

# PROSPECTS

## ANNUAL REPORT 2015

Your success is : our benchmark

# DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.- 31.12.2015	01.01.- 31.12.2014	Change (in %)
<b>New business figures</b>			
Commercial real estate finance business	3,710.7	3,610.3	2.8
Domestic finance	2,183.1	2,117.5	3.1
Foreign finance	1,527.6	1,492.8	2.3
Funding volume	3,571.5	2,852.2	25.2
Mortgage Pfandbriefe	1,601.5	1,613.7	- 0.8
Unsecured	1,970.0	1,238.5	59.1

in € millions	31.12.2015	31.12.2014	Change (in %)
<b>Portfolio figures</b>			
Commercial real estate finance business	11,953.6	12,409.8	- 3.7
Domestic finance	7,380.3	7,811.0	- 5.5
Foreign finance	4,573.2	4,598.8	- 0.6
Loans to local authorities	5,588.6	6,362.2	- 12.2
Securities	7,038.0	9,254.4	- 23.9
Funding capital	25,243.7	28,306.4	- 10.8
Mortgage Pfandbriefe	8,486.5	8,834.8	- 3.9
Public Pfandbriefe	7,028.5	8,807.3	- 20.2
Unsecured	2,606.9	2,172.1	20.0
Other liabilities	7,121.8	8,492.2	- 16.1
Equity **)	1,330.6	1,336.6	- 0.4
Balance sheet total	26,943.7	30,054.9	- 10.4

in € millions	01.01.- 31.12.2015	01.01.- 31.12.2014*)	Change (in %)
<b>Income figures</b>			
Net interest income	224.5	222.3	1.0
Net commission income	0.5	4.5	- 88.9
Administrative expenses ***)	77.8	75.6	2.9
Risk result	- 41.3	- 62.2	33.6
Income from securities and participatory interest	- 29.4	- 42.5	30.8
Result from normal operations	70.3	41.4	69.8
Extraordinary result	- 0.1	- 1.4	92.9
Interest on investments by silent partners	8.4	8.4	0.0
Profit before taxes and profit and loss transfer agreement	61.8	31.6	95.6

in %	31.12.2015	31.12.2014*)
<b>Other information</b>		
Cost-income ratio	35.6	34.1

\*) the amounts from the previous years were partly corrected. Reference is made to the information in the notes in the financial statements with regards to this.

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

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

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

# **ANNUAL REPORT 2015**

# WE HAVE A CENTRE OF COMPETENCE:

Benedikt von Abendroth, Carolin Albers, Ingo Albert, Alois Algermissen, Antje Amelsberg,  
 Anne-Kathrin Apel, Elena Argun, Daniela Assing, Jens Assmann, Hans-Hermann Baltz, Angela Bank,  
 Philipp Bank, Nicole Barnert, Sabine Barthauer, Susie Bassett, Isabel Bauke, Jürgen Becksvoort, Michaela  
 Behnsen, Ulrike Behnsen, Andrea Behre, Dana Beitz, Lara Bengsch, Nadja Bengsch, Alica Bergmann, Andreas  
 Bergmeier, Marco Bertram, Olaf Beuleke, Wouter de Bever, Sebastian Biel, Heike Bien, Kathrin BIERING, Petra  
 BIERING, Carsten Bläck, Markus Block, Ann-Christin Bloß, Martina Blum, Cornelia Bock, Marianne Böx, Stefanie  
 Bojahr, Ines Bornemann, Oliver Boser, Lisa Bosetzky, Jasmin Bothe, Michael Brämer, Kirsten Brandt, Alexander  
 Braun, Jens Breithecker, Brigitte Brenning, Iris Brünau, Marc Brune, Volker Brunner, Jochen Bucek, Carsten  
 Bühring, Holger Busch, Lars Busch, José Luis Calderón Martínez, Anne-Isabelle Carbonnières, Juan Manuel Casas  
 Guillen, Yvonne Coppel-Tamms, Claus-Halvard Cors, Bettina Cramer, Ursula Czech, Sandra Debbrecht,  
 Katrin-Genevieve Deitermann, Ulrich Deppe, Carsten Dickhut, Andrea Dietsch, Frank Dittmann, Beate  
 Droste, Jürgen Eckert, Nicole Edle von Wölfel, Ernst-August Endrulat, Carina Engelbrecht, 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, Nikola Gaulke, Michael Gehrig, Melanie Geldmacher, Christoph  
 Gennrich, Maria Germann, Annett Gierschner, Larissa Gieselmann, Michael Glatzer, Melanie Glende,  
 Kristoffer Globig, Rüdiger Göricke, Sabine Gößmann, Silvia Golbeck, Claudia Grau, Georg Greive, William  
 Groen, Elke Großer, Detlev Grote, Christian Gudat, Cristina Guilherme, Petra-Ingeborg Haake, Christina  
 Haendel, Lars Haftmann, Ralf Hagendorff, James Robert Aikman Hall, Christian Hansel, 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, Janina Herrmann,  
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 Kathrin Hoepfner, Raimo Höpfner, Christoph Hötzel, Nils Hoffmann, Monika Hofschulte, Marcel Holk,  
 Karin Hornbostel, 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, Cezary Kempisty, Kristina Kirchner, Andreas Kirschner, Til Kittkowske, Jürgen Klebe, Peter Kleinhütten,  
 Lutz Klinkmann, Florian Knaul, Tobias Knoche, Detlef Koch, Dieter Koch, Gerald Kölle, Heiko Kollmann, Jörg  
 Kopp, Jutta Carola Kopp, Renate Koppitz, Gabriele Kornweih, Stefanie Kortmann, Anna Carina Kostrzewa,  
 Janina Krapp, Stefan Kriegs, Ulrich Krogmeier, Sarah Krüger, Regina Kubina, Elke Kücken, Frank Kühne, Silke  
 Kues, Marcel Kujawski, Andrea Kuschel, Ralph Kutschki, Eike Oliver Laase, Bernd Lademann, Thomas  
 Lang, Cornelia Lange, Sascha Langeheine, Katrin Langer, Beata Latoszek, Annika Leenen,

# OUR STAFF

Annemarie Leeuwen, Dr. Pia Leipertz, Stefan Leise, Loof, Veit Look, Walter Love, Alexander Ludwig, Edgard Maurette, Desiree McKay, Andreas Meiser, Merinero Muñoz, Michael Mesenbrink, Dirk Metzner, Mikus, Sonja Misch, Christina Möllendorf, Irina Brigitte Müller-Bühren, Thomas Müser, Simon Andreas Nagel, Dirk Neugebauer, Evelin Neuhäuser, Markus Nitsche, Matthias Nittscher, Rico Noack, Jana Oliver, Jan Christoph Paape, Christopher Anja Philipps, Sandra Piehl, Liane Pilz, Andreas nitz, Torben Pschunder, Timothy Pygott, Tam Reffke, Andreas Rehfus, Julia Reich, Andrea Ritter, Stefan Roggelin, Anja Rosenhagen, Gabriele Rotzien, Vera Ruck-Bekendorf, 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, Katharina Schauer-Stach, Jan Schaumburg, Frank Scherr, Alexandra Schild, Adrian Schleffler, Christian Schlenker, Uwe Schliephacke, Andreas Schlüter, Hans-Jörg Schmallenberg, Melanie Schmidt, Peter Schmidt, Stefanie 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, Larissa Mareike Schultze, Karsten Schulz-Porth, Ralph Schumann, Sabine Schwarz-Möbius, Hans-Werner Seidel, Fredrik Serck, Phil Shackleton, Kristof Sidorowicz, Anke Sieber, Cnut Siebert, Irina Siebert, Britta Siedentopf, Marc Simon, Sandra Simon, Fabian Socha, Petra Söfker, Christian Sommer, Mirko Staats, Dr. Carsten Steinhoff, Jana Stephani, Thomas Paul Sutcliffe, Tobias Talke, Marc Techtmann, Maren Thiedtke, André Thürmer, Dirk Töteberg, Stefan Kues, Manja Vogel, Ralf Vogel, Carsten Vogt, Nicole Vornholz, Dr. Wulfgar Wagener, Sabine Watermann, Renate Wels, Aenne Wendeling, Anika Wermter, Ansgar Wickert, Inge Wieggrebe, Simone Wilhelms, Dirk Wilke, Willner, Tanja Willruth, Thomas Winkler, Bernd Wiss-Christopher J. Woodard, Michael Woodgate, Stefanie Yüksel-Kaban, Nadine Zapf, Olivier Zapf, Sebastian

Claudia Leu, Maria Teresa Linares Fernández, Antje Dörte Mamber, Ingo Martin, Gianluca Martinelli, Uwe Menninger, Kevin-York Merchel, José Ignacio Björn Meyer, Jens Meyer, Andreas Michel, Stefan Monsler, Marlis Mügge, Claudia Müller, Frank Müller, Munaretto, Jürgen Munke, Marion Muth, Claudia Nacke, Uwe Niemann, Michael Niemeyer, Rebecca Nienhaus, Harald Nolterieke, Ralf Obst, Jennifer Oehlmann, Peel, Kornelia Penker, Andreas Peter, Meike Peter, Pohl, Nina Poletschny, Arne Preuß, Martin Pries-Tran Quan, Claudia Radack, Uwe Radloff, Horst Reinecke, Frank Rekowski, Tanja Riesenbeck, Fabian Sommer, Kerstin Sonntag, Sascha Sonntag, Thomas Stoklas, Mathias Stolte, Axel Stoppel, Bianca Ströhla, Tegtmeier, Leyla Tekkal, Martina Teutloff, Bettina Treptow, Stefan Ullmann, Manja Unger, Martin Vila Voigt, Jürgen Volkers, Ina Volkmann, Prof. Dr. Günter Marion Weber, Hans-Georg Wehrhahn, Julia Weiß, Werner, Ralf Westermann, Sophie White, Torsten Ulrich Wilkens, Holger Wille, Bärbel Willert, Immo mach, Ulrike Witte, Markus Wittenberg, Dirk Wömpner, Wünsch, Martina Wulschläger, Heike Wuttke, Özlem Ziegler, Frank Zimmermann, Nicole Zimmermann.

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# FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Customers  
and Business Partners of Deutsche Hypo,

There is hardly a market that did not see significant jumps up or down in 2015. In particular, financial and capital markets were quite volatile. The most important German equity index, the DAX, fluctuated between a low of 9,454 and a high of 12,385, which is a spread of more than 30 %. Other indexes and commodity prices such as gold and oil were also subject to tremendous price swings. Volatility everywhere.

In comparison to this, the commercial real estate market looks like an oasis of stability. For some years now the sector has enjoyed an exceptionally positive performance. Spurred by low interest rates and the lack of alternative investment options resulting from this, investors are increasingly looking to commercial real estate, above all in so-called 'safe havens' such as Germany or the UK. This can be seen in the rising volume of transactions, which increased to a remarkable € 55 billion in Germany in 2015.

This positive market performance caused competition to increase on both the investor and financing side. Especially top real estate in metropolises was in such high demand that the returns and margins continued to decline. In addition to this, numerous new competitors such as insurance companies, pension funds and debt funds entered the market for commercial real estate finance.

In this challenging environment, Deutsche Hypo completed an impressive financial year. Despite its ongoing high risk standards in lending, it succeeded in slightly increasing its new business in real estate finance and significantly improving the quality of its portfolios. Especially in the current state of real estate markets, it is critical to only take risks that can be managed in a later cyclical downturn. Thanks to its high quality expectations, which can also be read in the clear drop in the risk provisioning, Deutsche Hypo can look calmly into the future.

This is the case in particular because in its capacity as the centre of competence for commercial real estate finance in the NORD/LB Group the Bank's income has been very positive for many years now. Even if the record result of € 70.3 million in financial year 2015 was defined by special effects, Deutsche Hypo has developed into a constant generator of income in the NORD/LB Group. This underscores the importance it has attached year in year out to NORD/LB's diversification business model.

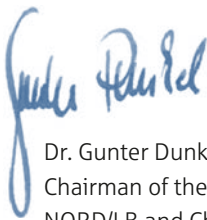
But it goes beyond just the numbers: The foundation for the sustainable success of the NORD/LB Group and Deutsche Hypo consists in our growing customer relationships that account for the real value of our Bank.



Foreword by the Chairman of the Supervisory Board | Message from the Board of Managing Directors | 2015 at a glance | Sustainability |

Dear Customers and Business Partners, you know that you can rely on Deutsche Hypo to be a competent and reliable real estate and Pfandbrief bank that helps and supports you in your investments – and by doing far more than just lending. Our top priority remains offering you increasingly measurable added value, and not just in volatile times.

With best regards,



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



# MESSAGE FROM THE BOARD OF MANAGING DIRECTORS

Dear Customers and Business Partners,

Good intentions for the new year are always a challenge... They should be ambitious, measurable and also realistic. Good intentions are usually made in private life. Professionally we speak more of goals that we have for ourselves in the new year. The focus is often on the annual result that one hopes will be a little better than the year before.

Since we have high expectations, Deutsche Hypo has naturally planned a lot for 2016. But in order to understand the individual measures, it is important to know the early indicators that appeared during the previous year. 2015 was a record year in the history of Deutsche Hypo. Never before were we able to report € 70.3 million as a result from normal operations. We exceeded the previous record result from 2013 (€ 64.3 million) by almost exactly 10 %. As compared to the previous year, we improved the result by 70 %. This was a tremendous success which our Bank and every employee should be rightly proud of. We jointly succeeded in increasing our new business in commercial real estate finance, confirming the high operating income from the previous year, improving the quality of our portfolios, reducing the risk provisioning significantly, overcoming more impairments in the capital market portfolio and keeping original administrative expenses stable, although regulatory requirements and the connected use of resources within the Bank significantly increased once again.

In all this joy over the course of 2015, it is important for us to point out that our positive business performance benefited in part from special effects, particularly from a major increase in compensation for early principal repayments. This development, which is due to the high demand for commercial real estate and the enormous quantity of liquidity in the market, is being felt by all commercial real estate financiers at the moment. Against the backdrop of these special effects, there is no reason for us to break out in euphoria despite achieving a record result.

Rather, we are aware that we face the major challenge of again achieving this remarkable result of 2015. And now we return to our good intentions for 2016. Since we assume that we will not profit from the same level of compensation for early repayments as we did in 2015, we expect a result from normal operations in 2016 that is slightly below the 2015 level. This will be the case especially because of the rise in competition in our core business area of commercial real estate finance, which has been substantial and put greater pressure on margins. In this challenging market environment, we are maintaining our high lending standards and continuing to conclude new business only selectively.

For this reason, we consider our forecast to be ambitious. Besides the income goal, we attach particular importance to compliance with additional regulatory requirements and complete implementation of our efficiency improvement programme which started in 2012 and is finishing at the end of 2016.

Foreword by the Chairman of the Supervisory Board | [Message from the Board of Managing Directors](#) | 2015 at a glance | Sustainability |



from left: Andreas Rehfus, Andreas Pohl

But above all, naturally, you, our customers and business partners, are our top priority, along with our ability to persuade you of our products and know-how. We would like to continue and intensify our trust-based collaboration with you, which has often stretched over many years and decades and for which we are very grateful to you. This, by the way, is an intention that Deutsche Hypo has every year. Since it represents the core element of our successful business model.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Pohl'.

Andreas Pohl

A handwritten signature in blue ink, appearing to read 'Rehfus'.

Andreas Rehfus



Berlin

## MALL OF BERLIN – SHOPPING EXPERIENCE OF SUPERLATIVES IN THE HEART OF BERLIN

The “Mall of Berlin” shopping centre that opened in 2014 offers a mix of shopping, restaurants, housing, hotel and offices. More than 270 shops and restaurants have found there place in a retail area of around 80,000 square metres. This makes the Mall of Berlin one of the biggest shopping centres in the capital. The Leipziger Platz district also provides 30,000 square metres of living space. The centre is located in the top location of Berlin-Mitte, between the Reichstag, Friedrichstraße

and Potsdamer Platz. A special highlight of the Mall of Berlin is the elegant, airy piazza, which, with its glass roof and view of the Bundesrat (Federal Council), spans between the two parts of the building. The place was once the headquarters of the largest department store in Europe (Wertheim), which was destroyed in the Second World War. The construction of the shopping centre has therefore restored the character of the historic Leipziger Platz.



### Financing details:

The financing of the Mall of Berlin was undertaken jointly by Deutsche Hypo, Bayerische Versorgungskammer (BVK) and BNP Paribas REIM Germany. The consortium leader and agent for the transaction was Deutsche Hypo. The ten-year financing totalled € 600 million. € 450 million was provided by BVK, € 80 million by Deutsche Hypo and € 70 million by the two credit funds of BNP Paribas REIM Germany. At this time, this was one of the largest real estate financing deals realised primarily by non-banks ever concluded in Germany, and one of the largest amounts financed by an institutional investor in Germany.

Type of property

City

Financing volume

Customer

Shopping-centre

Berlin

€ 600 million

Joint Venture of

High Gain House

Investments/Berlin

und Arab Investments/

London

THIS DEAL UNDERLINES THE ABILITY  
OF DEUTSCHE HYPO TO REALISE  
SIGNIFICANT TRANSACTIONS BY  
INCLUDING VARIOUS FINANCING  
PARTNERS.

Dieter Koch, Head of Real Estate Investment Banking



# SUSTAINABILITY

As one of the most renowned Pfandbrief banks in Germany, Deutsche Hypo combines decades of tradition and experience in real estate financing with responsible corporate governance and a forward-looking strategy. Sustainability is thus one of the Bank's principal fields of action. It is therefore the mission to make Deutsche Hypo sustainably profitable and thus to secure future profitability and jobs for generations to come. In real estate financing, the Bank as a funding partner plays a role in the spatial design of many cities. Quality, professionalism, and sustainability of the financed property are crucial in the lending decision.

Deutsche Hypo has identified five areas of sustainability fields of action and has made them strategic priorities: governance, customers, employees, society, and the environment. With the information presented on the website, as well as in the 2014 Sustainability Report, which was first published in the August 2015 according to the standard of the German Sustainability Code, Deutsche Hypo provides an overview of its sustainability measures. Details are found on the website and at <http://www.deutscher-nachhaltigkeitskodex.de>.

## Johann-Georg-Zimmermann Association

Again this year, Deutsche Hypo bestowed the Johann-Georg-Zimmermann research prize and the Johann-Georg-Zimmermann medal. The two prizes are awarded annually for outstanding achievements in cancer research. The ceremony was held at the Hanover Medical School (MHH).



### Price ceremony as of 2 February 2016

(from left): Prof. Dr. Michael Manns, Chairman of the Board of Trustees of the Johann-Georg-Zimmermann-Prize, Andreas Rehfus, Member of the Board of Managing Directors of Deutsche Hypo, Gerd Nettekoven, recipient of the Johann-Georg-Zimmermann medal, Dr. Aurelio Telean, recipient of the Johann-Georg-Zimmermann research prize, and Prof. Dr. Christopher Baum, President of the Hannover Medical University.

The € 10,000 Johann-Georg-Zimmermann research prize for 2015/2016 – awarded to young medical professionals for their current scientific work in cancer research – went to Dr Aurelio Teleman of the German Cancer Research Centre in Heidelberg. The molecular biologist is researching how cells regulate their growth and how the growth of cancer cells can be targeted in therapy. Dr Teleman and his group are studying the signal pathways responsible for the control and regulation of cell growth and cell metabolism, and gained important insights into how cells control their energy production.

Gerd Nettekoven, Chairman of the Board of German Cancer Aid (Stiftung Deutsche Krebshilfe), was awarded the 2015/2016 Johann-Georg-Zimmermann medal in recognition of his lifetime achievements. The 59-year-old academically trained businessman has been active with great success since 1978 in various areas and functions for German Cancer Aid, has helped to shape the policy of the organisation, and has worked hard for the improvement of care for cancer patients in Germany.

## Christmas Wishing Tree

For the sixth year in a row, Deutsche Hypo employees have organised on their own initiative a "Christmas Wishing Tree". This enables them to fulfil the wishes of children and young people from the Güldene Sonne, an educational and therapeutic centre in Rehburg-Loccum.

107 wishes were written on cards and hung on a large Christmas tree in the foyer of Deutsche Hypo. This allowed employees to select a child's wish, purchase the appropriate gift at their own expense, and lovingly wrap it up for Christmas. All of the presents cost approximately 20 euros and ranged from toys and board games to soccer balls. The employees spent a total of more than € 2,000.

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



Works council member Meike Peter and organisation team member Bettina Thiedtke hand over the presents on behalf of the employees of the Deutsche Hypo.





Munich

## SOFITEL MUNICH BAYERPOST

### ONE OF THE TOP HOTELS IN MUNICH

The 5-star hotel Sofitel Munich Bayerpost occupies a very central location in Bayerstraße, right next to Munich Central Station. It has been one of the most prestigious hotels in Munich since it was opened in 2004. It has 396 rooms, including 57 suites, several conference rooms, restaurants, a bar, a spa, an underground carpark with 70 parking spaces and a ballroom for up to 800 guests. The useful area totals around 30,600 square metres. The impressive hotel building

was built between 1896 and 1900 in the style of Italian High Renaissance. As the former head office of the Royal Bavarian Post Office, the listed “Gründerzeit” building is famous for its remarkable architecture. Here cosmopolitan design meets city history.



## Financing details:

Sofitel Munich Bayerpost was originally financed by Deutsche Hypo and HypoVereinsbank 2014 for a fund of Ebertz & Partner Real Estate GmbH & Co. KG. At the end of 2015 it was sold to Deka Investment, and follow-up finance was agreed with the new owner. Deutsche Hypo again acted as the consortium leader and HypoVereinsbank took on 50 % of the financing. The deal was acquired by the Head of Hotel Financing and the Head of Institutional Investors.

Type of property

City

Financing volume

Customer

Hotel

Munich

€ 77 million

A funds company of

Deka Investment

” THE FACT THAT WE WERE ABLE TO  
FINANCE THIS HIGH-QUALITY PROPERTY  
TOGETHER WITH HYPOVEREINSBANK  
FOR THE SECOND TIME IN TWO YEARS  
IS PROOF THAT DEUTSCHE HYPO  
ENJOYS AN EXCELLENT REPUTATION  
AS A HOTEL FINANCER.

Uwe Niemann, Head of Hotel Financing





# MANAGEMENT REPORT

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

## Fundamentals of the Bank

### Deutsche Hypo's business model

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

Deutsche Hypo is the main issuer of mortgage Pfandbriefe in the NORD/LB Group. In addition to this, the Bank funds by issuing unsecured bonds. The goal is to have the possibility to fund at competitive conditions at any time. This plan is achieved through the quality of the cover pools and the associated ratings of the Pfandbriefe and through the credit rating of the Bank for the area of unsecured bonds.

Deutsche Hypo's main business activities can be divided into two business areas. Commercial real estate finance is the core business area. It bundles all the financing of customers that primarily generate their cash flow from real estate or make significant real estate investments on a regular basis. Commercial real estate finance produces roughly 80 % of the Bank's total net interest and net commission income. In the capital market business, Deutsche Hypo bundles the public sector finance business. For some years now, the Bank has been reducing this portfolio. Furthermore, this area handles business in securities, money markets, derivatives with banks as well as funding.

In its regular business operations, Deutsche Hypo usually reacts promptly to numerous external influential factors. This is mainly due to the economic and sector-specific framework conditions that have a direct impact on the development of business in the business areas and thus the Bank's assets, financial and income position. Furthermore, a number of customer-specific factors, such as changes in the redemption or extension behaviour, the holding period of real estate or the time of a sale in project developments, continue to have a significant influence on the Bank's real estate finance portfolio that is relevant in particular for the Bank's development. In addition, regulatory framework conditions should be named as an external influential factor for the development of Deutsche Hypo's business and income. The various funding options are influenced, among others, by developments on international financial markets. They also have an influence on the management of liquidity and the valuation of the public sector finance portfolio.

### Group affiliation

Deutsche Hypo is a strategic participatory interest of NORD/LB, which holds 100 % of its shares. As a subsidiary, Deutsche Hypo is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as of 31 December 2014 were published on 10 June 2015 in the federal gazette.

Since 2013, there has been a profit and loss transfer agreement between Deutsche Hypo and NORD/LB. This agreement requires that Deutsche Hypo transfers its profits to NORD/LB. At the same time, NORD/LB is required to compensate for any possibly arising loss at Deutsche Hypo. The profit and loss transfer agreement means that there is a fiscal tax unit. The contractually close linkage of the parent and subsidiary means that the Group shall continue to pursue the leveraging of its synergies and efficiencies internally. By transferring profits or losses, Deutsche Hypo reports an annual result of zero. Due to this circumstance, the result from normal operations and the profit before taxes and profit and loss transfer shall be the focus in the following.

### 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. In future, the Bank shall also attempt to shift the significance of its business areas more toward commercial real estate finance business. The expectation is that the Bank will continue to be perceived as an attractive competitor with interesting finance offers. It is involved in the selective and risk-appropriate strengthening of its market position in Germany and abroad. The strategic target markets of Germany, the UK, France, Benelux and Poland are characterised by high target customer concentration, a large portfolio of real estate and a long-term positive development. The financing in its home market of Germany also remains the largest share of the commercial real estate finance portfolio, accounting for at least 60 % of it.

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

In the capital market business, Deutsche Hypo shall strive to further reduce its portfolio significantly over the next few years. New business is still conducted solely restrictively in this business area and primarily serves the management of liquidity and cover pool management.

Deutsche Hypo is persuaded that the Bank's economic success must go hand in hand with an intact natural environment and in a society with stable social relationships. Sustainable corporate governance is therefore very important for Deutsche Hypo. The Bank's sustainability report is available at <http://www.deutscher-nachhaltigkeitskodex.de> and at Deutsche Hypo's website.

## Controlling system

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

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

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

## Corporate Governance Statement

The disclosures required in accordance with Section 289a of the German Commercial Code (HGB) apply fundamentally only to publicly listed stock corporations and certain other stock corporations focused on capital markets. As in previous years, Deutsche Hypo has nonetheless voluntarily published a Declaration of Conformity with respect to the Corporate Governance Code for financial year 2015 at the Bank's website under <http://www.deutsche-hypo.de>. It can also be found in the Corporate Governance Report of the Bank's annual report. Furthermore, the now mandatory disclosures on the percentage of women in management have been provided at the Bank's website in compliance with the requirements (also applicable to Deutsche Hypo) under Section 289a (4) of the German Commercial Code.

## Economic report

### Macroeconomic and sector environment

#### Economic performance in Germany and Europe

The German economy continued to grow in the past year despite the weaker global economic momentum. Real gross domestic product (GDP) in 2015 rose by 1.7 % as compared to the previous year. The main pillar supporting the economy was again private consumption. Private consumption contributed one percentage point to GDP growth thanks to a 1.9 % rise year on year. This was the strongest growth in 15 years and was primarily due to the good employment situation. With a seasonally adjusted 43.2 million employees, a new employment record was achieved in November. Furthermore, real wages increased significantly, since stagnation in consumer prices met with strong nominal growth in wages. Public sector consumption also provided strong stimulus, while investments and foreign trade made only moderate contributions to growth.

The economic recovery in the eurozone gained momentum in 2015. In full year 2015, real GDP rose by 1.5 % in comparison to the previous year. While the impact of foreign trade remained weak, domestic demand supported growth. Both private consumption and investments rose strongly. This is also reflected in a slight increase in loans to the private sector. Unemployment also fell and the consolidation of the public budget continued – even if at a slower pace. Against the backdrop of an only moderate global expansion, this remarkably solid performance is no longer just due to Germany. Spain's economy has grown very dynamically for some time and achieved annual real economic growth of more than 3 %. Furthermore, the situation in France and Italy has improved step-by-step, even if economic health is being prevented by structural problems there.

#### Development of real estate markets

In full year 2015 global investments in commercial real estate stabilised at the high level of the previous year – despite the volatility on the Chinese stock market and the rate hike in the USA. Global transaction volumes totalled USD 704 billion (– 1 % relative to 2014). The ongoing low interest rates and the related increase in cash flows contributed to an increase in demand for global real estate investments.

#### European real estate market

European commercial real estate markets achieved a transaction volume of roughly USD 267 billion in financial year 2015, which was a slight decline of 4 % relative to 2014. Besides Germany, the UK in particular continued to see high demand for commercial real estate.

The transaction volume in the UK totalled USD 95 billion, which represents an 11 % drop from the previous year. Due to the economic situation, the country continued to be in the expansion phase of the real estate cycle with respect to the asset classes of office, residential and retail. The ongoing lack of first-class space in 2015 remained an issue for office real estate in the location of London. The retail market was defined, among others, by rising sales revenue and growth in rental prices in London. The market for residential real estate enjoyed demand in excess of supply at the end of the year, with signs

of exaggerated pricing particularly in the London housing market over the course of 2015.

Real estate activities in France were defined by the economic recovery in the country, which gradually began to solidify at the end of the year, although a positive change on the job market had not yet unfolded. Total transaction volumes in France amounted to roughly USD 28 billion in the past year, a 16 % decline relative to the previous year. The office segment continued to dominate, followed by the retail segment. The regional locations of Paris and Île-de-France also remained the most attractive for investors in 2015. The French office market was characterised by a shortage of core properties in the past financial year.

The Netherlands again underlined its significance as the most important commercial real estate market among the Benelux states: The transaction volume there fell by 14 % to roughly USD 8 billion. However, an economic recovery and increasing momentum, particularly in the retail and office asset classes, was felt. Belgium, by contrast, reported a 27 % increase in transaction volume to roughly USD 5 billion. The Luxembourg real estate market also continued its strong performance and surpassed the result from the previous year by 10 % with a transaction volume of € 979 million.

In Poland, the roughly USD 4 billion in transactions as of the end of 2015 was a slight 2 % decline relative to the previous year. The strong fourth quarter with a transaction volume of roughly USD 2 billion was due to a number of large retail transactions, although there are signs that the shopping centre market is saturated. The Polish real estate market performed more dynamically in the past year and is on the path to recovery. At the moment it is necessary to wait and see what the impact of the political situation will be.

### German real estate market

Low interest rates also remained the driver of high asset demand from institutional investors on the German market for commercial real estate in 2015. The German investment market reported a record transaction volume of roughly € 55 billion and thus a substantial rise of 40 % relative to the previous year. The year 2015 continued to be defined by strong demand for the office asset class with a transaction volume of roughly € 23 billion, followed by retail with roughly € 17 billion. It should be emphasised that there was an increasing number of portfolio sales, particularly in the retail segment and by international investors. The seven real estate strongholds continued to be in focus with a total transaction volume of € 31 billion (+ 35 % relative to 2014). The city of Berlin reported an outstanding increase of 84 % year on year to roughly € 8 billion. The shift to regional locations outside of the big seven cities accounted for roughly € 24 billion in transactions (+ 43 %) and also showed the ongoing demand for German real estate in 2015.

The office location of Germany remained dynamic at the end of the year. The strong economic situation and the ongoing positive sentiment reflected, among others, in the ifo business climate index supported the increase in leasing revenue. The sales volume exceeded the previous year's total by 21 % in 2015 and the previous record value in the year 2011 by 7 %. Among the big seven cities, sales growth was clearly the highest in Dusseldorf (+ 46 %) and Berlin (+ 43 %).

The German retail market continued to enjoy a tailwind, particularly due to the strong domestic consumption. The good situation on the job market and rising real wages contributed substantially to this. The high investment volume is due in particular to foreign investors. With a total of 524,700 m<sup>2</sup> in leased space, the year 2015 was successfully concluded. This amount was a little less than 10 % below the amount in 2014, but the number of concluded lease agreements rose once again by roughly 8 %. Prime yields continued to be stable. Furthermore, large space above 1,000 m<sup>2</sup> was requested in the case of individual retailers. Roughly 300,000 m<sup>2</sup> was attributable to these large spaces, although the level from the previous year could not be reached.

The German housing market continued to perform well, characterised by sharply rising prices and rents for attractive residential space connected with growing demand pressure. The € 25 billion in transactions and 360,000 in traded residential units represented a record number of residential transactions in financial year 2015. For the most part, domestic buyers continued to be active in the transactions on the residential housing market. In addition, housing companies continued to expand their market position. An impact from the inflow of refugees had not yet been felt by the end of 2015.

The German logistics market also continued down the path of expansion in 2015. The stable fundamental framework conditions and the constant increase in internet retail were important drivers of demand for logistics real estate in Germany.

#### **Development of international financial markets**

As already noted in recent years, central bank policy on both sides of the Atlantic has been the main driver of markets tied to interest rates. With the ECB's bond buying programme, the yield on ten year German government bonds fell to an interim record low of 0.05 % before reversing and rising temporarily to 1.00 %. The interest rate spreads between the bonds of many European countries and German government bonds narrowed over the course of the year. The Greek debt crisis flared up again in the first half of the year, but ended with the conclusion of what is now the third credit package and new elections in Greece, which calmed the situation for the most part. The partially feared contagion affecting other southern European EU states did not occur for the most part.

Despite the generally positive economic growth in the eurozone, the ECB's inflation target was missed again, as in the last two years. The sharp drop in the price of oil contributed to this above all, but the ECB also considered itself forced to announce the continuation of its ongoing expansive monetary policy on account of increasing economic concerns at the end of the year. Accordingly, the yields on European government bonds fell again at the end of the year.

This trend intensified at the beginning of 2016, with a flight to what are perceived as safe assets being observed due to the significant increase in uncertainty on markets and above all falling stock and commodity markets around the world. This also included German government bonds, with yields falling precipitously at the beginning of 2016. Interest spreads between German government bonds and some eurozone countries also increased substantially due to the extremely high volatility.



## Development of the banking sector

In light of the external framework conditions, competition in commercial real estate finance continued to sharply increase. Due to low interest rates and the connected lack of attractive investment options, insurance companies, funds and pension funds increasingly entered the market of commercial real estate finance as new lenders. Demand for commercial real estate remained high overall, while the supply of qualitatively good real estate remained limited. Consequently, the difference between demand and supply became even larger. However, classical financiers did not just face competition from new lenders, but also from the proprietary liquidity of investors that rely more on internal financing. This was particularly clear from the increased usage of special principal repayment rights. A conspicuous aspect was also the trend toward large-volume financing being awarded by one single bank. Once again, individual institutes alone financed mid-triple-digit million amounts over the long term.

## Course of business at a glance

### Significant influential factors and developments in the financial year 2015

Deutsche Hypo's financial year 2015 was again defined by external framework conditions. In commercial real estate finance, Deutsche Hypo faced a very competitive environment despite the large number of real estate transactions on account of the high competitive pressure in lending. Although the Bank continued to have high quality expectations for finance, it was able to raise the volume of new business slightly relative to the previous year.

The large number of real estate transactions in target markets led to a high number of early repayments of credit in Deutsche Hypo's real estate finance portfolio, which caused a significant rise in early payment compensation relative to the previous year. Since the early repayments of credit could not be entirely compensated by new business, there was a slight decline in the portfolio of the core business area. At the same time, the unchanged lending policy focused on quality and the positive environment ensured a further improvement in the real estate finance portfolio with its high qualitative level. The percentage of non-performing loans (NPL portfolio) was very low in the core business area.

In the capital market business, the public sector finance business was defined by a largely positive environment in the past financial year. The Bank used this to actively and significantly reduce and optimise the portfolio beyond the scheduled run-offs. Above all, more risky items could be significantly reduced through buy-backs, and it was possible to substantially improve the quality of the portfolio overall. This underscores Deutsche Hypo's strategic focus on its core business area and its ongoing development into a pure commercial real estate financier.

However, the development of capital market business was also defined by the additional loan loss

provisions required for the receivables from Heta Asset Resolution AG (Heta). The Bank had already created a loan loss provision in financial year 2014 for the receivables fully secured with a default guarantee from the state of Carinthia (Austria). This was necessary because the Austrian Financial Market Supervisory Authority declared a debt moratorium for Heta. Due to the new findings, the risk provision in the past year increased significantly. In light of the available information, the Bank created a loan loss provision that is sufficient on the basis of prudent assumptions.

The Bank's development of business also continued to be affected by regulatory developments in the industry. In addition to the need to implement new regulatory requirements, which again led to a significant rise in the implementation requirements in various areas of the Bank, the new approach to measuring the contribution to the restructuring funds for financial institutions (bank levy) also had a significant direct impact on the Bank's results. The expenses from the first bank levy calculated according to the new European rules increased significantly in the past financial year as compared to the previous year.

The increasing influence of regulatory developments on the business performance and the results of the Bank again made it clear that efficient business processes and an ongoing increase in cost discipline are indispensable for the Bank's success. Measures introduced and implemented in recent years also caused the Bank in financial year 2015 to have stable administrative expenses and a low CIR for the industry (if the described special effects are factored out).

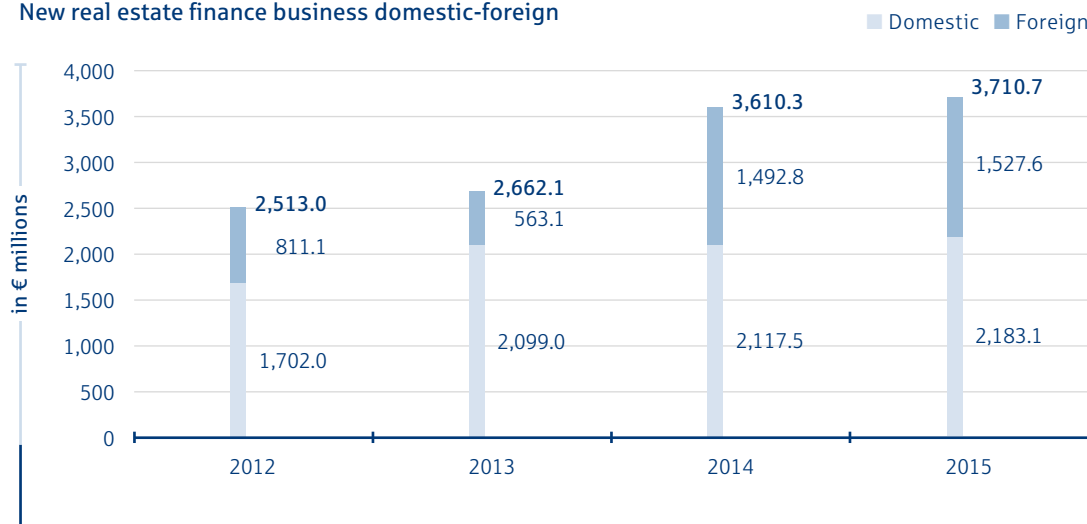
The described developments led to a result from normal operations in the amount of € 70.3 million in the past financial year (2014: € 41.4 million).

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

Despite increasing competition, Deutsche Hypo also continued to pursue its lending goal of only including loans with a sufficiently good risk profile in its portfolio. The Bank continued to be willing to accept falling margins with a sufficiently good risk profile as it maintained high requirements for an attractive risk and return profile of the financing.

Despite the high quality requirements for new financing and a challenging competitive environment, Deutsche Hypo slightly increased the new business volume in the financial year to € 3,710.7 million (2014: € 3,610.3 million). Here, the good position and network of Deutsche Hypo continued to be evident on the market. Commitments rose slightly to € 2,183.1 million (2014: € 2,117.5 million) in its home market and to € 1,527.6 million (2014: € 1,492.8 million) abroad. The share of the domestic commitment volume remained roughly constant in comparison to the previous year.

## New real estate finance business domestic-foreign



In foreign markets, a majority of the new business was in the target markets of the UK and Benelux. The awarding of new loans in the UK increased very significantly year on year to € 648.9 million (2014: € 204.2 million). The new business volume in the target market of Benelux may have fallen slightly to € 555.5 million (2014: € 658.2 million), but continued to be at a high level. In France, there was a new business volume in the amount of € 259.7 million (2014: € 299.0 million).

Of total new commitments in the core business area (domestic and foreign), the clear majority of 89.7 % (2014: 78.7 %) was in commercial credit, which accounted for € 3,329.2 million (2014: € 2,841.8 million). Residential financing totalled € 381.5 million (2014: € 768.5 million) and again made up a somewhat lower share of the total new business volume. In commercial lending, office real estate continued to represent almost half of the entire commercial new business volume with € 1,567.6 million (2014: € 1,307.7 million). The new business volume in retail real estate also rose significantly to € 1,309.7 million (2014: € 962.5 million).

## Net assets, financial and income position

### Income position

in € millions	Total result		Commercial real estate finance		Capital market business		Other business	
	2015	2014*)	2015	2014	2015	2014	2015	2014*)
Net interest income	224.5	222.3	175.5	180.4	31.2	21.7	17.8	20.2
Net commission income	0.5	4.5	1.4	5.5	-0.9	-1.0	0.0	-0.1
Administrative expenses **)	77.8	75.6	39.7	39.4	5.3	5.4	32.7	30.8
Other operating income	-6.3	-5.1	-2.0	-2.5	0.0	0.0	-4.3	-2.6
Risk result ***)	-41.3	-62.2	-15.6	-48.6	-7.7	-25.3	-18.0	11.8
Income from securities and participatory interest ****)	-29.4	-42.5	0.0	0.0	-29.4	-42.5	0.0	0.0
Result from normal operations	70.3	41.4	119.6	95.4	-12.1	-52.5	-37.2	-1.5
Extraordinary result	-0.1	-1.4	0.0	0.0	0.0	0.0	-0.1	-1.4
Interest on investment by silent partners *****)	8.4	8.4	0.0	0.0	0.0	0.0	8.4	8.4
Profit before taxes and profit and loss transfer	61.8	31.6	119.6	95.4	-12.1	-52.5	-45.7	-11.3
CIR	35.6 %	34.1 %	22.7 %	21.5 %	17.6 %	26.1 %	>100.0 %	> 100.0 %
RoRaC / RoE	7.4 %	3.8 %	29.5 %	21.9 %	-7.9 %	-36.3 %	<- 100.0 %	<- 100.0 %

\*) The amounts from the previous year were corrected due to the change in the reporting of contributions made to the restructuring funds for financial institutions. Reference is made to the information in the notes in the financial statements with regards to this.

\*\*) General administrative expenses including write-downs and value adjustments on intangible assets and tangible fixed assets.

\*\*\*) Write-down and value adjustments on receivables and specific securities as well as allocations to provisions in the credit business.

\*\*\*\*) Income from writing up participatory interest, shares in affiliated companies and securities treated as fixed assets.

\*\*\*\*\*) Interest on investment by silent partners is part of the income statement item „Profit surrendered under partial surrender agreements or a profit and loss transfer agreement“.

From an overall Bank perspective after strengthening precautionary reserves in accordance with Section 340f of the German Commercial Code, the Bank achieved a result from normal operations in the amount of € 70.3 million in financial year 2015 (2014: € 41.4 million). This represented a significant improvement on the amount in the previous year, which was heavily impacted by impairments in the capital market portfolio. The result was defined above all by a very positive risk result in the core business area of commercial real estate finance. Despite additional loan loss provisions in the capital market business and an additional charge on account of the bank levy, the Bank achieved a very satisfactory annual result from an overall Bank point of view.

In the core business area, the ongoing improvement in the risk result ensured a significant improvement in the result to € 119.6 million (2014: € 95.4 million). The slight decline in net interest income was well compensated as a result. In the capital market business, the increase in the loan loss provisions for receivables and securities from Heta led again to a negative result of € -12.1 million (2014: € -52.5 million). However, this is a significant improvement on the result that was heavily impacted by Heta in the previous year. The development of the result in the business area of "Other business" was primarily influenced by a significantly higher bank levy and the addition to the precautionary reserves in accordance with Section 340f of the German Commercial Code.

From an overall Bank point of view, net interest income totalled € 224.5 million in the year under review, roughly at the previous year's level of € 222.3 million. This performance was due, among others, to compensation for early repayments of loans in the core business area. These special effects compensated, from an overall Bank point of view, for the decline in the net interest income due to the decreases in the portfolios of both business areas and slightly falling margins in the commercial real estate finance portfolio.

The net commission income fell to € 0.5 million (2014: € 4.5 million) primarily due to the slightly higher expenses for the hedging of credit risks in the commercial real estate finance business and due to the low one-off income from an overall Bank point of view, as expected.

Administrative expenses rose slightly from the previous year to € 77.8 million (2014: € 75.6 million). The development was largely affected by the significant increase in the paid bank levy. At the same time, however, the new measurement of the contribution to the deposit security reduced administrative expenses. When these two effects are factored out, administrative expenses remained unchanged year on year. This once again shows the successful cost management at Deutsche Hypo.

The other operating income was € – 6.3 million (2014: € – 5.1 million), which is slightly below the level of the previous year. Major influential factors were again the effects from the discounting of provisions, which rose significantly year on year due to the low interest rates, as expected.

The risk result improved significantly to € – 41.3 million (2014: € – 62.2 million) from an overall Bank point of view. This was largely due to the substantial improvement in the risk result in the commercial real estate finance area to € – 15.6 million (2014: € – 48.6 million), which continued the decline in net expenses in the credit business that has been the trend for many years. The development continued to be primarily the result of the systematic quality-oriented lending policy in recent years and the resulting high quality finance portfolio. The risk result in the capital market business also improved significantly to € – 7.7 million (2014: € – 25.3 million). Despite more charges from additional loan loss provisions for the receivables from Heta, the sale of receivables had a positive effect on the result and ensured an improvement on the result in the previous year which was greatly impacted by Heta. The risk result from an overall Bank point of view was also influenced by the expenses for the strengthening of the precautionary reserves in accordance with Section 340f of the German Commercial Code, which were assigned to the business area of "Other business".

The income from securities and participatory interest were impacted again by the loan loss provisions in the capital market business. The significant loan loss provisions already reported in financial year 2014 for Heta securities increased even more. This had another large negative impact on the result, although the loss on income from securities and participatory interest improved relative to the previous year, totalling € – 29.4 million (2014: € – 42.5 million). Besides the described developments, the income from securities and participatory interest also had in total result-neutral effects from the strategic reduction of the portfolio in the capital market business.

The extraordinary result improved in comparison to the previous year to € – 0.1 million due to the loss of extraordinary expenses in previous years (2014: € – 1.4 million). Interest on investment by silent partners, as in 2014, totalled € 8.4 million (2014: € 8.4 million) and was taken into account.

From an overall Bank point of view, profit before taxes and profit and loss transfer totalled € 61.8 million (2014: € 31.6 million). Together with this rise in income, the RoE rose substantially year on year to 7.4 % (2014: 3.8 %). The very positive performance in commercial real estate finance led to an improvement in the Return on Risk Adjusted Capital (RoRaC) in the core business area to 29.5 % (2014: 21.9 %). In the capital market business, a negative RoRaC was seen, as in the previous year, despite an improvement in results.

The CIR rose slightly to 35.6 % (2014: 34.1 %) due to the significantly higher bank levy relative to the previous year and consequently the somewhat higher administrative expenses. Despite the minimal increase, Deutsche Hypo continued to report a very attractive CIR in comparison to others in the industry.

## Net assets and financial position

### Development of the balance sheet

in € millions	31.12.2015	31.12.2014*)	Change (in %)
Receivables			
Mortgage loans	11,953.6	12,409.8	– 3.7
Loans to local authorities	5,588.6	6,362.2	– 12.2
Other receivables	2,138.1	1,740.5	22.8
Securities	7,038.0	9,254.4	– 23.9
Other assets	225.4	288.0	– 21.7
<b>Total assets</b>	<b>26,943.7</b>	<b>30,054.9</b>	<b>– 10.4</b>
Liabilities			
Mortgage Pfandbriefe	8,486.5	8,834.8	– 3.9
Public Pfandbriefe	7,028.5	8,807.3	– 20.2
Unsecured bonds	2,606.9	2,172.1	20.0
Other liabilities	7,121.8	8,492.2	– 16.1
Subordinated liabilities	320.0	326.0	– 1.8
Jouissance right capital	83.0	83.0	0.0
Funds for general banking risks	14.4	14.4	0.0
Equity	913.2	913.2	0.0
Other liabilities	369.4	411.9	– 10.3
<b>Total liabilities</b>	<b>26,943.7</b>	<b>30,054.9</b>	<b>– 10.4</b>
Contingent liabilities	1,127.0	1,215.7	– 7.3
Other obligations	1,245.0	1,048.7	18.7

\*) The amount of contingent liabilities from the previous year was corrected. Reference is made to the information in the notes in the financial statements with regard to this.

Deutsche Hypo's total assets fell significantly from the previous year to € 26,943.7 million (2014: € 30,054.9 million). The development was primarily due to the strategic reduction in the capital market business, which was seen above all in the significant decline in securities. At the same time, the portfolios in commercial real estate finance also declined somewhat, although the portfolio developments showed Deutsche Hypo's ongoing strategic focus on the core business area of commercial real estate finance.

In funding, the shift toward issuing mortgage Pfandbriefe continued. In comparison to the previous year, the portfolio of mortgage Pfandbriefe in circulation fell slightly to € 8,486.5 million (2014: € 8,834.8 million); and the portfolio of public Pfandbriefe dropped significantly to € 7,028.5 million year on year (2014: € 8,807.3 million). Unsecured bonds also increased as of balance sheet date to € 2,606.9 million (2014: € 2,172.1 million). For information on the maturities or the due dates for liabilities, reference is made to the explanations in the notes to the financial statements. The expanded risk report shows the Bank's liquidity situation. Information on Deutsche Hypo's funding activity in the financial year can be seen in the presentations on the portfolio developments in the capital market business.

The balance sheet equity remained unchanged at € 913.2 million in comparison to the previous year. The annual result is transferred in full to NORD/LB on account of the profit and loss transfer agreement. The total balance sheet equity plus the jouissance right capital, subordinated liabilities and the funds for general banking risks in accordance with Section 340g of the German Commercial Code was € 1,330.6 million and slightly below the amount in 2014 due to the scheduled repayment of subordinated liabilities (2014: € 1,336.6 million). For information on the regulatory equity, reference is made to the explanations in the expanded risk report of this management report.

Off-balance-sheet obligations in the form of irrevocable credit commitments increased significantly from the previous year to € 1,245.0 million (2014: € 1,048.7 million). Contingent liabilities fell slightly to € 1,127.0 million (2014: € 1,215.7 million), which was primarily due to the maturities of credit derivatives. For more information about the off-balance-sheet obligations, please refer to the explanations in the notes to the financial statements.

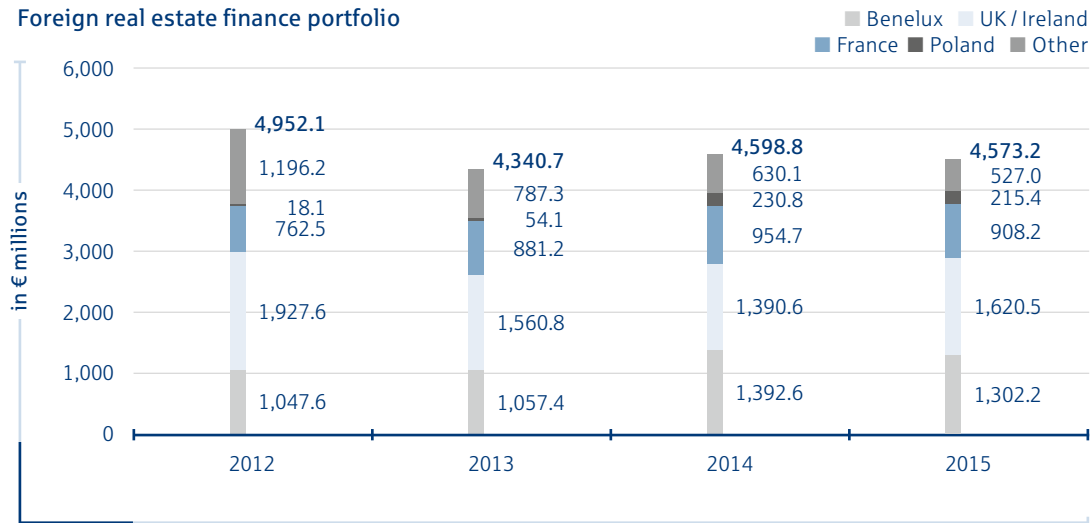
#### Development of portfolio in commercial real estate finance

The ongoing high repayment rates led in total to a slight decline in the portfolio of commercial real estate finance to € 11,953.6 million (2014: € 12,409.8 million) despite the slight rise in new business volume. At the same time, credit commitments rose significantly to € 1,245.0 million as of balance sheet date (2014: € 1,048.7 million). Consequently, a relatively large share of the committed financing has not yet been transferred to the portfolio.

The focus in the core business area continues to be on the quality of the real estate finance portfolio, which improved again in the financial year under review. The share of financing that is assigned to the poor rating category fell even further. For more detailed information, reference is made to the descriptions on the analysis of the credit risk in the expanded risk report. The credit exposure mentioned there is not exactly comparable to the balance sheet portfolios of the real estate financing due to the reliance on the nominal volume including the share of loan commitments.

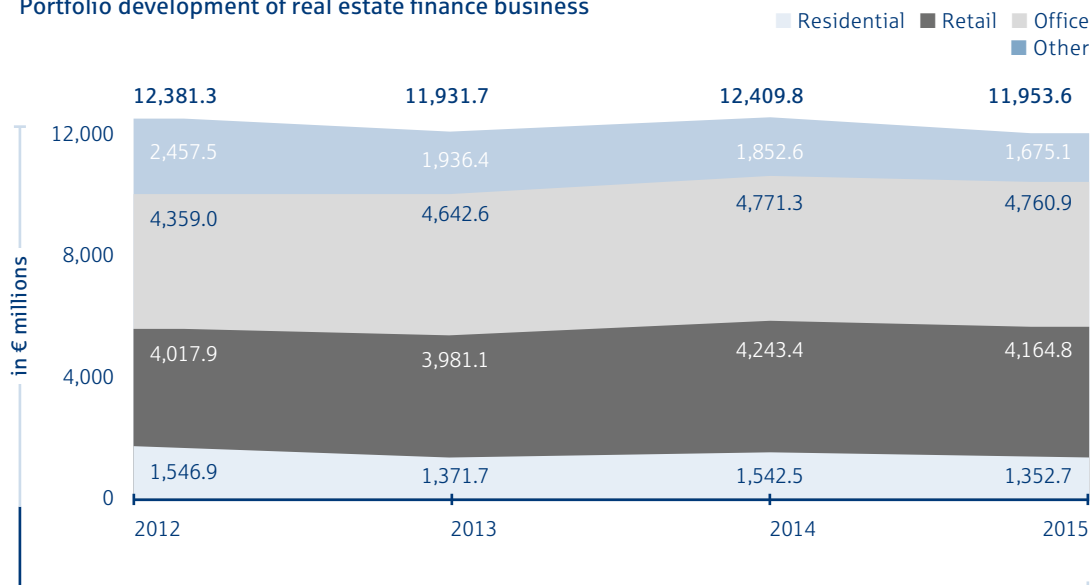
The declines in the real estate finance portfolio were almost entirely due to a reduction in financing in the home market. The lending volume of domestic financing fell slightly in the past financial year to € 7,380.3 million (2014: € 7,811.0 million); and the portfolio of financing abroad remained almost constant at € 4,573.2 million (2014: € 4,598.8 million). The share of foreign loans increased relative to the previous year, rising slightly to 38.3 % (2014: 37.1 %) of the entire real estate finance portfolio. This was due to a significant increase in the financing in the UK, which rose to € 1,620.5 million (2014: € 1,390.6 million), in contrast to which the portfolios in all other foreign markets fell slightly.

## Foreign real estate finance portfolio



The declines in the real estate finance portfolio were seen above all in the asset class of financing for residential housing, where the portfolio fell to € 1,352.7 million (2014: € 1,542.5 million), and in the financing of other real estate, where the portfolio fell to € 1,675.1 million (2014: € 1,852.6 million). Office real estate continued to represent the main type of property, accounting for a volume of € 4,760.9 million (2014: € 4,771.3 million); the portfolio of financing for retail real estate was € 4,164.8 million (2014: € 4,243.4 million).

## Portfolio development of real estate finance business





## Development of portfolio in capital market business

Deutsche Hypo used the mostly attractive environment, despite temporary volatility here and there, to substantially accelerate the strategic reduction of the portfolio in the public sector finance business during the year under review. In addition to the scheduled run-offs, the Bank was able to reduce the portfolio by selling items and using buy-backs, above all for riskier counterparties. In total the portfolio of receivables and securities in the capital market business fell significantly to € 12,626.6 million (2014: € 15,616.6 million). The development was visible above all in the portfolio of securities, which fell substantially to € 7,038.0 million (2014: € 9,254.4 million). The sale of primarily risky counterparties increased the quality of the portfolio substantially. For more detailed information, reference is also made to the descriptions on the analysis of the credit risk in the expanded risk report.

The funding of the Bank is also assigned to the capital market business. In financial year 2015, Deutsche Hypo issued its own securities with a volume of € 3,571.5 million (2014: € 2,852.2 million), of which € 1,601.5 million (2014: € 1,613.7 million) were mortgage Pfandbriefe and € 1,970.0 million (2014: € 1,238.5 million) unsecured bonds. This took place, among others, through two benchmark issues, a 6-year and a 7-year Pfandbrief, which both met with solid demand in Germany and abroad. As a result, 28.0 % of the issues from Deutsche Hypo were benchmark issues and 72.0 % were private placements. In financial year 2015 the trend toward larger issues also solidified. Besides benchmarks, which have a volume of at least € 500 million by definition, private placements also tended to be for higher amounts. This is due to both the preference of investors for liquidity and regulatory requirements such as the liquidity coverage ratio.

Deutsche Hypo also serviced the market for its own securities in the financial year in terms of ensuring consistently functioning secondary markets and regulated its own securities in connection with this by buying back a nominal volume of € 617.3 million in the financial year (2014: € 115.0 million). The resulting outflow of liquidity was easily replaced. At the end of the year, the Bank's portfolio of its own securities was € 24.5 million (2014: € 67.0 million).

## Rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Long-term liabilities	Baseline Credit Assessment (BCA)
Moody's	Aa1	Aa1	Prime-2	A3	b1
	until 23 June 2015: Aa2	until 23 June 2015: Aa2		until 19 June 2015: Baa1	

(as of 31 December 2015)

The rating agency Moody's published new ratings for the German banking sector on 19 June 2015 after adjusting its rating methodology. Deutsche Hypo received a rating upgrade of one notch to A3 for long-term liabilities. Among others, this is due to the strong support by NORD/LB if necessary. Moody's also acknowledged the good asset quality of the real estate finance business and access to cost-efficient funding. All other ratings were confirmed at their current level since the fundamental basic assumptions for the rating of Deutsche Hypo remained mostly unchanged according to Moody's.

Due to the improvement in its rating, the ratings for Deutsche Hypo's mortgage Pfandbriefe and public Pfandbriefe were also adjusted. Since 23 June 2015, both Pfandbrief ratings have been Aa1.

### Comparison of the developments with the forecast from last year

Last year's forecast was based on the assumption of a fundamentally positive market environment for Deutsche Hypo. Besides the ongoing economic recovery and the good condition of real estate markets expected on account of the still existing investment pressure, a continuation of the positive trend toward the further calming and stabilisation of international financial markets was anticipated.

The described forecast for developments in the industry and economy were fundamentally accurate. Strong demand for commercial real estate was observed on real estate markets, which offered new business opportunities at all times. Despite the ongoing increase in competition, Deutsche Hypo was able to slightly increase the new business volume in the financial year, as forecast, to € 3,710.7 million (2014: € 3,610.3 million). The increasing competitive pressure led to an even greater squeezing of new business margins. Contrary to the forecast of a slight rise, the portfolios in the core business area fell slightly year on year to € 11,953.6 million on account of higher principal repayment rates (2014: € 12,409.8 million).

Despite the compensation for early repayments of credit, the expected slight rise in net interest income in the core business area could not be achieved at € 175.5 million (2014: € 180.4 million). The described developments in the portfolios and the new business margins were noticed in the development of the net interest income. In addition to this, there was a significant decline in the net commission income, as expected. A substantial rise in the result in the core business area, which reached € 119.6 million (2014: € 95.4 million), was achieved despite the expectation of a slight decline. This was due to a significant improvement in the risk result, which rose to € – 15.6 million (2014: € – 48.6 million) and exceeded expectations from the previous year. These very positive developments allowed the RoRaC to increase sharply to 29.5 % (2014: 21.9 %) in the core business area, contrary to the forecast.

In the capital market business, the decline in the portfolio of receivables and securities corresponded to last year's forecast and totalled € 12,626.6 million (2014: € 15,616.6 million). Contrary to the expectation of slightly declining net interest income due to the contraction of the portfolio, early repayments of credit led to a significant rise in the net interest income to € 31.2 million (2014: € 21.7 million). Due to the necessary loan loss provisions of Heta receivables and securities, the expected, slightly positive result was not achieved with the final result of € – 12.1 million (2014: € – 52.5 million) however. Accordingly, the RoRaC in the capital market business remained negative, contrary to expectations.

From an overall Bank point of view, Deutsche Hypo expected a result from normal operations that would be significantly above the amount in the previous financial year. This expectation was primarily based on the lack of last year's loan loss provisions in the capital market business, which impacted the result. The forecast result was achieved with € 70.3 million (2014: € 41.4 million), despite another impairment in the capital market business, due to the very good risk result in commercial real estate finance. The risk result from an overall Bank point of view improved substantially more than forecast to € – 41.3 million (2014: € – 62.2 million), whilst by contrast the income from securities and participatory interest solely improved a little to € – 29.4 million (2014: € – 42.5 million) on account of more loan loss provisions in the capital market portfolio, contrary to expectations. In addition, there was stable net interest income from an overall Bank point of view, totalling € 224.5 million (2014: € 222.3 million), as expected. Due to the higher bank levy of € 77.8 million (2014: € 75.6 million) administrative expenses were slightly above expectations. The bank levy in last year's forecast was still reported in other operating expenses. If the change in reporting is not taken into account, then administrative expenses actually fell and last year's forecast was met.

The CIR rose slightly to 35.6 % (2014: 34.1 %) as a result of which the forecast of a stable CIR was not quite achieved. The slight increase in the year under review was also due to the change in the reporting of the bank levy in administrative expenses. When this reclassification is factored out, the ratio remained on the same level, as forecast. By contrast, the significant improvement in the RoE to 7.4 % (2014: 3.8 %) corresponded to the forecast last year.

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

Deutsche Hypo achieved a result from normal operations of € 70.3 million in the past financial year – supported by numerous opportunities and a challenging environment in the banking sector. The very good risk result in the core business area was the main reason for this performance. The high quality requirements for newly awarded financing continue to pay off here. In the process, early repayments of credit ensured a positive impact on the net interest income and the overall result. Consequently, the Bank was able to achieve a very satisfactory overall Bank result and substantially strengthen the precautionary reserve in accordance with Section 340f of the German Commercial Code despite more significant loan loss provisions on account of Heta receivables and securities and noticeable additional charges from the bank levy.

The development of the new business volume in commercial real estate finance was also satisfactory. The forecast slight increase in comparison to the previous year could be achieved. Deutsche Hypo will continue to maintain its high quality expectations for new business and accept falling margins only in the case of a sufficiently good risk profile for the financing. Nonetheless, high principal repayment rates caused an unexpected decline in the real estate finance portfolio and led to slightly declining net interest income in the core business area. This showed the increasingly competitive environment in commercial real estate finance.

The developments related to Heta impacted Deutsche Hypo's capital market result in the financial year. However, there were also very positive developments in the public sector finance business. The largely attractive environment made it possible to significantly reduce and optimise the portfolio. Through sales and the use of buy-backs, a large portfolio of risky counterparties was eliminated, which continued to improve the quality of the capital market portfolio. As a result, Deutsche Hypo took another step toward focusing on its core business area.

Against the backdrop of a very satisfactory development of the result and the positive development of the portfolio qualities, the course of business in the past financial year and the Bank's economic position should be judged as positive overall.



Dusseldorf

## DREISCHEIBENHAUS – IMPORTANT SYMBOL OF POST-WAR MODERNISM

The Dreischeibenhaus is a 94-metre office building in Düsseldorf city centre directly right between “Kö-Bogen” and the Schauspielhaus theatre. Built in 1969, the building is a symbol of the so-called economic miracle. The lobby and the façade are listed. A complete restoration took place between 2011 and 2013 in line with “green building criteria” and therefore met high environment standards. The Dreischeibenhaus won the MIPIM Award 2015 in Cannes for the World's Best Refurbished Building. It has a useful area

of around 35,000 square metres on 25 floors above ground level and 260 parking spaces below ground level. The building houses many well-known tenants and a high-class restaurant was opened on the ground floor in the former Thyssen telephone exchange in 2015.

WE ARE VERY PLEASED  
THAT WE HAVE BEEN ABLE  
TO CONTRIBUTE WITH  
OUR FINANCING AND  
PROJECT DEVELOPMENT  
EXPERTISE TO THE REVIVAL  
OF AN OFFICE COMPLEX  
OF HISTORIC IMPORTANCE  
IN DUSSELDORF CITY  
CENTRE.

Thomas Hansen, Head of the Hamburg Office



### Financing details:

Deutsche Hypo took on the financing of the project development of the Dreischeibenhaus office building as the co-arranger together with DG HYP as consortium leader in 2011. This was a club deal, in which Deutsche Hypo took on part of the financing volume. Upon completion of the renovation, the project volume totalled around € 220 million. The financing was acquired by the Hamburg office.

Type of property  
City  
Project volume  
Customers

Office  
Dusseldorf  
€ 220 million  
Momeni-Gruppe  
and Black Horse  
Development GmbH

## 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 position or income position.

## Forecast, opportunity and risk report

### Forecast report

#### Development of business and general conditions

##### Forecast for economic development

In Germany, there was a slight downturn in the business climate recently after years where sentiment has responded astonishingly strongly to pressure. The decline in the ifo business climate index at the beginning of the year reflects the growing risks for the German economy. This relates to worries about the economic situation in China, the recent market volatility and geopolitical conflicts. In particular, growth in China has slowed recently, and other emerging markets such as Russia or Brazil are no longer growth engines. The pillars of growth in 2015 remain intact for 2016, however: There are very good early signs of another strong rise in consumption. The recent decline in the price of oil will act like a mini-economic stimulus package, in particular because the low interest environment offers little incentive to save. The Research/Economics Division at NORD/LB forecasts 2016 GDP growth to be as high as it was in 2015.

The economic outlook for the eurozone is also good. For full year 2016, NORD/LB anticipates GDP growth of just under 1.5 %. The most important factor here will remain private consumption. Furthermore, the low price of crude oil, the weak euro and the loose monetary policy of the ECB will provide stimulus for economic growth. However, investments to drive economic growth have still not kicked in. Finally, there are quite significant risks such as the signs of weakness in China, the threat of terrorism, geopolitical conflicts and the centrifugal political forces in the EU that are very evident in the refugee crisis. Alone the willingness to consider questioning the Schengen Agreement and the freedom of movement between EU countries led to noticeable uncertainty at companies. The vote on the Brexit, separatist movements and the strengthening of right-wing populist parties are also hurting the business climate.

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

The attractiveness of global real estate investments will also continue in general in 2016 on account of ongoing low interest rates, high liquidity and a lack of investment alternatives. Nonetheless, it remains necessary to wait and see what effects the possibly different interest rate policies of central banks will have.

The European real estate markets will also continue to develop dynamically in 2016, particularly because more quantitative easing is expected in Europe. As a result, low interest rates will remain a supporting pillar for investment decisions. Demand due to increasingly international investors will



further reduce the availability of core properties. It can also be expected that excessive prices will be seen in some regions. Furthermore, a shift in trend to B cities and B locations will continue. The UK and Germany will also be considered "safe havens" for real estate investments in 2016.

Besides low interest rates, the strong economy and the solid labour market in Germany will continue to have a positive impact on the commercial real estate market in Germany, although the creation of living space for refugees will have an increasingly noticeable effect on the real estate sector in the next twelve months. A further increase in demand for core properties and ongoing pressure on the returns in all asset classes are to be expected. The ECB's loose monetary policy will cause interest in German real estate investments to increase even more so that foreign lenders will also be increasingly active on the German market due to the lack of investment alternatives. It is necessary to expect that top returns for real estate at top locations (office and retail) will continue to fall. For investors, it will also be more difficult to find attractive investments in 2016.

#### Forecast for developments on international financial markets

Despite raising interest rates in December 2015, the US Federal Reserve will only slowly normalise its interest rate policy. In the eurozone, it looks like there will be more quantitative easing. In March, the ECB is expected to revise its inflation projections, in some cases substantially, and adopt new measures to stabilise inflation expectations and support the economic recovery. Against this backdrop, European government bond yields – primarily with the short-term and medium-term maturities – fell substantially again. Money market rates will in all likelihood dip further below zero due to the ongoing reduction of the deposit rate. In the capital market interest rates area, somewhat higher yields can only be anticipated with a noticeable normalisation of inflation – and thus not before the end of 2016. At the present time, however, little speaks for a sustained increase in capital market returns.

#### Forecast for the development of business

##### Significant assumptions in the forecast

Deutsche Hypo's multi-year plan, which is compiled annually, provides the basis for the statements on the earnings forecast. A planning model is used that enables Deutsche Hypo to model the results expected in future. Its foundation consists of economic assumptions, expectations with regard to developments on real estate markets, forecasts on financial market developments and regulatory requirements. On the basis of this, factors such as new business, the development of the portfolios and the resulting margins are planned.

The value of the planning is naturally highly dependent on the assumptions used in the planning. Unexpected developments in external or internal factors can have a noticeable 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 and on the basis of standard market conditions at all times. In the context of ongoing high market liquidity and the prevailing low interest environment, the attractiveness of commercial real estate will continue to remain high. This is expected to lead to a high transaction volume on real estate markets. For Deutsche Hypo, this should continue to offer it high potential for new business, although competition on the investor side will also remain high. As a result, slightly falling new business margins should be anticipated.

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

- An increase and expansion of the product range, the constant promoting of lucrative, innovative product offers
- Strategic focus on the defined target markets
- Continuation of the product development business
- Further development of the structuring competence and arranger role with the inclusion of financing partners
- Targeted development of business relationships to new partners that invest in real estate financing
- Successive merging of the public sector finance portfolio for reducing hidden charges and credit spread risks
- Constant optimisation of the processes and structures

The following forecast for the course of business in the business areas and the income forecast from the overall Bank point of view refer to the expected developments in financial year 2016.

#### **Forecast for the course of business in the business areas**

Against the backdrop of the described market conditions, Deutsche Hypo sees good opportunities to acquire new customers and intensify business relationships with existing customers in the business area of commercial real estate finance. In lending, the Bank also continues to focus on high quality and reasonable criteria for returns. Deutsche Hypo anticipates a further slight increase in the new business volume in the forecast year of 2016 (2015: € 3,710.7 million) and a slight expansion of the real estate finance portfolio (2015: € 11,953.6 million).

For the development of income in the core business area, it is expected that the interest income generated from principal repayments before maturity will decrease somewhat. This is expected to lead to the fact that the high level of net interest income in the year under review cannot entirely be achieved (2015: € 175.5 million). In light of the conservative risk result planning on the basis of average risk costs, the result from the core business area in the forecast year will be significantly lower overall than in the financial year (2015: € 119.6 million). The overall positive development expected nonetheless in the business area will produce a RoRaC that is anticipated to be only slightly below the very high level in the year under review (2015: 29.5 %).

The capital market business area will also continue to be affected by the strategic goal of reducing the portfolio in the 2016 financial year. The portfolio will also continue to decrease slightly as a result (2015: € 12,626.6 million). Since lower early loan repayments and falling margin results are expected due to the declining portfolio, a significant drop in net interest income is anticipated (2015: € 31.2 million). As the special effects from Heta will no longer have the negative impact that it had in 2015, a slightly positive result is expected for the capital market business area (2015: € – 12.1 million). This would result in a slightly positive RoRaC (2015: – 7.9 %).



### Income forecast from an overall Bank point of view

Against the backdrop of the forecast developments in the business areas, Deutsche Hypo assumes from an overall Bank point of view that it will be able to achieve income that is slightly below the level of the previous year (2015: € 70.3 million). The reason is in particular that the very good net interest income of € 224.5 million in financial year 2015 is not expected to be achieved at this level due in part to special effects in both business areas. The ongoing good quality of the real estate finance portfolio should also be reflected in a good risk result in 2016, although the very good level of 2015 from an overall Bank point of view will not quite be achieved according to the conservative approach taken in the forecast (2015: € – 41.3 million). The ongoing high regulatory requirements and another somewhat higher bank levy mean that a moderate rise in administrative expenses should be assumed (2015: € 77.8 million). As a result, a somewhat higher CIR is anticipated (2015: 35.6 %). The RoE will be slightly lower than expected in the past year (2015: 7.3 %).

### Opportunities and risks of future business development

The described forecasts relate to the developments in the 2016 financial year. Opportunities and risks are primarily seen in Deutsche Hypo's income from securities and participatory interest that deviate positively or negatively from the forecast. Both income components are significantly affected by the developments of external economic, geopolitical and sector-specific conditions and developments on international financial markets. These can only be planned to a limited extent. Unexpected developments in external factors can have a major impact on the Bank's results. This includes payment difficulties for individual counterparties in the capital market business. Major types of risk that occur in this connection are counterparty risks, market price risks and liquidity risks. In the context of Deutsche Hypo's risk management, the aforementioned risk types are monitored. The following expanded risk report goes into detail on the goals, strategies, structures and processes in risk management.

There has been a significant increase in volatility on international financial markets since the end of the last year. The partially significant drops in equity and commodity markets above all were due to uncertainties with regard to future global economic development, among other concerns. At the same time, these uncertainties were observed on bond markets in the form of an increasing interest rate spread between German bonds and the bonds issued by some other eurozone countries. Deutsche Hypo is currently assuming a continuation of the good economic development in Germany and the eurozone over the course of the year and largely functioning market mechanisms. If however the economic concerns and volatility on international financial markets persist and are confirmed, then a negative impact on the Bank's development of business and income cannot be ruled out.

Opportunities and risks can result, above all, from unforecasted developments in new and portfolio business. The ongoing strong competition in commercial real estate finance may have a negative impact on the results. This may be seen in increasing margin pressure and new business that is slightly below expectations. Likewise, it cannot be ruled out that net interest income will fall short of expectations. If high numbers of borrowers continue to make premature repayments of principal, compensation for early repayment beyond the planned extent could produce additional interest income in the forecast year.

There will be opportunities for the forecast year, particularly in connection with the Heta exposure. Loan loss provisions were set up for the exposure as part of a cautious approach. If there are indications of a lower loss, this could have a positive impact on the Bank's income.

The impact on results that negative interest will have in terms of both potential risks and potential opportunities is viewed as relatively low.

Due to the Bank's membership in the institution-based security reserve of Landesbanks and giro centres as well as the bank levy, special payments can also be demanded from Deutsche Hypo in the event of compensation and support measures that lead to underfunding at these institutions. Whether and to what extent such payments will be made cannot currently be forecast, in part due to the calculation methodology that also relies on the relative development of institution-specific parameters in comparison to the industry. However, such payment obligations may fundamentally impact the net assets, financial and income position of the Bank.

#### **Overall statement on the forecast report with significant opportunities and risks**

For the coming year, despite the significant increase in volatility on international financial markets, Deutsche Hypo expects a positive course of business in a challenging environment with many opportunities. The Bank is currently assuming a continuation of the good economic development in Germany and the eurozone over the course of the year and largely functioning market mechanisms. According to the business strategy, the focus will continue to shift toward the business area of commercial real estate finance where slight portfolio growth will be pursued. Parallel to this, the strategic reduction of the capital market portfolio will continue. Due to the described factors, the results in financial year 2015 are not expected to be achieved in full. The reason will be lower net interest income than in 2015 from an overall Bank point of view.

The Bank will also face risks to the development of business and income due to unexpected developments in economic, geopolitical or industry-related framework conditions or negative developments on international financial markets. Unexpected developments in external factors can have a major impact on the Bank's results. This includes payment difficulties for individual counterparties in the capital market business.

## Expanded risk report

### Risk management

#### Fundamentals of risk management

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

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

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

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

#### Risk management – strategies and goals

The strategic orientation of the NORD/LB Group is determined in compliance with Section 25a (1) of the German Banking Act (KWG), among others, on the basis of a consistent compendium of strategies. This is based on all the significant (in terms of risk) subordinate companies of the NORD/LB Group and thus Deutsche Hypo. Deutsche Hypo prepares an institute-specific, concrete and consistent risk strategy for the Group risk strategy and for the business and IT strategy of the Bank, which is oriented on the overall risk profile. Independently of the regulatory requirements, Deutsche Hypo attaches great importance to an appropriate risk management system from a business perspective and such a system is anchored in its corporate culture.

In 2015 the risk strategy was overhauled as usual. At the same time, compliance with the existing risk strategy requirements was checked. In this connection, it was discovered that the risk strategy goals were complied with.

### **Risk management – structure and organisation**

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

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

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

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 Erweiterter Konzernvorstand (Extended Group Board of Managing Directors), the Konzernsteuerungskreise (Group Control Committee) and the Group Risk Committee. Due to the integration of Deutsche Hypo in the risk management process on the group level, the results of the previously mentioned boards have an impact on Deutsche Hypo. Deutsche Hypo is included by sending representatives to these boards. Furthermore, there are the Method Board for Risk Management and various working groups on the level of the NORD/LB Group. Deutsche Hypo is also represented in this Method Board and in the working groups.

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

For the purposes of ensuring that regulatory requirements are adhered to in relation to activities in new products or new markets, a "New Product Process" (NPP) is in place throughout Deutsche Hypo.

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

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

### **Risk management – reporting**

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

### **Management of risks affecting cover pool**

In its capacity as a Pfandbriefbank 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. Consequently, the risk management system of the entire Bank, as an integral component, comprises the identification, evaluation, control and monitoring of all risks that are connected with the Pfandbrief business.

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

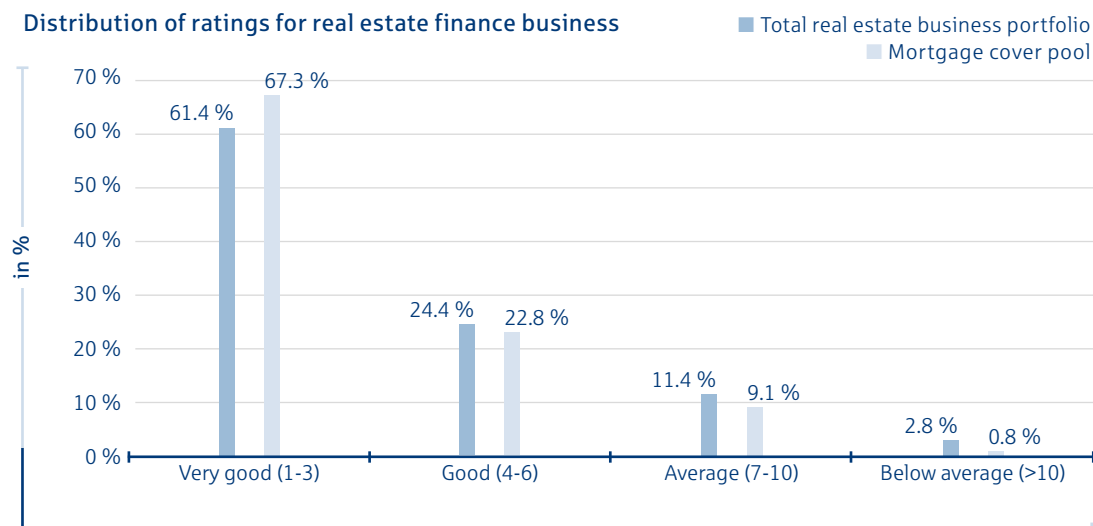
Besides permanent compliance with the cover principles and the permanent ensuring of sufficient cash coverage (Section 4 (1) of the German Pfandbrief Act) and the ensuring of the liquidity over the next 180 days (Section 4 (1a) of the German Pfandbrief Act), the Bank regularly analyses the quality and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

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

### Cover pool of mortgage Pfandbriefe

The proportion of good and very good credit ratings in the mortgage cover pool amounted to 90.1 % as of 31 December 2015 (2014: 86.6 %). In terms of the entire real estate finance portfolio, this share was 85.8 % (2014: 82.2 %). The distribution of ratings in the mortgage cover pool reflects the good quality of the Pfandbriefe.

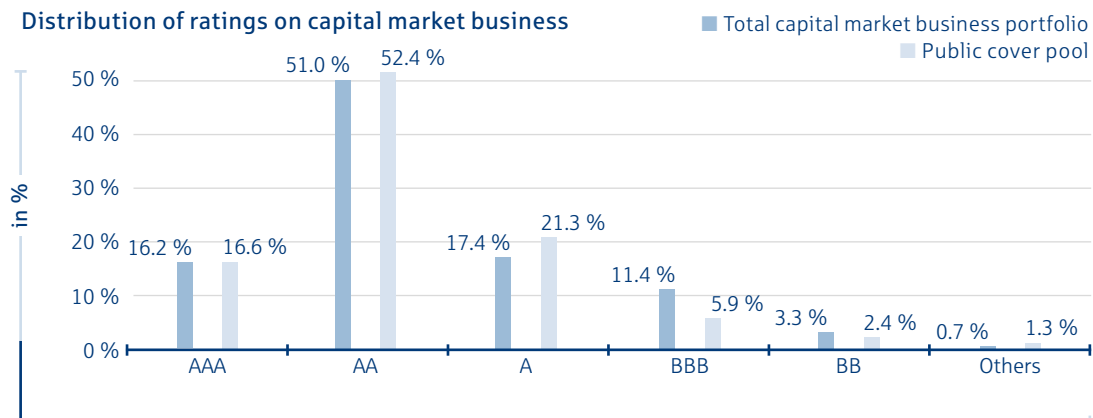
Distribution of ratings for real estate finance business



### Cover pool for public Pfandbriefe

The share of loans with a very good rating of AAA or AA in the cover pool of public Pfandbriefe was 69.0 % as of 31 December 2015 (2014: 73.7 %). The average rating in the cover pool amounted to AA- and signals the high quality of the cover pool for issued Pfandbriefe.

Distribution of ratings on capital market business



## Risk management – risk bearing capacity

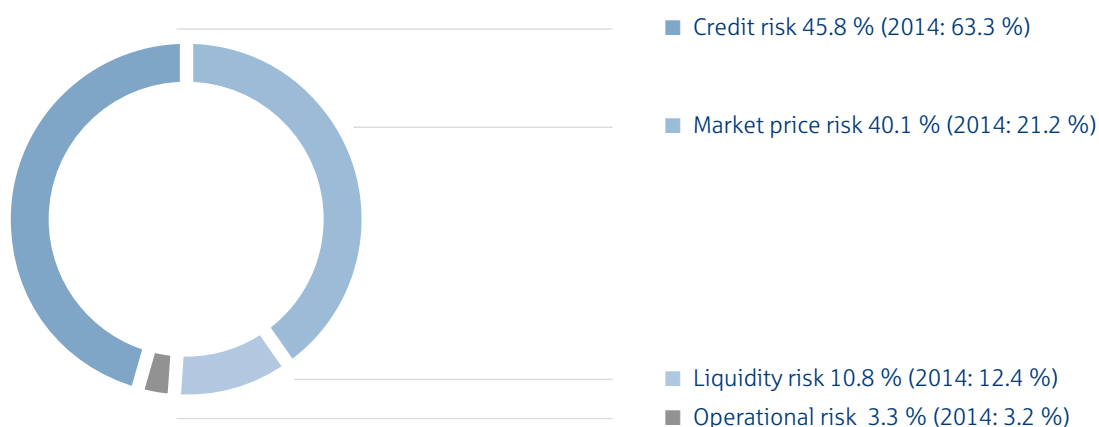
The risk bearing capacity (RBC) of Deutsche Hypo is monitored on the level of the NORD/LB Group due to the exercising of the simplification rules under Section 2a (1) of the German Banking Act or Art. 7 CRR. The RBC model of the NORD/LB Group consists of three levels of analysis: the going concern (authoritative level of analysis for evaluating the risk bearing capacity), gone concern (secondary condition) and regulatory (strict secondary condition) in which the significant risks (risk potential) are viewed in each case in relation to the defined risk capital of the individual bank or the Group. Deutsche Hypo supplies the required information that is consolidated within the scope of the risk bearing capacity calculation of NORD/LB for the Group. The risk bearing capacity of the NORD/LB Group was met as of 31 December 2015. The securing of the risk bearing capacity on the Group level is supported by the use of institute limits for the significant types of risk at Deutsche Hypo. These limits are set by the NORD/LB Group. While compliance with the institute limits assumes a place of particularly high strategic relevance for Deutsche Hypo, they represent an early warning instrument from the perspective of the NORD/LB Group. Corresponding escalation mechanisms have been established for the exceeding of limits.

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

## Current developments

The year 2015 was defined by generally positive sentiment on money and capital markets. Besides the narrowing of spreads observed on markets, the maturing and reduction of individual items in the capital market business led to a significant decline in exposure and hidden charges in the capital market business. The risk potential in the going concern (confidence level of 95 %, time horizon of fundamentally 1 year) from the significant risk types is as follows on 31 December 2015:

### Composition of risk potential from the significant risk types in the going concern as of 31.12.2015



The amount of risk potential overall did not change much relative to the previous year. It was observed that the credit risk over the course of 2015 fell significantly due to an improvement in the portfolio structure. The market price risk rose relative to the previous year due to an adjustment in the investment strategy for the perpetually available equity and the significant rise in market volatility. The market risk item continues to be defined by a conservative approach.

### Counterparty risk

Deutsche Hypo's counterparty risk consists of the credit risk, including the country risk. The financial investment risk does not have any strategic meaning and is insignificant as a result. The credit risk refers in general to the possibility that a loss may be incurred that is not covered by securities as a result of an external counterparty defaulting or suffering a deterioration in creditworthiness. As well as the classic default risk, collateral risk is a further component of credit risk. This is understood as the risk that it might not be possible to recover the assumed fair values of loan collateral in the event of realisation. The counterparty risk is also assigned to the credit risk and includes the risk that if a contractual party defaults it might no longer be possible to collect an as yet unrealised gain from pending transactions (replacement risk) or that, in the case of a transaction requiring contemporaneous performance, the instance of a counterparty defaulting might mean that the counter-performance can no longer be fulfilled (performance risk).

Another component of the credit risk in the case of cross border transactions can be the related sovereign risk. This is the risk that state-imposed obstacles (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 risk strategy for credit which, in turn, is part of the overall risk strategy. 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.

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

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



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

### Counterparty risk – structure and organisation

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

Credit decisions as defined in MaRisk are all decisions on new loans, loan increases, loan takeovers, loan extensions and significant changes to risk-relevant properties of loans. Loan decisions are always made by two authorised employees or, for specific sizes of loans, by decision-making committees (e.g. the full Board of Managing Directors). One person is always from the market division and one person from the back office division. The authorised employees responsible for making the decision must be on the same functional or hierarchical level as each other. The market division has no authority to approve credit on its own.

Before the loan decision is made by the responsible employee, two additional votes, namely one vote from the market division and one from the back office division must first be present. The responsibility of the authorised employees is basically based around the total commitment of the group of affiliated customers in accordance with Art. 4 (39) CRR to which the customer is to be allocated and around the rating class as determined in the credit review. This ensures that the basis of the loan decision is not simply the amount of the requested loan. Rather, the risk potential inherent in the total commitment is taken into account.

### Counterparty risk – controlling and monitoring

Deutsche Hypo's credit risk is controlled and monitored primarily through the stipulation of financial principles, the limit system and the rating system. The Bank also operates a portfolio management for the optimisation of the income and risk structure. As portfolio-improving measures, not only a controlling of the new business, but also placements through syndication, direct sales of receivables or the divestiture of problematic exposures can be considered on a case-by-case basis.

**Financing principles**

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

For Deutsche Hypo, the following criteria apply as a minimum risk standard in the real estate finance business. In the event of non-compliance, the next higher competency level must be included in the back office:

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

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

**Limit system**

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

**Rating system**

The rating system calculates a rating score for each borrower, expressing the individual probability of default over the next 12-month period. This is then updated as part of the annual credit rating assessment and any assessment carried out following a particular occurrence. The rating modules in use were

developed as part of cooperation projects involving the savings bank group and the Landesbanks. The evaluation of the credit rating of customers in combination with a risk-adjusted pricing of the loan leads to the compensation of the expected losses.

### **Treatment of conspicuous exposures**

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

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

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

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

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

### **Counterparty risk – collateral**

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

The value of the property and thus the value of the related securities is monitored on a regular basis, generally at least annually. If there have been any influential factors that are of relevance to the value of the security, a revaluation must be carried out. Deutsche Hypo's credit guidelines and lending principles

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

Mortgages, guarantees and similar collateral, assignments of claims and other rights, liens on property, claims and other rights and transfers of ownership as security are all basically accepted as loan security. Only mortgage liens and guarantees from suitable credit institutes and liquid funds provided as collateral are taken into account for the purposes of risk assessment in the loan portfolio and the easing of capital requirements as stipulated in the CRR.

#### Counterparty risk – measurement

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

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

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

## Counterparty risk – reporting

This quarterly risk report also 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. Furthermore, a portfolio report for the Board of Managing Directors is prepared on the portfolio of problematic exposures for the real estate finance and capital market business. In addition, there are quarterly reports on the monitoring of project developments, syndication and monthly reports on conspicuous exposures as part of the early warning system and on the development of the risk provisioning.

## Counterparty risk – analysis of the credit exposure

The credit exposure, a key reference indicator in credit risk controlling, represents the quantification of all 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 agreements. Irrevocable credit commitments are usually included in the credit exposure at 75 %. Irrevocable credit commitments or internal credit lines are not taken into account. As part of the internal reporting process, the Board of Managing Directors and the Supervisory Board are kept informed at all times of the development and analysis of the credit exposure.

Deutsche Hypo's credit exposure as of 31 December 2015 was € 28,731.5 million, down € 3,040.1 million or 9.6 % as compared to the end of 2014. The volume decreased by € 446.2 million to € 13,257.2 million in the commercial real estate financing business. Credit exposure to loans to local authorities fell significantly, by € 773.8 million, to € 5,603.2 million, in accordance with the reduction of the portfolio as planned in the strategic focus. There was an overall decline of € 1,820.0 million in the portfolio of securities and derivatives and in the other financing products. This development reflects the business policy of the Bank, which aims to turn the Bank into a pure real estate finance bank.

The focus of the credit exposure continued to be on the very good to good IFD classes. This classification corresponds to the standard IFD ratings scale as agreed on by the banks, Sparkassen and associations that together form the Initiative Finanzstandort Deutschland (IFD). The aim of this scale is to make it easier to compare the ratings awarded by individual credit institutions. The rating classes of the 18-level DSGV rating master scale used throughout Deutsche Hypo can be translated directly into the IFD classes. The proportion of total exposures in the rating class "very good to good" was 81.8 %, and again above the already good level in 2014 (79.2 %). The reason was the high shares of exposure to governments, public authorities and financial institutes that have a good credit rating and other improvements in the real estate finance area.

The share of non-performing loans (NPL) fell slightly from 1.7 % to 1.5 % of total exposure. The absolute volume fell by € 98.9 million to € 431.9 million.

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

#### Breakdown of total credit exposure by rating category

31.12.2015 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Very good to good	9,326.3	5,508.5	6,038.5	1,485.0	1,154.2	23,512.6	81.8 %
Good / satisfactory	2,018.1	0.3	444.1	0.0	0.8	2,463.2	8.6 %
Still good / sufficient	1,151.2	1.3	331.9	0.0	151.7	1,636.1	5.7 %
Elevated risk	417.3	51.2	118.9	0.0	0.0	587.4	2.0 %
High risk	35.2	0.0	3.4	34.8	0.0	73.4	0.3 %
Very high risk	27.1	0.0	0.0	0.0	0.0	27.1	0.1 %
Default (= NPL)	282.0	41.9	108.0	0.0	0.0	431.9	1.5 %
<b>Total</b>	<b>13,257.2</b>	<b>5,603.2</b>	<b>7,044.7</b>	<b>1,519.8</b>	<b>1,306.7</b>	<b>28,731.5</b>	<b>100.0 %</b>

31.12.2014 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Very good to good	8,566.3	6,273.3	8,013.3	1,715.0	606.1	25,173.9	79.2 %
Good / satisfactory	2,769.3	0.4	328.7	25.0	25.3	3,148.7	9.9 %
Still good / sufficient	1,298.6	0.0	365.6	0.0	59.4	1,723.6	5.4 %
Elevated risk	500.5	0.0	337.3	0.0	0.0	837.8	2.6 %
High risk	29.7	53.2	78.3	0.0	0.0	161.1	0.5 %
Very high risk	195.6	0.0	0.0	0.0	0.0	195.6	0.6 %
Default (= NPL)	343.4	50.2	137.2	0.0	0.0	530.8	1.7 %
<b>Total</b>	<b>13,703.4</b>	<b>6,377.0</b>	<b>9,260.5</b>	<b>1,740.0</b>	<b>690.7</b>	<b>31,771.6</b>	<b>100.0 %</b>

The Bank's credit exposure in the real estate finance business amounted to roughly € 13,257.2 million at year end (2014: € 13,703.4 million), and 94.2 % of it (2014: 92.2 %) consisted of financing for customers that have a rating of at least satisfactory. As a result of the ongoing improvement, NPLs totalled 2.1 % of the total loan exposure, after being 2.5 % in 2014. The overwhelming majority of the NPL portfolio was filled by foreign financing, largely in the Netherlands and Spain. In total, the development of the NPL exposure showed that the level had again fallen below the long-term average that was observed before the crisis.

**Breakdown of the total credit exposure by class and region**

31.12.2015 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Eurozone	10,969.5	5,424.8	5,733.4	1,017.7	1,236.6	24,382.0	84.9 %
<i>of which, Germany</i>	8,209.9	4,049.2	2,284.0	266.4	1,109.2	15,918.7	55.4 %
Other EU	1,996.5	8.2	295.3	38.9	0.0	2,338.9	8.1 %
Other Europe	0.0	170.2	50.6	30.8	0.0	251.6	0.9 %
North America	291.2	0.0	697.5	432.3	32.2	1,453.2	5.1 %
Central America	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Middle East / Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Asia	0.0	0.0	261.1	0.0	0.0	261.1	0.9 %
Other	0.0	0.0	6.8	0.0	37.9	44.7	0.2 %
<b>Total</b>	<b>13,257.2</b>	<b>5,603.2</b>	<b>7,044.7</b>	<b>1,519.8</b>	<b>1,306.7</b>	<b>28,731.5</b>	<b>100.0 %</b>

31.12.2014 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva- tives	Other	Total exposure	Share in total exposure
Eurozone	11,621.1	6,198.2	7,871.8	1,136.8	603.7	27,431.6	86.3 %
<i>of which, Germany</i>	8,642.8	4,767.4	3,140.5	438.8	603.6	17,593.2	55.4 %
Other EU	1,730.4	8.2	300.7	79.9	0.0	2,119.3	6.7 %
Other Europe	0.0	170.6	15.8	12.7	0.0	199.0	0.6 %
North America	351.9	0.0	781.7	510.6	5.4	1,649.6	5.2 %
Central America	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Middle East / Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Asia	0.0	0.0	284.1	0.0	0.0	284.1	0.9 %
Other	0.0	0.0	6.4	0.0	81.6	88.0	0.3 %
<b>Total</b>	<b>13,703.4</b>	<b>6,377.0</b>	<b>9,260.5</b>	<b>1,740.0</b>	<b>690.7</b>	<b>31,771.6</b>	<b>100.0 %</b>

The breakdown of the credit exposure by classes and regions shows that 93.9 % (2014: 93.6 %) of the entire exposure is in Europe. The credit exposure in Germany as a percentage of all exposure totalled an unchanged 55.4 %.

The Bank's exposure to countries referred to as the PIIGS countries decreased significantly to € 2,189.6 million (2014: € 3,052.4 million). This included the use of credit plus full inclusion of existing payout obligations. The Bank's aforementioned exposure to the PIIGS countries did not include the existing real estate finance business in these countries with a volume of € 183.7 million (2014: € 234.9 million). The exposure of € 2,189.6 million was distributed with € 1,306.3 million (2014: € 2,032.5 million) for governments, public authorities and municipalities, and € 883.3 million (2014: € 1,019.9 million) for banks and other institutions. Portugal accounted for € 197.9 million (2014: € 295.3 million), Ireland for € 212.3 million (2014: € 198.4 million), Italy for € 878.1 million (2014: € 1,437.9 million), Spain for € 901.4 million (2014: € 1,120.8 million). In the case of receivables from Italian public debtors, the Bank was able to run-off securities as planned and use available market opportunities to correct overweightings. In Spain the exposure to companies totalled € 376.0 million (2014: € 376.0 million), to public debtors € 118.1 million (2014: € 190.8 million), to banks € 407.3 million (2014: € 554.0 million).

Currently, Deutsche Hypo does not see any acute risk of default. Nonetheless, the exposure to the PIIGS countries and other financing is a permanent focus of risk monitoring. The strategic orientation sets forth without change that in advantageous market conditions the sale of securities shall take place if this is possible in a way that largely protects the income statement. By 2018 the portfolio will have dropped by more than 50 % if developments go as planned.

#### **Non-performing loans in commercial real estate finance business**

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

The total loan loss provisions and provisions for the commercial real estate finance business fell by € 40.5 million as compared to the previous year, totalling € 109.1 million in 2015 (2014: € 149.6 million). This amount was attributable in full to the countries of the eurozone. The credit exposure of this impaired credit totalled € 246.4 million (2014: € 325.8 million). The amount of loan loss provisions and provisions as a percentage of the total credit exposure as of 31 December 2015 was 0.38 % (2014: 0.47 %).

The portfolio of overdue, unimpaired credits rose year on year to € 35.6 million (2014: € 17.7 million). The period of default for this credit exposure was less than 90 days. The overdue or impaired loans are secured by standard collateral, which is valued using the applicable lending principles.

#### **Counterparty risk – outlook**

The positive development on real estate markets also continued in 2015. The Bank assumes that this will not change in 2016 and therefore expects risk provisioning corresponding to the long-term average as required for this business area.

Even if the capital market was largely attractive in 2015, it cannot be ruled out entirely that individual capital market counterparties could face payment difficulties.

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



## Market price risk

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

### Market price risk – goals and strategies

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

To reduce credit spread risks, Deutsche Hypo has been pursuing the strategy of successively reducing the existing capital market portfolio to protect the income statement for some years now.

### Market price risk – structure and organisation

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

### Market price risk – controlling and monitoring

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

The value-at-risk (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 figures are calculated for interest rate risks. In addition, the VaR performance indicators for the risk of a change in interest rates are calculated with due regard for credit spread risks in the banking book.

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

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

#### Market price risk – reporting

The quarterly risk report includes a partial report on the market price risk, which includes all the important information on the strategic controlling of the market price risks. The risk report has an annual stress test in regard to the hidden charges in the banking book and a quarterly report on the results of the backtesting.

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

#### Market price risk – developments and outlook

The development of the risk of a change in interest rates at Deutsche Hypo was on a moderate level in the year under review, as expected. The very low, partially negative interest rates observed on markets had a negligent impact on the Bank's income and risk position due to the business model. The following table shows the development of the Bank's market price risks in comparison to the previous year:

Market price risks in € thousands	31.12.2015	31.12.2014
VaR*) Interest rate risk (going concern) portfolio of "entire bank"	3,950	2,113
Standard risk **) Interest rate risks portfolio "operating"	19,842	22,655

\*) Confidence level 95 %, 1 day holding period

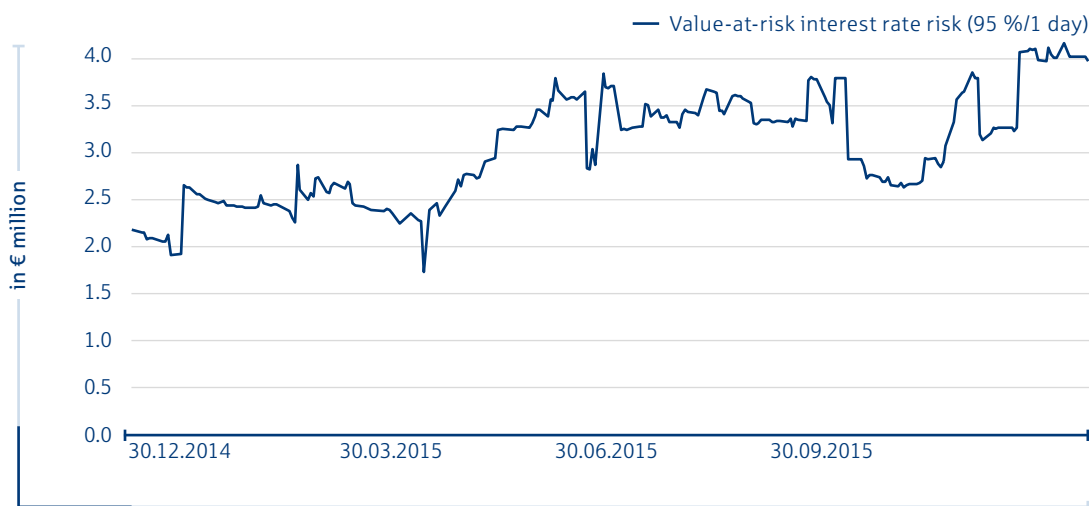
\*\*) Parallel shift 100BP

The increase in the VaR in the going concern as compared to the previous year moved within the expected ranges and largely resulted from an adjustment of the investment strategy for the perpetually available equity and from rising volatilities in the interest area. The almost unchanged risk position in the Bank's operative portfolio (without the investment of the perpetually available equity) meant that the standard risk fell slightly relative to the previous year and continued to move on a low level.

The daily calculated VaR for the interest rate risk fluctuated in the reporting period between € 1.7 million and € 4.1 million in 2014. The average value of € 3.0 million for the year confirms Deutsche Hypo's low risk appetite. The interest rate risk is for the most part related to the investment of perpetual equity. The utilisation of the VaR limit for interest rate risks averaged 65 % over the year (2014: 61 %). The Bank did not exceed this limit at any time.

The development of the VaR in the going concern in 2014 (95 % confidence level, 1 day holding period) is shown in the chart below. There are no credit spread risks in the banking book.

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



The largely attractive capital market environment and the connected narrowing of risk spreads was used to accelerate the strategic reduction of the portfolio in the public sector finance business. The net nominal volume of the exposure that involves credit spread risks totalled € 12,898.2 million as of 31 December 2015 (2014: € 16,297.2 million) and fell by € 3,399.0 million. An ongoing improvement in the portfolio quality and a reduction in the hidden charges were also achieved together with this.

The systematic pursuit of the conservative risk-strategic goals and the attentive monitoring of the market developments in 2016 are also the focal points of controlling for the market price risk at Deutsche Hypo. In this context, this includes the strategy for a reduction in the positions that have credit spread risks in a way that protects the income statement, among others. For 2016, Deutsche Hypo continues to expect the risk of a change in interest rates on a moderate level.

Deutsche Hypo will continue the ongoing development of the risk models and the risk management process both on the level of the individual Bank and in the refinement of the integration of the Bank in the risk management process of the NORD/LB Group in 2016. The Bank also focuses on complying with the requirements that the European regulatory authorities make in regard to the "interest rate risk in the banking book".

### **Liquidity risk**

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

### **Liquidity risk – goals and strategies**

For the Bank, the securing of liquidity available at any time, both under normal and stress scenarios, is a strategic necessity. In the funding of the business activities in the market areas, Deutsche Hypo fundamentally pursues the strategy of term-congruent funding. Involvement in open funding positions has low strategic significance for Deutsche Hypo. Liquidity risk limits cap the risk of a negative impact on income due to a change in the liquidity spreads related to an open liquidity risk position. In the measurement of the amount of the liquidity risk limits, the factors of securing sufficient liquidity, the risk bearing capacity of the NORD/LB Group and the use of the opportunities are taken into account with respect to the contribution to profits from bank-typical liquidity spreads.

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

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

### **Liquidity risk – structure and organisation**

The process of liquidity risk management must include the entire Board of Managing Directors and Treasury and Controlling.

The ALCO at Deutsche Hypo assumes responsibility for the management of the banking book positions, which includes in particular the liquidity positions. Treasury handles the operating liquidity risk management. It is also responsible for the management of the intraday liquidity positions. As an independent monitoring unit, Controlling defines the applied processes for the measurement, limiting and monitoring of liquidity risks and carries out the operative monitoring and reporting functions. Credit Risk Controlling is responsible for the determination, monitoring and reporting of key liquidity indicators to the regulators

in accordance with the German Liquidity Regulation (LiQV). Controlling handles the liquidity notifications in accordance with CRR.

### Liquidity risk – controlling and monitoring

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

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

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

Besides compliance with the different economic liquidity risk limits, compliance with the requirements for the liquidity coverage ratio (LCR) is also a focus of liquidity management at all times. In 2015 Deutsche Hypo integrated processes in internal liquidity in order to ensure compliance with the regulatory minimum ratio and the consciously high target ratios selected internally.

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

### Liquidity risk – reporting

The quarterly risk report provides the Board of Managing Directors and the Supervisory Board with comprehensive information about the current situation in the classical liquidity risk and funding risk. The report on the dynamic stress scenario is also provided daily to Treasury and the Board of Managing Directors. The use of the required liquidity buffer is reported to Treasury on a daily basis. The liquidity outflow statement and the utilisation of the volume structure limits and the institute limit for the cash value funding risk are provided to the Treasury every day.

### Liquidity risk – developments and outlook

Deutsche Hypo had sufficient access to the money market and capital market with acceptable conditions at all times in 2015. The total issue volume was € 3,571.5 million (2014: € 2,852.2 million) and, measured in terms of the Bank's need, made it possible to place sufficiently covered and uncovered issues on the market.

All the volume structure limits were complied with in 2015 due to the forward-looking liquidity management.

The distance to illiquidity from the dynamic liquidity stress test (LST) used for internal controlling and limiting moved between the existing requirements. The green phase in the traffic light system was maintained throughout the year. As of 31 December 2015, the distance to illiquidity was 295 days. Likewise, the Bank met the requirements for the maintained liquidity buffer in accordance with MaRisk throughout the course of 2015.

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 1.50 as of 31 December 2015. The liquidity coverage ratio (LCR) based on European regulatory law has also been complied with since October 2015. The applicable minimum requirements of 60.0 % were clearly met as of 31 December 2015 with 101.4 % (according to internal calculation).

Deutsche Hypo successfully invested resources in compliance with the requirements in the area of European liquidity reporting and implemented the related measures in 2015. Other refinements of the newly created instruments and their integration in the internal controlling of the Bank are planned for 2016.

The active management of liquidity and careful observation of the markets meant that Deutsche Hypo's liquidity was ensured at all times in 2015. As a result, no anomalies were reported in the liquidity risk in 2015. No noteworthy increase in liquidity risks is anticipated for the coming year.

### Operational risk

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

## Operational risk – goals and strategies

The guidelines for dealing with operational risks are formulated in Deutsche Hypo's risk strategy. Fundamentally, operational risks should be avoided or transferred if this is economically sensible. There are framework conditions in the form of technical and organisational measures, contractual provisions and working instructions to reduce the operational risk as much as possible and to guarantee business security. Not only specific contingency plans and appropriate insurance coverage, but also every employee's sensibility for risks play a key role here.

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

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

## Operational risk – structure and organisation

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

## Operational risk – controlling and monitoring

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

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



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

### Operational risk – reporting

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

### Operational risk – developments and outlook

In 2015 there were no significant cases of loss, and it was not necessary to set up provisions for legal risks. In 2016 Deutsche Hypo's focus in regard to operational risk will be on the expansion of an inter-divisional and integrated controlling and monitoring system.

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

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

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

- Deutsche Hypo's Accounting is responsible for the preparation of the annual financial statements and the management report. The accuracy and completeness of the obligatory accounting circumstances from supplying departments is handled there and subject to 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 in an organisational manual that takes the form of an organised structure and workflows.
- All accounting processes are subject to consistent manual and automated controls according to the four eyes principle.
- Bookkeeping files that are received or forwarded are checked for completeness and accuracy, for example by means of random sampling. Programmed plausibility tests take place as a result of the used software.
- The plausibility of the data that is calculated in the accounting process is regularly checked.
- Internal Audit checks the observance of the IKS independently of processes.

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

### Regulatory equity resources

Due to the exercising of the waiver rule, the obligations to provide individual bank reports and compliance with the equity and capital requirements in accordance with CRR, part 2 and 3, do not apply to Deutsche Hypo on the level of the individual institute. For the reports on the equity resources on the Group level and for internal controlling, Deutsche Hypo calculates, after exercising the waiver rule, the equity and risk-weighted assets (RWA) that are consolidated in the reports prepared by NORD/LB for the Group. The Bank also calculates the equity ratio, which compares all the existing capital components with the Bank's equity requirements calculated in accordance with the regulatory provisions.

In accordance with the regulatory requirements, a total of € 1,227.4 million (2014: € 1,254.9 million) could be included for regulatory minimum capital requirements in the Group. This means a decline of € 27.5 million relative to the end of 2014 due to the scheduled run-off of components in equity. At the same time, the RWA fell by 13.5 %. As a result, the equity ratio improved to 19.4 % (2014: 17.1 %).

### Summary of the risk position

Deutsche Hypo's conservative risk policy was also systematically continued in 2015. Furthermore, not only the risk limits in the NORD/LB Group, but also the Bank's additional risk-strategic objectives and compliance with them play an important role for Deutsche Hypo. Besides the Group strategy specifications, all requirements contained in the rules of the German Pfandbrief Act, which are binding for the Bank, were also met at all times.

Overall, the economic development of real estate markets continued to be positive in the year under review. The portfolio of impaired credit which had already declined in previous years fell slightly once again. The same applies to individual loan loss provisions and provisions in the lending business. The high quality of the loan portfolio continued to improve in 2015.

The noticeable, positive basic sentiment on money and capital markets in recent years contributed to an ongoing improvement in spread and credit rating indicators, which had a beneficial effect on the overall risk situation in the area of capital market business. The Bank could use this to efficiently balance out overweightings in the regional sub-portfolios. The Bank was also successful at reducing hidden charges in the banking book in 2015. Deutsche Hypo had sufficient access to liquidity on money and capital markets at all times in 2015; it also complied with the regulatory minimum liquidity requirements at all times. Significant cases of damage involving operational risks were not noted.

The Bank does not currently see any additional need for risk provisioning with respect to the impairments reported in connection with Heta Asset Resolution AG.

Deutsche Hypo will also continue its strategy of reducing the public sector finance portfolio to protect the income statement and further reduce the risks in the banking book.

Hanover, 1 March 2016

The Board of Managing Directors



Pohl



Rehfus





Dublin

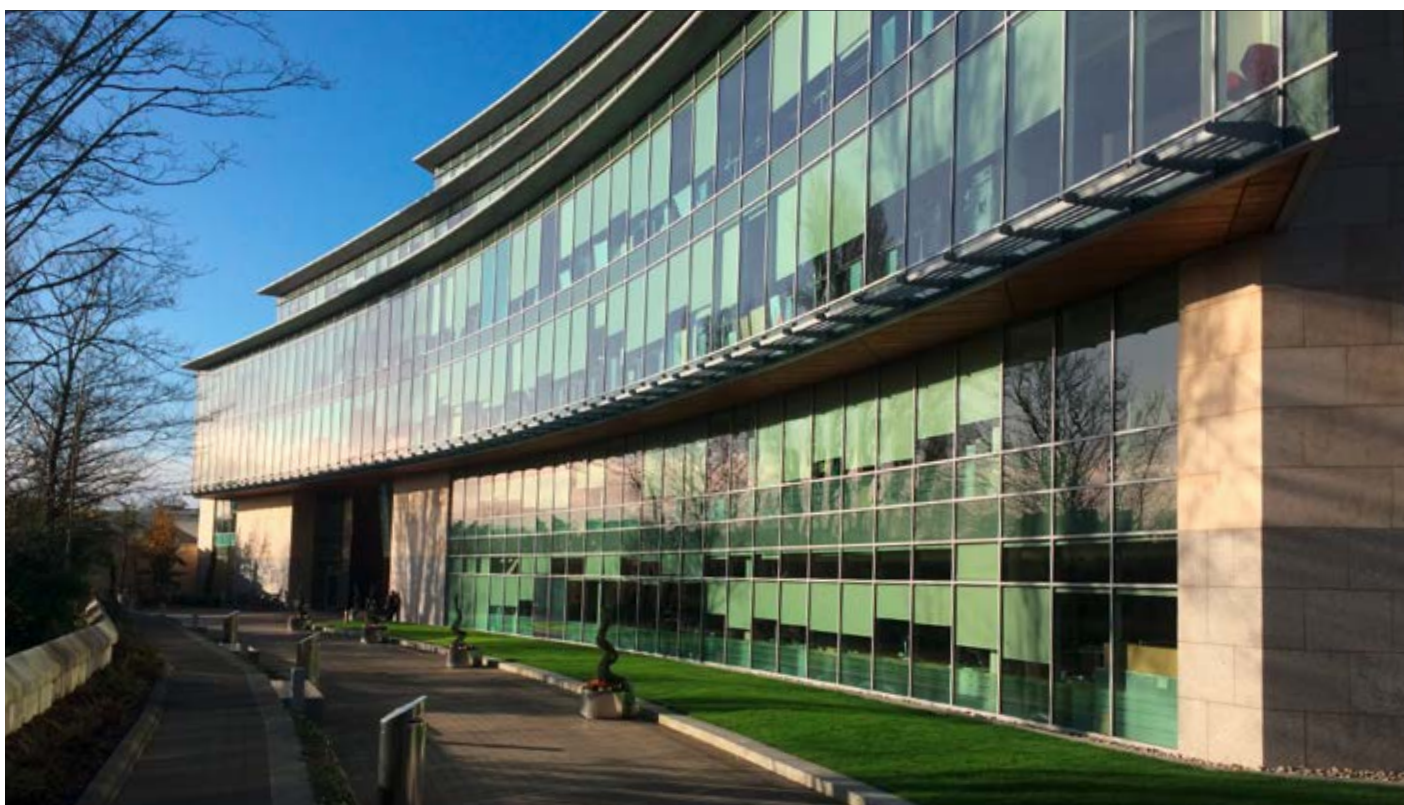
## THE OVAL – HIGH-QUALITY OFFICES FOR AN UP-AND-COMING BUSINESS LOCATION

The Oval office complex is located in one of the most sought-after business districts in Dublin, Ballsbridge. Also located in the immediate vicinity are the European headquarters of IBM and a number of embassies. The property, which was built in 2007, has a total area of around 17,500 square metres, which is divided into three blocks. Most of the space consists of office space. The building is fully let. The tenants

include an energy network agency, an international reinsurer and well-known software companies. The building also houses a fitness studio, a Starbucks and a food retailer, as well as an underground car park.

” THIS DEAL SHOWS THAT WE ARE CURRENTLY  
MANAGING TO ATTRACT INTERESTING NEW  
CROSS-BORDER BUSINESS OUT OF LONDON.

Markus Nitsche, Head of the London Office



### Financing details:

Deutsche Hypo financed the purchase of “The Oval” office complex in Dublin as the sole lender. The financing of the transaction, which was concluded in January 2016, totalled € 77 million. The deal was acquired by the London Office.

Type of property

City

Financing volume

Customer

Office

Dublin

€ 77 million

Institutional property

funds managed

by the PATRIZIA-Group





# ANNUAL FINANCIAL STATEMENTS

**Balance sheet as of 31 December 2015**

**Income statement for the period  
from 1 January to 31 December 2015**

**Statement of changes in equity**

**Cash flow statement**

**Notes**

# BALANCE SHEET

## AS OF 31 DECEMBER 2015

### ASSETS

	€	€	€	31 December 2014 (in € thousands)
<b>1. Cash reserve</b>				
b) Credit with central banks		90,939,625.66		41,884
of which:				
with the "Deutsche Bundesbank"				
€ 90,939,625.66 (PY € 41,884 thousand)				
			<b>90,939,625.66</b>	<b>41,884</b>
<b>2. Receivables from financial institutions</b>				
a) Mortgage loans		16,867,724.01		21,386
b) Loans to local authorities		947,046,838.75		1,299,496
c) Other receivables		2,084,593,898.62		1,633,504
of which: due daily				
€ 1,227,937,667.82 (PY € 1,329,866 thousand)				
			<b>3,048,508,461.38</b>	<b>2,954,386</b>
<b>3. Receivables from customers</b>				
a) Mortgage loans		11,936,682,503.12		12,388,420
b) Loans to local authorities		4,641,580,010.25		5,062,692
c) Other receivables		53,533,539.94		106,957
			<b>16,631,796,053.31</b>	<b>17,558,069</b>
<b>4. Bonds and other fixed interest securities</b>				
b) Bonds and debentures				
ba) from public issuers	3,486,986,536.51			4,025,475
of which:				
borrowed from "Deutsche Bundesbank"				
€ 1,896,960,412.42 (PY € 2,140,832 thousand)				
bb) from other issuers	3,551,031,418.56			5,228,946
of which:				
borrowed from "Deutsche Bundesbank"				
€ 2,978,966,373.06 (PY € 4,475,244 thousand)				
		7,038,017,955.07		
c) Own bonds		50,650,683.65		66,926
Nominal amount				
€ 24,483,000.00 (PY € 67,018 thousand)				
			<b>7,088,668,638.72</b>	<b>9,321,347</b>
<b>5. Participatory interest</b>			<b>76,949.43</b>	<b>77</b>
<b>6. Shares in affiliated companies</b>			<b>51,129.19</b>	<b>51</b>
<b>7. Intangible Assets</b>				
b) Purchased licenses, industrial property, as well as licenses to those rights and assets		653,739.00		370
d) Payments made on account		74,922.40		488
			<b>728,661.40</b>	<b>858</b>
<b>8. Tangible assets</b>			<b>2,236,697.80</b>	<b>2,396</b>
<b>9. Other assets</b>			<b>22,392,638.87</b>	<b>98,988</b>
<b>10. Accrued and deferred items</b>				
a) from the issue and loan transaction		47,666,558.35		57,659
b) others		10,679,410.50		19,200
			<b>58,345,968.85</b>	<b>76,859</b>
<b>Total assets</b>			<b>26,943,744,824.61</b>	<b>30,054,915</b>

Balance sheet as of 31 December 2015 | Income statement for the period from 1 January to 31 December 2015 |  
Statement of changes in equity | Cash flow statement | Notes

## LIABILITIES

	€	€	€	31 December 2014 (in € thousands)
<b>1. Liabilities to financial institutions</b>				
a) Issued registered mortgage Pfandbriefe		183,826,988.95		173,982
b) Issued registered public Pfandbriefe		386,600,716.73		537,086
c) Other liabilities		4,659,548,285.73		6,831,741
of which: due daily				
€ 380,396,417.45 (PY € 512,474 thousand)				
			5,229,975,991.41	7,542,809
<b>2. Liabilities to customers</b>				
a) Issued registered mortgage Pfandbriefe		768,883,008.50		844,108
b) Issued registered public Pfandbriefe		5,500,452,229.92		6,615,371
d) Other liabilities		2,462,295,053.58		1,660,502
of which: due daily				
€ 6,046,709.00 (PY € 12,815 thousand)				
			8,731,630,292.00	9,119,981
<b>3. Securitised liabilities</b>				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,533,803,711.13			7,816,704
ab) public Pfandbriefe	1,141,423,399.50			1,654,881
ac) other bonds	2,606,915,647.70			2,172,129
		11,282,142,758.33		
			11,282,142,758.33	11,643,714
<b>4. Other liabilities</b>			252,181,514.71	279,052
<b>5. Accrued and deferred items</b>				
a) from the issue and loan transaction		44,543,803.12		60,754
b) other		10,866,002.01		12,831
			55,409,805.13	73,585
<b>6. Provisions</b>				
a) Provisions from pensions and similar obligations		40,523,514.18		33,636
b) Tax provisions		906,765.16		4,328
c) Other provisions		20,402,560.50		21,238
			61,832,839.84	59,202
<b>7. Subordinated liabilities</b>			320,000,000.00	326,000
<b>8. Jouissance right capital</b>			83,000,000.00	83,000
<b>9. Funds for general banking risks</b>			14,400,000.00	14,400
<b>10. Equity</b>				
a) Subscribed capital		80,640,000.00		80,640
Capital held by silent partners		75,000,000.00		75,000
b) Capital reserves		481,313,877.23		481,314
c) Profit reserves				
ca) statutory reserves	18,917,799.60			18,918
cd) other profit reserves	257,299,946.36			257,300
		276,217,745.96		
			913,171,623.19	913,172
<b>Total liabilities</b>			26,943,744,824.61	30,054,915
<b>1. Contingent liabilities</b>				
b) Liabilities arising from sureties and guarantee agreements		1,126,951,963.49		1,215,674
			1,126,951,963.49	1,215,674
<b>2. Other obligations</b>				
c) Irrevocable credit commitments		1,245,028,714.98		1,048,712
			1,245,028,714.98	1,048,712

# INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2015

	€	€	1 January 2014 – 31 December 2014 (in € thousands)
1. Interest earnings from			
a) Credit and money market transactions	638,941,127.30		679,996
b) Fixed interest bearing securities and book-entry securities	236,692,048.23		276,910
		875,633,175.53	956,906
2. Interest expenses		651,090,634.77	734,655
		224,542,540.76	222,251
3. Commission income		11,610,274.44	15,297
4. Commission expenses		11,115,269.57	10,839
		495,004.87	4,458
5. Other operating income		4,752,699.03	3,159
6. General administrative expenses			
a) Personnel expenses			
aa) wages and salaries	36,275,225.93		36,181
ab) social security and expenses for pension plans and for support of which: for pension plans € 2,335,698.59 (PY € 1,568 thousand)	7,477,895.29		6,843
		43,753,121.22	
b) Other administrative expenses		33,329,538.77	31,880
		77,082,659.99	74,904
7. Write-downs and value adjustments of intangible assets and tangible fixed assets		690,316.34	636
8. Other operating expenses		11,043,451.45	8,301
9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business		41,292,994.09	62,169
		41,292,994.09	62,169
10. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securites treated as fixed assets		29,420,509.04	42,472
		29,420,509.04	42,472
11. Result from normal operations		70,260,313.75	41,386
12. Extraordinary income		713,223.51	0
13. Extraordinary expenses		806,780.45	1,352
14. Extraordinary result		– 93,556.94	– 1,352
15. Taxes on income		– 98,022.69	2,800
16. Other taxes not included under item 8		14,414.55	16
		– 83,608.14	2,816
17. Profits surrendered under partial surrender agreements or a profit and loss transfer agreement		70,250,364.95	37,218
18. Profit for the period		0.00	0
19. Transfer to profit reserves		0.00	0
20. Balance sheet profit		0.00	0

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## STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Balance sheet profit	Total equity
As of 1 January 2015	80,640	75,000	481,314	276,218	0	913,172
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	0	0	0	0	0	0
Conversion of capital held by silent partners	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0
As of 31 December 2015	80,640	75,000	481,314	276,218	0	913,172

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

# CASH FLOW STATEMENT

in € thousands	2015
<b>1. Net result</b>	<b>0</b>
2. Write-downs, value adjustments and write-ups to receivables and tangible fixed assets	86,170
3. Increase/decrease in reserves	5,959
4. Other non-cash expenses/income	0
5. Profit/loss from the disposal of tangible fixed assets	- 250,142
6. Profit to be surrendered under a profit and loss transfer agreement	61,850
7. Other adjustments (balance)	10,101
8. Increase/decrease of receivables from financial institutions	- 159,932
9. Increase/decrease of receivables from customers	855,660
10. Increase/decrease of securities (if not financial assets)	15,786
11. Increase/decrease of other assets from current operations	57,913
12. Increase/decrease of liabilities to financial institutions	- 2,285,186
13. Increase/decrease of liabilities to customers	- 361,968
14. Increase/decrease of securitised liabilities	- 342,139
15. Increase/decrease of other liabilities from current operations	- 7,605
16. Interest expenses/income	- 224,543
17. Expenses/income from extraordinary items	94
18. Income tax expenses/income	- 98
19. Interest and dividend payments received	947,460
20. Interest paid	- 708,170
21. Extraordinary deposits	0
22. Extraordinary disbursements	0
23. Income tax payments	- 2,684
<b>24. Cash flow from current operations (total of items 1 to 23)</b>	<b>- 2,301,474</b>
25. Deposits from disposals of financial assets	3,659,692
26. Disbursements for investments in financial assets	- 1,243,172
27. Deposits from disposals of tangible fixed assets	129
28. Disbursements for investments in tangible fixed assets	- 459
29. Deposits from disposals of intangible fixed assets	0
30. Disbursements for investments in intangible fixed assets	- 51
31. Deposits from disposals from the consolidated group	0
32. Disbursements for additions to the consolidated group	0
33. Changes in funds from other investment activities (balance)	416
34. Deposits from extraordinary items	0
35. Disbursements for extraordinary items	0
<b>36. Cash flow from investment activities (total of items 25 to 35)</b>	<b>2,416,555</b>
37. Deposits from equity contributions by shareholders of the parent company	0
38. Deposits from equity contributions by other shareholders	0
39. Disbursements for equity reductions to shareholders of the parent company	0
40. Disbursements for equity reductions to other shareholders	0
41. Deposits from extraordinary items	0
42. Disbursements for extraordinary items	0
43. Dividends paid to shareholders of the parent company	0
44. Dividends paid to other shareholders	0
45. Other disbursements to company owners	- 31,207
46. Profit and loss transfer	- 28,818
47. Changes in funds from other capital (balance)	- 6,000
<b>48. Cash flow from financing activities (total of items 37 to 47)</b>	<b>- 66,025</b>
49. Cash changes in finance funds (total from 24, 36, 48)	49,056
50. Exchange-rate and valuation-related change in finance funds	0
51. Consolidation-related change in finance funds	0
52. Finance funds at the start of the period	41,884
<b>53. Finance funds at the end of period (total of items 49 to 52)</b>	<b>90,940</b>

# 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 or the Bank) for the 2015 financial year have been prepared in accordance with the provisions of the German Commercial Code (HGB) in conjunction with the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG) and the German Pfandbrief Act (PfandBG). The annual financial statements comprise the balance sheet, the income statement, the cash flow statement, the statement of equity, and the notes. The breakdown of the balance sheet and the income statement is based on forms 1 and 3 of the RechKredV.

Due to the fiscal tax unit on account of the profit and loss transfer agreement between Deutsche Hypo and Norddeutsche Landesbank Girozentrale (Anstalt öffentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB), Deutsche Hypo only reports income taxes that relate to financial years up to and including 2012 or that relate to a foreign branch. The latter were calculated on the basis of the taxable result at the applicable income tax rate.

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

In comparison to the previous year, there was a change in the reporting of expenses from the contributions made to the restructuring funds for financial institutions (bank levy). As a result of the clarifications by the banking expert committee of the Institute of Public Auditors in Germany at the 261st meeting on 23 June 2015, the bank levy is now reported under other administrative expenses. Previously, it was disclosed under other operating expenses. The figures from the previous year were adjusted as follows:

in € thousands	before adjustment	adjustment	after adjustment
6. General administrative expenses	69,544	5,360	74,904
8. Other operating expenses	13,661	– 5,360	8,301



In addition, there was also a reassessment of the Total Return Swaps (TRS) in the portfolio due to the amendment of IDW RS BFA 1. As opposed to the previous methodology of non-accounting as pending transactions, the nominal volume of the TRS has now been reported as an off-balance-sheet contingent liability. This change required an adjustment to the figures from the previous year:

in € thousands	before adjustment	adjustment	after adjustment
1. Contingent liabilities	790,999	424,675	1,215,674

### 3. Accounting and valuation principles

Receivables from financial institutions and customers are reported at their nominal value (Section 340e (2) of the German Commercial Code). Any differences between the nominal value and the 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 credit business. Adjustments were made to the methodology for calculating the individual loan loss provisions of receivables in connection with procedural optimisations. This resulted in only minor changes to the net assets, financial and income position. Uncollectable receivables are written off. Account is taken of contingent credit risks in the form of general loan loss provisions. The calculation of the general loan loss provisions is handled in accordance with the requirements of the Federal Ministry of Finance Circular dated 10 January 1994.

Debenture bonds and other fixed interest securities are reported at amortised historical cost if they involve securities held as fixed assets. With a sustained impairment considered likely, unscheduled write-downs are reported in accordance with Section 253 (3) of the German Commercial Code. Write-ups are performed pursuant to Section 253 (3) of the German Commercial Code in cases where the reasons for an unscheduled write-down cease to apply. Securities from the liquidity reserve are valued in accordance with the lower-of-cost-or-market principle in accordance with Section 253 (4) of the German Commercial Code. There continues to be no trading portfolio. If there are securities transferred under repurchase agreements, this will take place as part of real securities repurchase transactions which are reported in accordance with the requirements of Section 340b (4) of the German Commercial Code.

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

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

Tangible assets and intangible fixed assets are carried at their acquisition cost less the straight-line, scheduled depreciation over their ordinary useful life. Minor-value assets are depreciated for reasons of materiality in accordance with Section 6 (2a) of the German Income Tax Act.

Balance sheet as of 31 December 2015 | Income statement for the period from 1 January to 31 December 2015 | Statement of changes in equity | Cash flow statement | [Notes](#)

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

The tax claim from the amendment to Section 37 of the German Corporate Tax Act (Körperschaftsteuergesetz) is reported at its net present value applying an interest rate of 3.9 %. The payout commenced in 2008 with ten equal annual instalments to be paid.

Liabilities, as a general rule, are reported at their settlement amount. Any difference between the nominal value and payout amount is reported under accruals and deferrals, 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 rises or pension adjustments. The cash value of the obligation is calculated by discounting the expected future benefits (settlement value pursuant to Section 253 (1) clause 2 of the German Commercial Code) in accordance with Section 253 (2) clause 1 of the German Commercial Code at the average market rate of interest over the past seven years reflecting their residual term. Use is made of the simplification rule set out in Section 253 (2) clause 2 of the German Commercial Code, in that the average market interest rate is applied on a flat-rate basis for a residual term of fifteen years. The calculations of the pension provisions for the period to 31 December 2015 are based on the following actuarial assumptions:

	31.12.2015	31.12.2014
Actuarial interest*)	3.89 %	4.54 %
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 %

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

For a small portion of the calculated obligation, there is a fund asset in the amount of € 4,584 thousand (2014: € 4,526 thousand) that is netted with the pension provisions under application of Section 246 (2) of the German Commercial Code.

The higher obligation cash value arising from the application of the 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. As of 31 December 2015, the shortfall was € 5,131 thousand (2014: € 5,701 thousand).

The other provisions, which are mainly provisions in human resources and tax provisions, are set at the level of the settlement amount that is required on the basis of a reasonable commercial assessment. Pursuant to Section 253 (2) clause 1 of the German Commercial Code, if they have a residual term of more than one year, they are discounted at the average market rate of interest for the past seven

financial years reflecting their residual term. The applicable discount interest rate is determined by the Deutsche Bundesbank in accordance with the German Provision Discounting Ordinance (Rück-AbzinsV) and announced monthly. The disclosure of expenses and income from the compounding or discounting of provisions takes place in the net interest income for provisions from the credit business and in other operating income for provisions from the non-bank business.

Contingent liabilities and other liabilities are reported at their nominal amounts below 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. For liabilities reported at nominal values, provisions are set up at the level of the settlement amount that is required on the basis of reasonable commercial assessment if a credit event is anticipated to occur. The assessment is based on the estimated creditworthiness of the issuers of reference or of the borrowers on the reporting date.

The Bank has expenses and income from negative interest as a result of both receivables and liabilities. Negative interest is reported as a net amount in the income statement under interest income and interest expenses. In 2015 income from negative interest totalled € 2.1 million (2014: € 0.0 million), and expenses from negative interest amounted to € 0.5 million (2014: € 0.0 million).

#### **4. Currency conversion**

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

The following deferral criteria apply to the special cover:

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

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

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

The adjusting items created from valuing swap and forward exchange transactions at current rates are no longer reported according to the previous methodology, but rather as net amounts in relation to the currency under other assets or other liabilities as appropriate. This will not have a significant impact on the presentation of the net assets and financial position. Expenses arising from currency conversion are included in the income statement. Income arising from the currency conversion is taken into consideration insofar as it is based on specially covered transactions, or if the assets and liabilities being converted have a residual term of one year or less. These expenses and this income are reported either under other operating expenses or under other operating income. In the past financial year, there was other operating income from currency conversion in the amount of € 554 thousand (2014: € 194 thousand).

The amount of net assets denominated in foreign currency totalled € 3,570.2 million as of the reporting date (2014: € 3,964.5 million); the amount of the liabilities denominated in the foreign currency was € 573.3 million (2014: € 689.9 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 in the portfolio. All derivatives are assigned to the non-trading portfolio and are therefore governed by the principle of non-accounting of pending transactions. The Bank checks the requirement for provisions for contingent losses with regard to the banking book on the respective reporting date. There was no creation of balance sheet valuation units.

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

In addition, the Bank has Credit Default Swaps (CDS) and TRS in its portfolio where Deutsche Hypo provides the security in each case. The issuers of reference are European states as well as a US federal state (CDS) and US regional authorities (TRS). The nominal volume of the credit derivatives is reported under contingent liabilities.

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

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

closing transactions on the basis of the current money and capital market interest rates. In the process, Deutsche Hypo's individual funding surcharge is taken into account.

## Notes on the balance sheet

### 7. Receivables from financial institutions and customers

in € thousands	31.12.2015	31.12.2014
<b>Receivables from financial institutions</b>		
Breakdown of residual maturities		
- due daily	1,227,938	1,329,866
- up to three months	233,085	156,663
- between three months and one year	718,008	153,354
- between one year and five years	389,527	727,024
- more than five years	208,983	250,704
- proportionate interest in total	270,967	336,775
<b>Balance sheet item</b>	<b>3,048,508</b>	<b>2,954,386</b>
of which from affiliated companies	632,021	75,404
<b>Receivables from customers</b>		
Breakdown of residual maturities		
- up to three months	728,460	580,287
- between three months and one year	1,974,216	1,754,466
- between one year and five years	6,083,091	7,239,399
- more than five years	7,730,389	7,854,271
- proportionate interest in total	115,640	129,646
<b>Balance sheet item</b>	<b>16,631,796</b>	<b>17,558,069</b>
of which from investors and investees	1,068	1,649

### 8. Bonds and other fixed interest securities

in € thousands	31.12.2015	31.12.2014
<b>Balance sheet item</b>	<b>7,088,668</b>	<b>9,321,347</b>
of which from affiliated companies	1,044,174	1,241,656
due in the following year	762,253	2,248,575
of which exchange-eligible and listed on exchanges	6,143,548	8,223,641
of which exchange-eligible and not listed on exchanges	945,120	1,097,706

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For securities in fixed assets with a carrying value of € 1,181.7 million (2014: € 1,200.4 million) and a fair value of € 1,117.1 million (2014: € 1,133.8 million), a write-down of € 64.6 million to the lower value (2014: € 66.6 million) was not applied. In these cases, the Bank did not anticipate a long-term impairment, since a review of the credit rating of the issuer in question in the individual case did not reveal any signs that a long-term impairment was justified.

## 9. Participatory interest and shares in affiliated companies

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

## 10. Fixed asset schedule

in € thousands	Historical costs			Depreciation		Book value on	Book value on
	01.01.2015	Additions	Disposals	Accumulated	in 2015	31.12.2015	31.12.2014
Intangible assets	8,315	50	244	7,392	180	729	858
Tangible assets*)	5,470	458	299	3,392	511	2,237	2,396
Securities in fixed assets						7,038,017	9,254,421
Participatory interest						77	77
Shares in affiliated companies						51	51

\*) Tangible assets solely involves business and office equipment.

## 11. Other assets

Other assets totalled € 22,393 thousand (2014: € 98,988 thousand) and primarily included adjustment items from foreign currencies in the amount of € 16,055 thousand (2014: € 88,289 thousand).

## 12. Accrued and deferred items

in € thousands	31.12.2015	31.12.2014
<b>Assets</b>		
Issuing discount from bonds	23,852	20,682
Premium on claims	23,814	36,977
Swap upfront payments	10,382	19,020
Other	298	180
<b>Balance sheet item</b>	<b>58,346</b>	<b>76,859</b>
<b>Liabilities</b>		
Discount from claims	10,573	14,428
Premium on bonds	13,333	24,177
Processing fees and interest compensation	20,638	22,149
Swap upfront payments	10,866	12,816
Other	0	15
<b>Balance sheet item</b>	<b>55,410</b>	<b>73,585</b>

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

in € thousands	31.12.2015	31.12.2014
<b>Liabilities to financial institutions</b>		
Breakdown of residual maturities		
- due daily	380,396	512,474
- up to three months	2,076,936	3,972,434
- between three months and one year	1,252,099	1,192,206
- between one year and five years	992,207	1,307,555
- more than five years	285,338	254,489
- proportionate interest in total	243,000	303,651
<b>Balance sheet item</b>	<b>5,229,976</b>	<b>7,542,809</b>
of which to affiliated companies	1,419,281	2,091,495
<b>Liabilities to customers</b>		
Breakdown of residual maturities		
- due daily	6,047	12,815
- up to three months	975,746	647,111
- between three months and one year	1,216,497	304,927
- between one year and five years	1,837,143	2,326,114
- more than five years	4,531,102	5,637,442
- proportionate interest in total	165,095	191,572
<b>Balance sheet item</b>	<b>8,731,630</b>	<b>9,119,981</b>
of which to affiliated companies	1,017	812
<b>Securitised liabilities</b>	<b>11,282,143</b>	<b>11,643,714</b>
due in the following year	3,004,662	3,059,124
of which to affiliated companies	1,543,492	1,533,588

### 14. Other liabilities

Other liabilities totalled € 252,181 thousand (2014: € 279,052 thousand) and primarily included adjustment items from foreign currencies in the amount of € 229,455 thousand (2014: € 255,616 thousand) and pro-rata interest on subordinated liabilities and capital held by silent partners in the amount of € 15,163 thousand (2014: € 15,202 thousand).

### 15. Subordinated liabilities

Subordinated liabilities fell during the year under review from € 326.0 million to € 320.0 million. They are subject to nominal interest rates from 4.0 % to 6.75 % and fall due from 2017 to 2027. Early repayments and conversions are fundamentally excluded. One subordinated liability exceeds 10.0 % of the total amount reported. It is a liability of € 90.0 million subject to an interest rate of 6.12 % and due on 27 January 2020. Early repayment will only be possible in the event of additional payments to the lender or its legal successor due to changes in taxation. The disclosed liabilities comply with the requirements for additional capital in accordance with Article 63 of the Capital Requirements Regulation (CRR).

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Subordinated liabilities of € 15.5 million (2014: € 6.0 million) shall fall due within the next two years. Interest expenses in the year under review amounted to € 18.2 million (2014: € 18.3 million). As of balance sheet date, there were subordinated liabilities to affiliated companies in the amount of € 90.0 million (2014: € 90.0 million).

## 16. Jouissance right capital

Reported jouissance right capital totalled a nominal amount of € 83.0 million (2014: € 83.0 million). The jouissance rights meet the requirements for additional capital in accordance with Article 63 of the Capital Requirements Regulation (CRR). The terms run to 31 December 2015 (€ 23.0 million), 31 December 2016 (€ 40.0 million) and 31 December 2017 (€ 20.0 million), whereby the repayment of the jouissance right capital falls due roughly 6 months after the end of the term.

Jouissance rights of € 63.0 million (2014: € 23.0 million) shall fall due within the next two years. There continues to be no approved jouissance right capital.

## 17. Notes on the development of equity

Deutsche Hypo held subscribed capital of € 80.6 million on 31 December 2015, which is divided into 13,440,000 individual shares and is the same as in 2014. There was no approved capital.

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

## 18. Contingent liabilities and other obligations

in € thousands	31.12.2015	31.12.2014
Liabilities from sureties and guarantee agreements	1,126,952	1,215,674
of which credit default swaps	590,931	595,033
of which total return swaps	348,288	424,675
of which sureties in the mortgage business	187,733	195,966

Irrevocable credit commitments related exclusively to mortgage loans of € 1,245.0 million (2014: € 1,048.7 million).



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

Deutsche Hypo is a member of the security reserve of Landesbanks and giro centres. The membership amounts are measured on the basis of the risk-oriented principles in the accordance with the Articles of Association, whereby adjustments in the determination of the measurement basis were made as part of the changes to the safeguarding system. Furthermore, the Bank is obligated to make annual contributions to the restructuring funds for financial institutions (bank levy).

The Bank did not make use of the option to provide a portion of the annual contributions to the restructuring funds in the form of irrevocable payment obligations. Accordingly, there are no financial obligations in terms of Section 285 no. 3a of the German Commercial Code. However, the Bank is also obligated to provide reserve liability, if requested. This represents a risk for the financial position in terms of Section 285 no. 3 of the German Commercial Code.

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

## 20. Securities repurchase transactions

The Bank had 35 (2014: 47) securities with a book value of € 1,732.1 million (2014: € 2,528.4 million) which were the subject of repo transactions. The securities were used to hedge liabilities to financial institutions.

## 21. Open market transactions

As of 31 December 2015, there were securities with a nominal value of € 971.8 million (2014: € 1,490.8 million) for overdraft facilities and open market transactions with the Deutsche Bundesbank, of which € 10.0 million (2014: € 51.0 million) is attributable to own bonds. They were used to hedge liabilities to financial institutions. As of the reporting date, use had been made of open market loans worth a total of € 400.0 million (2014: € 1,200.0 million).

# Notes on the income statement

## 22. Other operating income

Other operating income totalled € 4,753 thousand (2014: € 3,159 thousand) and included in particular VAT reimbursements due to a tax appeal and related reimbursement interest in the amount of € 1,853 thousand (2014: € 0 thousand), income from the release of provisions in the amount of € 1,290 thousand (2014: € 1,056 thousand), ongoing income from leases in the amount of € 836 thousand (2014: € 919 thousand) and exchange rate profits from currency transactions in the amount of € 554 thousand (2014: € 194 thousand).

### 23. Other operating expenses

Other operating expenses of € 11,043 thousand (2014: € 8,301 thousand) mainly resulted from expenses in connection with the discounting of provisions in the amount of € 7,297 thousand (2014: € 4,488 thousand) and expenses for buildings managed by third parties in the amount of € 2,864 thousand (2014: € 2,631 thousand).

### 24. Extraordinary income

Extraordinary income of € 713 thousand (2014: € 0 thousand) is produced solely from the release of provisions that were set up in connection with an efficiency improvement programme. Due to the fiscal tax unit, this income did not have any impact on income taxes.

### 25. Extraordinary expenses

Extraordinary expenses of € 807 thousand (2014: € 1,352 thousand) were due to the implementation of measures in connection with an efficiency improvement programme, which resulted in allocations to pension provisions in accordance with Art. 67 (1) clause 1 EGHGB in the amount of € 570 thousand (2014: € 570 thousand). Due to the fiscal tax unit, these expenses did not have any impact on income taxes.

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

As of 31 December 2015, the profits surrendered under partial surrender agreements or a profit and loss transfer agreement totalled € 70.3 million (2014: € 37.2 million). Due to the profit and loss transfer agreement, € 61.9 million (2014: € 28.8 million) was transferred to NORD/LB. In addition, interest on the capital held by silent partners in the amount of € 8.4 million (2014: € 8.4 million) was taken into account in this result.

## Other disclosures

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

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

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

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

### Mortgage Pfandbriefe:

in € millions	Nominal		Net present value		Risk net present value*)	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Mortgage Pfandbriefe	8,409	8,744	8,820	9,276	8,514	9,008
of which derivatives	–	–	54	47	7	14
Cover pool	9,397	8,988	10,293	9,996	9,749	9,588
of which derivatives	–	–	5	12	35	36
Excess cover	988	244	1,473	720	1,235	580

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

in € millions	31.12.2015		31.12.2014	
	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	1,738	1,381	1,207	1,028
more than 0.5 years up to 1 year	227	808	705	1,057
more than 1 year up to 1.5 years	821	516	1,763	588
more than 1.5 years up to 2 years	364	499	227	662
more than 2 years up to 3 years	1,683	956	1,185	1,104
more than 3 years up to 4 years	1,491	1,294	1,333	1,092
more than 4 years up to 5 years	530	608	1,261	983
more than 5 years up to 10 years	1,271	2,910	766	2,142
more than 10 years	284	425	297	332
Total	8,409	9,397	8,744	8,988

### Public Pfandbriefe:

in € millions	Nominal		Net present value		Risk net present value*)	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Public Pfandbriefe	6,883	8,633	8,445	10,608	7,835	10,026
of which derivatives	–	–	2	13	–13	5
Cover pool	7,395	9,146	8,988	11,194	8,114	10,376
of which derivatives	–	–	–	1	–	6
Excess cover	512	513	543	586	279	350

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

in € millions	31.12.2015		31.12.2014	
	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	481	1,171	562	1,016
more than 0.5 years up to 1 year	565	432	742	521
more than 1 year up to 1.5 years	400	588	478	983
more than 1.5 years up to 2 years	468	391	581	349
more than 2 years up to 3 years	545	879	899	1,145
more than 3 years up to 4 years	528	606	539	970
more than 4 years up to 5 years	386	427	575	544
more than 5 years up to 10 years	1,583	1,323	1,880	1,833
more than 10 years	1,927	1,578	2,377	1,785
Total	6,883	7,395	8,633	9,146

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

in € millions (as of each 31 December)	Germany		Belgium		Eur. Union		Italy	
	2015	2014	2015	2014	2015	2014	2015	2014
Equalisation claims in terms of Section 19 (1) clause 1 of the PfandBG	–	–	–	–	–	–	–	–
Claims in terms of Section 19 (1) clause 2 of the PfandBG	450	–	–	–	45	19	–	127
of which: uncovered debt securities in terms of Art. 129 of Ordinance (EU) No. 575/2013	–	–	–	–	45	–	–	–
Claims in terms of Section 19 (1) clause 3 of the PfandBG	592	327	110	75	–	–	21	31
<b>Total</b>	<b>1,042</b>	<b>327</b>	<b>110</b>	<b>75</b>	<b>45</b>	<b>19</b>	<b>21</b>	<b>158</b>

in € millions (as of each 31 December)	Japan		Luxembourg		Netherlands		Austria	
	2015	2014	2015	2014	2015	2014	2015	2014
Equalisation claims in terms of Section 19 (1) clause 1 of the PfandBG	–	–	–	–	–	–	–	–
Claims in terms of Section 19 (1) clause 2 of the PfandBG	–	–	–	–	–	–	25	–
of which: uncovered debt securities in terms of Art. 129 of Ordinance (EU) No. 575/2013	–	–	–	–	–	–	25	–
Claims in terms of Section 19 (1) clause 3 of the PfandBG	149	149	55	–	25	25	–	150
<b>Total</b>	<b>149</b>	<b>149</b>	<b>55</b>	<b>–</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>150</b>

in € millions (as of each 31 December)	Spain		USA		Other*)	
	2015	2014	2015	2014	2015	2014
Equalisation claims in terms of Section 19 (1) clause 1 of the PfandBG	–	–	–	–	–	–
Claims in terms of Section 19 (1) clause 2 of the PfandBG	–	–	–	–	131	66
of which: uncovered debt securities in terms of Art. 129 of Ordinance (EU) No. 575/2013	–	–	–	–	131	–
Claims in terms of Section 19 (1) clause 3 of the PfandBG	54	53	–	74	–	–
<b>Total</b>	<b>54</b>	<b>53</b>	<b>–</b>	<b>74</b>	<b>131</b>	<b>66</b>

\*) Other supranational organisations

**Other cover assets for public Pfandbriefe** (Section 28 (1) clauses 4 and 5 of the PfandBG in conjunction with Section 20 (2) clause 1 and 2 of the PfandBG) were not available in either the previous year or as of 31 December 2015.

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

#### Breakdown by size groups

in € millions	31.12.2015	31.12.2014
up to and including € 300,000	28	36
from € 300,000 up to and including € 1 million	84	114
from € 1 million up to and including € 10 million	1,752	2,219
more than € 10 million	5,876	5,523
<b>Total</b>	<b>7,740</b>	<b>7,892</b>

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

in € millions (as of each 31 December)	Germany		Belgium		France	
	2015	2014	2015	2014	2015	2014
Apartments	8	12	–	–	–	1
Detached family homes	11	15	–	–	–	–
Multifamily homes	551	620	–	–	158	177
Office buildings	1,414	1,231	18	18	285	358
Commercial buildings	1,950	2,113	–	–	261	235
Industrial buildings	17	12	–	–	–	–
Other commercially used buildings	450	517	–	–	–	–
New buildings, not yet completed or not yet a source of income	357	363	–	–	–	–
Building sites	16	26	–	–	–	–
<b>Total</b>	<b>4,774</b>	<b>4,909</b>	<b>18</b>	<b>18</b>	<b>704</b>	<b>771</b>

in € millions (as of each 31 December)	UK		Ireland		Netherlands	
	2015	2014	2015	2014	2015	2014
Apartments	–	–	–	–	16	23
Detached family homes	–	–	–	–	1	64
Multifamily homes	–	–	–	–	289	81
Office buildings	505	630	24	–	213	304
Commercial buildings	278	275	–	–	179	161
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	24	13	–	–	165	130
New buildings, not yet completed or not yet a source of income	–	–	–	–	26	–
Building sites	24	21	–	–	–	–
<b>Total</b>	<b>831</b>	<b>939</b>	<b>24</b>	<b>–</b>	<b>889</b>	<b>763</b>

in € millions (as of each 31 December)	Austria		Poland		Spain	
	2015	2014	2015	2014	2015	2014
Apartments	–	–	–	–	–	–
Detached family homes	–	–	–	–	–	–
Multifamily homes	–	–	–	–	–	–
Office buildings	47	–	120	103	11	20
Commercial buildings	11	12	50	33	56	85
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	–	–	–	–	11	19
New buildings, not yet completed or not yet a source of income	–	–	–	–	–	–
Building sites	–	–	–	–	–	–
<b>Total</b>	<b>58</b>	<b>12</b>	<b>170</b>	<b>136</b>	<b>78</b>	<b>124</b>

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in € millions	USA	
(as of each 31 December)	2015	2014
Apartments	–	–
Detached family homes	–	–
Multifamily homes	–	34
Office buildings	180	154
Commercial buildings	14	13
Industrial buildings	–	–
Other commercially used buildings	–	19
New buildings, not yet completed or not yet a source of income	–	–
Building sites	–	–
<b>Total</b>	<b>194</b>	<b>220</b>

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

in € millions	31.12.2015		31.12.2014	
	Total amount of payments overdue by at least 90 days	Total amount of these claims if the overdue amount totals at least 5 % of the claim	Total amount of payments overdue by at least 90 days	Total amount of these claims if the overdue amount totals at least 5 % of the claim
France	2.5	5.1	1.4	6.0
Germany	0.4	0.3	0.4	1.7
Spain	–	–	3.0	7.0
<b>Total</b>	<b>2.9</b>	<b>5.4</b>	<b>4.8</b>	<b>14.7</b>

**Foreclosure / sequestration** (Section 28 (2) clause 4 PfandBG):

	As of 31 December					
	Foreclosures pending		Sequestration pending		Foreclosures executed	
	2015	2014	2015	2014	2015	2014
Properties used for living	–	3	–	–	1	3
Properties used for commercial purposes	1	3	–	1	1	2
<b>Total</b>	<b>1</b>	<b>6</b>	<b>–</b>	<b>1</b>	<b>2</b>	<b>5</b>

In financial year 2015, Deutsche Hypo did not possess any property to save existing mortgages, as in the prior year.

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

in € millions	31.12.2015	31.12.2014
Properties used for living	0.1	–
Properties used for commercial purposes	4.2	6.3
<b>Total</b>	<b>4.3</b>	<b>6.3</b>

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

in € millions (as of 31 December)	Germany		Belgium		Eur. Union		Finland	
	2015	2014	2015	2014	2015	2014	2015	2014
Central state	101	151	–	–	72	79	–	–
Regional authority	2,438	2,733	105	105	–	–	13	14
Local authority	55	57	–	–	–	–	–	–
Other	1,831	2,004	140	140	243	311	–	–
<b>Total</b>	<b>4,425</b>	<b>4,945</b>	<b>245</b>	<b>245</b>	<b>315</b>	<b>390</b>	<b>13</b>	<b>14</b>

in € millions (as of 31 December)	France		UK		Italy		Japan	
	2015	2014	2015	2014	2015	2014	2015	2014
Central state	–	–	–	–	224	317	–	–
Regional authority	22	89	–	–	118	520	10	10
Local authority	–	–	–	–	–	–	–	–
Other	26	50	68	64	100	90	–	–
<b>Total</b>	<b>48</b>	<b>139</b>	<b>68</b>	<b>64</b>	<b>442</b>	<b>927</b>	<b>10</b>	<b>10</b>

in € millions (as of 31 December)	Canada		Latvia		Netherlands		Austria	
	2015	2014	2015	2014	2015	2014	2015	2014
Central state	–	–	–	–	–	–	596	659
Regional authority	160	151	17	18	130	130	42	44
Local authority	–	–	–	–	–	–	–	–
Other	83	74	–	–	290	290	–	222
<b>Total</b>	<b>243</b>	<b>225</b>	<b>17</b>	<b>18</b>	<b>420</b>	<b>420</b>	<b>638</b>	<b>925</b>

in € millions (as of 31 December)	Poland		Sweden		Switzerland		Spain	
	2015	2014	2015	2014	2015	2014	2015	2014
Central state	95	86	–	–	–	–	–	–
Regional authority	–	–	17	16	69	70	50	65
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	100	100	48	48
<b>Total</b>	<b>95</b>	<b>86</b>	<b>17</b>	<b>16</b>	<b>169</b>	<b>170</b>	<b>98</b>	<b>113</b>

in € millions (as of 31 December)	Hungary		USA		Other*)	
	2015	2014	2015	2014	2015	2014
Central state	27	44	–	–	–	–
Regional authority	–	–	105	256	–	–
Local authority	–	–	–	–	–	–
Other	–	–	–	–	–	139
<b>Total</b>	<b>27</b>	<b>44</b>	<b>105</b>	<b>256</b>	<b>–</b>	<b>139</b>

\*) Other supranational organisations

As of 31 December 2015, payments for public sector receivables that were overdue by at least 90 days did not occur, as in 2014.

#### Breakdown by size groups:

in € millions	31.12.2015	31.12.2014
up to and including € 10 million	445	638
from € 10 million up to and including € 100 million	6,663	7,867
more than € 100 million	287	641
<b>Total</b>	<b>7,395</b>	<b>9,146</b>

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

#### Mortgage Pfandbriefe:

		31.12.2015	31.12.2014
<b>Pfandbriefe in circulation</b>	in € millions	8,409	8,744
of which share of fixed-rate Pfandbriefe (Section 28 (1) clause 9 of the PfandBG):	%	89.26	77.61
<b>Cover pool</b>	in € millions	9,397	8,988
of which total amount of claims that exceed the limits in accordance with Section 13 (1) of the PfandBG (Section 28 (1) clause 7 of the PfandBG)	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 2 of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 3 of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which share of fixed-rate cover pool (Section 28 (1) clause 9 of the PfandBG)	%	65.00	60.54
Net cash value in accordance with Section 6 of the German Pfandbrief Net Present Value Regulation (Pfandbrief-Barwertverordnung) for each foreign currency (in € millions)	AUD	–	–
	CAD	–	–
	CHF	19.1	35.3
	GBP	441.9	455.2
	JPY	1.7	24.0
Section 28 (1) clause 10 of the PfandBG (net of assets and liabilities)	SEK	–	–
	USD	97.8	151.3
Volume-weighted average of age of claims (past term since credit award seasoning) (Section 28 (1) clause 11 of the PfandBG)	Years	4.4	4.8
Average weighted loan-to-value ratio (Section 28 (2) clause 3 of the PfandBG)	%	58.04	57.50
Average weighted loan-to-value ratio on a market basis	%	43.95	44.85

#### Public Pfandbriefe:

		31.12.2015	31.12.2014
<b>Pfandbriefe in circulation</b>	in € millions	6,883	8,633
of which share of fixed-rate Pfandbriefe (Section 28 (1) clause 9 of the PfandBG):	%	92.95	92.78
<b>Cover pool</b>	in € millions	7,395	9,146
of which total amount of claims that exceed the limits of Section 20 (2) of the PfandBG (Section 28 (1) clause 8 of the PfandBG)	in € millions	–	–
of which share of fixed-rate cover pool (Section 28 (1) clause 9 of the PfandBG)	%	79.02	79.15
Net cash value in accordance with Section 6 of the German Pfandbrief Net Present Value Regulation (Pfandbrief-Barwertverordnung) for each foreign currency (in € millions)	AUD	–	16.7
	CAD	38.1	180.3
	CHF	52.7	35.3
	GBP	162.9	212.9
	JPY	– 21.4	– 19.2
Section 28 (1) clause 10 of the PfandBG (net of assets and liabilities)	SEK	7.6	8.5
	USD	403.6	1.105.7



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

### Cover for bonds in circulation

in € millions	Mortgage Pfandbriefe		Public Pfandbriefe	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
<b>Ordinary cover</b>				
Receivables from financial institutions				
Mortgage loans	1	1	–	–
Public sector loans	–	–	911	1,266
Receivables from customers				
Mortgage loans	7,739	7,891	–	–
Public sector loans	–	–	4,634	5,109
Bonds of public sector issuers	–	–	1,850	2,771
	<b>7,740</b>	<b>7,892</b>	<b>7,395</b>	<b>9,146</b>
<b>Substitute cover</b>				
Other receivables from financial institutions	939	461	–	–
Bonds and other fixed income securities	718	635	–	–
	<b>1,657</b>	<b>1,096</b>	<b>–</b>	<b>–</b>
<b>Total value of cover</b>	<b>9,397</b>	<b>8,988</b>	<b>7,395</b>	<b>9,146</b>
<b>Total amount in circulation requiring cover</b>	<b>8,409</b>	<b>8,744</b>	<b>6,883</b>	<b>8,633</b>
<b>Surplus cover</b>	<b>988</b>	<b>244</b>	<b>512</b>	<b>513</b>

## 30. Derivatives

The nominal volume of the different types of forward transactions in the portfolio as of 31 December 2015 is shown in the tables below in accordance with Section 36 of the 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 transactions 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 up-fronts. The figures determined in this way are summarised in the following tables by product group. This is in line with the requirements of Section 285, clause 19 of the German Commercial Code.

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31.12.2015 in € millions	Nominal amount / Residual term			Total	Fair value	Book value	Balance sheet item
	<= 1 year	1–5 years	> 5 years				
<b>Currency-related transactions</b>							
Forward exchange transactions	951	–	–	951	– 1	1	Assets 2; Liabilities 1
Cross-currency-swaps	335	1,036	779	2,150	– 406	14	Assets 2 and 10; Liabilities 1 and 5
<b>Interest rate-related transactions</b>							
Interest rate swaps	4,590	12,499	14,798	31,887	– 328	– 22	Assets 2 and 10; Liabilities 1 and 5
<b>Credit derivatives</b>							
Total return swaps	–	115	233	348	– 11	– 6	
Credit default swaps	–	591	–	591	– 2	0	

31.12.2014 in € millions	Nominal amount / Residual term			Total	Fair value	Book value	Balance sheet item
	<= 1 year	1–5 years	> 5 years				
<b>Currency-related transactions</b>							
Forward exchange transactions	1,189	23	–	1,212	– 22	1	Assets 2; Liabilities 1
Cross-currency-swaps	590	1,012	923	2,525	– 370	9	Assets 2 und 10; Liabilities 1 und 5
<b>Interest rate-related transactions</b>							
Interest rate swaps	4,403	13,842	14,845	33,090	– 425	– 32	Assets 2 und 10; Liabilities 1 und 5
<b>Credit derivatives</b>							
Total return swaps	18	78	329	425	– 10	– 7	
Credit default swaps	–	595	–	595	– 9	0	

The netted fair values of € – 747.9 million (2014: € – 835.7 million) gave rise to positive fair values of € 2,105.1 million (2014: € 2,671.5 million) and negative market values of € 2,853.0 million (2014: € 3,507.2 million).

To hedge the default risks of counterparties after netting, Deutsche Hypo has entered into security agreements with most of its business partners. As of 31 December 2015, the Bank provided security of € 1,121.5 million (2014: € 1,286.0 million), and received security of € 318.4 million (2014: € 460.3 million).

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

#### ANDREAS POHL

– Speaker of the Board of Managing Directors –

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#### ANDREAS REHFUS

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The members of the Board of Managing Directors did not assume any offices on the supervisory boards of corporations.

### 32. Member of the Supervisory Board

#### DR. GUNTER DUNKEL

Hanover

Chairman of the Managing Board of Norddeutsche Landesbank Girozentrale

– Chairman of the Supervisory Board –

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#### ECKHARD FORST

Hanover

Member of the Managing Board of Norddeutsche Landesbank Girozentrale

– Vice-Chairman of the Supervisory Board –

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#### THOMAS S. BÜRKLE

Hanover

Member of the Managing Board of Norddeutsche Landesbank Girozentrale

(since 1 January 2015)

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#### THOMAS KRÜGER

Hanover

Former Member of the Board of Managing Directors of VGH Versicherungen

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#### DIRK METZNER

Hanover

Bank employee

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#### ANDREA BEHRE

Hanover

Bank employee

Balance sheet as of 31 December 2015 | Income statement for the period from 1 January to 31 December 2015 | Statement of changes in equity | Cash flow statement | [Notes](#)

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

The emoluments paid to the Board of Managing Directors for the 2015 financial year totalled € 872 thousand (2014: € 892 thousand). Former members of the Board of Managing Directors and their surviving dependants received € 1,064 thousand (2014: € 1,516 thousand). Provisions for pension obligations owed to this group of people totalled € 12,469 thousand as of 31 December 2015 (2014: € 11,826 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 2015, the shortfall was € 1,212 thousand (2014: € 1,346 thousand). The Supervisory Board received a net fixed payment of € 116 thousand (2014: € 111 thousand).

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

	2015	2014
Female employees	169	165
Male employees	221	223
<b>Total</b>	<b>390</b>	<b>388</b>

### 35. Auditor's fees

in € thousands	2015	2014
Audit financial statements	674	667
Other confirmations	291	236
Other services	8	36
<b>Total</b>	<b>973</b>	<b>939</b>

### 36. Group affiliation

According to Section 271 (2) of the German Commercial Code, Deutsche Hypo is a company affiliated with NORD/LB and is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as of 31 December 2014 were published on 10 June 2015 in the federal gazette.

Hanover, 1 March 2016

The Board of Managing Directors



Pohl



Rehfus



Amsterdam

## **PREMIUM RETAIL PORTFOLIO IN THE NETHERLANDS – FIRST-CLASS SHOPPING LOCATIONS AS AN ATTRACTIVE INVESTMENT**

The premium retail portfolio in the Netherlands acquired by PATRIZIA Immobilien AG in two packages comprises in total 145 properties, including 107 retail, 35 residential and three office properties. The regional focus of the portfolio is the Randstad, a metropolitan region in the west of the Netherlands. Almost 90 % of the retail properties are located in the 40 most sought-after retail locations in the Netherlands,

including the Kalverstraat in Amsterdam and the Spuistraat in The Hague. The main tenants include a number of international retail chains as well as national and regional retailers. Shopping streets in city centres are among the top retail locations in the Netherlands as there are few shopping centres on the outskirts of towns.

ONE OF THE STRENGTHS OF DEUTSCHE HYPO IS THAT WE CAN PROVIDE THE EXPERTISE REQUIRED FOR SUCH A DEAL IN INTERNATIONAL COOPERATIONS, THIS TIME BETWEEN THE OFFICES IN MUNICH AND AMSTERDAM AND THE HEAD OFFICE IN HANOVER.

Harald Nolterieke, Head of the Munich Office



## Financing details

The purchase of the extensive retail portfolio in the Netherlands was financed under the lead of Deutsche Hypo together with ING Commercial Banking Germany. Both lenders each provided half of the finance. Deutsche Hypo acted as the lead arranger, agent and bookrunner while ING Commercial Banking acted as the mandated lead arranger. The deal was acquired by the Munich office. The Amsterdam office was also involved. The deal was the second milestone in the relationship with the customer following the financing of a residential portfolio in the Netherlands.

Type of property  
City

Financing volume  
Customer

Mainly retail  
Different locations  
in the Netherlands  
€ 160 million  
Institutional  
property funds  
managed by the  
PATRIZIA-Group

## 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, 1 March 2016

The Board of Managing Directors

A handwritten signature in blue ink, appearing to read 'Pohl'.

Pohl

A handwritten signature in blue ink, appearing to read 'Rehfus'.

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 Hypothekbank (Actien-Gesellschaft), Hannover, for the business year from January 1 to December 31, 2015. 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 Hypothekbank (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, 1 March 2016

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Leitz  
Wirtschaftsprüfer  
(German Public Auditor)

Ehlers  
Wirtschaftsprüfer  
(German Public Auditor)



# PERSONNEL REPORT

Deutsche Hypo in fiscal year 2015 again mastered diverse challenges in many fields of activity, as detailed below. As in previous years, the personnel work of Deutsche Hypo balances between the Bank's ambitious profit goals and the likewise essential cost discipline and the increasing regulatory requirements.

## Remuneration system

The remuneration system of Deutsche Hypo follows and supports the company's strategy of business and risk management. It aims at sustainability and continuity, to promote responsible and risk-conscious behaviour on the part of employees and to ensure sustainable business success. The configuration of the remuneration system is also intended to ensure qualitatively and quantitatively appropriate staffing and especially to improve the attractiveness as an employer.

Under the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung), the Bank is classified as a significant institution, so a risk analysis has been carried out according to Section 18 of the Remuneration Ordinance for Institutions (identification of the so-called 'risk taker'). It also had to comply with provisions of the Remuneration Ordinance for Institutions applicable to major institutions.

Deutsche Hypo is bound to a collective bargaining agreement, so collective bargaining agreements for the private banking sector and public banks apply. Besides fixed remuneration in twelve equal parts, employees under the collective bargaining agreement receive a special bonus equal to an additional month's salary. Non-tariff employees receive a fixed annual salary in twelve equal parts.

The variable salary is determined for all employees in a formalised and transparent process. This takes into account the Bank's risk-oriented overall success perspective as well as the profit contributions of the organisational units and the individual profit contribution. The variable remuneration is limited to 100 % of the fixed remuneration.

## Personnel development

"Anyone who stops getting better, has stopped being good". This quote from Philip Rosenthal illustrates the guiding principles of personnel development at Deutsche Hypo. To embed the principle of lifelong learning as well as the importance of personnel development as a management task even more intensively at the Bank, a development dialogue was introduced in 2015, in the context of the annual performance review. The development dialogue supports the targeted exchange of ideas between executives and employees about the employees' strengths, areas for development, and next development steps to be taken.

The "Basic Programme for Real Estate Financing" was conceived as a component of professional qualification, a development program that teaches the essential basics of commercial real estate financing to primarily young and less experienced employees, and closely integrates these with practice. The program is being conducted for the first time in 2016.

For the promotion of internal sales talents, in 2015 a concept was also developed whereby on the one hand, more of our own young staff members would become enthusiastic about sales, and on the other, suitable qualification of these individuals would be assured.

In addition to training courses, seminars, and numerous development measures in day-to-day operations, part-time study plays a key role in personnel development at Deutsche Hypo. It is for this reason that Deutsche Hypo supports employees who are studying specialised or bank-related subjects part time. In 2015, a total of 15 employees attended part-time professional training activities such as master's degree programmes, sessions with the Bank economist or subject-specific advanced training.

To bring in more women to leadership positions over the medium term, the first workshop was held during the reporting year with female Bank employees. The event served to give a picture of the participants' interest in leadership as well as their perception of the situation at the present time and current overall conditions. Another event in this format was held in February 2016. The results of the analysis are being used to map out further measures.

As part of the management development, the development series launched in 2013 was successfully completed in 2015. In addition, a leadership program for the level below the Board of Managing Directors was initiated, which began in January 2016.

### Encouraging/attracting the next generation

In fiscal year 2015, Deutsche Hypo also provided training in the classic work of bank personnel. This training was expanded to include an international Bachelor of Arts (B.A.) course of study, which is offered in cooperation with the Leibniz FH School of Business. The Bank had 11 trainees and work-study students in the reporting year. Deutsche Hypo has succeeded by its campaigns to recruit young talent in continuing to increase applications both in terms of quality and quantity.

The training cooperation project with NORD/LB was successfully continued and enhanced in the reporting year. On the one hand, trainees of the parent company were utilised in the real estate banking section of Deutsche Hypo in Hanover. On the other hand, trainees from Deutsche Hypo had the opportunity to sit in on different departments at NORD/LB.

Alongside traditional vocational training, Deutsche Hypo also offers university graduates the opportunity of participating in graduate training programmes. By this means, the Bank hopes to make a more attractive offer to up-and-coming staff, introducing them in a targeted and practical way to challenging tasks. A corresponding trainee concept was conceptually revised in the fiscal year and serves Deutsche Hypo as the basis to regularly fill trainee positions with qualified graduates in the future.

In addition, the Bank offers interested students the opportunity to complete internships at Deutsche Hypo, providing them with their first insight into the workings of a real estate and Pfandbrief bank. Cooperation for thesis work is possible under certain conditions. In the year under review, a total of eight internships were awarded.

### Family and work

The compatibility of family and career is a high priority at Deutsche Hypo. This is reinforced by a works agreement. Since 2009, the Bank has offered its employees places in a day nursery through an external service provider, holiday childcare, emergency care facilities, and care for the elderly.

Digitalisation and increasing technological progress lead to changing opportunities and conditions in the work environment. One result is that the offer of alternating teleworking was further expanded in the reporting year. A total of about 30 employees took advantage of the opportunity of doing part of their work at home.

Besides the compatibility of family and career, the health of its employees is important to the Bank. In the context of health promotion, for example, Deutsche Hypo provides a company counselling service, run by an external service provider. The Bank also offers all employees above the age of 45 the combination of a medical check-up and health coaching every three years. In addition, the Bank has promoted the awareness and training of its managers with regard to 'healthy' leadership.

### Cooperation with the Works Council

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

	31.12.2015	31.12.2014	31.12.2013
<b>Employees</b>	390	387	410
of which: male	223	220	237
of which: female	168	167	173
<b>Employee structure</b>			
Trainees	11	12	11
Average age	43.6	44.4	43.5
<b>Other</b>			
Illness rate (in %)	3.67	3.03	4.49
10-year service anniversary (number of employees)	4	6	7
25-year service anniversary (number of employees)	7	4	4
40-year service anniversary (number of employees)	2	4	2

# CORPORATE GOVERNANCE REPORT

Deutsche Hypo commits to corporate management that is defined by a sense of responsibility and transparency. Against this backdrop, the Bank advocates the objectives and purposes of the German Corporate Governance Code and intensively addresses the amendments and additions that the government commission made to the German Corporate Governance Code.

With respect to the adopted amendments that entered into force with publication in the official part of the federal gazette on 12 June 2015, the government commission enhanced above all the importance of the role of the supervisory board and outlined the new legal provisions for the equal participation of women and men in management positions in the code.

The Supervisory Board uses a questionnaire to regularly check the efficiency of its work and the work of the Board of Managing Directors. The Chairman of the Supervisory Board presented the results of the 2015 efficiency test at the meetings of the Appointments Committee and the Supervisory Board on 26 November 2015, discussing them in detail with the members of the respective boards. The results showed that the members of the Supervisory Board were satisfied to very satisfied with the structure, size, composition and performance of the Supervisory Board and the Board of Managing Directors. Significant measures to increase efficiency or to improve the work on the Supervisory Board or the collaboration between the Supervisory Board and the Board of Managing Directors were not identified.

The German Corporate Governance Code as amended on 5 May 2015 and the Declaration of Conformity of Deutsche Hypo, which the Supervisory Board adopted on 26 November 2015, are published at the website of Deutsche Hypo under [www.deutsche-hypo.de](http://www.deutsche-hypo.de). The text is worded as follows:

## Declaration of Conformity 2015

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

Since the last Declaration of Conformity dated 5 December 2014, Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover has implemented or is implementing the recommendations of the Government Commission on the German Corporate Governance Code dated 5 May 2015 with the following exceptions:

### Code section 2.3

The recommendations of the Code are based on the holding of annual general meetings of stock corporations which have various different shareholders. This is not the case for Deutsche Hypo as 100% of the shares of Deutsche Hypo are held by NORD/LB. There are no “free” shareholders. For that reason these recommendations have not been and will not be implemented.

### Code section 3.8

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 ex-

ample, that less well financially situated members of the Supervisory Board might find themselves in existential difficulties. Against this background a D&O policy without an appropriate deductible is in place for the members of the Supervisory Board.

#### **Code 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 regarding the pension commitments for the Members of the Board of Managing Directors.

#### **Code sections 4.2.4 / 4.2.5 / 5.4.6**

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. For that reason the individual statement of the remuneration of the Members of the Board of Managing Directors and the Supervisory Board and the individual presentation of the respective remuneration components using the intended code sample tables have not been produced.

#### **Code section 5.3.2**

The recommendations of the Code provide inter alia that the Chair of the Audit Committee should be independent. However, neither the German Stock Corporation Act nor the Code contains a definition of independence. According to a relevant commentary on the Code, independence will not be given where there is a personal or commercial relationship with a controlling shareholder. In view of the fact that the Chairman of the Audit Committee is at the same time a member of the Board of Managing Directors of the parent company NORD/LB, Deutsche Hypo does not comply with this recommendation. As, however, there is no doubt that the Chairman of the Audit Committee is guided by corporate interest in performing the role, the Supervisory Board is happy to go along with the current employment until further notice.

#### Code section 5.4.1

In May of this year the Code was amended in that the Supervisory Board should specify not only an age limit for Supervisory Board members, but also a limit on the tenure within the Supervisory Board in terms of its composition. Against the background of affiliation to the 100% parent company NORD/LB, Deutsche Hypo is interested in a Group-wide policy. As this is currently still being developed, the Bank does not comply with the recommendation to have a limit for tenure on the Supervisory Board in its articles of association.

#### Code section 7.1.2

As a subsidiary of NORD/LB, Deutsche Hypo is incorporated into the Group procedure in terms of the publication of interim reports, financial reports and annual statements; This is based on the statutory deadlines in accordance with section 325 German Commercial Code (HGB), section 37v and section 37w German Securities Trading Act (WpHG). Against this background the recommended deadlines of 90 and 45 days for the publication of the management report and the half-yearly financial report were not complied with in 2015. It cannot be ruled out that this will also be the case in the coming year 2016.

Hanover, 26 November 2015

The Supervisory Board

The Board of Managing Directors



**Warsaw**

## **METROPOLITAN WARSAW**

### **BUSINESS CENTRE OF THE HIGHEST STANDARD**

In Warsaw the Metropolitan is located in Pilsudski Square, right next to the national theatre, and therefore occupies a very central location in the heart of the city. It was designed by the British architect Sir Norman Foster, one of the greatest architects of modern times, and is one of the most prestigious projects in the capital of Poland. In 2004 the Metropolitan won an MIPIM Award in the Business Centre category, one of the most important awards in the property world. The seven-floor glass building has a useful area of

around 38,000 square metres. Located in the upper floors are offices, the ground floor areas are reserved for retail and restaurants. Around 500 parking spaces are available on the two underground floors. The tenants of the property include well-known names from the financial, real-estate and corporate consultancy sectors.



## Financing details:

The financing of the Metropolitan for a very well-known customer in 2014 was the biggest financing project to date in the new target market of Poland. Deutsche Hypo acted as the sole lender, 50 % was subsequently placed with another bank. The deal was acquired by the Head of Institutional Investors.

Type of property

City

Financing volume

Customer

Office and retail

Warsaw

€ 90 million

The business area for  
real estate special  
funds of Deutsche  
Asset Management

” WITH THE METROPOLITAN WE HAVE  
ADDED ONE OF THE MOST WELL-KNOWN  
PROPERTIES IN WARSAW CITY CENTRE  
TO OUR FINANCING PORTFOLIO.

Thomas Staats, Head of International Acquisition





## REPORT BY THE SUPERVISORY BOARD

The Supervisory Board of Deutsche Hypo and its committees performed the tasks required of them by law, under the Bank's articles of association and in accordance with the German Corporate Governance Code in 2015. The Board of Managing Directors informed the Supervisory Board regularly, promptly and comprehensively about the development of business, the risk situation and the strategic focus and economic position of the Bank. Regular information was also provided in the form of the quarterly risk reports prepared in accordance with the provisions of MaRisk and monthly reports on the Bank's performance and income situation. In addition, fundamental subjects such as adjustments to the business and risk strategy were discussed in detail with the Board of Managing Directors.

The Supervisory Board and its committees advised and monitored management and passed resolutions on the issues which were presented to them and which require a decision by these boards in accordance with the articles of association and the rules stipulated within their framework. The corresponding drafts for resolutions were always presented to the Supervisory Board members sufficiently in advance for them to make a decision. If the adoption of a resolution was required between meetings, the appropriate resolutions were adopted by written circulation procedure.

The committees at Deutsche Hypo – the Lending and Risk Committee, the Audit Committee, the Appointments Committee and the Remuneration Committee – increase the efficiency of the Supervisory Board's work. They address specific matters and usually prepare the resolutions of the Supervisory Board.

The Supervisory Board held four ordinary meetings in 2015, each of which was attended by all of the members. At the meetings, the respective chairs of the committees briefed the Supervisory Board in turn on the work of their committees. There was also a constant exchange of information between the Supervisory Board chairman and the committee chairmen between the meetings. In addition, the speaker of the Board of Managing Directors was regularly in close contact with the Chairman of the Supervisory Board in order to discuss important questions and decisions in personal meetings.

Effective 1 January 2015, Mr Thomas S. Bürkle assumed his office on the Supervisory Board. He followed Dr Johannes-Jörg Riegler, who resigned in 2014. As a result of this – also effective 1 January 2015 – the members of the committees changed. Additional changes in personnel did not take place during the course of 2015.

The Lending and Risk Committee, which mainly deals with the performance of the loan portfolio and its risks, met four times during the past year. The Audit Committee met twice, in particular to focus on the annual financial statements and interim financial statements as well as the results of the internal and external audits and compliance issues. In addition, two meetings of the Remuneration Committee and one meeting of the Appointments Committee took place. While the Remuneration Committee monitors the appropriate design of the remuneration systems for the managers and employees, the

Appointments Committee primarily addresses the results of the annual efficiency test of the Supervisory Board and the Board of Managing Directors and proposes to the Supervisory Board, in the case of elections, suitable Supervisory Board candidates whom are voted on at the Annual General Meeting. The committee members took part in all the committee meetings during 2015 – the only exception was the Audit Committee meeting in August, which one committee member was prevented from attending and was represented by a substitute.

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 2015 financial year and issued an unqualified audit certificate. This confirms that the bookkeeping and annual financial statements comply with the statutory requirements. The audit did not lead to any objections.

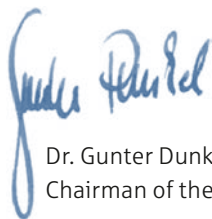
The auditor was available to the members of the Supervisory Board and of the Audit Committee to take questions and provide additional information. The auditor took part in the Supervisory Board meeting on the annual financial statements and in the meetings of the Audit Committee, reporting on the findings 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 18 March 2016, the Supervisory Board approved the management report and the annual financial statements as of 31 December 2015, which are thereby adopted.

The Supervisory Board acknowledges the successful development of business at Deutsche Hypo and thanks the Board of Managing Directors and all the Bank's employees for their performance and their tremendous commitment in 2015.

Hanover, 18 March 2016

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 –

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### ECKHARD FORST

Hanover

Member of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

– Vice Chairman –

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### THOMAS S. BÜRKLE

Hanover

Member of the Board of Managing Directors of Norddeutsche Landesbank Girozentrale

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### THOMAS KRÜGER

Hanover

Member of the Board of Managing Directors of VGH Versicherungen

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### DIRK METZNER

Hanover

Bank employee

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### ANDREA BEHRE

Hanover

Bank employee

## Committees of the Supervisory Board

### LENDING AND RISK COMMITTEE

THOMAS S. BÜRKLE

– Chairman –

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ECKHARD FORST

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DR. GUNTER DUNKEL

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THOMAS KRÜGER

– Substitute Member –

### Audit committee

ECKHARD FORST

– Chairman –

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DR. GUNTER DUNKEL

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THOMAS KRÜGER

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THOMAS S. BÜRKLE

– Substitute Member –

### Appointments committee

DR. GUNTER DUNKEL

– Chairman –

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ECKHARD FORST

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THOMAS S. BÜRKLE

### Remuneration committee

DR. GUNTER DUNKEL

– Chairman –

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ECKHARD FORST

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THOMAS S. BÜRKLE

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DIRK METZNER

## Board of Managing Directors

### ANDREAS POHL

Hanover

– Speaker of the Board of Managing Directors –

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### ANDREAS REHFUS

Hanover

## Departmental managers

Sabine Barthauer

Raimund Ferley

Markus Heinzel

Dirk Hunger

Stefan Leise

Dirk Neugebauer

Stefan Schrader

Ralf Vogel

Carsten Dickhut

Arabell Foth

Dr. Peter Hinze

Dieter Koch

Uwe Menninger

Dirk Schönfeld

Thomas Staats

Dr. Wulfgar Wagener

## Public trustees

### WOLFDIETRICH KÜHNE

Hanover

Degree in business, auditor, tax advisor

– Trustee until 31 March 2015 –

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### ANDREAS WOLFF

Ronnenberg

Lawyer

– Deputy trustee until 30 June 2015 –

– Trustee since 1 July 2015 –

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### DORIS VOGEL

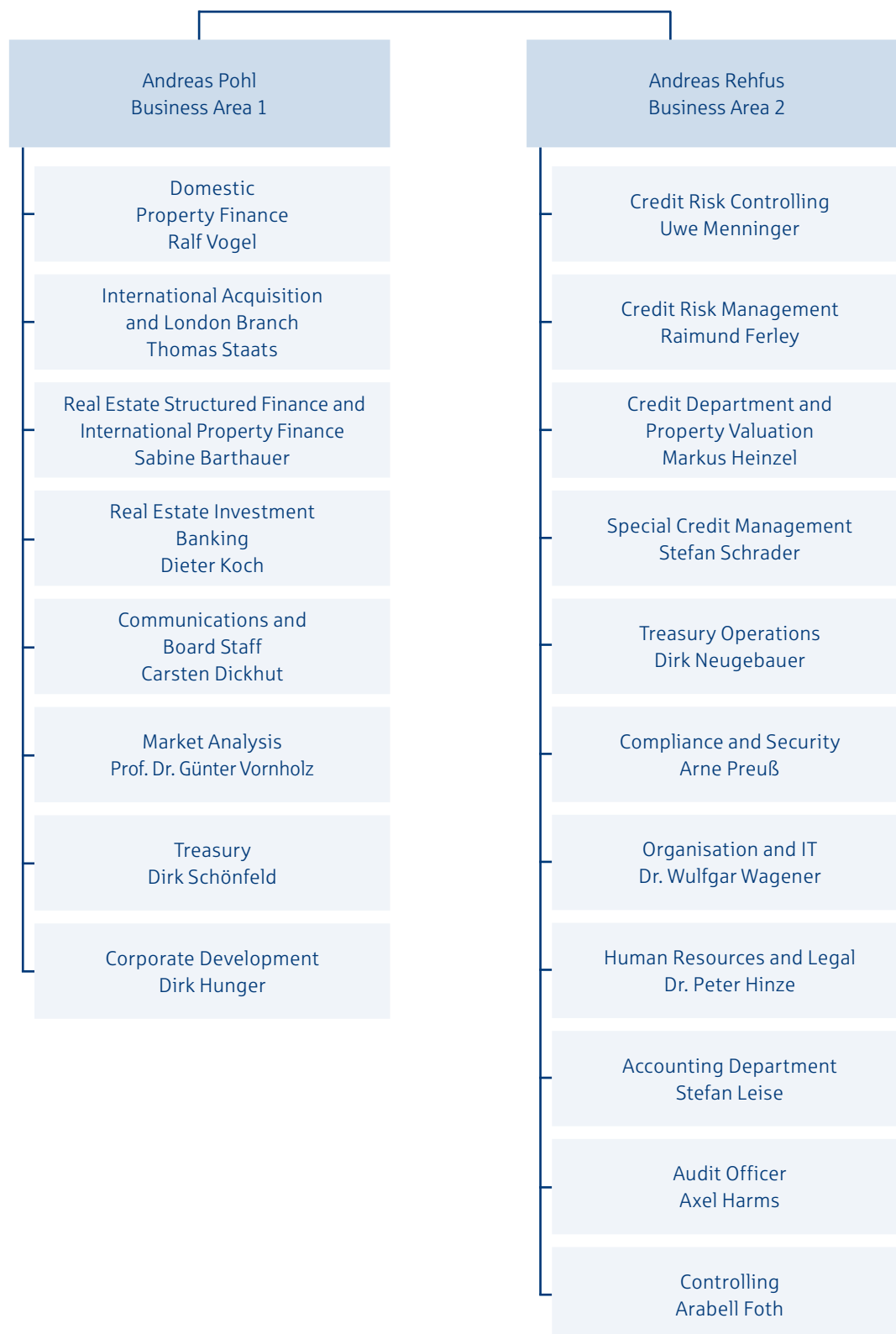
Hanover

Tax advisor

– Trustee from 1 April 2015 to 30 June 2015 –

– Deputy trustees since 1 July 2015 –

# ORGANISATIONAL STRUCTURE





# ADDRESSES IN GERMANY AND ABROAD

## Management

30159 Hanover

Osterstraße 31 · Tel.: +49 511 3045-0 · Fax: +49 511 3045-459 · [www.Deutsche-Hypo.de](http://www.Deutsche-Hypo.de)

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## Domestic locations

60311 Frankfurt/Main

Goetheplatz 2 · Tel.: +49 69 2193518-13 · Fax: +49 69 2193518-15

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20457 Hamburg

Brodschangen 4 · Tel.: +49 40 37655-310 · Fax: +49 40 37655-305

---

30159 Hanover

Osterstraße 31 · Tel.: +49 511 3045-591 · Fax: +49 511 3045-599

---

80538 Munich

Widenmayerstraße 15 · Tel.: +49 89 512667-0 · Fax: +49 89 512667-25

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## Foreign locations

UK: London EC2V 7WT

One Wood Street · Tel.: +44 207 4294700 · Fax: +44 207 4294701

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France: 75002 Paris

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

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The Netherlands: 1077 XX Amsterdam

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

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Poland: 00-021 Warszawa

ul. Chmielna 25 · Tel.: +48 22 8280253 · Fax: +48 22 6924428

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## Supervisory body

European Central Bank (ECB) · Kaiserstraße 29 · 60311 Frankfurt/Main

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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.

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