eurozone as a whole in 2013. Notable stimulus came only from foreign trade, while domestic demand suffered again from a hesitancy to make investments and consume. There was a change in the spring here too, however: both private consumption and gross capital expenditures have posted slight quarterly growth since then. Last but not least, the ongoing stability in financial and capital markets led to an improvement in the economic outlook and thus also to a growing willingness to invest. The required efforts to save in the public and private sector, however, also throttled overall demand in 2013. This also led to ongoing high differences in growth rates within the collective currency zone.

Development of real estate markets

A total volume of USD 549 billion for global investments in commercial real estate in 2013 caused the result to be 18 % higher than in the previous year. Due to the beginning recovery of the global economy and the ongoing weak prospects for returns in other asset classes, investors' interest continues to remain high here.

Germany

The German commercial real estate market achieved an investment volume of € 30.7 billion in 2013 and thus exceeded the result from the previous year by more than 20 %. The stable environment as compared to other European countries, the low interest policies of the ECB and the search for assets with higher yields were major drivers for another increase in sales. Almost half of the volume was produced in office real estate, followed by retail, logistics and hotel properties. The percentage attributable to foreign investors was 33 % of the total volume and was thus relatively low in comparison to the previous year.

Demand for core properties also continued in 2013. Leading German real estate locations – Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne and Munich – could increase their transaction volume by 26 % and contributed a total of € 18 billion. In particular, there were again more portfolio transactions in the past year. Their investment volume increased by a good third to € 7.8 billion. The recent increase in the number of office employees and the advantageous economic forecasts for 2014 contributed to stable demand for space on the office rental market. However, there we strong differences from region to region. On average, the vacancy rate in the real estate strongholds fell from 8.8 % to 8.3 %. Prime rents rose by 1.9 % year-on-year. The retail rental market proved to be solid in 2013 thank to the increase in private and government expenditures. In total, the sale of space in inner-city shopping locations may have only amounted to 492,000 m², which is roughly 17 % below the level in 2012, but the number of concluded rental agreements rose by roughly 3.2 %. Prime rents at the top 10 retail locations increased by 3.2 %.

Europe

The UK continued to remain the top European investment market. Due to the ongoing excess demand in the prime segment and the attractive spreads for returns in comparison to London, there was an increase in investment activity in the regional centres. The majority of the transaction volume continued to be made in office real estate, whereby investors also increasingly included other types of use in their asset decisions in order to diversify portfolio risks.

In France, the economic recovery had yet to take hold in 2013. The weak economic growth and the falling number of employees have led to slow demand in the office rental markets. Retail sales remained stable and continued to lead to high demand for space in 1a locations in large cities. In the meantime, the investment market has shown renewed vitality. The transaction volume was roughly on the level of the previous two years.

The Benelux countries were able to increase their investment volumes from 2012 to 2013. In the Netherlands, transactions increased by 17 %. Since the current market environment makes it possible to purchase real estate at attractive prices, the trend towards sinking investment volumes came to an end. In Belgium, it was possible to post another slight increase of 2 % in the investment volume from the previous year. Demand for properties in the core segment in Brussels remained high so prime returns continued to decline. Luxembourg also saw growth of 21 % in terms of transaction volumes. The prime returns remained stable here.

In Poland, the economic development in recent years continued to be above-average in Europe. Its strong economic position means that the Polish investment market for commercial real estate is increasingly establishing itself for foreign investors. Its share of the transaction volumes totalled approx. 94 % of the total result of € 3.4 billion in 2013. The ongoing high new construction activity in the office and retail sector recently led to a rise in the vacancy rate.

Development of international financial markets

The development of the financial and sovereign debt crisis was also a major issue in 2013. The recovery on financial markets began in 2012 and gained traction in 2013. Only briefly did some distractions occur after the parliamentary elections in Italy at the beginning of the year. In the sovereign debt crisis, there were also encouraging signals in 2013. Roughly three years after its request for aid, Ireland became the first country to leave the European Stability Mechanism. The long-term maturities of rescue loans make it easier for the Irish government to fully return to financial markets. The funding conditions for Ireland greatly improved during the course of the year. Consequently, the yield on ten-year Irish government bonds fell to roughly 3.5 % at the end of 2013, and the first primary market placements around the turn of the year were very successful. All in all, this was a very positive sign, although by no means can it be said that the European sovereign debt crisis is over.

A large portion of the credit for the calm situation on financial markets is due to the policies of the European Central Bank (ECB) since 2012. As expected, the ECB lowered its tender rate over the course of the year. After cutting interest rates in May, the ECB Council reacted surprisingly quickly to the drop in inflation to 0.7 % in November. It reduced the main funding rate to just 0.25 %. However, the ECB refrained from negative interest rates on the deposit facility for the time being and left the interest rate on this facility at zero. Solely the rate on the marginal lending facility was reduced by 25 basis points parallel to this. In addition, ECB president Draghi announced that the ECB will continue conducting the main funding operations as fixed rate tender procedures with full allotment for as long as necessary and at least until July 2015. In the long-term funding transactions with a term of up to three months will be no changes until at least 2015. The ECB is an important stabiliser of the still somewhat fragile markets.

In 2013, many stock exchanges reached new all-time highs. The German stock exchange DAX was at 9,552 on 30 December 2013 and thus almost 1,800 points above the level at the start of the year. Over the course of the year, the yield on 10-year German government bonds moved between a low of 1.17 % at the beginning of May and a brief high of 2.05 % in the middle of September. Afterwards, the yield fell to 1.92 % at the end of the year. The spreads between other European government bonds and German government bonds declined in the course of 2013. In the course of the year, money markets remained largely stable, as expected. Since the middle of January, the 3-month Euribor was just above 0.2 %, and only at the end of the year did it rise somewhat rapidly to almost 0.3 %.

Development of the banking sector

In 2013 the banking environment continued to stabilise overall. The real estate banks still provide financing only very selectively. Some of them have even withdrawn from various foreign real estate markets in terms of new business. The focus on established and functional markets – like Germany – continued. On the other hand, insurers and pension funds have expanded their financing activities for the purpose of diversifying their business. Due to their financial strength, they can offer large volumes of financing, in part alone as the sole lender.

In terms of properties, the focus continued to be on core real estate at prime real estate locations. Due to the rise in competition for these properties, the investment strategies of investors were increasingly reviewed and it was found that qualitatively very good properties at B locations moved back into focus. In total, an increase in the intensity of competition was observed among investors and real estate financiers for prime real estate. In Deutsche Hypo's opinion, this trend will also continue. In particular, this is because the number of available 1a properties will continue to remain limited. Against this backdrop, the Bank anticipates that the market for refurbishments will see a revival in the future.

The requirements that were made on the regulatory and supervisory side have increased significantly. While the adjustments to the risk profile were largely completed, the measures planned for 2014 continue to cast their shadow. This includes the minimum requirements for the design of the restructuring plans (MaSan), Basel III and other equity capital requirements in connection with Basel IV, the 4th revision of MaRisk and the SEPA regulation. Due to the plethora of new requirements, banks were heavily involved in strategic preparatory work. Deutsche Hypo has already taken all the necessary organisational precautions to implement the new requirements on time. However, it should also be noted that the current regulation requirements have been difficult to implement so far on account of incomplete requirements and not yet finished interpretations of the requirements.

Course of business at a glance

Significant factors in the financial year 2013

The financial year 2013 for Deutsche Hypo was defined by slightly positive developments in the external factors and in particular by the ongoing recovery in the overall economy and the banking sector, which Deutsche Hypo was able to take advantage of. This led to a higher volume of new business in commercial real estate finance as compared to the previous year. Furthermore, the economic recovery in the Eurozone had a positive impact on the development of the risk provision. Following the trend that began in the financial year 2012, the risk result in the core business area of commercial real estate finance continued to fall. The economic recovery was also felt in the ratings-related improvement in the quality of the real estate finance portfolio.

In addition, the strongly expansionary monetary policy of the ECB and the connected calming of financial markets had an influence on the positive course of business at Deutsche Hypo. Among others, the somewhat positive mood on money and capital markets led to a reduction in the credit spread risks and to a decrease in hidden charges for securities in fixed assets, credit derivatives and treasury bonded loans (in the following: banking book). It was also possible to use the slightly positive basic mood to reduce the capital market portfolio some more. In addition, the MBS portfolio – which is not one of the Bank's strategic business areas – continued to be reduced. From the sales, the Bank generated a positive income from securities and participatory interests. At the same time, Deutsche Hypo observed an increased change in ratings, as particularly banks and municipal debtors were downgraded by external rating agencies.

The financial year 2013 for Deutsche Hypo was also impacted by the planned implementation of the measures of the SIGN project started in 2012. After the reduction in general administrative expenses and the reduction in staff, the Bank achieved additional success in the past financial year with respect to the significant reduction in administrative expenses sought by 2016. In comparison to the previous year, the relevant general administrative expenses (not incl. depreciation and value adjustments on intangible assets and tangible fixed assets) fell by € 3.4 million to € 69.1 million. Since Deutsche Hypo will be renting a new administrative office in the coming financial year 2014, it was able to sell the building it owned at Georgsplatz in Hanover. This sale led to extraordinary income on account of the hidden reserves connected with it. Due to the implementation of diverse measures in connection with the SIGN project, extraordinary expenses were incurred. In total, extraordinary income amounted to € 6.7 million (2012: € – 4.3 million).

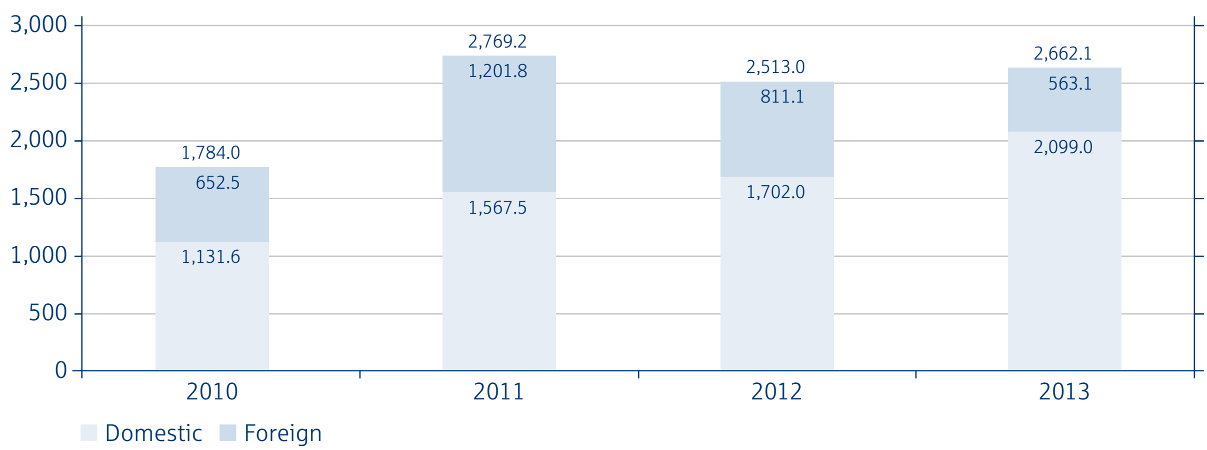
In the past financial year, the described developments led to a result from normal operations of € 64.3 million (2012: € 50.4 million).

Commercial real estate finance business

New business development

Deutsche Hypo was able to take advantage of the strong performance of the real estate market in Germany and achieved an increase in new business particularly in the domestic market. Total new commitments (in Germany and abroad) reached € 2,662.1 million in 2013 and were thus 5.9 % above the volume of € 2,513.0 million in 2012. As a result, Deutsche Hypo's 2012 forecast for a comparable volume of new business in financial year 2013 was slightly surpassed. Domestic commitments rose by 23.3 % to € 2,099.0 million (2012: € 1,702.0 million) due to the outlined positive environment and an ongoing clear focus on the German market. Foreign new business fell by 30.6 % to € 563.1 million (2012: € 811.1 million) due to the ongoing weak economic environment in the target regions. The percentage of domestic loan commitments rose, in line with the trend since 2012, to 78.8 % (2012: 67.7 %) of the total commitments and thus significantly above the strategic target of 60 % of the total volume.

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



The breakdown of foreign new business by strategic target regions shows a fundamentally heterogeneous analysis and assessment of the various foreign markets. In the foreground is the requirement that new business is only pursued with very high requirements for the risk profile and profitability. An increase in new business was achieved in the target region of Benelux. Here, the volume rose from the previous year to € 197.1 million (2012: € 151.3 million). In the important target regions of the UK and France, the new business volume fell year-on-year to € 172.5 million (2012: € 387.2 million), and € 124.0 million (2012: € 242.6 million).

Of the total new commitments in the real estate finance business (domestic and foreign), commercial credit of € 2,236.4 million (2012: € 2,395.5 million) accounts for a share of 84.0 % (2012: 95.3 %). The residential finance business totalled € 425.7 million (2012: € 117.5 million), making up a somewhat higher share of the total new business volume. Within commercial credit, office real estate totalled € 1,260.1 million, accounting for almost half of the new business volume.

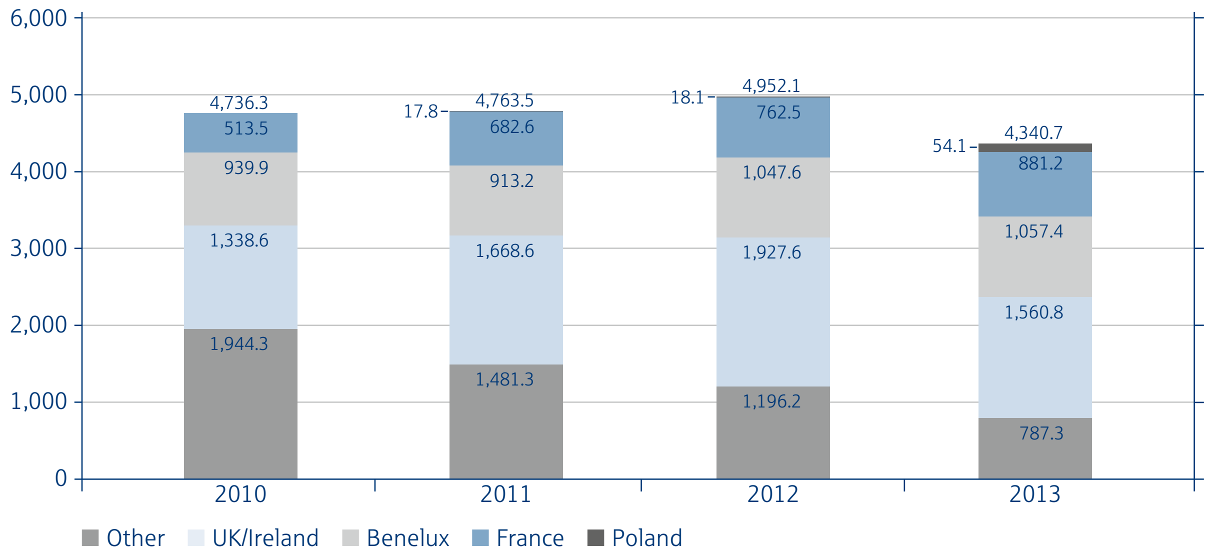
Portfolio development

Despite the increase in new business, the portfolio of real estate financing fell year-on-year by 3.6 % to € 11,931.7 million (2012: € 12,381.3 million). The planned ongoing increase in the portfolio could not be achieved in full due to the very high repayment rate in financial year 2013. Another driver of this development was the more-quickly-than-expected reduction in the NPL portfolio. Furthermore, Deutsche Hypo continues to focus on the further qualitative improvement of the real estate finance portfolio. In particular, the portfolios of financing assigned to poor rating categories decreased in the past financial year. The percentage of non-performing loans fell substantially. With regard to the detailed information on the quality of the real estate finance portfolio, reference is made to the discussion on the analysis of the credit risk within the expanded risk report. The credit exposures disclosed there are not exactly comparable to the balance sheet amount of the portfolio for real estate finance due to the use of nominal volumes including a share of the credit commitments.

In addition, there were credit commitments of € 1,067.8 million as of the reporting date (2012: € 1,169.4 million) that had not yet been valued and had not yet been transferred to the portfolio. The ongoing comparatively good margins in new business led, as expected in the previous year, in total to slightly rising margins on the level of the entire bank portfolio.

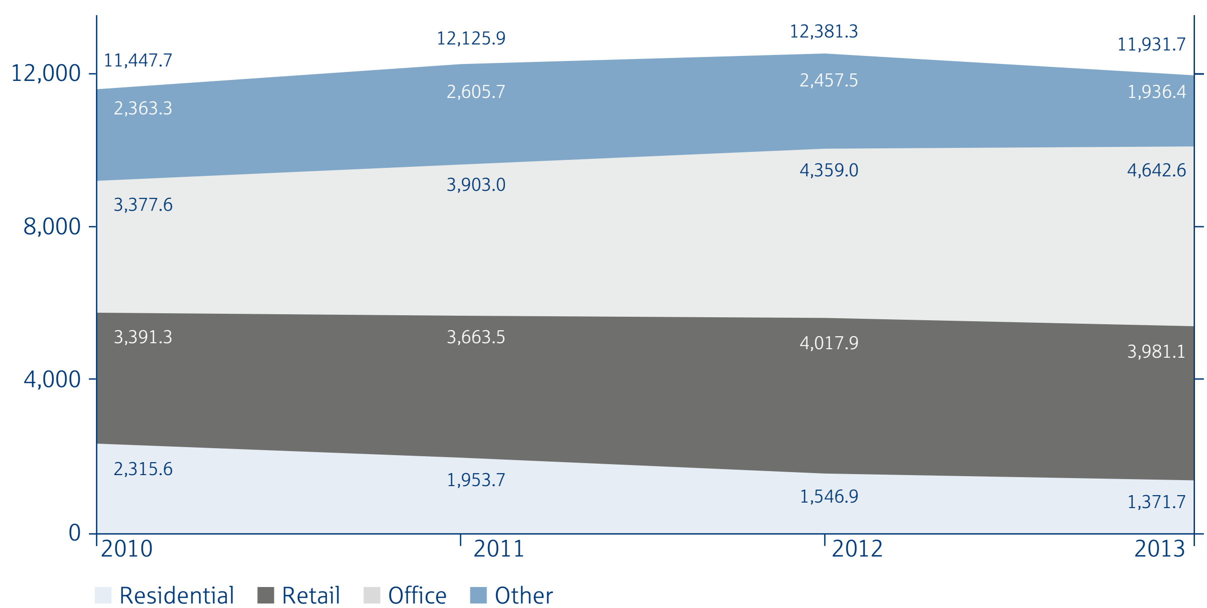
The volume of domestic finance business totalled € 7,591.0 million (2012: € 7,429.2 million). An amount of € 4,340.7 million was attributable to foreign finance business (2012: € 4,952.1 million). The percentage of foreign loans fell year-on-year from 40.0 % to 36.4 % of the total loan portfolio. In the portfolio development, the focus was also clearly on the home market of Germany. In the foreign finance portfolio, it is possible to see the pursued strategy of an intensive focus on the defined target markets of the UK, France, Benelux and Poland. The portfolios of real estate financing in non-strategic regions like Spain and the USA fell, as planned, to € 787.3 million (2012: € 1,196.2 million).

Foreign real estate finance portfolio (in € millions)



In terms of property types, there was significant portfolio growth in office real estate in the amount of € 283.6 million to € 4,642.6 million (2012: € 4,359.0 million). Office real estate continues to represent the main type of property. The portfolio of financing for retail real estate fell slightly by € 36.8 million to € 3,981.1 million (2012: € 4,017.9 million). Residential financing fell by € 175.2 million to € 1,371.7 million (2012: € 1,546.9 million) and the financing of other real estate fell by € 521.1 million to € 1,936.4 million (2012: € 2,457.5 million).

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



Capital market business

The capital market business was defined by a noticeable decrease in volatility on international financial markets over the past financial year. This ensured that Deutsche Hypo, following its strategic orientation, was able to continue the reduction in the portfolio as planned. New business was solely pursued restrictively and was primarily used for liquidity, cover pool and bank management.

The portfolio reductions, particularly in the area of municipal loans, which declined by 16.4 % to € 7,412.5 million (2012: € 8,867.1 million), and in foreign securities, which fell slightly by 2.9 % to € 10,145.2 million (2012: € 10,450.2 million) are becoming visible.

The quality of the capital market portfolio also continued to be on a high level overall due to the rating migrations. Due to the calm situation on international financial markets, credit spread risks and hidden charges in the banking book fell noticeably from the previous year.

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	
	2013	2012*)	2013	2012*)	2013	2012*)	2013	2012*)
Net interest income	210.4	209.8	174.8	168.6	16.0	19.7	19.6	21.5
Net commission income	6.0	7.3	6.2	7.7	– 0.2	– 0.4	0.0	0.0
Administrative expenses **)	69.9	73.2	41.6	42.7	5.8	6.7	22.5	23.8
Other operating income	– 5.5	– 4.4	0.0	0.0	0.0	0.0	– 5.5	– 4.4
Risk result ***)	– 83.2	– 57.6	– 64.9	– 71.0	– 10.5	– 4.5	– 7.8	17.9
Allocation to funds for general banking risks (Section 340g HGB)	0.0	14.4	0.0	0.0	0.0	0.0	0.0	14.4
Income from securities and participatory interests ****)	6.5	– 17.1	0.1	– 3.0	1.1	– 3.2	5.3	– 10.9
Result from normal operations	64.3	50.4	74.6	59.6	0.6	4.9	– 10.9	– 14.1
Extraordinary result	6.7	– 4.3	0.0	0.0	0.0	0.0	6.7	– 4.3
Interest on investment by silent partners *****)	15.9	17.2	0.0	0.0	0.0	0.0	15.9	17.2
Profit before taxes and profit and loss transfer	55.1	28.9	74.6	59.6	0.6	4.9	– 20,1	– 35.6
CIR	33.1 %	34.4 %	23.0 %	24.2 %	36.7 %	34.7 %	>100.0 %	>100.0 %
RoRaC / RoE	7.2 %	3.9 %	14.1 %	12.0 %	0.5 %	5.6 %	<–100.0 %	<–100.0 %

*) The amount from the previous year was corrected. Reference is made to the information in the notes to the financial statements with regard to this. The correction produced a shift in the result components between the capital market business and other business.
**) General administrative expenses, including write-downs and value adjustments on intangible assets and tangible fixed assets.
***) Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in the lending business
****) Write-downs and value adjustments on income from writing up participatory interests, shares in affiliated companies and securities treated as fixed assets.
*****) Interest on investments by silent partners are part of the income statement item “Profit surrendered under partial surrender agreements or a profit and loss transfer agreement”.

The result from normal operations amounted to € 64.3 million as of the reporting date. Deutsche Hypo was able to achieve a significant increase of 27,6 % in the result as compared to the previous year (2012: € 50.4 million). This was primarily due to the ongoing high net interest income with a simultaneously positive development in the risk result for the commercial real estate finance business and the income from securities and participatory interests, while there was also a slight reduction in administrative expenses. The positive result was particularly attributable to the commercial real estate finance business. In this business area, the result from normal operations rose to € 74.6 million (2012: € 59.6 million) due to the ongoing high net interest income and the better risk result.

From an overall bank point of view, net interest income continued to be on a high level at € 210.4 million in the reporting period and was slightly above the level of € 209.8 million in 2012. This development was due in particular to the positive performance of margins and the higher interest-like fee components in the commercial real estate finance business. This can be seen in the net interest income within the aforementioned business area, which was € 174.8 million above the result of € 168.6 million in the previous year. The expected decline in interest income in capital market business due to the strategic reduction in the portfolio was overcompensated as a result.

Net commission income fell slightly from € 7.3 million to € 6.0 million, as expected. Higher commission income in the form of one-off charges and processing fees stood in relation to higher commission expenses for guarantees and guarantees by third parties in the commercial real estate finance business.

Administrative expenses totalled € 69.9 million and were below the level of the previous year (2012: € 73.2 million). The change shows the ongoing success of the active cost management and the implementation of the measures from the SIGN project. These effects were evident across all business areas. Both the personnel expenses and the other administrative expenses were below the level of the previous year. Other operating income was € – 5.5 million (2012: € – 4.4 million). The negative result was mainly due to the contribution made to the restructuring funds for financial institutions (bank levy).

The risk result in the commercial real estate finance business totalled € – 64.9 million (2012: € – 71.0 million). This continued the trend towards a decline in the net expense from the credit business. The development reflected the ongoing improvement in the commercial real estate finance portfolio due to the migration effects in the portfolio, low-risk new business and active portfolio control. The portfolio of loan loss provisions fell in comparison to the previous year. In addition, the result was affected by the repurchase of treasury securities and the changes in the provision reserves. In total Deutsche Hypo had a risk result in relation to the overall bank of € – 83.2 million (2012: € – 57.6 million).

The income from securities and participatory interests was € 6.5 million, significantly above the level of € – 17.1 million in 2012. The development was primarily affected by the reduction of the MBS portfolio, which is attributable to other business on account of its classification as non-strategic business activities. The income from securities and participatory interests mainly included one-off and thus not sustainable effects.

The measures in connection with the SIGN project and the one-off extraordinary effects from the sale of the Bank's own building at the previous headquarters of Deutsche Hypo resulted in an extraordinary result of € 6.7 million (2012: € – 4.3 million). Interest on investments by silent partners was € 15.9 million (2012: € 17.2 million).

From the entire bank's point of view, the result before taxes and profit and loss transfer was € 55.1 million (2012: € 28.9 million). The cost-income ratio (CIR) improved on the Bank level in particular due to the drop in administrative expenses to 33.1 % (2012: 34.4 %). The return on equity (RoE) rose to 7.2 % (2012: 3.9 %) due to the improvement in the result before taxes and the profit and loss transfer. The main driver for this was the positive development in the real estate finance business. The return on risk adjusted capital (RoRaC) performed differently in the two core business areas due to the developments in results. While the RoRaC in the commercial real estate finance business rose to 14.1 % (2012: 12.0 %), this key performance indicator in the capital market business fell to 0.5 % (2012: 5.6 %).

Comparing the development of results with last year's forecast

Deutsche Hypo's economic and sector assumptions that formed the basis of last year's forecast for the development of results were largely correct. The expected slight recovery in the economic development of the eurozone countries, with a somewhat stronger performance in Germany, corresponded to the actual developments more or less. The positive development of the real estate market was expected, though it even exceeded the Bank's expectations.

For financial year 2013, Deutsche Hypo forecast a positive development of its result. This was achieved with a result from normal operations of € 64.3 million (2012: € 50.4 million).

Major drivers for the forecast positive development of the result were supposed to be rising net interest income and declining risk provisions and administrative expenses. This forecast was also based on the assumption of a new business volume that was comparable to the level in 2012 together with an ongoing increase in the commercial real estate finance business. Despite the already described increase in the new business volume, the real estate finance portfolios as of the reporting date fell in comparison to the reporting date in 2012. Nonetheless, the forecast increase in the net interest income in this business area was achieved due to an improvement in margins. The falling net interest income in capital market business due to the reduction of the portfolio corresponded to the expectations in last year's forecast. From the entire Bank's point of view, the forecast increase in the net interest income was achieved. The risk result in the commercial real estate finance business fell, as expected, from € – 71.0 million to € – 64.9 million due to the qualitative improvement in Deutsche Hypo's commercial real estate finance portfolio. The decrease in administrative expenses in connection with the implementation of the measures from the SIGN project was forecast for 2013 and was also seen in the past financial year. Total administrative expenses fell to € 69.9 million (2012: € 73.2 million).

In the commercial real estate finance business, the Bank expected a result that was slightly above the amount of € 59.6 million in 2012. This was clearly achieved with the result of € 74.6 million. In capital market business, the Bank planned a result on the level of the previous year (2012: € 4.9 million). This forecast was not achieved with the result of € 0.6 million, in particular due to the somewhat weaker risk result.

Net assets and financial position

Development of the balance sheet

in € millions	31.12.2013	31.12.2012	Change (in %)
Receivables from financial institutions	3,030.9	4,529.7	– 33.1
Receivables from customers	17,716.3	19,076.2	– 7.1
Securities	10,145.2	10,450.2	– 2.9
Other assets	382.1	522.1	– 26.8
Total assets	**31,274.5**	**34,578.2**	**– 9.6**
Liabilities to financial institutions	6,665.8	8,386.6	– 20.5
Liabilities to customers	9,267.8	9,713.5	– 4.6
Securitised liabilities	13,693.4	14,679.3	– 6.7
Subordinated liabilities	336.0	353.0	– 4.8
Jouissance right capital	83.0	98.0	– 15.3
Finds for general banks risks	14.4	14.4	-
Equity	913.2	913.2	-
Other liabilities	300.9	420.2	– 28.4
Total liabilities	**31,274.5**	**34,578.2**	**– 9.6**
Contingent liabilities	838.2	864.8	– 3.1
Other obligations	1,067.8	1,169.4	– 8.7

The Bank's total assets fell by 9.6 % or € 3,303.7 million from the end of 2012 to € 31,274.5 million (2012: € 34,578.2 million). This development was mainly attributable to the reduction of municipal loans within the framework of the strategic reductions of the portfolio in the capital market business. This reduction, together with decreases in the short-term investment of money, ensured noticeable declines in Deutsche Hypo's portfolio of receivables. Receivables from financial institutions fell by 33.1 % or € 1,498.8 million to € 3,030.9 million (2012: € 4,529.7 million), while receivables from customers totalled € 17,716.3 million (2012: € 19,076.2 million), 7.1 % or € 1,359.9 million below the level on the reporting deadline in 2012. The total portfolio of receivables fell by € 2,858.7 million in comparison to 2012. Of this amount, € 1,454.6 million or roughly half was attributable to strategic portfolio reductions in the area of municipal loans. In accordance with the strategic goal, the portfolio of foreign securities fell by 2.9 % or € 305.0 million to € 10,145.2 million.

The decrease in total liabilities is primarily seen in the drop in liabilities to financial institutions by 20.5 % or € 1,720.8 million to € 6,665.8 million (2012: € 8,386.6 million). Liabilities to customers fell by 4.6 % or € 445.7 million to € 9,267.8 million. In addition, the portfolio of securitised liabilities fell by 6.7 % or € 985.9 million to € 13,693.4 million (2012: € 14,679.3 million). Securitised liabilities represent a share of 43.8 % and continued to be the largest balance sheet item on the liabilities side. In the aforementioned balance sheet items, the portfolios continued to shift in the direction of mortgage Pfandbriefe, which rose year-on-year to € 8,739.2 million (2012: € 8,297.9 million). The portfolio of public Pfandbriefe in circulation fell significantly year-on-year to € 11,022.6 million (2012: € 12,219.4 million). In this development, it becomes clear that the funding in the past financial year took place mainly through the issuing of mortgage Pfandbriefe. Since 2012, there have been almost no issues of public Pfandbriefe.

The reported equity as of 31 December 2013 continued to be € 913.2 million. A resolution was passed at the Annual General Meeting on 29 May 2013 to have the balance sheet profit for 2012 (€ 15.2 million) allocated to other profit reserves. An investment by silent partners in the amount of € 75.0 million as of the balance sheet date last year was converted to capital reserves. The total balance sheet equity capital plus the jouissance right capital, subordinated liabilities and the funds for general banking risks in accordance with Section 340g HGB amounted to € 1,346.6 million and was slightly below the value in the previous year (2012: € 1,378.6 million).

Off-balance sheet liabilities in the form of irrevocable credit commitments fell year-on-year by € 101.6 million or 8.7 % to € 1,067.8 million (2012: € 1,169.4 million). Contingent liabilities fell by 3.1 % to € 838.2 million (2012: € 864.8 million).

Funding

Pfandbriefe and unsecured bonds are the main sources of Deutsche Hypo's funding. The goal is to be able to fund with attractive conditions at any time. This should be achieved as a result of the quality of the cover pools and the ratings of the Pfandbrief associated with this. In the area of unsecured bonds, the Bank's financial standing should ensure this.

Deutsche Hypo issued a volume of € 3,265.7 million of securities in financial year 2013. Of this amount, € 2,725.0 million involved mortgage Pfandbriefe and € 540.7 million unsecured bonds. The ratio of bearer to registered bonds was 87.1 % to 12.9 %. The focus of the issues was on private placements, as in previous years. In the year under review, no structured products were issued. As in 2012, Deutsche Hypo issued two benchmark bonds with five and seven-year terms. Both mortgage Pfandbriefe, which had a volume of € 500.0 million each, enjoyed solid domestic and foreign demand. As a result, the Bank continued to systematically service the benchmark market segment, which will remain an important source of funding in the future. Deutsche Hypo's issues were all easily placeable. This underscores that Deutsche Hypo continues to be viewed as a reliable issuer. In competition with other issuers, Deutsche Hypo was able to rely on a stable and sturdy network of reliable, nationally and internationally active capital market partners. In 2013, the Bank also pursued investor relations activities and took part in numerous investor meetings and roadshows to market the issues. This gives Deutsche Hypo a cost-effective issuing platform for Pfandbriefe, securing a sustainable competitive edge in the lending business.

The Bank's liquidity was ensured at all times in the year under review. In the future, it will be necessary to increase the portfolio liquidity. The selection takes place on the basis of the bank-internal and Group-wide new business criteria and regulatory requirements. Additional information on the Bank's liquidity situation can be found in the section on "Liquidity risk" in the expanded risk report.

In the year under review, Deutsche Hypo – as in previous years – ensured permanent secondary market support for its own securities and purchased a volume of € 118.1 million of these securities in this connection (2012: € 192.0 million). The well-functioning funding ensured that the outflow of liquidity resulting from the purchases could be replaced at any time without difficulty. At the end of the year, the value of the Bank's portfolio of its own issues was € 25.8 million (2012: € 156.7 million).

Rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Long term liabilities	Financial strength
Moody's	Aa2	Aa2	Prime-2	Baa1 Until 31 May 2013: Baa2	E+

The rating agency Moody's raised the long-term rating of Deutsche Hypo to Baa1 in the spring of 2013. All ratings were given a stable outlook. The improvement in the rating is mainly due to the conclusion of the control and profit and loss transfer agreement by NORD/LB and Deutsche Hypo and the increased likelihood of support by the parent company if need be. The rating agency considers that Deutsche Hypo is a 100 % equity investment of NORD/LB and has important strategic significance for NORD/LB as a centre of competence in the Group for commercial real estate finance and for the issuing of mortgage Pfandbriefe.

In September 2013, Moody's changed the outlook for the long-term rating of Deutsche Hypo to "negative". The reason for this was the impact of the ongoing shipping crisis on the NORD/LB Group. As a significant subsidiary, Deutsche Hypo is thus dependent on changes in the rating of NORD/LB. A decision with regard to the negative outlook is expected within the next twelve months.

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

The past financial year 2013 was the most successful in the history of Deutsche Hypo, with a result from normal operations of € 64.3 million. Driven by an ongoing high level of interest income, the positive developments in the risk result for the core business area of commercial real estate finance and the already noticeable effects from the implementation of the SIGN project made a very good contribution to the result in particular.

In addition to the clearly positive development of the result, the commercial real estate finance portfolio continued to improve. Particularly due to a risk-oriented approach to new business and the successful management of non-performing loans, the average credit quality could be improved with respect to the underlying ratings.

The positive developments were rounded out by an increase in the new business volume in the commercial real estate finance area and the scheduled reduction in the capital market portfolio. Due to the positive development of financial markets, the credit spread risks and the hidden charges of the bank book continued to be reduced. In accordance with the strategic orientation of Deutsche Hypo, the Bank was able to carry out both the planned run-off of the portfolio in the capital market business and make additional extraordinary sales, among others, from the MBS portfolio.

Report on subsequent events

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

Forecast, opportunity and risk report

Forecast report

Development of business and general conditions

Forecast of economic development

The prospects for the global economy continuously improved in 2013, according to the research department at NORD/LB. This was also supported by an improvement in the economic data. The momentum of global industrial production picked up noticeably after the weakness around the turn of the year 2012/2013. This was also reflected in the positive global trade figures. Furthermore, the development of most early indicators, last but not least those in the Eurozone, also suggest stronger growth, so the weak global economy can be viewed as overcome.

The German economy has begun another new, strong recovery. Both companies and consumers are looking very optimistically into the near future. Overall, year-on-year GDP growth of 2 % is expected in 2014. Germany, the economic locomotive in the Eurozone, will regain steam as a result. The prospects for the economic growth in the Eurozone have not been this good since 2011. After two years of contracting economic output, GDP should rise in the joint currency zone by a good 1 % in the coming year. Differences between the growth rates in various countries within the currency zone may also remain large this year. But more and more countries in southern Europe are also emerging from the recession and moving towards at least a moderate economic recovery.

Forecast for the development of target real estate market

In 2014, similar to the years before, Deutsche Hypo expects an ongoing rise in global investments in commercial real estate. The increasing confidence of investors should also lead to an increase in investment volume in Europe as compared to 2013. The pressure to invest in core markets such as Germany and the UK is expected to contribute to a rise in investment activity in the recovering crisis countries.

Germany
The expectations for 2014 remain positive. In light of the forecast GDP growth, an ongoing slight decline in the unemployment rate and the ongoing low interest phase, the Bank expects 2014 to be a successful year on the commercial investment market. Deutsche Hypo expects the transaction volume to be at the same level or to rise slightly. The low returns in the prime locations should produce increasing momentum in the value-added segment. Against the backdrop of the good economic situation in comparison to other European countries, confidence in the German real estate market remains high. In 2013, there was another increase in large-volume portfolio transactions, which should continue in 2014.

Europe

As a result of the ongoing economic recovery in the UK, Deutsche Hypo expects increasing demand on the commercial real estate market in the current year. The anticipated rise in employment will cause a further increase in the sale of space in the office sector. The shortage of supply will result in high demand, particularly in London, and rising prices and rents. Falling returns in prime locations are anticipated to cause a shift in investment activity towards B locations and regional centres.

The economic recovery is slowly gaining traction in France and should have a positive impact on the commercial real estate market in the course of the year. Besides a stabilisation of demand on the office lease markets, it is expected that there will be an increase in the purchasing power of private households and a further rise in retail sales. On the investment market, a continuation of the current momentum is expected. Due to the high demand for core properties, prime returns will continue to be under pressure.

Besides the European core markets, investor interest in secondary markets such as Amsterdam, Brussels and Luxembourg should continue to increase in 2014. The Netherlands, despite the fragile economic recovery in all sectors, should see increasing investment. The markets in Belgium and Luxembourg are also profiting from the ongoing economic recovery. The supply of 1a office space in Brussels and Luxembourg continues to be defined by shortages, so the prime rents will stabilise on a high level.

After the Polish economy slowed somewhat in the past year, the forecast for 2014 is significantly more positive. Demand for new and central office space in the large cities, above all Warsaw, will continue to increase against the backdrop of the improvement in the economic environment. Approx. 1,000,000 m^2 of office space are currently under construction. In total, a slightly rising vacancy rate is expected, whereby the opposite development is being seen with older, less central properties.

Forecast for the development of financial markets

Ongoing basically positive sentiment is expected on financial markets in 2014. A lot will depend on how the European sovereign debt crisis develops. If there is turmoil in one of the euro countries, the achieved progress would be quickly forgotten and the markets would return to a more intense crisis mode.

The tapering of the bond purchases by the US Federal Reserve could also lead to a further withdrawal of capital from some emerging markets. A gradual increase in yields is expected for German government bonds over the course of the year, after the very low inflation at the beginning of the year gradually loses its subduing effect. Due to the only moderate economic recovery, weak monetary momentum and very low inflation, the ECB's monetary policy will remain expansive far into 2015. The only weak credit growth in many countries of the Eurozone could again lead to the use of so-called unconventional measures. The ECB will decisively combat an unjustified rise in money market interest rates. For other large central banks (Bank of England, Swiss National Bank), a change of course to a more restrictive monetary policy in 2014 is not yet on the agenda.

Forecast for the development of business

Significant assumptions in the forecast

The Bank'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 future. This includes factors such as new business, the development of the portfolio and the resulting margins.

Economic assumptions on future economic and financial market development are also incorporated into the planning. Furthermore, regulatory requirements – including Basel III – as well as the EU's requirements on the level of the NORD/LB Group are taken into account. The value of the planning is naturally highly dependent on the assumptions used in the planning. Unexpected developments in external or internal factors have a major impact on the Bank's results.

In terms of macroeconomic framework data, planning is based on market mechanisms that are largely fully functional. It is assumed that Deutsche Hypo will have access to funding on a sufficient scale at all times and on the basis of standard market conditions. It is expected that the good condition of the real estate markets and the ensuing increase in the demand for credit could lead to an increase in new business. The costs for the increase in the capital requirements (Basel III) could continue to be compensated by relatively high margins. The Bank assumes a continuation of the positive trend towards a further calming and stabilisation of the international financial and capital markets.

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

- Strategic focus on defined target markets
- Expansion and development of the product range, constant promotion of lucrative, innovative product offers within the framework of customised arrangements
- Continuation of the project development business and strengthening of the business in real estate investment banking (special and structured financing)
- Intensification of syndication to support projects with attractive margins and a comparatively high financing volume. Parallel expansion of the agency function as a service performance for syndications and exit transactions

- Systematic expansion of the business relationships to new partners that invest in portions of loans
- Run-off of the capital market portfolio for a reduction in hidden charges and credit spread risks for solely selective new business for liquidity and cover pool management
- Implementation of the measures that were developed as part of the SIGN project. Intensification of the optimisation of processes and structures as well as the leveraging of synergies in the NORD/LB Group.

Forecast for the course of business

Against the backdrop of the expected slight recovery of the economy in the target real estate markets, Deutsche Hypo assumes that the new business volume in commercial real estate finance business will increase significantly from the past financial year (2013: € 2,662.1 million). At least 60 % of the new business volume will continue to be generated in Germany due to the expectation of a strong performance on the German real estate market and in accordance with the Bank's own business strategy. Despite the ongoing high repayment rates that are expected in the real estate finance portfolio, a higher year-on-year real estate finance portfolio is forecast for the end of financial year 2014 (2013: € 11,931.7 million).

Slightly higher net interest income is anticipated in the commercial real estate finance business from the outlined developments (2013: € 174.8 million). Due to the economic recovery in the target regions and the ongoing improvement in the quality of the real estate finance portfolio, this is expected to bring an ongoing slight improvement in the risk result (2013: € – 64.9 million). In total, Deutsche Hypo assumes a slightly higher year-on-year result from normal operations for financial year 2014 (2013: € 74.6 million) in the commercial real estate finance business. The RoRaC is also expected to be at roughly the level of the previous years (2013: 14.1 %).

The capital market business will also be affected by the strategic objective to reduce the capital market portfolio in financial year 2014. In accordance with the development in the past financial year, the Bank will solely pursue selective new business for liquidity and cover pool management. The total portfolio of foreign securities and municipal loans is expected to be noticeably lower at the end of financial year 2014 than on the reporting date of 31 December 2013 (2013: € 17,557.7 million). As a result, Deutsche Hypo anticipates slightly declining year-on-year net interest income in the capital market business in 2014 (2013: € 16.0 million). In total, however, the area of capital market business is expected to see a slight improvement in the result from normal operations (2013: € 0.6 million), since lower one-off expenses within the risk result are expected in comparison to the past financial year. A slightly higher RoRaC is also anticipated for 2014 (2013: 0.5 %).

Result forecast

From an overall bank point of view, Deutsche Hypo assumes that it will maintain the very high result in 2013 and achieve a result from normal operations that roughly totals the amount of € 64.3 million in 2013. This forecast is based on the described assumptions in the planning, the expected development particularly of external factors, and the outline of the expected course of business in the two business areas. It is anticipated that the stable result will be supported in particular by an ongoing improvement in the risk result (2013: € – 83.2 million). The expectation is that the positive trend will continue, especially due to the quality of the real estate finance portfolio. Deutsche Hypo's net interest income is expected to be roughly on the high level of € 210.4 million as a result of the outlined contrasting developments in the business areas in financial year 2014. Negative effects on the result as compared to the past financial year 2013 are expected from the ongoing reduction in the capital market portfolio. Deutsche Hypo's positive income from securities and participatory interests in the amount of € 6.5 million were defined by one-off effects in 2013 and should be substantially lower due to the loss of the aforementioned, unsustainable effects on the result in the past financial year. The described developments are expected to result in an RoE for the entire bank (2013: 7.2 %) and a CIR (2013: 33.1 %) at roughly the same level as in 2014.

Opportunities and risks of future business development

The forecasts relate to developments in financial year 2014. The opportunities and risks primarily lay in a risk result and an income from securities and participatory interests for Deutsche Hypo that positively or negatively deviates from the forecast. Both result components are substantially affected by the development of external economic and banking-specific conditions and the performance of international financial markets that can only be planned to a limited extent. Significant types of risk that occur in this connection are counterparty risks, market price risks and liquidity risks. These types of risk are managed within the scope of Deutsche Hypo's risk management. The following expanded risk report addresses the objectives, strategies, structures and processes of the risk management in detail.

Risks can also result from changes in parameters due to the forthcoming asset quality review by the European Central Bank and the subsequent stress test for the NORD/LB Group. However, Deutsche Hypo considers the impact to be manageable and will continue to monitor and analyse the developments.

The goal of – wherever possible – completely avoiding the negative impact of risk types on the development of the result at Deutsche Hypo means that the risk management automatically also involves opportunity management. Positive deviations from the forecast risk and security and participatory interest result that are substantially influenced by the controlling measures outlined in the expanded risk report lead directly to a positive effect on the result from the overall bank's point of view and represent significant potential for opportunities.

With regard to the Bank's income, the degree of potential positive or negative deviations from the forecast amounts is regarded as considerably lower.

General statement on the forecast report with the significant opportunities and risks

Deutsche Hypo also anticipates a good development of the course of business and the result from normal operations in the coming year, which should again reach the high level of the past financial year 2013. The forecast is based on the assumption of an ongoing slightly positive development of the general economic and banking-related environment. In accordance with the business strategy, the focus continues to shift towards the commercial real estate finance business. In expectation of a significantly higher volume of new business in commercial real estate finance as compared to the past financial year, high repayment rates in the real estate financing portfolio and strategic portfolio reductions in the capital market business can continue to be offset. From an overall bank point of view, stable net interest income is expected in comparison to 2013.

A positive development is expected in the risk result. Here the trend towards an improvement in the risk result in the commercial real estate finance business should continue. Together with stable administrative expenses for the bank as a whole, the Bank should be able to compensate for the expected loss of one-off and unsustainable income in the security and participatory interest result.

Expanded risk report

Risk management

Fundamentals of risk management

Deutsche Hypo reported the use of the simplification options in Section 2a (1) of the German Banking Act (KWG), old version, the so-called waiver rule, to the German Financial Supervisory Authority (BaFin) in Bonn in a letter dated 7 June 2013. The simplification options were used for the first time as of the reporting deadline on 30 June 2013. The waiver means that the regulatory requirements concerning capital resources on the level of the institution (Section 10 KWG), the requirements for large exposure notification (Section 13, 13a KWG) 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) Cl. 3 No. 1 KWG) do not apply on the level of the individual institution of Deutsche Hypo. The aforementioned requirements have been transferred to the parent company due to NORD/LB's control of Deutsche Hypo.

As a Pfandbrief bank in terms of Section 1 of the German Pfandbrief Act (PfandBG), Deutsche Hypo continues to be subject to the rules set out in the German Pfandbrief Act, irrespective of its exercising of the simplification options in Section 2a (1) KWG, old version. Section 27 of this Act requires an appropriate risk management system for the identification, evaluation, control and monitoring of all risks associated with Pfandbrief business. The implementation of the existing requirements from the German Pfandbrief Act is an integral part of the existing risk management and requires the controlling 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. Within this framework, the types of risk that are relevant for Deutsche Hypo (overall risk profile) are identified as part of the strategic sub-process for risk identification. These risks then pass through – depending on their materiality – the operating sub-processes of risk assessment, risk reporting and risk management and monitoring. The sub-processes' content corresponds to the concrete Minimum Requirements for Risk Management (MaRisk), which are made of the risk management and controlling processes in the internal control system (IKS). Against the backdrop of the appropriateness and materiality, Deutsche Hypo's IKS not only aims to meet the external requirements, but also acts as a major component of the risk management process and contributes to systematically identifying and reducing process risks. The superordinate risk management process for the identification, evaluation, 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 institution and on the Group level.

Risk management – Strategies and goals

The strategic orientation of the NORD/LB Group is based, among others, on a consistently coordinated business and risk strategy in compliance with Section 25a (1) of the German Banking Act (KWG). The business and risk strategy of the NORD/LB Group refers to all the companies in the NORD/LB Group that are considered material from a risk point of view, and thus also to Deutsche Hypo. Deutsche Hypo prepares an institution-specific and detailed risk strategy that is consistent with the Group risk strategy and the business strategy of Deutsche Hypo, and is focused on the overall risk profile of Deutsche Hypo. In 2013 the risk strategy of Deutsche Hypo was updated at regular intervals in compliance with the aspects of the simplification options under Section 2a (1) of the German Banking Act (KWG), old version.

Risk management – Structure and organisation

Deutsche Hypo's risk organisation 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, so that the organised coordination of the involved areas and thus smooth processes are ensured. The risk-related organisation structure and the functions, responsibilities and competencies of the divisions involved in the risk processes are clearly defined down to the level of individual employees. Furthermore, there is an established organisational separation between the market and risk management functions up to and including the level of management.

On the level of NORD/LB as the parent institution, boards have been established for handling the risk management process on the Group level and exercising the consulting, monitoring, control and coordination functions. This involves, among others, the Extended Group Board of Managing Directors (Erweiterter Konzernvorstand), Group Control Committee (Konzern-steuerungskreis) and the Group Risk Committee (GRC). Due to the integration of Deutsche Hypo in the risk management process on the Group level, the results of the aforementioned boards have a direct impact on Deutsche Hypo. Deutsche Hypo is involved in these boards through its representatives.

The process-independent review of the effectiveness and appropriateness of the risk management is handled by Internal Audit at Deutsche Hypo. These responsibilities have now been assumed by NORD/LB's Internal Audit as a result of the outsourcing of significant audit responsibilities. Deutsche Hypo's Internal Audit is represented by an audit officer who bears responsibility for the proper internal auditing. The monitoring is handled on the basis of uniform instruments.

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 product diversifications and the approach taken to new markets, new sales channels and new services. The early identification of risks, the proper assessment of the impact on the overall risk profile of the Bank and the derivation of the appropriate measures for the controlling of risks take priority. After the successful completion of the NPP, it is possible to transfer it to ongoing business operations.

Over the course of time, the general conditions considered in the NPP may change and have an impact on the proper handling of the product without having this lead directly to a circumstance-related product review. In order to rule this out, the Bank performs a product review annually for all products permitted for ongoing business operations on the basis of the current product catalogue.

Management of risk affecting cover pool

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

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

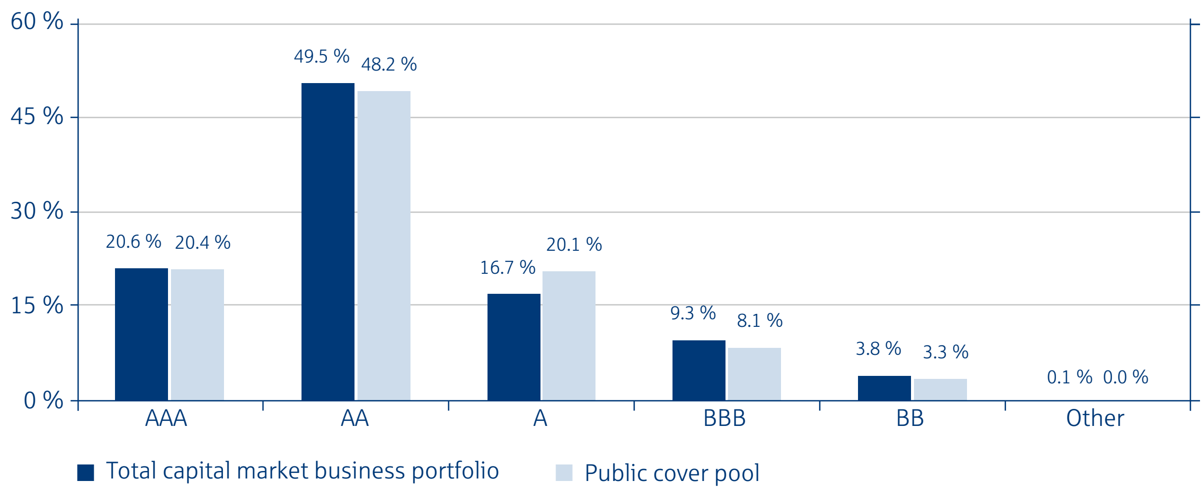
In addition to permanent compliance with the cover principle and the ensuring of sufficient collateral at net present value (Section 4 (1) PfandBG) and the ensuring of liquidity over the next 180 days (Section 4 (1a) PfandBG), the Bank also regularly analyses the quality of the credit receivables used as the collateral portfolio. This includes internal rating procedures, the analysis of external ratings and the cash flow structure as well as the permanent monitoring of the development of the real estate serving as collateral.

To meet the transparency rules set out in Section 28 of the Pfandbrief Act (PfandBG), Deutsche Hypo publishes the corresponding information in the notes to the financial statements and at the Bank's website – together with the historical values.

Cover pool for public Pfandbriefe

The proportion of receivables allocated to the cover pool with very good ratings of AAA and AA was 68.6 % as of 31 December 2013 (2012: 77.2 %). The average rating in the cover pool amounted to AA– and signals the high quality of the cover pool for issued Pfandbriefe.

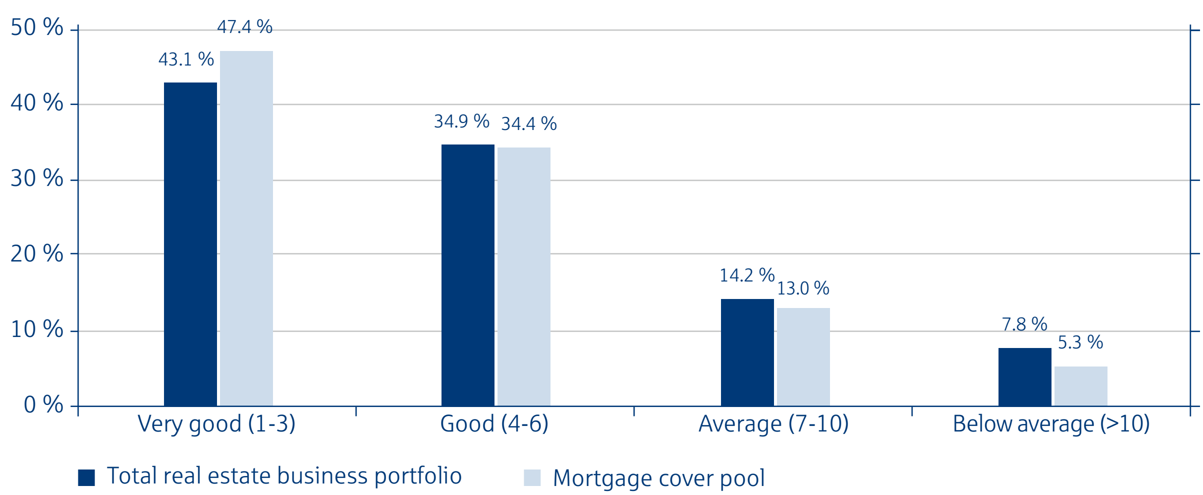
Distribution of ratings on capital market business



Real estate cover pool

The proportion of good and very good credit ratings in the mortgage cover pool amounted to 81.8 % as of 31 December 2013 (2012: 74.3 %). With respect to the entire real estate finance portfolio, this percentage was 78.0 % (2012: 70.7 %). The distribution of ratings in the mortgage cover pool reflects the good quality of the Pfandbriefe.

Distribution of ratings for real estate finance business



Risk management – Risk-bearing capacity

Due to the use of the simplification options under Section 2a (1) of the German Banking Act (KWG), old version, Deutsche Hypo's risk-bearing capacity (RBC) will now be monitored on the level of the NORD/LB Group. The RBC model of the NORD/LB Group consists of three monitoring levels: going concern (authoritative monitoring level for an evaluation of the risk-bearing capacity), gone concern (secondary condition) and regulatory matters (strict secondary condition). These levels compare the material risks (risk potential) with the defined risk capital of the individual bank and 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 was met as of 31 December 2013. The ensuring of the risk-bearing capacity on the Group level is guaranteed by the use of institution limits derived from the NORD/LB Group for the material risk types in Deutsche Hypo. Compliance with these limits is of foremost importance to Deutsche Hypo.

On a quarterly basis, the Bank calculates the risk potential for the material risk types according to a standardised Group methodology as part of the limit monitoring process and compares the results to the Bank's respective limits. 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

In 2013 slightly positive sentiment was observed on money and capital markets, supported by the expansive monetary policies of central banks. This led to an improvement in the risk situation in capital market business at Deutsche Hypo. The primarily spread-induced improvement in value in capital market business resulted in a reduction of the credit spread risks in the banking book and to an improvement in the economic overall performance.

The simplification options in Section 2a (1) of the German Banking Act (KWG), old version, (the so-called "waiver rule") were exercised in 2013 and had a major impact on the risk management process at Deutsche Hypo. In the cyclical review, among others, of the strategies and risk management process, the impact of the use of the waiver rule was considered accordingly.

The risk potential (confidence level of 95 %, time horizon of fundamentally 1 year) from the significant risk types was as follows on 31 December 2013:

Composition of risk potential from the significant risk types as of 31.12.2013

Counterparty risk

The counterparty risk of Deutsche Hypo includes the credit risk with the country risk and the participatory interest risk, which is immaterial at the present time due to the lack of strategic importance. The credit risk refers in general to the possibility that a loss may be incurred that is not covered by securities as a result of an external counterparty defaulting or suffering a deterioration in creditworthiness. As well as the classic default risk, security risk is a further component of credit risk. This is the risk that it might not be possible to recover the assumed fair values of loan collateral in the event of realisation. The counterparty risk is also assigned to the credit risk. It refers to the risk that if a contractual party defaults it might no longer be possible to collect an as yet unrealised gain from pending transactions (replacement risk) or that, in the case of a transaction requiring contemporaneous performance, the instance of a counterparty defaulting might mean that the counterperformance can no longer be fulfilled (performance risk).

A further 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 (transfer risk) could prevent repayment despite the individual borrower being able and willing to make a payment.

Counterparty risk – Goals and strategies

Credit risks are handled on the basis of the Bank’s part risk strategy for credit risks which, in turn, is part of the overall risk strategy. According to the part risk strategy for credit risks, the focus in new credit business is on customers with a good credit rating and suitable collateral. In the capital market business, Deutsche Hypo also focuses on business with good counterparties. Deutsche Hypo only enters into business with customers/counterparties that lie outside of the present credit rating focus under immediate consideration of the opportunity and risk profile.

Furthermore, no individual credit exposure may reach a degree of magnitude that could significantly compromise the Bank's economic stability. For early detection and prompt avoidance/reduction of credit risks with increasing probabilities of default, all borrowers and counterparties with justifiable risks yet a trend towards a deterioration in credit ratings are determined in an early warning process defined for this purpose.

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

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

Counterparty risk – Structure and organisation

All the organisational structures and handling processes derived from the general conditions are included in Deutsche Hypo's written policy. The credit-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. The processes in the credit business are characterised by a clear organisational division between the market division and back office areas up to and including the level of management. In the back office area, there is also a division between credit risk controlling, credit risk management and the handling of special credit.

Credit decisions as defined, among others, 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 loans above a specific size, by decision making committees (e.g. the full Board of Managing Directors). One person is always from the market division and one person from the back office. 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 credit 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 must first be present. The responsibility of the authorised employee is basically based on the total commitment of the borrower or borrower unit to which the customer is to be allocated and on 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 specification of financing principles, the limit system and the rating system.

Financing principles

The financing principles are an instrument of risk controlling and are to be applied by all institutions that are members of the Group. The market and back office divisions use the financing principles to specify ex ante what requirements potential transactions should meet at a minimum. Financing principles document the uniform, bank-internal understanding of the necessary benchmarks for entering into business and being exposed to a counterparty in a certain market area. They are intended for effective preselection and do not forestall the final decision in an individual case. The respective analysts are to review the annually checked financing principles with a checklist.

The following hard criteria in the real estate finance segment apply as minimum risk standards for Deutsche Hypo. Approval must be obtained from management if they are not complied with.

- The repayment structures and terms for credit are to ensure repayment of the loans within the remaining period of use for the financed real estate.
- Real estate and apartment portfolios, the overwhelming majority of the portfolio, are to be inspected by an employee of the Bank or an expert engaged by the Bank before deciding on the issuing of credit.
- The financing must run off within the market values in the case of first-time decisions and after consideration of mitigants and/or additional collateral.

Limit system

Deutsche Hypo is included in the limit systems for risk concentration of the NORD/LB Group within the scope of the strategic limits. There are limits for the concentration of counterparty, country and sector risks. This system combines, monitors and controls all the counterparty risk concentrations. The Group-wide binding limits are considered. Deutsche Hypo supplies the information required for this and is informed in return by its own borrowers of the Group-wide risk concentrations. If the limits are exceeded, uniform Group-wide rules apply for the monitoring and reduction of the exposure.

In this framework, there are various limits for each business area at Deutsche Hypo. The risk limit is determined on the level of the country risk, the sector risks and on the basis of individual risk bearers up to the limit of the risk for an individual property that can be lent. In order to avoid risk concentration risks at the borrower level, limits are in place for economic units that extend beyond the borrower unit as defined in Section 19 (2) of the German Banking Act (KWG) and that also take into account secondary risks such as e.g. tenant liabilities. The specific form of the limit 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/Landesbanks. The credit rating of the customer in combination with a risk-adjusted pricing of the credit leads to the compensating of anticipated losses.

Treatment of conspicuous exposures

The use of sophisticated credit rating assessment processes cannot prevent that the credit ratings of individual borrowers will decrease over time. Exposures with early warning criteria are included in the early warning list. The early warning list includes all receivables that have not developed in accordance with the plan at the time of the original credit decision and have a higher risk position that requires special credit monitoring. This involves intensively followed exposures.

Exposures in certain risk classes are transferred to Special Credit Management and can be taken over by this area (assumption right). This area's responsibility is to have an early influence and introduce a restructuring process in order to ensure the servicing of the contractually agreed interest and capital payments or to work out and implement alternative options for action. If restructuring is no longer possible, an effort is made to optimise the utilisation income in the case of unwinding. In addition, Special Credit Management is the centre of competence for the risk provision and has to ensure an adequate measurement of the risk provision at all times. In order to ensure this, Special Credit Management specifies the amount of the risk provision within the framework of the competency rules.

The early identification of crisis situations is 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 together represent a system for the early identification of various risks and allow for the systematic control and the introduction of measures to limit their impact.

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

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 influencing factors that are of relevance to the value of the security, a revaluation must be carried out. Deutsche Hypo's credit guidelines and lending principles set out definitions of the basic types of securities and properties being mortgaged that may be used as security, and the maximum share of the value of the collateral or of the financed property that can be lent. Both the fair value and the lending value calculated in accordance with the strict provisions of the German Regulation on the Determination of Mortgage Lending Value (BelWertV) are applied. The latter has a direct impact on the eligibility as cover of the loan receivables and thus influences the volume of the cover pool available as security for Pfandbriefe issued by Deutsche Hypo, in accordance with the terms of the Pfandbrief Act (PfandBG).

Mortgages, guarantees and similar collateral, assignments of claims and other rights, liens on property, claims and other rights and transfers of ownership as security are all basically accepted as loan security. Only mortgage liens and guarantees from suitable credit institutions and liquid funds provided as collateral are taken into account for the purposes of risk assessment in the loan portfolio and the capital-reducing netting as stipulated in the Solvency Ordinance (SolvV).

Counterparty risk – Measurement

The direct quantification of the credit risk takes place for Deutsche Hypo on the one hand at the level of the NORD/LB Group and on the other at the level of the individual institution of Deutsche Hypo. The following explanations on the measurement of the credit risk include a general outline 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 defaults in the loan portfolio over the next twelve months. To cover expected losses, the Bank collects a risk premium as part of its margin. The amount of this premium for each individual loan depends on the rating or probability of default and on the expected loss ratio. The unexpected loss for the credit risk is quantified using an economic credit risk model for different confidence levels and a time horizon of one year. The credit risk model used by the NORD/LB Group incorporates correlations and concentrations into the risk assessment. The credit risk model calculates the unexpected loss at the level of the portfolio as a whole. The model used is based on the CreditRisk+ basic model. It determines the contributions of the individual borrowers and shareholdings to the unexpected loss at the portfolio level. These are then added together to give the unexpected loss for the entire portfolio. Incorporated into these calculations are the probability of default (PD) and loss given default (LGD) ratio calculated using internal ratings and determined for each individual transaction taking the security situation into account.

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

Deutsche Hypo uses the internal ratings based approach (IRBA) to calculate the regulatory capital backing required for credit risks pursuant to the German Solvency Regulation (SolvV).

Counterparty risk - Reporting

In line with the provisions of MaRisk, Deutsche Hypo prepares a quarterly risk report. This provides the Board of Managing Directors and the Supervisory Board with detailed information on the Bank's risk situation. This report includes the credit risk sub-report, which contains a summary and analysis of all material structural characteristics and parameters that are of relevance to the controlling of the credit portfolio. In addition, a portfolio report is prepared for the Board of Managing Directors on the portfolio of problem exposures for the real estate finance and capital market business. Monthly reports are also prepared on the monitoring of project developments and any significant exposures in the context of the early warning system, and there are also monthly reports detailing the development of the risk provision.

Counterparty risk – Analysis of credit exposure

The credit exposure, a key reference indicator in credit risk controlling, represents the quantification of all risk-encumbered transactions. Its calculation is based on drawdowns – at nominal value in the case of guarantees or carrying amount in the case of securities, or on the credit equivalent amounts of derivatives, including add-ons and taking account of netting. Irrevocable credit agreements are usually included in the credit exposure at 75 %. Credit agreements that can be revoked are not taken into account. Investments are also included in the credit exposure on the basis of their carrying amounts, as these are treated in a similar way to credit transactions in terms of their measurement. As part of the internal reporting process, the Board of Managing Directors and the Supervisory Board are kept informed at all times of the development and analysis of the credit exposure.

Deutsche Hypo's credit exposure as of 31 December 2013 totalled € 33,755.7 million, up € 3,419.5 million or 9.2 % as compared to the end of 2012. In the commercial real estate finance business, the volume fell by € 633.8 million to € 13,316.7 million. Credit exposure for municipal loans fell substantially by € 1,475.4 million to € 7,444.6 million in accordance with the portfolio reductions planned as part of the strategic focus. There was an overall decline of € 1,310.2 million in the securities and derivatives portfolio and other financing products.

This development reflects the Bank's change in focus towards a pure real estate finance bank. In the capital market business (municipal loans and securities), the Bank pursues essentially no more new business, so the portfolio is reduced when loans fall due.

The focus of the credit exposure continued to be in the very good to good IFD classes. This classification corresponds to the standard IFD ratings scale as agreed on by the banks, Savings banks 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 76.7 % and was above the level of the previous year of 75.6 %. The reason for this was mainly the high percentage of receivables from governments, public authorities and financial institutions, which all have a good credit rating. There was also an improvement in real estate finance.

There was also a positive development with regard to the proportion of non-performing loans (NPL), which fell from 1.6 % to 1.2 % of the total exposure. The absolute volume fell by € 174.6 million to € 408.0 million. As in 2012 this is due to progress made in dealing with ailing exposures and also to a fall in the number of new additions to the NPL portfolio.

Breakdown of total credit exposure by rating category:

in € millions 31.12.2013	Real estate finance	Municipal loans	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 %**

in € millions 31.12.2012	Real estate finance	Municipal loans	Securities	Derivatives	Other	Total exposure	Share in total exposure
Very good to good	6,844.4	8,845.4	9,236.3	1,880.9	1,312.0	28,118.9	75.6 %
Good / satisfactory	2,930.7	20.1	689.0	392.7	92.0	4,124.6	11.1 %
Still good / sufficient	1,959.4	0.0	388.3	57.6	66.4	2,471.7	6.6 %
Elevated risk	747.8	54.5	157.5	0.0	15.5	975.3	2.6 %
High risk	364.9	0.0	0.0	0.0	7.0	372.0	1.0 %
Very high risk	530.1	0.0	0.0	0.0	0.0	530.1	1.4 %
Default (=NPL)	573.1	0.0	9.5	0.0	0,0	582.6	1.6 %
Total	**13,950.5**	**8,920.0**	**10,480.6**	**2,331.2**	**1,492.9**	**37,175.2**	**100.0 %**

The Bank's exposure in the commercial real estate finance business amounted to roughly € 13,316.7 million (2012: € 13,950.5 million), and 88.3 % of it (2012: 84.1 %) consisted of financing for customers that have a rating of at least satisfactory. Due to the ongoing decline, the NPL as a percentage of total exposure was 3.1 %, after being 4.1 % in 2012. The overwhelming majority of the NPL portfolio is filled by foreign financing, largely in the USA and UK. In total, the development of the NPL exposure shows that the real estate crisis has been overcome and values will approach their long-term averages, as was observed before the crisis.

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

in € millions 31.12.2013	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 %**

in € millions 31.12.2012	Domestic	Share in total exposure	Foreign	Share in total exposure	Gesamt-exposure	Share in total exposure
Very good to good	3,953.9	28.3 %	2,890.5	20.7 %	6,844.4	49.1 %
Good / satisfactory	2,291.4	16.4 %	639.3	4.6 %	2,930.7	21.0 %
Still good / sufficient	1,579.6	11.3 %	379.7	2.7 %	1,959.4	14.0 %
Elevated risk	534.7	3.8 %	213.1	1.5 %	747.8	5.4 %
High risk	85.9	0.6 %	279.0	2.0 %	364.9	2.6 %
Very high risk	16.3	0.1 %	513.8	3.7 %	530.1	3.8 %
Default (=NPL)	58.4	0.4 %	514.8	3.7 %	573.1	4.1 %
Total	**8,520.2**	**61.1 %**	**5,430.3**	**38.9 %**	**13,950.5**	**100.0 %**

The breakdown of the credit exposure by classes and regions shows that 92.7 % (2012: 91.7 %) of the entire exposure is accounted for by Europe. The percentage of credit exposure in Germany was 56.6 % (2012: 56.1 %) of the total exposure.

Breakdown of the total credit exposure by class and region:

in € millions 31.12.2013	Real estate finance	Municipal loans	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 %
of which, Germany	*8,601.5*	*5,784.2*	*3,440.1*	*526.8*	*757.1*	*19,109.7*	*56.6 %*
Other EU	1,717.8	0.0	290.8	163.0	0.0	2,171.6	6.4 %
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 %
Asia	0.0	0.0	478.7	0.0	0.0	478.7	1.4 %
Other	0.0	26.9	0.0	0.0	92.1	119.0	0.4 %
Total	**13,316.7**	**7,444.6**	**10,168.5**	**1,941.3**	**884.7**	**33,755.7**	**100,0 %**

in € millions 31.12.2012	Real estate finance	Municipal loans	Securities	Derivatives	Other	Total exposure	Share in total exposure
Eurozone	10,954.2	8,676.5	8,677.2	1,425.0	1,406.3	31,139.2	83.8 %
of which, Germany	*8,520.2*	*7,204.1*	*3,056.9*	*748.1*	*1,320.5*	*20,849.7*	*56.1 %*
Other EU	2,091.9	27.8	414.6	98.9	0.0	2,633.3	7.1 %
Other Europe	0.0	215.7	89.9	15.8	0.0	321.4	0.9 %
North America	904.4	0.0	808.2	791.4	13.8	2,517.8	6.8 %
Central America	0.0	0.0	6.1	0.0	0.0	6.1	0.0 %
Asia	0.0	0.0	484.6	0.0	0.3	484.9	1.3 %
Other	0.0	0.0	0.0	0.0	72.5	72.5	0.2 %
Total	**13,950.5**	**8,920.0**	**10,480.6**	**2,331.2**	**1,492.9**	**37,175.2**	**100.0 %**

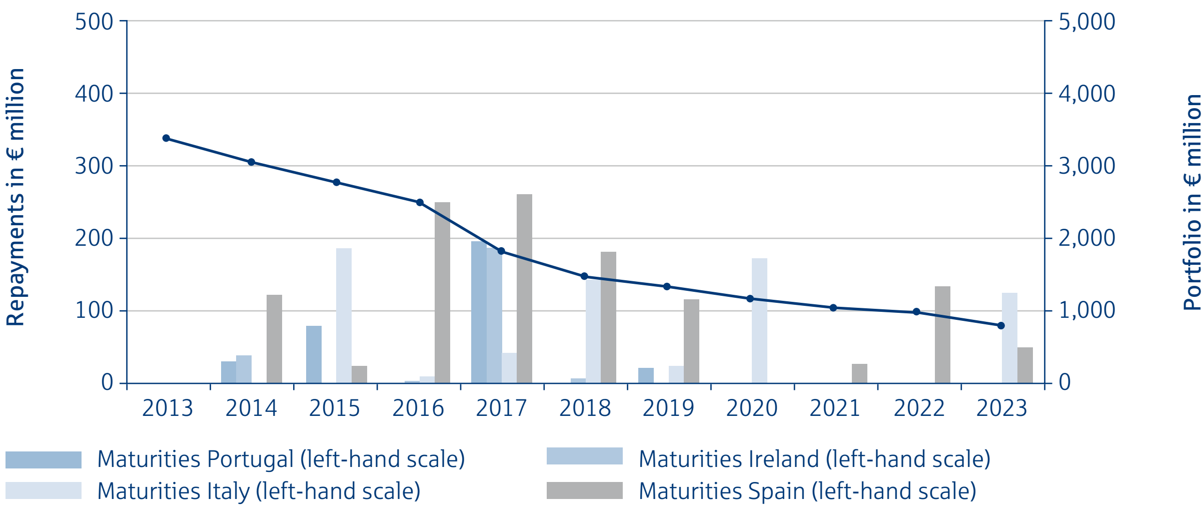
The Bank's exposure to countries referred to as the PIIGS amounted to € 3,212.5 million (2012: € 3,382.6 million). It included the credit claims plus complete inclusion of all existing payout obligations. The Bank's aforementioned exposure to the PIIGS countries did not include existing real estate finance business in these countries with a volume of € 320.4 million (2012: € 389.3 million). The exposure of € 3,212.5 million was divided with € 2,077.6 million (2012: € 2,152.4 million) to governments, public authorities and municipalities and € 1,134.9 million (2012: € 1,230.2 million) to credit institutions and other institutions.

Portugal accounts for € 322.5 million (2012: € 322.9 million), Ireland for € 239.7 million (2012: € 299.5 million), Italy for € 1,409.0 million (2012: € 1,471.7 million), Spain for € 1,241.3 million (2012: € 1,288.5 million). In Italy, € 79.3 million (2012: € 83.0 million) is attributable to corporate credit and € 1,329.7 million (2012: € 1,388.7 million) to public debtors. In Spain, the exposure to companies (not including real estate financing) totalled € 376.1 million (2012: € 413.2 million), exposure to public debtors € 261.6 million (2012: € 272.0 million), exposure to credit institutions € 603.6 million (2012: € 603.3 million).

Due to the European support programmes and the current easing of the European sovereign debt crisis, Deutsche Hypo does not see any acute default risk. Nonetheless, the exposure to PIIGS countries is a permanent focus of risk monitoring. The strategic focus sets forth that securities will be sold under advantageous market conditions if this is possible without having a major impact on the income statement. Use was made of this in the past financial year.

The following table shows the future development of the Bank's exposures taking into account the maturities. By the end of 2018, the portfolio will fall by more than 50 % – according to the plan – and will decrease by € 2,396.3 million to € 816.3 million within the next ten years.

Portfolio performance of PIIGS countries



Non-performing loans

Where there are objective indications of acute default risks affecting the balance sheet of the lending business, Deutsche Hypo establishes loan loss provisions. The write-down requirement is based on the cash value of the expected interest and principal payments and the proceeds from the realisation of collateral, and also on the extent to which claims can be serviced. Risk provisioning for off-balance sheet business, such as guarantees and credit commitments, is carried out by creating a provision for risks from the lending business. Any claims that cannot be recovered and for which there are no 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 lending business fell by € 13.5 million as compared with the previous year, totalling € 151.7 million in 2013. In the meantime, the vast majority or € 113.1 million (2012: € 71.4 million) was attributable to euro countries. The portfolio in the UK and the USA continued to drop on account of the disposal of impaired credit, falling to € 11.9 million (2012: € 61.3 million), and € 26.8 million (2012: € 31.8 million). The amount of loan loss provisions and provisions as a proportion of the total credit exposure as of 31 December 2013 was 0.45 % (2011: 0.44 %).

The table below shows a comparison of the credit exposure of impaired loans and the total portfolio of loan loss provisions and provisions in the lending business:

	Credit exposure of impaired loans		Portfolio of loan loss provisions and provisions *)	
in € millions	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Eurozone	247.2	192.5	113.1	71.4
Other EU	79.2	169.5	11.9	61.3
North America	43.6	143.0	26.8	31.8
Total	**369.9**	**505.1**	**151.7**	**164.5**

*) Values as of 31.12.2012 were adjusted due to changes in the evaluation system

The portfolio of overdue, not impaired credit also fell to € 38.1 million as compared to the previous year (2012: € 77.6 million). The length of delay for a majority of this credit exposure (€ 34.4 million) was below 90 days. The overdue or impaired loans are secured by standard collateral, which is valued using the applicable lending principles.

Counterparty risk – Outlook

The improvement on real estate markets also continued in 2013. The Bank assumes that this trend will continue in 2014. Accordingly, it anticipates a further reduction in the risk provision required for this business area.

In the area of capital market and sovereign debt business, a further calming of the crisis in euro countries was observed in 2013. As a result, Ireland decided to exit the European Stability Mechanism, for example. Likewise, the spreads in the affected crisis countries continue to decrease across the board and their funding possibilities on capital markets improved as a result. Nonetheless, it is necessary to wait and see with regard to the future development since it cannot be ruled out that other countries or their banks will need support in the future.

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

Market price risk

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

Market price risk – Goals and strategies

Deutsche Hypo is a non-trading book institution whose business activities operate within the scope of a buy and hold strategy. Deutsche Hypo's positioning on money, currency and capital markets is based above all on its customers' needs and the support of the market divisions and management of the Bank as a whole in accordance with the risk strategy requirements, the Bank's significance and its size. Further speculative positions are not taken. Deutsche Hypo's activities connected with market price risks are focused on selected markets, customers and product segments. They solely show up in the banking book.

Market price risk – Structure and organisation

Against the backdrop of the risk-related organisational structure, various departments are involved in the management of market price risks. The controlling of the strategic market price risk for the banking book positions is handled by ALCO (the Asset Liability Committee) 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. Treasury Operations ensures the correctness of the transaction data in the data processing systems and the proper handling of financial market transactions within the scope of the market price risk management process. The Controlling department is organisationally independent of the Treasury and Treasury Operations areas in accordance with MaRisk, and it carries out the tasks related to risk assessment and the control and monitoring function as well as handling the reporting tasks.

Market price risk – Controlling and monitoring

A major component of the monitoring process is to audit compliance with the preset limits and the early identification of risks through the traffic light systems or income statement analyses, for example. Escalation processes are implemented for violations of the limit. Besides the observance of the already described limits for the institution, it is also necessary to use individual institution limits for market price risks that may refer both to the economic and the balance sheet positions. The limits for market price risks are measured such that the support of customer business and liquidity management is ensured in accordance with the business strategy. The limits also cover the risks resulting from the investment of the equity.

The VaR figures are calculated on the basis of an historical simulation process. The portfolio is valued on the basis of the historical changes in the market price. VaR key performance indicators for interest rate risks are calculated, taking into account credit spread risks from securities in current assets. In addition, VaR key performance indicators for interest rate risks are determined, taking into account credit spread risks in the banking book.

Parallel to the VaR limits, the interest rate risk is limited with the scenario limits. Since December 2013, Deutsche Hypo has had a limit for the daily calculated Value-at-Risk for market price risks with the credit spread risks in the banking book taken into account. This limit has been derived from the risk-bearing capacity on the Group level. The limit replaced the existing limit for credit investments and low CSR positions, in this respect representing a methodological refinement with regard to the monitoring of the credit spread risks. Since the spreads observed on the market reflect the credit rating of the issuer and the market liquidity of the securities, the market liquidity of the securities is considered indirectly within the framework of the risk reporting.

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

To control or reduce risks, positions are hedged in order to counter the impact of disadvantageous market movements (for example 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. More information is available 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 interest maturity transformation, and risk concentrations relating to individual currencies and maturities. In addition, it receives a daily report 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 on a quarterly basis and reported to the Board of Managing Directors and the Supervisory Board in a risk report.

The entire Board of Managing Directors is also notified weekly about the impact of stress scenarios. The results of the back testing are reported at least quarterly. The Supervisory Board of the Bank is informed in detail of the Bank's market price risks on a quarterly basis in the scope of the risk report. Independent of the regular reporting cycles, ad-hoc information is provided to the full Board of Managing Directors 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 Deutsche Hypo's market price risk was at a moderate level, as expected, in 2013 with regard to the assigned institution limit. Among others, the slightly positive sentiment on money and capital markets led to a clear reduction in the credit spread risk of the banking book.

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

Market price risks	Year-end values	
in € thousands	2013	2012
VaR*) Interest rate risk for portfolio of "entire bank"	1,341	916
Standard risk**) Interest rate risks for the operating portfolio	18,280	13,238
VaR*) Market price risk (Gone concern) for the portfolio of "entire bank"	28,547	No comparable value

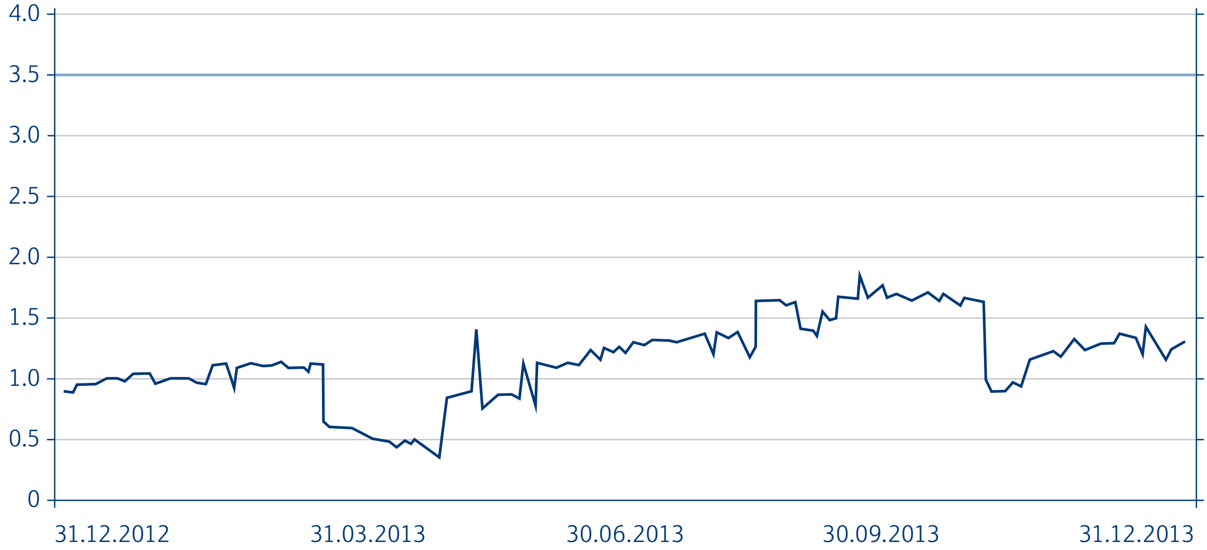
*) Confidence level 95 %, 1 day holding period **) Parallel shift 100 BP

The nominal volumes of foreign securities in fixed assets, credit derivatives and treasury bonded loans associated with credit spread risks (without taking Group-internal positions into account) fell in accordance with expectations by € 2,801.8 million to € 16,954.1 million as of 31 December 2013 (2012: € 19,755.9 million). The nominal volume with Group-internal positions totalled € 18,264.1 million as of 31 December 2013.

The daily calculated VaR for the interest rate risk fluctuated in the reporting period between € 0.4 million and € 1.8 million in 2012. The average value of € 1.2 million for the year confirms Deutsche Hypo's low risk appetite. The interest rate risk is largely related to the investment of perpetual equity. The utilisation of the VaR limit in the amount of € 3.5 million was 33 % on average over the course of the year (2012: 30 %). The Bank did not exceed this limit at any time.

The development of the Value-at-Risk in 2013 (95 % confidence level, 1 day holding period) is shown in the chart below in comparison to the provided limit. This does not include credit spread risks in the banking book.

Change in value-at-risk interest rate risks (95 %, 1 day) in € millions



Since the introduction of the previously described limit for market price risks after taking into account the credit spread risks in the banking book, the utilisation has fluctuated between € 28.5 million and € 30.3 million with an average value of € 29.3 million. The existing limit in the amount of € 55.5 million was not exceeded at any point in time.

The careful observation of the market development and the conservative risk policy will also take precedence in 2014 with respect to Deutsche Hypo's focus in the area of market price risk. Both the successive refinement of the risk model and the risk management process on the level of the individual institution and the refinement with respect to Deutsche Hypo's integration in the risk management process of the NORD/LB Group make up important starting points for the appropriate market price risk controlling in this connection. The strategy of reducing positions with credit spread risks to protect the income statement will continue as planned.

Liquidity risk

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

Liquidity risk – Goals and strategies

Ensuring liquidity at all times is a strategic and regulatory necessity for the Bank. In the funding of the business activities in the market areas, Deutsche Hypo pursues the strategy of term-congruent funding. Liquidity risk limits reduce the risk of a negative impact on results due to a change in the liquidity spreads related to an open liquidity risk position. In measuring the amount of the liquidity risk limits, the Bank takes into account the factors of ensuring sufficient liquidity, the risk-bearing capacity of the NORD/LB Group and use of the opportunity for a contribution to the profits from the Bank's typical source of income in liquidity spreads.

The Bank's global liquidity policy (GLP) describes the strategic general guidelines for ensuring sufficient liquidity. In the case of a liquidity crisis, the management of the liquidity risk, according to 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.

Liquidity risk – Structure and organisation

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

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

Liquidity risk – Controlling and monitoring

In addition to the observance of the institution's limits, Deutsche Hypo also uses volume structure limits for refinancing risks in order to control and monitor the liquidity risks. The limit utilisations of volume structure limits is monitored on the basis of the liquidity outflow statement for the entire position. The calculated balances for the individual maturity bands from one month to 30 years may not exceed the approved volume structure limits. If limits are exceeded, they are reported to the Board of Managing Directors. Furthermore, the refinancing risks from significant foreign currencies are determined and restricted through volume structure limits.

The classic liquidity risk is limited and controlled by a dynamic stress test scenario. The scenario describes the most likely crisis situation from an expert's point of view. A difference is made between deterministic payment flows and variable or unforeseeable payment flows. The amount and maturity of the deterministic payment flows is known at the time of the report, while the amounts and/or maturities of the variable payment flows are unknown and modelled by using suitable stress assumptions. The observance of the limit is monitored daily. The classic liquidity risk for significant foreign currencies is also limited and monitored on a monthly basis. 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 regulatory requirements.

Market liquidity risks are implicitly considered by differentiating between the securities in the calculation of the classic liquidity risk according to their market liquidity. On the basis of a detailed security class concept, the Bank classifies the securities individually according to their degree of liquidity into various major classes with multiple sub-classes (depending on e.g. central bank eligibility and rating). In addition, it takes into account the market liquidity for the calculation of the market price risk.

Liquidity risk – Reporting

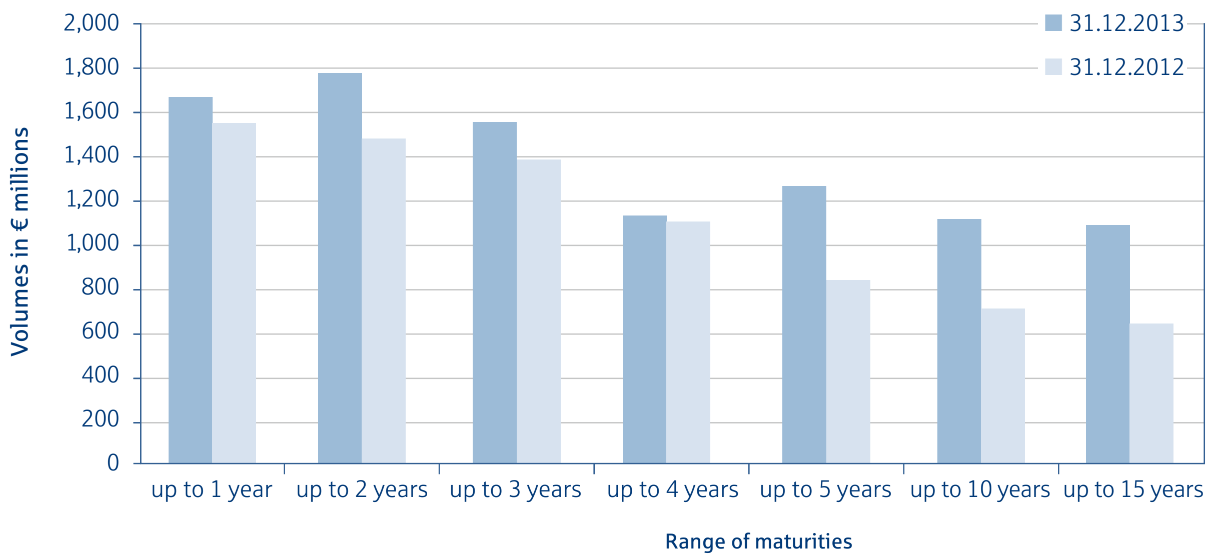
The report on the dynamic stress scenario is sent to the Treasury and members of the Board of Managing Directors responsible for Treasury and Controlling on a daily basis. The use of the required liquidity buffer is reported to Treasury on a daily basis. The liquidity outflow statement and the utilisation of the volume structure limits and the institution limit for net present value funding risk are provided to Treasury every day. Furthermore, the quarterly risk report includes a summary report on the classic liquidity risk and the funding risk.

Liquidity risk – Developments and outlook

The liquidity situation on the markets was primarily defined by the slight recovery from the European sovereign debt crisis, particularly in the second half of the year. Deutsche Hypo had sufficient access to the money market and capital market at all times in 2013. The total issue volume recorded was € 3,265.7 million (2012: € 4,254.1 million) and made it possible – in terms of Deutsche Hypo's needs – to place sufficiently covered and unsecured issues on the market at acceptable conditions.

The Bank's cumulative liquidity outflow statement shows liquidity surpluses for the entire maturity band.

Cumulative liquidity outflows in € millions



There was no unsecured funding requirement as of 31 December 2013, as in the previous year, on account of the forward-looking liquidity management and the largely term-congruent funded new business. The ratio of the cumulative US dollar outflows in relation to the available potential foreign currency derivatives for the next 90 days was 40.8 % at the end of 2013 (2012: 30.8 %).

The dynamic liquidity stress test (LST) used for internal controlling and limiting showed a consistently positive liquidity surplus for at least 318 days as of 31 December 2013. 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 the minimum requirements placed on risk management. At the end of 2013, Deutsche Hypo had a sufficient portfolio of highly liquid securities to cover the buffer requirements. The utilisation of the liquidity buffer was at 0 %.

The active management of liquidity and careful observation of the markets meant that Deutsche Hypo's liquidity was ensured at all times in 2013. 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 1.87 as of 31 December 2013.

No significant increase in the liquidity risks is anticipated in 2014. The plan is to successfully complete the already begun implementation of a liquidity transfer price system in 2014. The significant aspect consists of the requirements imposed by national and international regulatory authorities in relation to controlling liquidity spread risks and refinancing risks in risk management. Of particular significance in this context are the requirements for the settlement systems for liquidity costs from the fourth amendment of MaRisk.

Operational risk

Operational risks are possible and, from the point of view of the Bank, consist of unintended events that result from an inappropriate circumstance or the failure of internal workflows, employees or technology, or as a result of external influences, or lead to serious negative consequences for the Bank (e.g. violation of the law). Legal risks are included, but strategic risks and business risks are not a part of operational risk. According to this definition, operational risks include legal risks and risk from changes in the law, compliance risks, outsourcing risks, verification risks, fraud risks and vulnerabilities within the scope of the emergency and crisis management.

Operational risk – Goals and strategies

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

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

Deutsche Hypo takes advantage of the possibility of outsourcing processes in compliance with the regulatory requirements according to MaRisk. The outsourced functions should continue to meet the Bank's performance and quality standards. The goal in this connection is the leveraging of synergies, the increasing of efficiency, the optimisation of processes and the reduction of risk potential. Processes that represent strategic core competencies usually remain within Deutsche Hypo. The goal is to keep the risk of outsourcing as low as possible by taking suitable measures.

Operational risk – Structure and organisation

The Board of Managing Directors, the Risk Controlling department and other areas are included in the process of managing operational risks. Within the scope of outsourcing, responsibilities are handled by NORD/LB. The Board of Managing Directors determines the fundamental treatment of operational risks in light of the risk situation on the entire bank level. Within the set framework conditions, responsibility for the controlling of the operational risks is decentralised and lies with the individual departments. Risk Controlling handles the central tracking of operational risks and the independent reporting.

Operational risk – Controlling and monitoring

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

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

The integration of Deutsche Hypo in the risk management on the Group level means that operational Value-at-Risk limits (OpVaR) for operational risks at Deutsche Hypo are derived from NORD/LB after taking into account the risk-bearing capacity on the level of the NORD/LB Group. Observation of these limits play a central role in the controlling of operational risks at Deutsche Hypo.

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. Controls in the form of key controls and simple controls have been implemented in all the accounting relevant processes. These controls are to be performed periodically or on certain occasions, their results documented and their appropriateness checked at regular intervals. They include ongoing manual control work within the work process and programmed controls within the IT systems. In particular, controls have been implemented at the interfaces between the divisions and departments involved in the accounting process and between the Bank's IT systems. This ensures that the clearly defined specifications of the Accounting department within the accounting process are implemented.

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

- Deutsche Hypo's Accounting department is responsible for the preparation of the annual financial statements and the management report. The accuracy and completeness of the obligatory accounting circumstances from supplying divisions is handled there and subject to adequate controls. The functions of the Bank's departments involved in the accounting process are separated. Areas of responsibility are clearly allocated.
- The IT systems and files used in the accounting process are protected against unauthorised access, manipulation and loss by means of regular data backups and corresponding access restrictions.
- The permanent monitoring of the IT systems by appropriately trained employees of the Bank and external systems partners reduces the risk of downtime and ensures high availability.
- The Bank has implemented an appropriate system of guidelines and instructions by means of an organisational manual that takes the form of an organised structure and workflows.
- All accounting processes are subject to consistent manual and automated controls according to the four eyes principle.
- Bookkeeping files that are received or forwarded are checked for completeness and accuracy, for example by means of random sampling. The software used contains specific plausibility tests within its programming.
- The plausibility of the data that is calculated in the accounting process is regularly checked in the context of the month-end closings. This ensures that deviations between planned and actual figures in the course of the year are detected quickly, and there can be an appropriate fast reaction.
- 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 in the balance sheet. The qualified technical personnel, appropriate IT systems and clear legislative and internal company specifications form the basis for a proper accounting process. Report recipients are therefore provided with accurate and reliable information.

Operational risk – Reporting

Deutsche Hypo analyses the results of recorded loss events, risk indicators and risk assessment within the scope of the ongoing risk management process, and reports them to the Board of Managing Directors on a quarterly basis. The regular reports include the limit utilisation of the OpVaR limit set by the NORD/LB Group, the information from the database of loss events, the status of the risk indicators, the risk assessment, open audit findings and the risk assessment, open audit findings and the risk assessment of current legal disputes and externally outsourced significant activities. The Supervisory Board is also informed on a quarterly basis as part of detailed reporting on the status of operational risks facing Deutsche Hypo.

Operational risk – Development and outlook

In the previous financial year, Deutsche Hypo was able to harmonise the controlling of risks even more. The risk identification system was refined with regard to the established early warning system for the identification of potential risks and the prompt introduction of suitable countermeasures. Furthermore, a majority of OpRisk Controlling's responsibilities were outsourced to NORD/LB in the first half of the year.

For 2014, the introduction of the refined method of risk assessment at Deutsche Hypo is planned after the completion of the pilot phase in NORD/LB. Furthermore, the Bank plans to expand the early warning system. In this connection, it plans the introduction of additional risk indicators and the overhauling of existing ones to customise the indicator system for the Bank. Furthermore, it will update the ORC report. In addition to the desired streamlining of the report, the goal will also be a stronger focus on an integrated representation of various aspects.

Regulatory equity capital resources

By making use of the waiver, Deutsche Hypo must no longer meet the obligation to file individual bank reports in accordance with Section 10 of the German Banking Act (KWG). For the reports on the equity capital resources on the Group level and for internal controlling, Deutsche Hypo calculates and will also continue to calculate, after exercising the waver, 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 capital ratio, which compares all the existing capital components with the equity capital requirements calculated in accordance with the regulatory requirements. In accordance with the regulatory requirements, a total of € 1,192.6 million (2012: € 1,180.7 million) could be included for regulatory minimum capital requirements in the Group. This meant a rise of € 11.9 million as compared to 2012. At the same time, the RWA fell by 5.2 %. As a result, the equity capital ratio improved to 15.0 % (2012: 14.0 %).

Summary of the risk position

In 2013 Deutsche Hypo made use of the simplification options in Section 2a (1) of the German Banking Act (KWG), old version. The applicable regulatory requirements for capital resources are covered accordingly on the Group level. Despite the simplification options, the Bank also continues to pursue its consciously conservative risk policy. The authoritative aspect in the regulatory context consists of the risk limits, which are provided by the NORD/LB Group, and their observance plays a critical role for Deutsche Hypo. The risk limits were observed at all times in the year under review. Deutsche Hypo also complied with both the Group's strategic requirements and the rules of the German Pfandbrief Act (PfandBG), which are binding for the Bank.

Overall, a slight economic recovery was felt on real estate markets in the year under review. This helped the substantial decrease in the credit exposure of value-adjusted loans. The portfolio of loan loss provisions and provisions in the lending business also fell slightly. The recovery is also seen in the ongoing improvement in the quality of the credit portfolio. The credit exposure of non-performing loans fell even further.

In addition to the recovery on real estate markets, there was also a slightly positive development on money and capital markets in the past year. This led to an ongoing reduction in the credit spread risks in the banking book overall and to an improvement in the risk situation in capital market business. In the course of the advantageous market conditions, the strategic reductions of the government credit portfolio continued to be pursued. The portfolio of the exposure to the PIIGS countries also fell as planned.

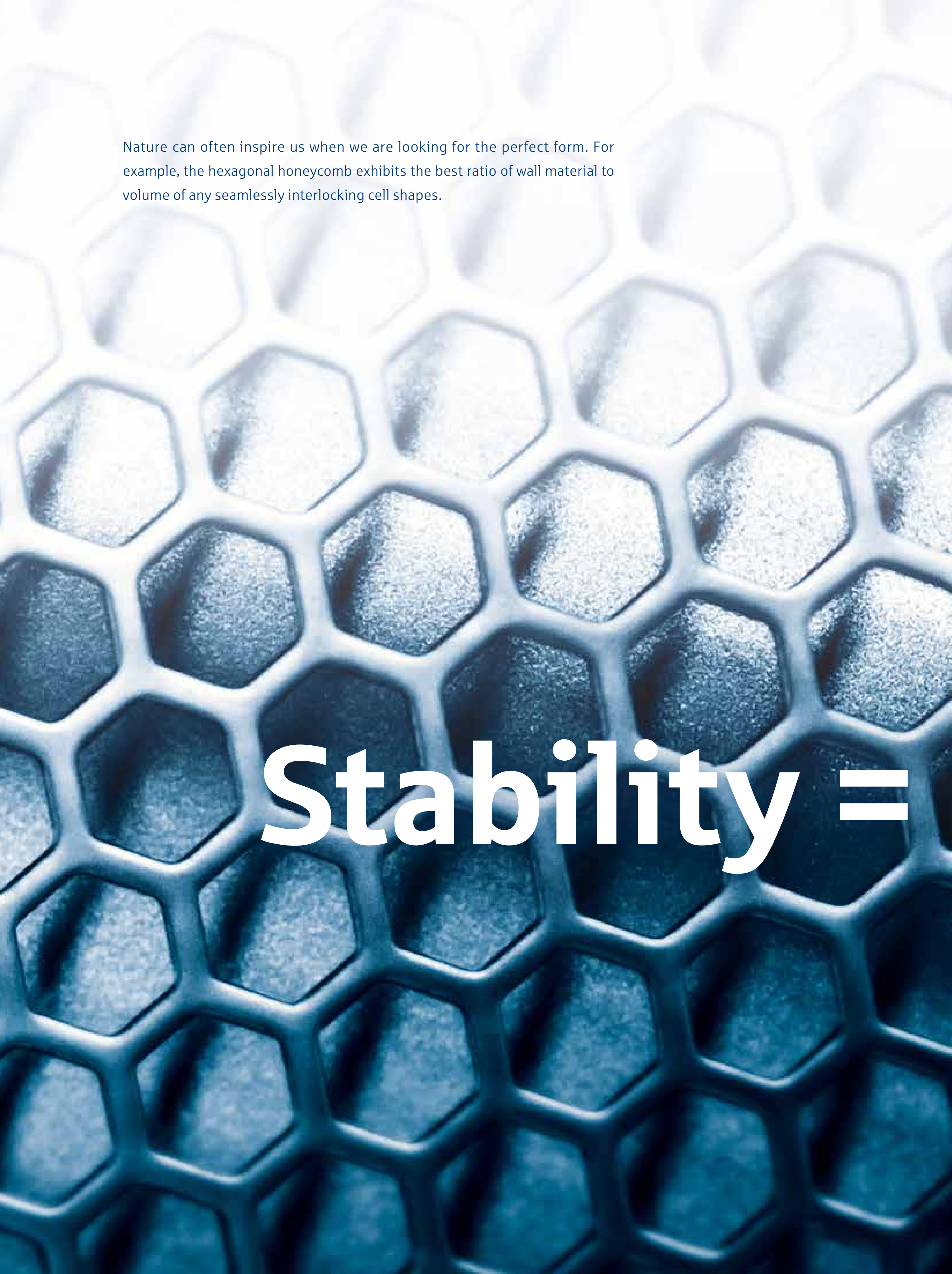
In the coming year, Deutsche Hypo will continue with the reduction of the government financing portfolio to protect the income statement, irrespective of the positive development on real estate, money and capital markets. These measures will also let Deutsche Hypo reduce hidden charges and risks in the banking book. Furthermore, other measures for the leveraging of additional synergies and for increasing efficiency at interfaces and in processes in risk management between Deutsche Hypo and the NORD/LB Group are planned. The possibility of increasing efficiency results in particular from the successful implementation of the use of the simplification options according to Section 2a (1) of the German Banking Act (KWG), old version.

In addition, Deutsche Hypo intends to actively implement the planned measures with respect to the higher capital requirements due to Basel III within the scope of various projects.

Hanover, 11 March 2014

The Board of Managing Directors

Pohl Rehfus



Nature can often inspire us when we are looking for the perfect form. For example, the hexagonal honeycomb exhibits the best ratio of wall material to volume of any seamlessly interlocking cell shapes.

Stability = Continuity × Strategy

Deutsche Hypo has remained true to itself for more than 140 years: thanks to a lean credit process it can offer attractive financing conditions to its customers on the major German and European real estate markets at all times. At the same time the Bank is able to fund on the capital market at favourable terms. Continuity of personnel, pronounced expertise, trust and reliability form the cornerstones of its customer relationships. Precisely this stability enables Deutsche Hypo to continually develop its corporate strategy and by doing so to stand out from the competition in the long term

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2013

ASSETS

	€	€	€	31 December 2012 (€ thousand)
1. Cash reserve				
a) Cash on hand		285.00		1
b) Credit with central banks		64,347,147.64		32,286
of which:				
with the "Deutsche Bundesbank"				
€ 64,347,147.64 (PY € 32,286 thousand)				
			64,347,432.64	**32,287**
2. Receivables from financial institutions				
a) Mortgage loans		25,891,290.44		34,366
b) Loans to local authorities		1,742,387,521.36		2,417,064
c) Other receivables of which:		1,262,645,810.20		2,078,276
due daily				
€ 829,396,900.50 (PY € 1,179,245 thousand)				
			3,030,924,622.00	**4,529,706**
3. Receivables from customers				
a) Mortgage loans		11,905,858,642.51		12,346,905
b) Loans to local authorities		5,670,066,088.15		6,450,078
c) Other receivables		140,344,349.68		279,220
			17,716,269,080.34	**19,076,203**
4. Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers of which:	4,449,933,316.11			4,989,893
borrowed from "Deutsche Bundesbank"				
€ 2,781,706,640.12 (PY € 3,116,884 thousand)				
bb) from other issuers				
of which:	5,695,268,192.84			5,460,297
borrowed from "Deutsche Bundesbank"				
€ 5,086,907,748.99 (PY € 4,791,006 thousand)				
c) Own bonds		10,145,201,508.95		
Nominal amount		27,168,517.58		163,462
€ 25,761,000.00 (PY € 156,731 thousand)				
			10,172,370,026.53	**10,613,652**
5. Participatory interests			**76,949.43**	**77**
6. Shares in affiliated companies			**51,136.45**	**7,081**
7. Trust assets			**0.00**	**2**
of which:				
Loans on a trust basis € 0,00 (PY € 2 thousand)				
8. Intangible Assets				
b) Purchased licenses, industrial property, as well as licenses to those rights and assets		423,899.00		487
d) Payments made on account		416,500.00		482
			840,399.00	**969**
9. Tangible assets			**1,115,694.86**	**3,816**
10. Other assets			**180,419,876.50**	**156,548**
11. Accrued and deferred items				
a) from the issue and loan transaction		87,619,286.00		134,825
b) others		20,493,974.60		23,017
			108,113,260.60	**157,842**
Total assets			**31,274,528,478.35**	**34,578,183**

LIABILITIES

	€	€	€	31 December 2012 (€ thousand)
1. Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		176,367,293.43		247,371
b) Issued registered public Pfandbriefe		563,774,410.84		574,411
c) Other liabilities		5,925,639,690.32		7,564,803
of which:				
due daily				
€ 623,256,311.38 (PY € 640,723 thousand)				
			6,665,781,394.59	**8,386,585**
2. Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		859,372,612.45		862,840
b) Issued registered public Pfandbriefe		7,093,066,610.18		7,644,058
d) Other liabilities		1,315,388,333.77		1,206,614
with which:				
due daily				
€ 34,419,423.10 (PY € 34,778 thousand)				
			9,267,827,556.40	**9,713,512**
3. Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,703,482,622.27			7,187,669
ab) public Pfandbriefe	3,365,743,044.26			4,000,936
ac) other bonds	2,624,141,891.22			3,490,721
		13,693,367,557.75		
			13,693,367,557.75	**14,679,326**
4. Trust liabilities			**0.00**	**2**
of which:				
Loans on a trust basis: € 0.00 (PY € 2 thousand)				
5. Other liabilities			**149,413,102.48**	**241,755**
6. Accrued and deferred items				
a) from the issue and loan transaction		76,704,945.84		103,125
b) other		14,288,728.99		18,142
			90,993,674.83	**121,267**
7. Provisions				
a) Provisions from pensions and similar obligations		30,011,612.86		31,915
b) Tax provisions		7,959,740.89		9,750
c) Other provisions		22,602,215.36		15,499
			60,573,569.11	**57,164**
8. Subordinated liabilities			**336,000,000.00**	**353,000**
9. Jouissance right capital			**83,000,000.00**	**98,000**
10. Funds for general banking risks			**14,400,000.00**	**14,400**
11. Equity				
a) Subscribed capital		80,640,000.00		80,640
Capital held by silent partners		75,000,000.00		150,000
b) Capital reserves		481,313,877.23		406,314
c) Profit reserves				
ca) statutory reserves	18,917,799.60			18,918
cd) other profit reserves	257,299,946.36			242,078
		276,217,745.96		
d) Balance sheet profit		0.00		15,222
			913,171,623.19	**913,172**
Total liabilities			**31,274,528,478.35**	**34,578,183**
1. Contingent liabilities				
b) Liabilities arising from sureties and guarantee agreements		838,182,940.49		864,795
			838,182,940.49	**864,795**
2. Other obligations				
c) Irrevocable credit commitments		1,067,840,768.92		1,169,449
			1,067,840,768.92	**1,169,449**

INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

	€	€	€	1 January 2012 – 31 December 2012 (€ thousand)
1. Interest income from				
a) Credit and money market transactions	752,053,643.40			865,083
b) Fixed interest bearing securities and book-entry securities	302,114,317.55			350,495
		1,054,167,960.95		1,215,578
2. Interest expenses		843,768,704.20		1,005,802
			210,399,256.75	**209,776**
3. Current income from				
b) Participatory interests		1,145.50		1
			1,145.50	**1**
4. Commission income		13,110,234.08		11,614
5. Commission expenses		7,114,320.85		4,332
			5,995,913.23	**7,282**
6. Other operating income			**3,207,926.71**	**4,396**
7. General administrative expenses				
a) Personnel expenses				
aa) wages and salaries	36,555,468.95			37,975
ab) social security and expenses for pension plans and for support	7,619,508.60			8,387
of which: for pension plans € 2,671,056.58 (PY € 2,787 thousand)				
		44,174,977.55		
b) Other administrative expenses		24,885,107.83		26,049
			69,060,085.38	**72,411**
8. Write-downs and value adjustments of intangible assets and tangible fixed assets			**860,570.30**	**798**
9. Other operating expenses			**8,674,140.15**	**8,743**
10. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business		83,238,264.35		57,574
			83,238,264.35	**57,574**
11. Allocation to the funds for general banking risks			**0.00**	**14,400**
12. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securites treated as fixed assets		0.00		17,129
13. Income from writing up participatory interests, shares in affiliated companies and securities treated as fixed assets		6,529,350.26		0
			6,529,350.26	**– 17,129**
14. Result from normal operations			**64,300,532.27**	**50,400**
15. Extraordinary income		13,855,660.07		0
16. Extraordinary expenses		7,110,576.70		4,329
17. Extraordinary result			**6,745,083.37**	**– 4,329**
18. Taxes on income		5,563,644.23		13,586
19. Other taxes not included under item 9		16,001.50		23
			5,579,645.73	**13,609**
20. Profit surrendered under partial surrender agreements or a profit and loss transfer agreement			**65,465,969.91**	**17,240**
21. Profit for the period			**0.00**	**15,222**
22. Transfer to profit reserves				
d) to other profit reserves			**0.00**	0
23. Balance sheet profit			**0.00**	**15,222**

STATEMENT OF CHANGES IN EQUITY

in € thousand	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

in € thousand	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Balance sheet profit	Total equity
As of 1 January 2012	80,640	150,000	406,314	254,995	6,001	897,950
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	0	0	0	6,001	– 6,001	0
Profit for the period	0	0	0	0	15,222	15,222
As of 31 December 2012	80,640	150,000	406,314	260,996	15,222	913,172

CASH FLOW STATEMENT

in € thousands		2013	2012
1.	**Net result before extraordinary items**	**– 6,745**	**19,552**
	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	77,443	95,464
3.	Increase/decrease in reserves	– 1,746	2,126
4.	Other non-cash espenses/income	0	14,400
5.	Profit/loss from the disposal of financial assets	– 6,464	3,575
6.	Profit to be surrendered under a profit and loss transfer agreement	49,600	0
7.	Other adjustments (balance)	– 186,011	– 174,525
8.	Subtotal	– 73,923	– 39,408
	Change in assets and liabilities from current operations		
9.	Receivables		
	a. from financial institutions	1,415,390	– 740,948
	b. from customers	1,254,517	– 301,328
10.	Securitities (if not financial assets)	131,406	481,269
11.	Other assets from current operations	– 27,637	– 116,828
12.	Liabilities		
	a. to financial institutions	– 1,728,243	667,164
	b. to customers	– 435,151	– 556,152
13.	Securitised liabilities	– 924,482	– 359,379
14.	Other liabilitites from current operations	– 78,946	– 1,573
15.	Interest and dividends received	1,136,643	1,271,895
16.	Interest paid	– 875,998	– 1,068,108
17.	Extraordinary deposits	0	0
18.	Extraordinary disbursements	– 164	– 636
19.	Income tax payments	– 6,194	– 3,551
20.	**Cash flow from current operations**	**– 212,782**	**– 767,583**
21.	Proceeds from disposals of		
	a. financial assets	1,294,430	1,198,052
	b. tangible fixed assets	16,191	12
22.	Disbursements for investments in		
	a. financial assets	– 999,493	– 443,233
	b. tangible fixed assets	– 59	– 147
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)	6,771	– 1,874
26.	**Cash flow from investment activities**	**317,840**	**752,810**
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	– 40,998	– 43,614
29.	Changes in funds from other capital (balance)	– 32,000	– 15,000
30.	**Cash flow from financing activities**	**– 72,998**	**– 58,614**
31.	Cash change in finance funds	32,060	– 73,387
32.	Exchange-rate and valuation-related changes in finance funds	0	0
33.	Finance funds at the start of the period	32,287	105,674
34.	**Finance funds at the end of the period**	**64,347**	**32,287**

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 (Actien-Gesellschaft), Hanover, (Deutsche Hypo) for the 2013 financial year have been prepared in accordance with the provisions of the German Commercial Code (HGB) as amended by the German Accounting Law Modernisation Act (BilMoG) in conjunction with the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG) and Pfandbrief Act (PfandBG). The annual financial statements comprise the balance sheet, the income statement, the cash flow statement, the statement of equity, and the notes. The breakdown of the balance sheet and the income statement is based on forms 1 and 3 of the RechKredV.

Effective 1 January 2013, there is a profit and loss 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 related 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. Due to the profit and loss transfer agreement, there is no reporting of profit for the period or a balance sheet profit or loss in deviation from the previous year.

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

In deviation from the previous year, certain interest-like fee components in the lending business are no longer reported in net commission income, but rather in interest income. Furthermore, there was a change in the disclosure of expenses and income from the compounding or discounting of provisions. While the contribution to earnings by the compounding or discounting of interest for provisions in the lending business continued to be reported in net interest income, these items for other provisions are now reported in deviation from this under other operating income. 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	1,212,057	3,521	1,215,578
2. Interest expenses	1,007,728	– 1,926	1,005,802
4. Commission income	15,135	– 3,521	11,614
9. Other operating expenses	6,817	1,926	8,743

3. Accounting and valuation principles

Receivables from financial institutions and customers are reported at their nominal value (Section 340e (2) of the Commercial Code // HGB). Any differences between the nominal value and the payout value are reported under accrued and deferred items, which are released on a straight-line basis.

Appropriate loan loss provisions and provisions according to cautious criteria stand in relation to identifiable risks in the lending business. Uncollectable receivables are written down. Account is taken of contingent credit risks in the form of a lump-sum value adjustment. The calculation of the lump-sum value adjustment is handled in accordance with the requirements of the Federal Ministry of Finance Circular (BMF) 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) HGB. Write-ups are performed pursuant to Section 253 (5) HGB in cases where the reasons for an unscheduled write-down cease to apply. Securities from the liquidity reserve are valued in accordance with the lower-of-cost-or-market principle in accordance with Section 253 (4) HGB. 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) HGB.

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

Applying Section 340c (2) HGB, the expenses arising from write-downs on participatory interests, shares in affiliated companies and securities treated as fixed assets are offset against write-ups on these assets, and the resulting income or expense is reported under income from financial assets on the income statement. In the application of Section 34 (3) of the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV), there is no individual table of write-ups or write-downs on participatory interests, shares in affiliated companies and securities treated as fixed assets.

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).

The Bank’s deferred tax liabilities, which are very low, have been netted against deferred tax assets. The surplus from deferred taxes is not capitalised by exercising the option provided under Section 274 (1) Clause 2 HGB. Comments in the notes to the financial statements pursuant to Section 285 (29) are no longer made on account of the fiscal tax unit that has existed since the past financial year.

The tax claim from the amendment to Section 37 German Corporation Tax Act (KStG) by the German Act concerning Fiscal Accompanying Measures for the introduction of the European Company and for the Modification of Further Fiscal Regulations (SEStEG) is recognized, using a discount rate of 3.9 % at present value. Payment will be made starting in 2008 in ten equal annual installments.

Liabilities, as a general rule, are reported at their settlement amount. Any difference between the nominal value and payout amount is reported under accrued and deferred items, which are written back on a scheduled basis.

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 raises 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 HGB) in accordance with Section 253 (2), Clause 1 HGB 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 HGB, 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 2013 are based on the following actuarial assumptions:

	31.12.2013	31.12.2012
Actuarial interest	4.88 %	5.04 %
Mortality tables	Heubeck RT 2005 G	Heubeck RT 2005 G
Expectancy dynamics	2.00 % p.a.	2.00 % p.a.
Pension dynamics	2.75 % / 2.87 % / 1.00 %	2.75 % / 2.87 % / 1.00 %
Fluctuation	3.00 %	3.00 %

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

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 (EGHGB) by no later than 31 December 2024 in instalments of at least one fifteenth (€ 570 thousand) each financial year. 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 BilMoG (German Accounting Law Modernisation Act). As of 31 December 2013, the shortfall was € 6,271 thousand (2012: € 6,841 thousand).

The other provisions and tax provisions are set at the level of the settlement amount that is required on the basis of a reasonable commercial assessment. Pursuant to Section 253 (2) Clause 1 HGB, with a residual term of more than one year, they are discounted at the average market rate of interest for the past seven financial years reflecting their residual term. The applicable discount interest rate is determined by the “Deutsche Bundesbank” (German Central Bank) in accordance with the German Provision Discounting Ordinance (RückAbzinsV) and announced monthly. The disclosure of expenses and income from the compounding or discounting of provisions takes place in the net interest income for provisions from the lending 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 (HGB).

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

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

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

The amount of the foreign currency assets as of balance sheet date totalled € 4,263.3 million (2012: € 5,166.2 million), and the amount of the foreign currency liabilities totalled € 914.4 million (2012: € 1,245.2 million).

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 nonaccounting 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 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 or 2 HGB is not required for excess liability from the business with interest-related financial instruments in the banking book as of the reporting deadline. The entire banking book was included in the calculation for the balancing - in accordance with the context of funding. In the calculation, the future net result of the banking book is 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 impact on the net result 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	31.12.2013	31.12.2012
Receivables from financial institutions		
Breakdown of residual maturities		
- due daily *)	829,397	1,179,245
- up to three month *)	185,324	641,670
- more than three months and up to one year	180,059	434,162
- more than one year and up to five years	1,116,089	1,299,381
- more than five years	339,984	511,794
- proportionate interest in total	380,072	463,454
Balance sheet item	**3,030,925**	**4,529,706**
of which from affiliated companies	195,321	556,008
Receivables from customers		
Breakdown of residual maturities		
- up to three months	700,468	1,131,409
- more than three months and up to one year	2,240,943	1,683,447
- more than one year and up to five years	6,900,975	6,536,378
- more than five years	7,732,282	9,570,910
- proportionate interest in total	141,601	154,059
Balance sheet item	**17,716,269**	**19,076,203**
of which subordinate	-	5,618
of which from affiliated companies	-	5,618
of which from investors and investees	2,215	2,763

*) In the previous year, receivables due daily were assigned to the maturity band "up to three months".

8. Bonds and other fixed interest securities

in € thousands	31.12.2013	31.12.2012
Bonds and other fixed interest securities	**10,172,370**	**10,613,652**
of which from affiliated companies	1,241,074	302,014
due in the following year	1,159,194	1,312,106
of which exchange-eligible and listed on exchanges	9,120,716	9,248,928
of which exchange-eligible and not listed on exchanges	1,051,654	1,364,724

For securities in fixed assets with a carrying value of € 2,646.2 million (2012: € 3,928.4 million) and a fair value of € 2,445.5 million (2012: € 3,670.2 million), a write-down to the lower value of € 200.7 million (2012: € 258.2 million) was not applied. In these cases, the Bank does not anticipate a long-term impairment, since a review of the credit rating of the issuer in question in the individual case did not reveal any signs that a long-term impairment was justified.

9. Participatory interests and shares in affiliated companies

Participatory interests and shares in affiliated companies did not contain any marketable securities as of balance sheet date or on the corresponding reference date.

As of 31 December 2013, there were the following shareholdings in terms of Section 285 (11) HGB:

Name/Location	Share	Equity	Result
Terra Grundbesitzgesellschaft am Aegi mbH, Hanover*) (in € thousands)	100.0 %	1,121	679
Deutsche Hypo Delaware Blocker Inc., Wilmington / Delaware, USA **) (in USD thousands)	100.0 %	459	66

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

10. Trust transactions

in € thousands	31.12.2013	31.12.2012
Trust assets (total amount on asset side)	-	2
Receivables from customers	-	2
Trust liabilities (total amount on liabilities side)	-	2
Liabilities to financial institutions	-	2

11. Fixed asset schedule

	Historical costs			Depreciation		Book value on	Book value on
in € thousands	01.01.2013	Additions	Disposals	Accumulated	in 2013	31.12.2013	31.12.2012
Intangible assets	7,809	316	–	7,285	445	**840**	**969**
Tangible assets	15,230	59	11,049	3,124	416	**1,116**	**3,816**
of which leased property and buildings						0	719
of which own property and buildings						0	1,504
of which business and office equipment						1,116	1,593
Securities in fixed assets						**10,145,202**	**10,450,190**
Participatory interests						**77**	**77**
Shares in affiliated companies						**51**	**7,081**

12. Other assets

Other assets totalled € 180,420 thousand (2012: € 156,548 thousand) and primarily included adjustment items from foreign currencies in the amount of € 162,393 thousand (2012: € 142,926 thousand).

13. Accrued and deferred items

in € thousands	31.12.2013	31.12.2012
Assets		
Issuing discount from bonds	23,108	25,557
Premium on claims	64,511	109,267
Swap upfront payments	20,405	22,970
Other	89	48
Balance sheet item	**108,113**	**157,842**
Liabilities		
Discount from claims	17,785	24,241
Premium on bonds	37,319	56,305
Processing fees and interest compensation	21,601	22,579
Swap upfront payments	14,289	18,142
Balance sheet item	**90,994**	**121,267**

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

in € thousands	31.12.2013	31.12.2012
Liabilities to financial institutions		
Breakdown of residual maturities		
- due daily *)	623,256	640,723
- up to three months *)	2,789,626	3,985,879
- more than three months and up to one year	903,819	663,218
- more than one year and up to five years	1,686,901	2,235,385
- more than five years	318,459	469,503
- proportionate interest in total	343,720	391,877
Balance sheet item	**6,665,781**	**8,386,585**
of which from affiliated companies	1,971,334	3,975,972
Liabilities to customers		
Breakdown of residual maturities		
- due daily *)	34,419	34,778
- up to three months *)	129,618	214,741
- more than three months and up to one year	468,999	321,835
- more than one year and up to five years	2,042,300	1,811,165
- more than five years	6,389,038	7,122,771
- proportionate interest in total	203,454	208,222
Balance sheet item	**9,267,828**	**9,713,512**
of which to affiliated companies	603	276
Securitised liabilities		
due in the following year	4,103,274	3,784,582
of which to affiliated companies	1,916,893	2,325,681

*) In the previous year, receivables due daily were assigned to the maturity band "up to three months".

15. Other liabilities

Other liabilities totalled € 149,413 thousand (2012: € 241,755 thousand) and primarily included adjustment items from foreign currencies in the amount of € 113,164 thousand (2012: € 207,136 thousand) and pro-rata interest on subordinated liabilities in the amount of € 23,143 thousand (2012: € 23,371 thousand).

16. Subordinated liabilities

Subordinated liabilities fell during the year under review from € 353.0 million to € 336.0 million. They are subject to nominal rates of interest from 4.0 % to 6.75 % and fall due from 2014 to 2027. Early repayments and conversions are excluded. One subordinated liability exceeds 10.0 % of the total amount reported. It is a liability of € 90.0 million subject to an interest rate of 6.12 % and due on 27 January 2020. Early repayment will only be possible in the event of additional payments to the lender or its legal successor due to changes in taxation. The liabilities reported correspond to the requirements of Section 10 (5a) of the German Banking Act (KWG).

Subordinated liabilities of € 16.0 million (2012: € 27.0 million) will fall due within the next two years. Interest expenses in the year under review amounted to € 19.4 million (2012: € 19.2 million). As of balance sheet date, there were subordinated liabilities to affiliated companies in the amount of € 90.0 million (2012: € 90.0 million*)).

*) The amount of € 95.1 million from 2012 does not include pro rata interest

17. Jouissance right capital

Reported jouissance right capital totalled a nominal amount of € 83.0 million (2012: € 98.0 million). In the past financial year, jouissance rights with a nominal amount of € 15.0 million were repaid prematurely. The jouissance rights meet the requirements of Section 10 (5) of the German Banking Act (KWG). 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 € 23.0 million (2012: € 0.0 million) will fall due within the next two years. There continues to be no approved jouissance right capital.

18. Notes on the development of equity

Deutsche Hypo held subscribed capital of € 80.6 million on 31 December 2013, which is divided into 13,440,000 individual shares and is the same as in 2012. 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 Sections 202 et seq. of the Joint Stock Companies Act (AktG). The right was not exercised. As of balance sheet date, there was a contract for capital held by silent partners in the amount of € 75.0 million. It was subject to an interest rate of 11.2 % and had an indefinite term. Other capital held by silent partners in the amount of € 75.0 million as at balance sheet date last year was converted to capital reserves. The capital reserve rose to € 481.3 million in comparison to the prior year (2012: € 406.3 million). In accordance with Section 10 (4) of the German Banking Act (KWG), existing capital held by silent partners are allocated to the Bank’s liable equity capital. The profit reserves increased by € 15.2 million to € 257.3 million on account of additions to other profit reserves from the balance sheet profit as of 31 December 2012.

19. Contingent liabilities and other obligations

in € thousands	31.12.2013	31.12.2012
Liabilities arising from sureties and guarantee agreements	**838,183**	**864,795**
of which credit default swaps	573,245	580,674
of which sureties in the mortgage business	264,938	284,121

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

20. 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 € 22.0 million result (2012: € 27.0 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.

21. Securities repurchase transactions

As of the reporting date, 50 (2012: 72) securities with a book value of € 2,602.1 million (2012: € 3,219.0 million) were the subject of repo transactions. The securities are used to hedge liabilities to financial institutions.

22. Open market transactions

As of 31 December 2013, there were securities with a nominal value of € 724.6 million (2012: € 990.8 million) for overdraft facilities and open market transactions with the "Deutsche Bundesbank" (German Central Bank). They are used to hedge liabilities to financial institutions. As of the reporting date, no use had been made of open market loans (2012: € 372.4 million). As in the previous year, no own bonds were pledged as collateral.

Notes on the income statement

23. Other operating income

Other operating income totalled € 3,208 thousand (2012: € 4,396 thousand) and included income from the release of provisions of € 2,008 thousand (2012: € 310 thousand), cost reimbursements of € 382 thousand (2012: € 111 thousand), income from currency conversion in the amount of € 241 thousand (2012: € 3,382 thousand) and ongoing income from leases in the amount of € 210 thousand (2012: € 244 thousand).

24. Other operating expenses

Other operating expenses of € 8,674 thousand (2012: € 8,743 thousand) mainly include the contribution to the restructuring funds for financial institutions (bank levy) of € 6,204 thousand (2012: € 6,175 thousand) and interest expenses in connection with the discounting of provisions in the amount of € 2,151 thousand (2012: € 1,950 thousand).

25. Extraordinary income

Extraordinary income of € 13,856 thousand (2012: € 0 thousand) mainly includes the sale of buildings for own use. In terms of income taxes, this income does not have any impact at the level of Deutsche Hypo on account of the existing profit and loss transfer agreement and the resulting fiscal tax unit.

26. Extraordinary expenses

Extraordinary expenses of € 7,111 thousand (2012: € 4,329 thousand) were due to the implementation of additional measures in connection with the SIGN project started in 2012, which resulted in additional restructuring expenses, and to allocations to pension provisions in accordance with Art. 67 (1) Cl. 1 of the Introductory Act to the German Commercial Code (EGHGB) in the amount of € 570 thousand (2012: € 570 thousand).

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

As of 31 December 2013, the profit surrendered under partial surrender agreements or a profit and loss transfer agreement totalled € 65.5 million (2012: € 17.2 million). As a result of the profit and loss transfer agreement that took effect on 1 January 2013, € 49.6 million (2012: € 0.0 million) was transferred to NORD/LB. In addition, interest on the capital held by silent partners in the amount of € 15.9 million (2012: € 17.2 million) was taken into account in this result.

Other disclosures

28. Services rendered to third parties

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

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

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

Mortgage Pfandbriefe

	Nominal		Net present value		Risk net present value*)	
in € millions	2013	2012	2013	2012	2013	2012
Mortgage Pfandbriefe	8,648	8,157	9,037	8,802	8,734	8,197
of which derivatives	–	–	25	55	– 28	– 2
Cover pool	9,366	9,747	10,153	10,661	9,729	9,966
of which derivatives	–	–	25	32	70	63
Excess cover	**718**	**1,590**	**1,116**	**1,859**	**995**	**1,769**

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

	2013						
in € millions	up to and including one year	over one year and up to and including two years	over two years and up to and including three years	over three years and up to and including four years	over four years and up to and including five years	over five years and up to and including ten years	more than ten years
Mortgage Pfandbriefe	1,499	1,913	1,690	1,060	775	1,440	271
Cover pool	2,002	1,450	1,204	980	1,025	2,377	328

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

Public Pfandbriefe

	Nominal		Net present value		Risk net present value*)	
in € millions	2013	2012	2013	2012	2013	2012
Public Pfandbriefe	10,813	11,995	12,302	14,104	11,698	15,265
of which derivatives	–	–	5	11	– 3	– 3
Cover pool	11,487	12,587	13,097	14,952	12,307	16,195
of which derivatives	–	–	7	–	12	–
Excess cover	**674**	**592**	**795**	**848**	**609**	**930**

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

	2013						
in € millions	up to and including one year	over one year and up to and including two years	over two years and up to and including three years	over three years and up to and including four years	over four years and up to and including five years	over five years and up to and including ten years	more than ten years
Public Pfandbriefe	2,148	1,301	1,098	909	534	2,104	2,719
Cover pool	1,828	1,847	1,343	1,235	888	2,010	2,336

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

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

Breakdown by size

in € millions	31.12.2013	31.12.2012
up to and including € 300,000	53	138
between € 300,000 and including € 5 million	1,270	1,448
more than € 5 million	6,593	6,545
Total	**7,916**	**8,131**

Breakdown of receivables by area and type of use

in € millions	Germany 2013	Germany 2012	UK 2013	UK 2012	Netherlands 2013	Netherlands 2012	France 2013	France 2012
Apartments	16	33	–	–	31	32	–	–
Detached family homes	29	95	–	–	64	1	–	–
Multifamily homes	647	764	1	1	63	121	108	61
Office buildings	1,303	1,161	656	610	312	380	355	332
Commercial buildings	1,969	1,809	261	332	174	86	244	151
Industrial buildings	13	14	–	13	–	1	–	–
Other commercially used buildings	486	588	104	229	142	176	–	–
New buildings, not yet completed or not yet a source of income	267	270	43	35	–	–	10	4
Building sites	52	33	15	16	–	–	–	–
Total	**4,782**	**4,767**	**1,080**	**1,236**	**786**	**797**	**717**	**548**

in € millions	Austria 2013	Austria 2012	Spain 2013	Spain 2012	Belgium 2013	Belgium 2012	USA 2013	USA 2012	Poland 2013	Poland 2012
Apartments	–	–	–	–	–	–	–	–	–	–
Detached family homes	–	–	–	–	–	–	–	–	–	–
Multifamily homes	–	–	–	–	–	–	49	53	–	–
Office buildings	–	–	20	59	12	12	210	309	6	–
Commercial buildings	12	–	159	163	–	–	21	37	–	–
Industrial buildings	–	–	–	–	–	–	–	–	–	–
Other commercially used buildings	–	13	20	26	–	–	33	85	–	–
New buildings, not yet completed or not yet a source of income	–	–	–	–	–	–	–	17	–	–
Building sites	–	–	–	–	–	–	9	10	–	–
Total	**12**	**13**	**199**	**248**	**12**	**12**	**322**	**511**	**6**	**–**

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

in € millions	31.12.2013	31.12.2012
Germany	–	1.1
Netherlands	0.3	0.4
Spain	2.9	5.2
USA	0.4	2.1
UK	–	0.2
Total	**3.6**	**9.0**

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

	As of 31 December 2013					
	Foreclosures pending		Sequestration pending		Foreclosures executed	
	2013	2012	2013	2012	2013	2012
Properties used for living	5	24	1	3	–	6
Properties used for commercial purposes	5	12	3	9	5	4
Total	**10**	**36**	**4**	**12**	**5**	**10**

In financial year 2013, Deutsche Hypo did not acquire any property to save existing mortgages, as in the prior year.

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

in € millions	2013	2012
Properties used for living	–	1.5
Properties used for commercial purposes	9.3	6.3
Total	**9.3**	**7.8**

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

	Germany		Belgium		Eur. Union		Finland	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Central state	221	221	–	–	121	92	–	–
Regional authority	3,160	3,699	266	232	–	–	59	15
Local authority	150	139	–	–	–	–	–	–
Other	2,993	3,506	140	140	313	337	–	–
Total	**6,524**	**7,565**	**406**	**372**	**434**	**429**	**59**	**15**

	France		UK		Ireland		Italy	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Central state	–	–	–	–	–	–	336	370
Regional authority	89	89	–	–	–	–	503	457
Local authority	–	–	–	–	–	–	–	–
Other	125	83	60	61	–	20	79	83
Total	**214**	**172**	**60**	**61**	**–**	**20**	**918**	**910**

	Japan		Canada		Latvia		Luxemburg	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Central state	–	–	–	–	–	–	–	–
Regional authority	90	159	134	140	19	20	–	–
Local authority	–	–	–	–	–	–	–	–
Other	21	26	65	68	–	–	–	–
Total	**111**	**185**	**199**	**208**	**19**	**20**	**–**	**–**

	Netherlands		Norway		Austria		Poland	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Central state	–	–	–	–	654	663	85	113
Regional authority	160	160	–	–	45	47	–	–
Local authority	–	–	–	–	–	–	–	–
Other	290	290	–	40	382	278	–	–
Total	**450**	**450**	**–**	**40**	**1,081**	**988**	**85**	**113**

	Portugal		Sweden		Switzerland		Slovenia	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Central state	–	–	–	–	–	–	30	30
Regional authority	–	–	17	67	69	115	–	–
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	100	100	25	25
Total	**–**	**–**	**17**	**67**	**169**	**215**	**55**	**55**

	Spain		Hungary		USA		Other*)	
in € millions	2013	2012	2013	2012	2013	2012	2013	2012
Central state	–	–	44	69	–	–	–	–
Regional authority	159	109	–	–	293	314	–	–
Local authority	–	–	–	–	–	–	–	–
Other	48	57	–	–	–	–	142	152
Total	**207**	**166**	**44**	**69**	**293**	**314**	**142**	**152**

*) Other supranational organisations

As of 31 December 2013, payments for public receivables that were overdue by at least 90 days amounted to € 1 thousand (2012: € 1 thousand).

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

Cover for bonds in circulation

	Mortgage Pfandbriefe		Public Pfandbriefe	
in € millions	2013	2012	2013	2012
Ordinary cover				
Receivables from financial institutions				
Mortgage loans	1	3	–	–
Public sector loans	–	–	1,702	2,363
Receivables from customers				
Mortgage loans	7,915	8,128	–	–
Public sector loans	–	–	5,708	6,415
Bonds of public sector issuers	–	–	4,077	3,809
	7,916	8,131	11,487	12,587
Substitute cover				
Other receivables from financial institutions	780	450	–	–
Bonds and other fixed income securities	670	1,166	–	–
	1,450	1,616	–	–
Total value of cover	9,366	9,747	11,487	12,587
Total amount in circulation requiring cover	8,648	8,157	10,813	11,995
Surplus cover	718	1,590	674	592

31. Derivatives

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

Forward translations include forward exchange transactions used to hedge against positions in GBP, USD, JPY and CHF and due to expire on 22 August 2016 at the latest. The remaining positions shown are all OTC products used to hedge against interest rate and currency risks and to improve and/or safeguard margins in loan business and investments in foreign securities. Market values represent the current value of the derivatives at market conditions (yield curves, forex rates, etc.) including accrued interest. The book values are comprised of pro-rata interest and upfronts.

The figures determined in this way are summarised in the following tables by product group. This is in line with the requirements of Section 285, Clause 19 HGB.

2013	Nominal amount / Residual term						
in € millions	< = 1 years	1–5 years	> 5 years	Total	Fair value	Book value	Balance sheet item
Currency-related transactions							
Forward exchange transactions	1,136	23	–	1,519	– 2	1	Assets 2; Liabilities 1
Cross-currency swaps	494	1,583	955	3,032	– 85	7	Assets 2 and 11; Liabilities 1 and 6
Interest rate-related transactions							
Interest rate swaps	5,416	14,117	15,515	35,048	– 80	– 30	Assets 2 and 11; Liabilities 1 and 6
Credit derivatives							
Total return swaps	–	94	422	516	– 14	– 8	Assets 2; Liabilities 1
Credit default swaps	–	573	–	573	– 28	0	

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

The netted fair values of € – 208.7 million (2012: € – 544.9 million), split by counterparties, gave rise to positive fair values of € 2,066.6 million (2012: € 2,863.2 million) and negative market values of € 2,275.3 million (2012: € 3,408.1 million).

To hedge the default risks of counterparties after netting, Deutsche Hypothekenbank has entered into security agreements with most of its business partners. As of 31 December 2013, Deutsche Hypothekenbank had provided security of € 801.9 million (2012: € 1,161.7 million), and received security of € 536.8 million (2012: € 658.6 million).

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

THOMAS STEPHAN BÜRKLE
(until 31 December 2013)
– Chairman –

ANDREAS POHL
– Speaker of the Board of Managing Directors since 14 January 2014 –

ANDREAS REHFUS

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

33. Members of the Supervisory Board

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

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

DR. JOHANNES-JÖRG RIEGLER
Hanover
Vice Chairman of the Board of Managing Directors of Norddeutschen Landesbank Girozentrale (until 28 February 2014)

THOMAS KRÜGER
Hanover
Member of the Board of Managing Directors of VGH Versicherungen (since 1 July 2013)

DIRK METZNER
Hanover
Bank employee

FRANK WOLFF
Hanover
Bank employee

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

The emoluments paid to the Board of Managing Directors for the 2013 financial year totalled € 1,263 thousand (2012: € 1,208 thousand*)). Former members and their surviving dependents received € 1,484 thousand (2012: € 2,142 thousand). Provisions for pension obligations owed to this group of people totalled € 11,454 thousand as of 31 December 2013 (2012: € 10,729 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 2013, the shortfall was € 1,481 thousand (2012: € 1,616 thousand). The Supervisory Board received a fixed payment of € 126 thousand (2012: € 133 thousand) (including VAT).

*) The amount from the previous year was adjusted by € 50 thousand for supplementary services.

35. Size of workforce on average over the year

	2013	2012
Female employees	173	178
Male employees	237	242
Total	**410**	**420**

36. Auditor's fees

in € thousands	2013	2012
Audit of financial statements	629*)	601
Other confirmations	248	188**)
Total	**877**	**789**

*) Includes the subsequent expenses from financial year 2012 in the amount of € 14 thousand.
**) This amount does not include confirmation services of € 78 thousand which were performed in the 2012 financial year by the auditor in financial year 2011 and were not reported due to the change in the auditor.

37. Group affiliation

According to Section 271 (2) of the German Commercial Code (HGB), Deutsche Hypothekenbank (Actien-Gesellschaft) is a company affiliated with Norddeutsche Landesbank Girozentrale (Anstalt öffentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB) and is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as of 31 December 2012 were published on 28 May 2013 in the electronic federal gazette.

Hanover, 11 March 2014

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 2014

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, 2013. 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 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz	Schröder
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Not all steel cables are the same – its structure makes the difference: whilst braided steel cables are only used for special purposes, a distinction between lang lay and ordinary lay is made for standard cold-drawn cables.

Strength = Structures x $\frac{\text{Stability}}{\text{Flexibility}}$

Deutsche Hypo focuses on direct business with professional real estate investors, above all in regions with a strong real estate portfolio and positive long-term prospects, correspondingly good tenant structure and stable cash flow. In order to offer truly tailor-made financing concepts, the company provides individual and qualified advice to each individual customer. Lean structures that guarantee that each customer has a contact partner with the right expertise on the competition and legal issues are a key strength of Deutsche Hypo.

CORPORATE GOVERNANCE REPORT

The government commission for the German Corporate Governance Code made multiple changes to the code on 13 May 2013. They were published in the electronic federal gazette on 10 June 2013 and took effect on this day.

The changes to the code mainly affected the rules for the remuneration of the Board of Managing Directors and included the following components:

- New recommendations for the remuneration of the Board of Managing Directors and greater transparency,
- Company-specific cap for total remuneration,
- Specification of the desired retirement pension level,
- Focus on resolutions for streamlining and improving the readability of the code,
- Support for changes to the code from the consultation process.

According to the press release by the commission, the amendments to the code with respect to the remuneration of the board of managing directors are aimed at the further professionalization and strengthening of the supervisory board work through transparency and a better basis for decisions. Furthermore, the commission would like to use its current resolutions to contribute by making the recommendations for the remuneration of the board of managing directors clearer and more understandable for all stakeholders and by making it easier to evaluate the governance of companies.

Specifically, the code commission recommends for German publicly listed companies that the individual remuneration of the board of managing directors and its variable components should have an upper limit. The system and individual upper limits should continue to be set by the supervisory board for each specific company (4.2.3 (2) Cl. 6).

For the supervisory board of publicly listed companies, the transparency and understandability of its decision will increase by adding the criteria outlined today. The government commission recommends that the supervisory board should consider the relationship between the remuneration of the board of managing directors and that of senior management and the employees in total over the course of its historical development when setting the structure for the remuneration of the board of managing directors (4.2.2 (2) Cl. 3). In this connection, it makes another new recommendation that the supervisory board should set the desired retirement pension level for the board of managing directors and take into account the derived annual and long-term expenses for the company (4.2.3 (3)).

In order to improve comparability over time and in relation to other companies for the supervisory board and also for the broader public, the commission recommends the uniform preparation of important numeric information on the remuneration of the board of managing directors and, to do this, it recommends using the tables it proposes (4.2.5 (3) Cl. 2).

Furthermore, the code commission also eliminated a total of six recommendations and one suggestion to streamline and improve the readability of the code. The respectively valid version of the German Corporate Governance Code can be found on the website of the Bank.

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

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

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

The status for the implementation of the recommendations in the German Corporate Governance Code can be seen in the Declaration of Conformity. The Board of Managing Directors and the Supervisory Board agreed on the annually issued Declaration of Conformity on 4 December 2013. The Declaration of Conformity has been published at Deutsche Hypo's website. The text is worded as follows:

Declaration of Conformity 2013

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

1. Since the last Declaration of Conformity dated 13 December 2012, Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover has implemented the recommendations of the Government Commission on the German Corporate Governance Code dated 13 May 2013 with the following exceptions:

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

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

c) 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),

d) 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),

e) The financial statements for the financial year 2012 were published on 24 April 2013; the half-year financial report 2013 was published on 29 August 2013. 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).

2. Deutsche Hypothekenbank (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 13 May 2013, 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.

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 Hypothekenbank will not do so in the future either:

The Extraordinary General Meeting of Deutsche Hypothekenbank held on 13 November 2006 adopted a resolution with the requisite majority as per 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 Hypothekenbank held on 25 May 2011, a resolution was adopted to the effect that the details on the compensation of each individual member of the Board of Managing Directors as required by section 4.2.4 of the German Corporate Governance Code will not be disclosed in the company's annual financial and consolidated statements.

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

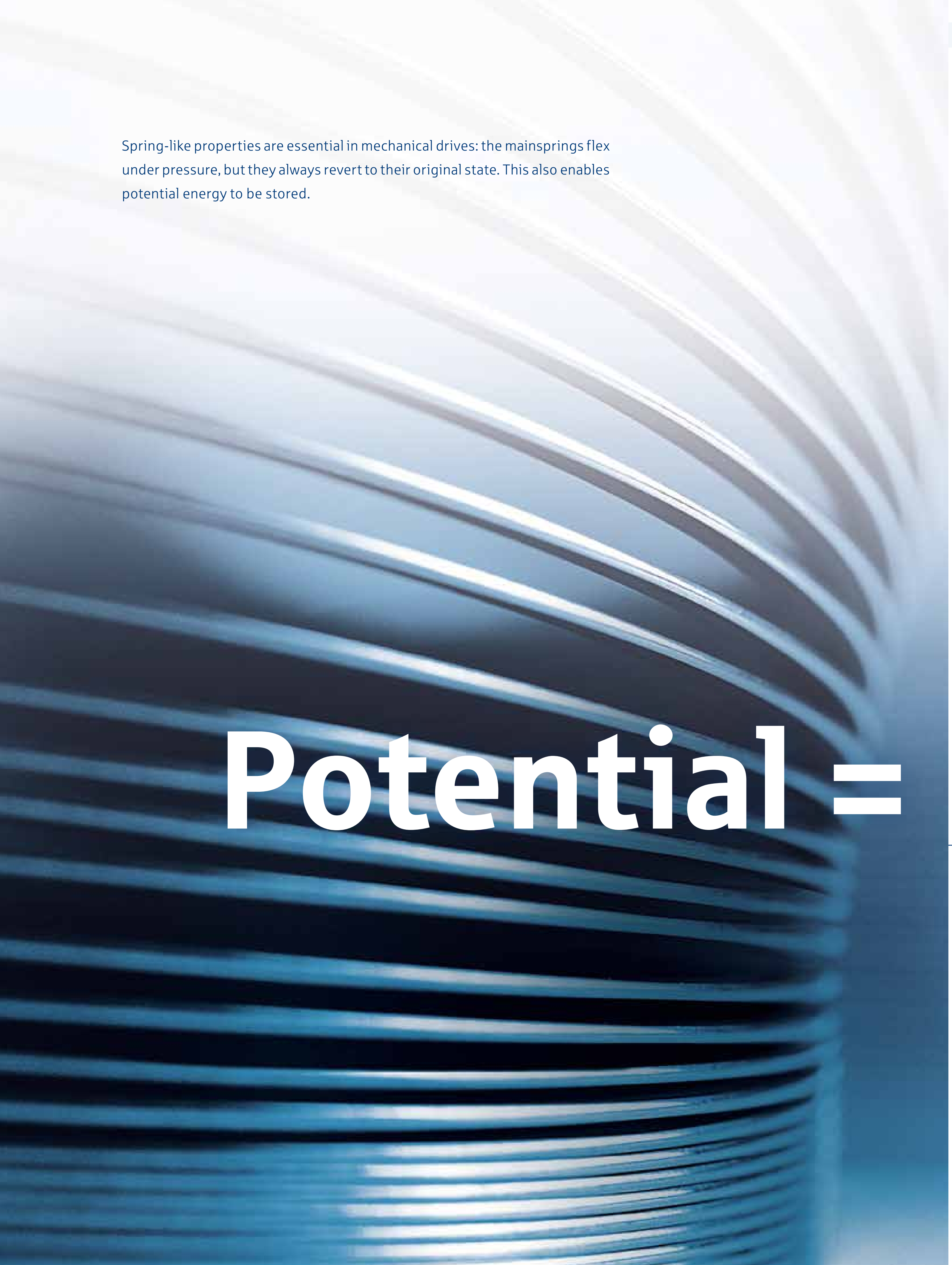
Hanover, 4 December 2013

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 2013 financial year totalled € 1,263 thousand (2012: € 1,208 thousand*)). Deutsche Hypothekenbank does not have a stock option programme.

Emoluments for the members of the Supervisory Board
The Supervisory Board received a fixed payment of € 126 thousand (2012: € 133 thousand), including VAT.

*) The amount from the previous year was adjusted by € 50 thousand for supplementary services.



Spring-like properties are essential in mechanical drives: the mainsprings flex under pressure, but they always revert to their original state. This also enables potential energy to be stored.

Potential = Know-how + Experience

Deutsche Hypo deploys experience and know-how consistently for the success of its customers. Since its foundation in 1872 the company has risen to the challenge of achieving more for its customers. Only in that way could one of Germany's most successful and well-established Pfandbrief banks come about. Great emphasis is placed on working together, and long-term, robust and lasting business relationships are the objective – with both real estate customers and investors. The potential is boosted further via the close links to NORD/LB. This gives rise to synergy effects and access to the product range of an international active major bank.

REPORT BY THE SUPERVISORY BOARD

The Supervisory Board and its committees performed the tasks required of them by law, under the Bank's Articles of Association and in accordance with the German Corporate Governance Code during 2013. For the purpose of fulfilling its tasks and in accordance with the statutory requirements, the Supervisory Board has set up a Lending Committee, Audit Committee, Personnel Committee and Appointments Committee. Due to the CRD IV Implementation Act, the Supervisory Board adopted a restructuring plan for its committees in December 2013. Effective 1 January 2014, there will be a Credit and Risk Committee, an Audit Committee, a Nomination Committee and a Remuneration Control Committee.

The Board of Managing Directors provided the Supervisory Board with regular, timely and comprehensive updates on the Bank's business performance, the strategic direction and the economic position in 2013. Regular information was also provided in the form of the quarterly risk reports prepared in accordance with the provisions of MaRisk and monthly reports on the Bank's business development and income situation. The Supervisory Board discussed fundamental subjects such as the adjustment of the business and risk strategy as well as the SIGN efficiency improvement project through 2016 with the Board of Managing Directors in detail. The Supervisory Board and its committees advised and monitored management and passed resolutions on the issues which were presented to them and which require a decision by these boards in accordance with the articles of association and the rules stipulated within their framework.

After Mr. Wilhelm Zeller resigned as member of the Supervisory Board on 31 December 2012, the Supervisory Board only had five members in the first half of 2013. On 1 July 2013, Mr. Thomas Krüger was appointed to the Supervisory Board of Deutsche Hypo.

The Supervisory Board held four ordinary meetings in 2013, each of which was attended by all of the members, with the exception of two individual absences. At the meetings, the respective chairs of the committees briefed the Supervisory Board in turn on the work of their committees. Between the meetings, the Board of Managing Directors also informed the Supervisory Board of all important issues in writing.

The Lending Committee, which mainly dealt with the performance of the loan portfolio, met four times during the past year. The Audit Committee met twice, with its meetings focusing on the annual financial statements and interim financial statements as well as the reviews by Internal Audit. The Nominating Committee met once. The Staff Committee did not meet.

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, elected by the Annual General Meeting and subsequently appointed by the Supervisory Board, audited the financial statements for the 2013 financial year and issued an unqualified audit certificate. This confirms that the book-keeping and annual financial statements comply with the statutory requirements. The audit did not lead to any objections.

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

The audit report was discussed in full by the members of the Supervisory Board. The Supervisory Board agreed to the findings of the auditor's report. At its meeting of 27 March 2014, the Supervisory Board approved the management report and the annual financial statements as of 31 December 2013, which are thereby adopted.

The Supervisory Board acknowledged the successful work of the Board of Managing Directors and the employees in 2013 and thanks them for their tremendous dedication for the benefit of Deutsche Hypo.

Hanover, 27 March 2014

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-JÖRG RIEGLER
Hanover
Vice chairman of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale (until 28 February 2014)

THOMAS KRÜGER
Hanover
Member of the Board of Managing Directors of VGH Versicherungen (since 1 July 2013)

DIRK METZNER
Hanover
Bank employee

FRANK WOLFF
Hanover
Bank employee

Lending committee

DR. JOHANNES-JÖRG RIEGLER
– Chairman –

DR. GUNTER DUNKEL

ECKHARD FORST

THOMAS KRÜGER
– Substitute member –

Personnel committee

DR. GUNTER DUNKEL
– Chairman –

ECKHARD FORST

DR. JOHANNES-JÖRG RIEGLER

Audit committee

DR. JOHANNES-JÖRG RIEGLER
– Chairman –

FRANK WOLFF

THOMAS KRÜGER

ECKHARD FORST
– Substitute member –

Appointments committee

DR. GUNTER DUNKEL
– Chairman –

ECKHARD FORST

DR. JOHANNES-JÖRG RIEGLER

Board of Managing Directors

THOMAS STEPHAN BÜRKLE
Hanover
until 31.12.2013
– Chairman –

ANDREAS POHL
Speaker of the Board of Managing Directors since 14 January 2014
Hanover

ANDREAS REHFUS
Hanover

Executive manager

Michael Müller

Departmental managers

Sabine Barthauer
Gunter Bierwisch
Carsten Dickhut
Raimund Ferley
Arabell Foth
Axel Harms
Markus Heinzel
Dr. Peter Hinze
Dirk Hunger
Dieter Koch
Wolfgang Koppert
Stefan Leise
Uwe Menninger
Dirk Schönfeld
Stefan Schrader
Thomas Staats
Ralf Vogel
Dr. Wulfgar Wagener

Public trustees

ORGANISATIONAL STRUCTURE

Organisational structure Deutsche Hypo until 31.12.2013

- Thomas S. Bürkle (Chairman) until 31.12.2013, Business area 1
  - Treasury, Dirk Schönfeld, Senior Manager
  - Human Resources and Legal, Dr. Peter Hinze, Senior Manager
  - Audit Supervisor, Axel Harms, Head of Department
  - Communications and Board Staff, Carsten Dickhut, Head of Department
  - Corporate Development, Dirk Hunger, Senior Manager
  - Organisation and IT, Dr. Wulfgar Wagener, Senior Manager
- Andreas Pohl, Business area 2
  - Domestic Property Finance 1, Ralf Vogel, Senior Manager
  - Domestic Property Finance 2, Michael Müller, Executive Manager
  - International Acquisition and London Branch, Thomas Staats, Senior Manager
  - Real Estate Structured Finance and International Property Finance, Sabine Barthauer, Senior Manager
  - Real Estate Investment Banking, Dieter Koch, Senior Manager
  - Real Estate Group Finance, Wolfgang Koppert, Senior Manager
  - Market Analysis, Prof. Dr. Günter Vornholz, Head of Department
- Andreas Rehfus, Business area 3
  - Treasury Operations, Gunter Bierwisch, Senior Manager
  - Credit Risk Management, Raimund Ferley, Senior Manager
  - Credit Risk Controlling, Uwe Menninger, Senior Manager
  - Special Credit Management, Stefan Schrader, Senior Manager
  - Credit Department and Property Valuation, Markus Heinzel, Senior Manager
  - Accounting Department, Stefan Leise, Head of Department
  - Controlling, Arabell Foth, Head of Department

Organisational structure Deutsche Hypo since 01.01.2014

Andreas Pohl
Business Area 1

- Domestic Property Finance 1
Ralf Vogel
Senior Manager
- Domestic Property Finance 2
Michael Müller
Executive Manager
- International Acquisition and London Branch
Thomas Staats
Senior Manager
- Real Estate Structured Finance and International Property Finance
Sabine Barthauer
Senior Manager
- Real Estate Investment Banking
Dieter Koch
Senior Manager
- Real Estate Group Finance
Wolfgang Koppert
Senior Manager
- Market Analysis
Prof. Dr. Günter Vornholz
Head of Department
- Treasury
Dirk Schönfeld
Senior Manager
- Communications and Board Staff
Carsten Dickhut
Head of Department
- Corporate Development
Dirk Hunger
Senior Manager

Andreas Rehfus
Business Area 2

- Treasury Operations
Gunter Bierwisch
Senior Manager
- Credit Risk Management
Raimund Ferley
Senior Manager
- Credit Risk Controlling
Uwe Menninger
Senior Manager
- Special Credit Management
Stefan Schrader
Senior Manager
- Credit Department and Property Valuation
Markus Heinzel
Senior Manager
- Accounting Department
Stefan Leise
Head of Department
- Controlling
Arabell Foth
Head of Department
- Human Resources and Legal
Dr. Peter Hinze
Senior Manager
- Organisation and IT
Dr. Wulfgar Wagener
Senior Manager
- Audit Supervisor
Axel Harms
Head of Department

ADRESSES IN GERMANY AND ABROAD

Management

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Poland: 00-021 Warszawa

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France: 75002 Paris

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

State supervisory body

Bundesanstalt für Finanzdienstleistungsaufsicht · Graurheindorfer Straße 108 · 53117 Bonn

GLOSSARY

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

Cost-income ratio (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).

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

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