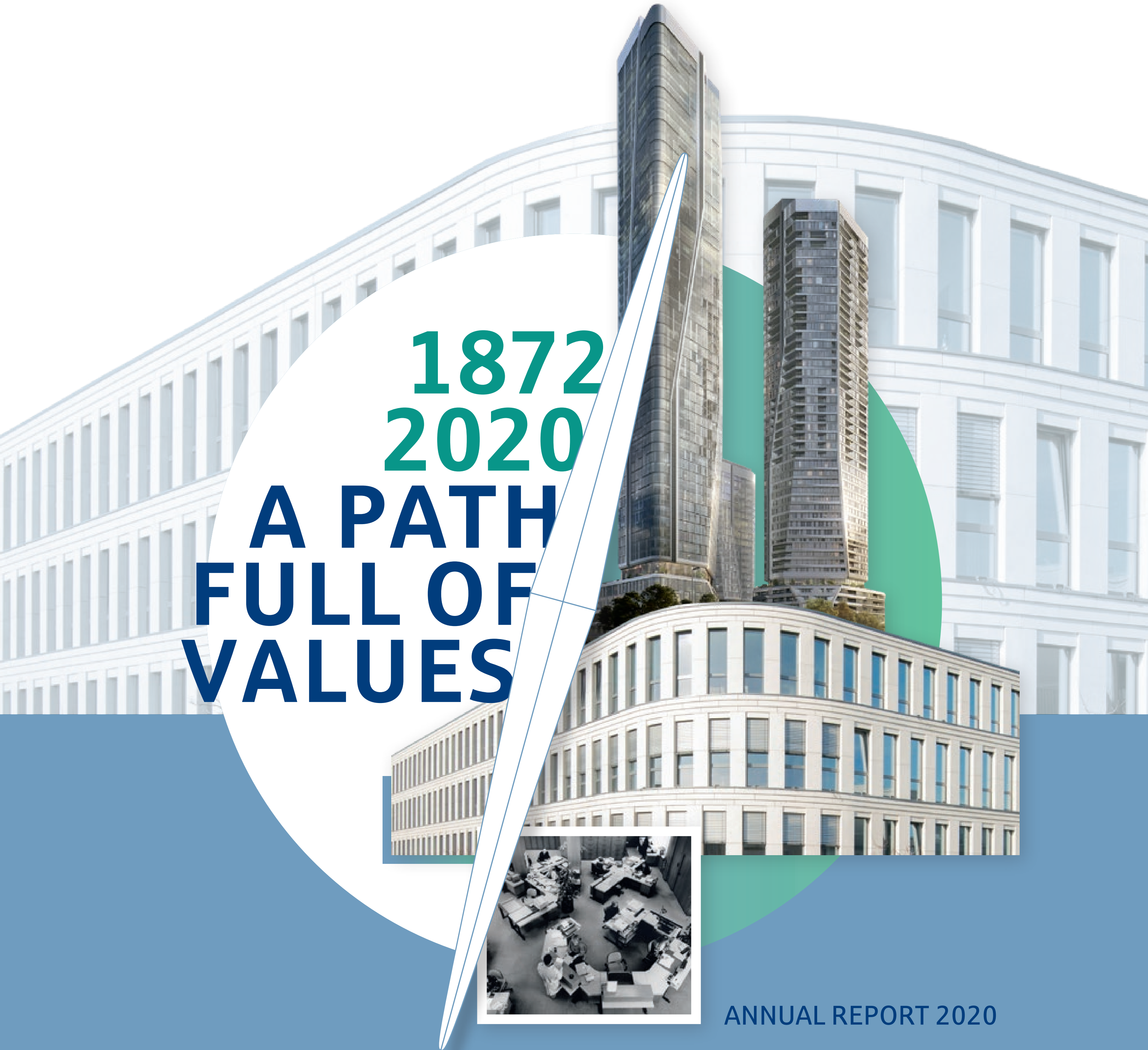
DEUTSCHE HYPO
Member of NORD/LB

1872 2020 A PATH FULL OF VALUES



ANNUAL REPORT 2020

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01. – 31.12.2020	01.01. – 31.12.2019	Change (in %)
New business figures			
Commercial real estate finance business	2,321.7	3,008.2	– 22.8
Domestic finance	1,582.7	1,786.6	– 11.4
Foreign Finance	739.0	1,221.6	– 39.5
Funding volume	1,537.3	2,235.2	– 31.2
Mortgage Pfandbriefe	1,000.0	1,795.0	– 44.3
Unsecured	537.3	440.2	22.1

in € millions	31.12.2020	31.12.2019	Change (in %)
Portfolio figures			
Commercial real estate finance business	11,863.0	12,188.3	– 2.7
Domestic finance	6,485.0	6,472.9	0.2
Foreign finance	5,378.0	5,715.4	– 5.9
Loans to local authorities	2,327.6	2,473.7	– 5.9
Securities	3,046.0	4,016.8	– 24.2
Funding capital	17,494.0	19,023.7	– 8.0
Mortgage Pfandbriefe	8,230.2	8,330.9	– 1.2
Public Pfandbriefe	2,878.6	3,286.7	– 12.4
Unsecured	1,022.0	1,661.7	– 38.5
Other liabilities	5,363.2	5,744.4	– 6.6
Equity*)	1,038.6	1,193.6	– 13.0
Balance sheet total	18,729.4	20,454.2	– 8.4

in € millions	01.01. – 31.12.2020	01.01. – 31.12.2019	Change (in %)
Income figures			
Net interest income	159.0	182.5	– 12.9
Net commission income	2.2	0.9	> 100.0
Administrative expenses**)	76.2	81.2	– 6.2
Risk result	– 33.5	– 41.6	– 19.5
Income from securities and participatory interest	–1.5	– 5.5	– 72.7
Result from normal operations	43.5	55.1	– 21.1
Extraordinary result	3.7	– 0.9	> 100.0
Taxes	– 0.3	0	< – 100.0
Profit and loss transfer	47.5	54.2	– 12.4

in %	31.12.2020	31.12.2019	
Other information			
Cost-income ratio	49.3	44.2	

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

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

ANNUAL REPORT 2020

CONTENT

FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear customers and
business partners of Deutsche Hypo,

Behind us lies an extraordinary year. In last year's annual report, I was pleased to proclaim 2019 as one of the best years for real estate in Germany. While this development continued in the first two months of 2020, the economy was hit hard by the effects of the cononavirus pandemic from March onwards. The commercial real estate target markets were also shaken up considerably.

The coronavirus pandemic also had a major impact on Deutsche Hypo's business performance in the past financial year. The Bank's new business declined significantly as compared to last year in the wake of the pandemic-related lower demand for loans. Overall, however, there were no direct effects from the pandemic-related developments on the Bank's loan loss provisions in the 2020 financial year. The share of defaulted loans remains at a historically low level. This proves the Bank's focus on maintaining a good quality of the financing portfolio when granting loans. Nevertheless, we have made provisions for future risks by means of portfolio valuation allowances. Deutsche Hypo achieved a result from normal operations of € 43.5 million (2019: € 55.1 million). In view of the clearly subdued market environment, the Bank thus delivered a thoroughly satisfactory result.

The second major development for Deutsche Hypo took place in December 2020. The owners of NORD/LB have decided to fully integrate Deutsche Hypo into NORD/LB. The full integration as of 1 July 2021 is expected to generate significant advantages in terms of costs, in particular by merging the respective staff and central divisions. The Deutsche Hypo brand will be retained and is to be further strengthened. Deutsche Hypo remains the centre of competence for commercial real estate finance at NORD/LB.

Dear customers and business partners, we will continue to competently support you in the realisation of your projects and real estate plans under the Deutsche Hypo brand. The employees you have known for a long time will continue to provide you with their comprehensive financing and structuring know-how in the usual form and quality after the merger. The integration offers further advantages: going forward, we will be able to offer you comprehensive financial services from a single source in addition to our pure real estate financing business.

Best regards,

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

INTERVIEW WITH THE BOARD OF MANAGING DIRECTORS

In this interview, Members of the Board of Managing Directors Andreas Rehfus and Christian Veit report on the challenges of financial year 2020

Within a very short time, 2020 has overturned many things we take for granted. How did you and Deutsche Hypo deal with the coronavirus pandemic?

Rehfus: When it became clear in mid-March 2020 that there would be restrictions, we had to react very quickly to maintain our business operations. A specially established situation team assessed the impact of Covid-19 on Deutsche Hypo at times on a daily basis. We have responded to the risk of infection and the massive restrictions imposed by the authorities with the implementation of a wide range of measures to protect our employees and business partners. Within a very short period of time, we managed to set up a rolling home office concept for all our employees and to continue our business operations without any restrictions. Our customers could fully rely on us during this time.

Veit: My appointment as a Member of the Board of Managing Directors of Deutsche Hypo on 1 September 2020 coincided exactly with the corona pandemic, of course. It was sometimes difficult to introduce myself personally to the staff. For this reason, we showed an introduction video and henceforth strengthened the use of virtual communication media. As Member of the Board of Managing Directors for the back-office functions, I was of course highly challenged with the risk situation in the pandemic environment. Various teams of experts analysed both the effects on Deutsche Hypo's business operations and the loan portfolios in all sub-asset classes. In addition to monitoring the property types particularly affected by the coronavirus pandemic, a few financings had to be permanently monitored. Based on Deutsche Hypo's conservative risk policy, I was not surprised that only a few Covid-19-related deferral requests were made by our clients.

How did Deutsche Hypo's business develop in 2020

Rehfus: After two very successful months in January and February 2020, the Bank's new business volume declined significantly as compared to the previous year from March onwards in the wake of the lower demand for loans due to the Covid-19 crisis and cautious and restrained lending. The slight easing of the pandemic situation, at least for a short time, resulted in an increase in demand for loans and a significant rise in new business in the second half of the year. Overall, we achieved a new business volume of € 2.3 billion (2019: € 3.0 billion). Another positive aspect is that we completed our cost-cutting programme last year. In this way, we achieved efficiency increases in the Bank's internal processes and improved the Bank's technical infrastructure by digitalising internal workflows.

Veit: In view of the challenges faced in 2020 as already mentioned, Deutsche Hypo can look back on a thoroughly satisfactory 2020 financial year. The result from normal operations reached € 43.5 million (2019: € 55.1 million). The decline in earnings is due to additions to general loan loss provisions. We established these in order to take care of the uncertainties associated with the effects of the coronavirus pandemic. Despite all this, the share of non-performing loans has so far remained at a historically low level. This underlines our focus on good quality in the real estate financing portfolio, which we have consistently pursued in recent years.

From left: Christian Veit, Andreas Rehfus

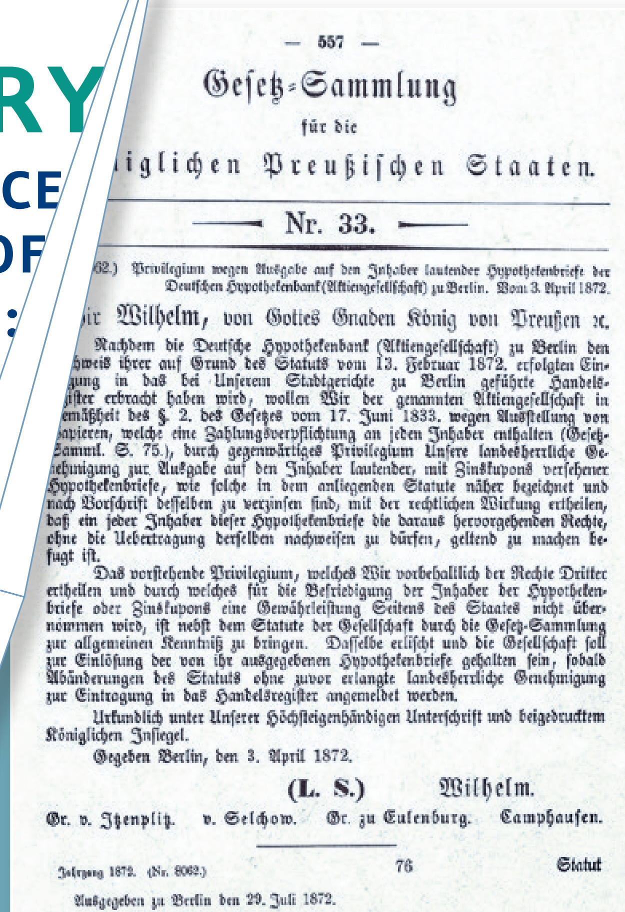
In December 2020, it was decided to integrate Deutsche Hypo into NORD/LB. What does this change mean for the Bank?

Rehfus: As a long-time employee and Member of the Deutsche Hypo Board of Managing Directors, the integration of Deutsche Hypo of course also makes me a little nostalgic. An outstanding bank has been formed in the almost 150-year history of Deutsche Hypo. Deutsche Hypo is backed by great and dedicated employees who enjoy a high reputation in the real estate finance sector. It is great that the Deutsche Hypo brand will not be lost. It is now up to us to transfer these achievements to NORD/LB. We will certainly succeed in this. Preparations for the transition on 1 July 2021 are already in full swing.

Veit: It is very important to emphasise that Deutsche Hypo is a profitable pillar and will remain the centre of competence for commercial real estate finance in the NORD/LB Group. Our established green products – Green Bond and Green Loan – will also be continued and further developed. We attach great importance to sustainable properties, so we have set ourselves the goal of increasing the share of financing for green buildings to one third of our portfolio by 2025 and thus improving the quality of the real estate financing portfolio. Our customers will not only retain their points of contact, but they will also receive comprehensive financial services from NORD/LB from a single source over and above the pure real estate financing business.

HISTORY

THE BALANCE SHEET TOTAL OF DEUTSCHE HYPO IN 1923: 128.174.351.231.306.932 PAPERMARK



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Gesetz-Sammlung

für die

iglichen Preußischen Staaten.

Nr. 33.

62.) Privilegium wegen Ausgabe auf den Inhaber lautender Hypothekenbriefe der Deutschen Hypothekenbank (Aktiengesellschaft) zu Berlin. Vom 3. April 1872.

ir Wilhelm, von Gottes Gnaden König von Preußen ꝛc.

Nachdem die Deutsche Hypothekenbank (Aktiengesellschaft) zu Berlin den hweis ihrer auf Grund des Statuts vom 13. Februar 1872. erfolgten Ein- gung in das bei Unserem Stadtgerichte zu Berlin geführte Handels- gister erbracht haben wird, wollen Wir der genannten Aktiengesellschaft in emäßheit des §. 2. des Gesetzes vom 17. Juni 1833. wegen Ausstellung von apieren, welche eine Zahlungsverpflichtung an jeden Inhaber enthalten (Gesetz- Samml. S. 75.), durch gegenwärtiges Privilegium Unsere landesherrliche Ge- nehmigung zur Ausgabe auf den Inhaber lautender, mit Zinskupons versehener Hypothekenbriefe, wie solche in dem anliegenden Statute näher bezeichnet und nach Vorschrift desselben zu verzinsen sind, mit der rechtlichen Wirkung ertheilen, daß ein jeder Inhaber dieser Hypothekenbriefe die daraus hervorgehenden Rechte, ohne die Uebertragung derselben nachweisen zu dürfen, geltend zu machen befugt ist.

Das vorstehende Privilegium, welches Wir vorbehaltlich der Rechte Dritter ertheilen und durch welches für die Befriedigung der Inhaber der Hypothekenbriefe oder Zinskupons eine Gewährleistung Seitens des Staates nicht übernommen wird, ist nebst dem Statute der Gesellschaft durch die Gesetz-Sammlung zur allgemeinen Kenntniß zu bringen. Dasselbe erlischt und die Gesellschaft soll zur Einlösung der von ihr ausgegebenen Hypothekenbriefe gehalten sein, sobald Abänderungen des Statuts ohne zuvor erlangte landesherrliche Genehmigung zur Eintragung in das Handelsregister angemeldet werden.

Urkundlich unter Unserer Höchsteigenhändigen Unterschrift und beigedrucktem Königlichen Insiegel.

Gegeben Berlin, den 3. April 1872.

(L. S.) Wilhelm.

Gr. v. Itzenplitz. v. Selchow. Gr. zu Eulenburg. Camphausen.

Jahrgang 1872. (Nr. 8062.) 76 Statut

Ausgegeben zu Berlin den 29. Juli 1872.

1872
Decree from the Collection of Laws for the Royal Prussian States

Deutsche Hypothekenbank (Actien-Gesellschaft) was founded on 13 February 1872 by Berlin bankers and merchants and was listed in the Commercial Register at the Royal City Court of Berlin. The share capital amounted to 3 million thalers. The first years were characterised by a steady upward trend and an expansion of the business volume. In 1919, the bank already had a capital of 18 million marks.

The beginning of the First World War marked a turning point in the hitherto successful history of Deutsche Hypo. The war caused widespread stagnation in the Pfandbrief and mortgage market. The following years saw high inflation and the Second World War. Deutsche Hypo's business operations were maintained until shortly before the German capitulation in 1945.

1874
Reich treasury note
50 Mark

1899
Reich treasury note
50 Mark

Tages-Ordnung

Sonnabend, den 28. April 1923, vormittags 11½ U

51. ordentlichen Generalversammlung.

Aufsichtsrat:

Treuhänder:

Vorstand:

2008
NORD/LB takes over
Deutsche Hypo

1923
Agenda for the 51st Ordinary General
Assembly on 28 April 1923

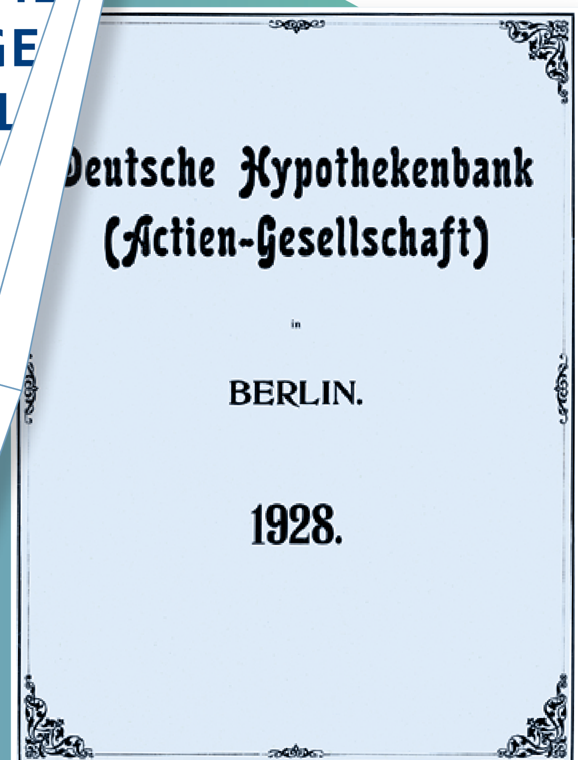
With the currency reform in 1948, banking business returned to a low normal for Deutsche Hypo. Nevertheless, real new business was out of the question in the first few years. Admission to new business was delayed until 1953, when the Berlin Altbankengesetz rescued Deutsche Hypo from its enforced slumber.

In 2008, Deutsche Hypo was taken over by NORD/LB and has since acted as a centre of competence for commercial real estate financing. In December 2020, the Owners' Meeting of NORD/LB decided to integrate Deutsche Hypo.

PFANDBRIEFE

THE VOLUME OF THE MORTGAGE COVER-POOL AMOUNTS TO € 8.3 BILLION

With its foundation in 1872, Deutsche Hypothekenbank (Actien-Gesellschaft) was granted the privilege of issuing mortgage bonds in bearer form by the King of Prussia.


Deutsche Hypothekenbank
(Actien-Gesellschaft)
in
BERLIN.
1928.

1928
Cover sheet for the annual financial statements

Already in 1873, Deutsche Hypo issued its first mortgage Pfandbrief for 500,000 Reichsthalers at 4 ½ percent. Subsequently, the bank took advantage of the brisk demand and sold more mortgage bonds. In 1875, the bank was also allowed to operate beyond Berlin in Prussia and the Reich. From then on, Deutsche Hypo's mortgage bonds were called "Pfandbriefe". In 1903, the bank also turned to the municipal loan business.

1961
Mortgage Pfandbrief for 1,000 DM

2003
Public-sector Pfandbrief for € 50 million

2009
Global certificate Public-sector Pfandbrief over € 50 million

On 1 January 1900, the German Mortgage Bank Act came into force, creating a uniform legal basis for all mortgage banks operating in the German Reich. However, the following decades were affected by major upheavals. The Second World War brought the bank's financing activities to a complete standstill. Although Deutsche Hypo became a "financial institution in the currency area" after 1945, it was initially not allowed to conduct any new business.

Admission to new business was granted in 1953 with the implementation of the Berlin Altbankengesetz. Before the end of the year, Deutsche Hypo issued its first Pfandbriefe and municipal bonds. Thereafter, the Pfandbrief developed into a success story. Deutsche Hypo became the centre of competence for mortgage Pfandbriefe in the NORD/LB Group after 2008.

FINANCING

DEUTSCHE HYPO HAS MORE THAN 1,000 PROFESSIONAL REAL ESTATE TARGET CLIENTS

Deutsche Hypo's first business activity in 1872 was advance payments made against pledges of land for the construction of residential buildings in Berlin. Much has changed since then:

VIEW OF BERLIN
End of the 19th century

At the end of the 1980s, the bank announced a move away from retail business. The lower credit limit was set at 400,000 DM. Within a few years, Deutsche Hypo rose to become the sought-after provider in Germany in the segment of construction financing for commercial properties. The concentration on the focus on larger properties made it possible to provide individual, customer-oriented advice and support. The amendment of the Mortgage Bank Act in 1988 prompted Deutsche Hypo to press ahead with its expansion into other European countries.

WARSAW
PRIME CORPORATE CENTRE
Financing volume: € 41 million

MUNICH
SOFITEL MUNICH BAYERPOST
Financing volume: € 80 million

Source: B+E Fotografie

DÜSSELDORF
BELMUNDO AND LAVISTA
Financing volume: € 32 million

Today, Deutsche Hypo uses its syndication and outplacement expertise to realise major financings. One of the lighthouse financings was the Mall of Berlin in 2014, which had a financing volume of € 600 million. A large part of the sum was taken over by the eVersorgungskammer (BVK). Deutsche Hypo was the lead manager and agent for the transaction and took over a share of € 80 million. This was one of the largest real estate financings ever concluded in Germany, which was predominantly carried by non-banks, and one of the largest financing volumes by an institutional investor in Germany.

HEADQUARTERS

THE BUILDING IN DOROTHEENSTRASSE COST AROUND 485,000 MARKS IN 1900

Over the centuries, Deutsche Hypo's eventful history has also seen the construction of various interesting buildings in which it had its head-quarters. The first building was located at Hegelplatz 2 in Berlin and was purchased in 1876 by a private bank that was liquidating.

1945
BERLIN
The damaged building at Dorotheenstraße 44

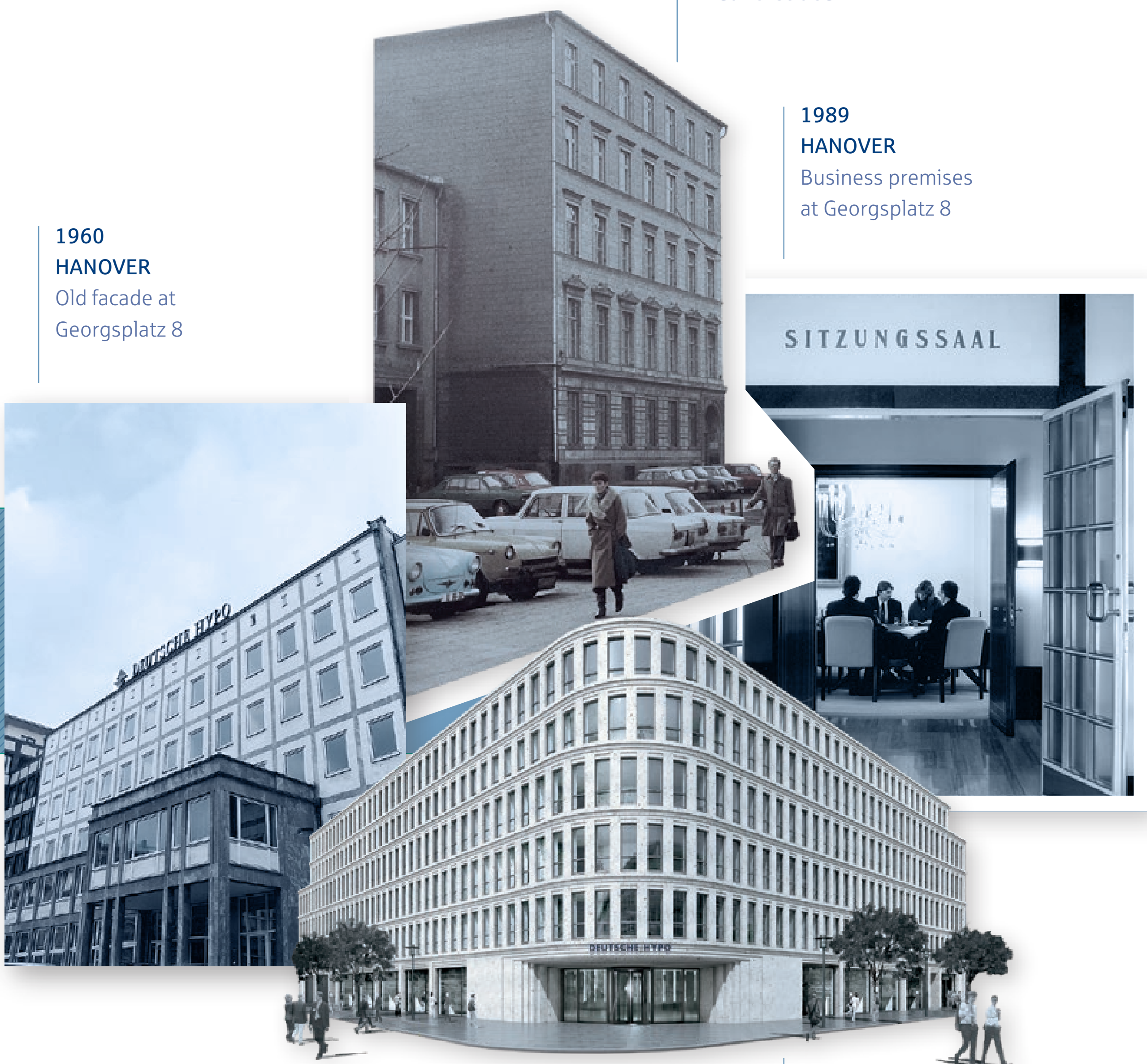
Only about 25 years later, this headquarter was already too small and the bank bought a property at Dorotheenstraße 44, which remained the bank's headquarter until the end of the Second World War. During the battle for Berlin, the administrative building – which was in the Soviet sector – was severely damaged. After the capitulation, the employees of Deutsche Hypo looked for alternative quarters in West Berlin.

Over the next few years, the bank's headquarters were moved to Hameln, as it was feared that the bank would not survive without a headquarter in the zones controlled by the Western occupying powers. The choice fell on the city, as the Board of Managing Directors had obtained permission to move there. At the beginning of 1953, Deutsche Hypo built a new building at Georgsplatz 17 in Hanover.

1983
BERLIN
Friedrichstraße 171

1989
HANOVER
Business premises
at Georgsplatz 8

1960
HANOVER
Old facade at
Georgsplatz 8

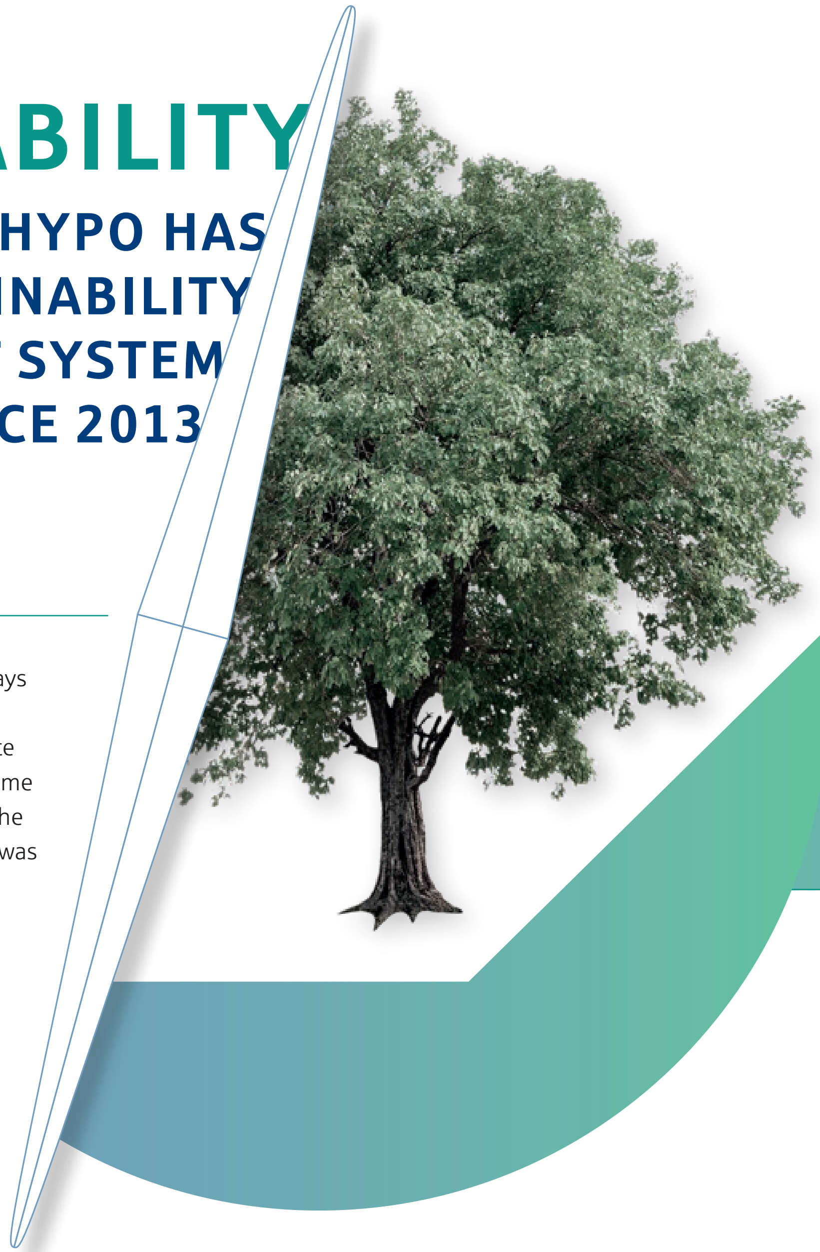


2014
HANOVER HEADQUARTER
In November, all employees who were previously based at two locations in Hanover move together to the newly built headquarter at Osterstaße 31.

Due to lack of space, Deutsche Hypo moved into the new rental premises at Osterstraße 31 in 2014. In 2015, the building received platinum certification, the DGNB’s highest property rating for sustainability.

SUSTAINABILITY

DEUTSCHE HYPO HAS HAD A SUSTAINABILITY MANAGEMENT SYSTEM IN PLACE SINCE 2013



The topic of sustainability has always been practiced at Deutsche Hypo in the form of sustainable corporate management – long before it became a fashionable topic. For example, the Johann Georg Zimmermann Prize was created in 1972 to support cancer research.

As one of the oldest Pfandbrief banks in Germany, Deutsche Hypo combines decades of tradition and experience in real estate financing with responsible corporate governance and a future-oriented strategy. Sustainability is thus one of the central fields of action for the Bank. It is therefore Deutsche Hypo's aspiration to be sustainably profitable and thus to secure its future earning power. In real estate financing, the Bank accompanies the spatial design of many cities as a financing partner. Quality, professionalism and sustainability of a financing project play a major role in the selection of projects play a major role in the selection of projects.

PARIS
WOODWORK
Green bond-eligible
Financing volume: € 37 million

SEVEN GERMAN CITIES
LOGISTICS PORTFOLIO
Green bond-eligible
Financing volume: € 64 million

FRANKFURT
MARIENINSEL
Green bond-eligible
Financing volume: € 133 million

In 2013, Deutsche Hypo established a professional sustainability management. Successes were quickly achieved. For example Deutsche Hypo has been awarded a “Prime” rating by the sustainability rating agency ISS ESG. From 2016 onwards the bank has also integrated the concept of sustainability into its core business: in 2017 the bank’s first green bond was issued and since 2019 green loans have been issued in the commercial real estate business. In the current business strategy, the goal was set to increase the share of green building financing to one third of the portfolio by 2025.

EMPLOYEES

AT ITS PEAK, UP TO 430 EMPLOYEES WORKED AT THE BANK

Its employees have always been Deutsche Hypo's most important resource. In 1875, Deutsche Hypo had 15 employees and one traveler who visited the provincial bankers for the distribution of issues.

1958
Chairman of the Board of Managing Directors Dr. Frank Rilinger

Especially towards the end of the Second World War, it became clear what the bank's employees were made of. Despite massive damage to the building, the bank counters remained open until 21 April 1945. A few days later, the Russian city commander issued an order that the owners of banking houses and banks had to stop all financial transactions and that all safes had to be sealed immediately. Despite the hopelessness of the situation, 16 employees returned to work and began to clean up. Ignoring all regulations and disregarding the danger, these employees finally smuggled all the bank's essential documents out of the Soviet sphere of influence under cover of night. This heroic effort made it possible for Deutsche Hypo to make a new start after the war.

1955
Company trip to Helmstedt

1997
Anniversary 125 years of Deutsche Hypo in the Herrenhäuser Gärten, Hanover

Today, the bank employs around 400 staff in Hanover, but also in Hamburg, Berlin, Düsseldorf, Frankfurt, Munich, London, Amsterdam, Paris, Madrid and Warsaw. The employees have shaped Deutsche Hypo into an international real estate bank. Last year the corona pandemic brought major new challenges. At present, more than 50 % of the employees are working simultaneously in their home offices and are exploring the possibilities of virtual communications.

2019
Company party in the courtyard of the Deutsche Hypo building

MANAGEMENT REPORT

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

1 Fundamentals of the Bank

1.1 Deutsche Hypo's business model

Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, (Deutsche Hypo or Bank) is one of the longest-established Pfandbrief banks in Germany, with a history stretching back almost 150 years. As a company of the Norddeutsche Landesbank Girozentrale (Anstalt des öffentlichen Rechts), Hanover, Braunschweig, Magdeburg, (NORD/LB), the Bank is the centre of competence for commercial real estate finance business and the issue of mortgage Pfandbriefe in the NORD/LB Group. Deutsche Hypo is a German real estate bank with a European focus and is active as a professional and strategic financing partner in the strategic target markets of Germany, the UK, France, Benelux, Spain, Poland and Austria. The Bank has its headquarters in Hanover, with locations in Berlin, Düsseldorf, Frankfurt, Hamburg and Munich, as well as in Amsterdam, London, Madrid, Paris and Warsaw.

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

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

Furthermore, Deutsche Hypo grants green loans to expand the green value chain and to increase the green proportion in its financing portfolio. The Bank has set itself the goal of increasing the share of financing for energy-efficient real estate (green buildings) to one third of its portfolio by 2025 and, thus, improving the quality of its real estate financing portfolio. The Bank thereby expects the reduction of portfolio risk through the use of a modern collateral pool, characterised by energy-efficient construction, state-of-the-art technology, low operating costs and future-proof overall building concepts that meet increasingly strict legal requirements.

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

Funding and liquidity at market conditions at any time is ensured through the quality of the cover pools and the associated rating of the Pfandbriefe, and through the credit rating and standing of Deutsche Hypo in the area of unsecured bonds.

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

Deutsche Hypo's sustainability strategy addresses key aspects of global change that have an impact on its business activities. Deutsche Hypo has defined its sustainability management approach and takes steps to develop it further. The Bank reports on this. The Bank's sustainability reports are available on the Bank's website at http://www.deutsche-hypo.de. They are not part of this management report.

1.2 Group affiliation

Deutsche Hypo is a subsidiary of NORD/LB, which holds 100 % of its shares, and is included in its consolidated financial statements. The consolidated financial statements as at 31 December 2019 were published on 4 May 2020 in the German Federal Gazette. There is a control and profit and loss transfer agreement with an unlimited term between Deutsche Hypo and NORD/LB. This agreement requires that Deutsche Hypo transfers its profits to NORD/LB. NORD/LB is, in turn, required to compensate for any loss that may arise at Deutsche Hypo. The control and profit and loss transfer agreement means that there is a fiscal tax unit. By transferring profits or losses, Deutsche Hypo reports an annual result of zero.

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

1.3 Integration of Deutsche Hypo into NORD/LB

The Owners' Meeting of NORD/LB and the Annual General Meeting decided on 14 December 2020 that Deutsche Hypo should be fully integrated into NORD/LB. The integration will be carried out on the basis of a merger agreement pursuant to Section 16 (1) No. 2 of the State Treaty between the State of Lower Saxony, the State of Saxony-Anhalt and the State of Mecklenburg-Western Pomerania on Norddeutsche Landesbank – Girozentrale – dated 6 December 2019 (Lower Saxony Gazette of Laws and Ordinances No. 23/2019, p. 399) in conjunction with Sections 2 et seq. and 60 et seq. of the Transformation Act by way of merger.

The merger is expected to be completed on 30 June 2021, by entry in the commercial register. When the merger takes effect, all of Deutsche Hypo's assets and liabilities will be transferred to NORD/LB by way of legal succession with retroactive effect as of 1 January 2021.

Deutsche Hypo is to remain a profitable pillar and centre of competence for commercial real estate finance in the NORD/LB Group. The full integration is expected to achieve significant advantages with regard to costs, in particular by merging the respective staff and central divisions. The Deutsche Hypo brand will be retained according to current planning and should be further strengthened. Deutsche Hypo's customers will in future receive comprehensive financial services from NORD/LB from a single source in addition to real estate financing services.

1.4 Controlling system

Deutsche Hypo's controlling system begins with the business and risk strategy, and aims to sustainably secure its corporate value. This value-oriented controlling philosophy is reflected in the central operating key performance indicators that are aimed at the Bank's profitability, productivity and risk profile.

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

Aside from the result from normal operations (result), the key financial performance indicators are the Return on Equity (RoE) and Cost-Income Ratio (CIR). RoE is defined as the quotient of the result before taxes and the Bank's capital, whereby the Bank's capital includes subscribed capital, capital reserves, profit reserves and the funds for general banking risks. The CIR is defined as the ratio of the administrative expenses (including the depreciation and amortisation on tangible fixed and intangible assets) to the total from the net interest income, net commission income and other net operating income. Due to their particular influence on the Bank's income performance, the development of new business and the commercial real estate finance portfolio are used as supplementary central performance indicators at the Bank.

In addition, the development of risk-weighted assets (RWA), margins in new business and of the real estate finance portfolio and, due to inclusion in the external reporting of the NORD/LB Group, the development of results according to IFRS serve as supplementary performance indicators for the Bank. Compliance with external requirements for regulatory performance indicators is ensured in the form of supplementary constraints. Additional economic performance figures and risk limits are also used to manage the portfolio with regard to returns and risks.

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

1.5 Corporate Governance Statement

Deutsche Hypo regularly publishes a current overview of the legally required information about the proportion of women on the Supervisory Board, Board of Managing Directors and the two levels of management below the Board of Managing Directors on the Bank's website at http://www.deutsche-hypo.de. Further information about the management of the company is included in the corporate governance report in the Bank's annual report. The corporate governance report is not part of this management report.

2 Economic report

2.1 Macroeconomic and sector environment[1)]

2.1.1 Economic performance in Germany and Europe

The global economy suffered greatly from the consequences of the coronavirus pandemic in 2020. In the first half of the year in particular, economic activity was considerably dampened at times, initially in China and later also in Europe. In Germany, the real gross domestic product decreased by 5.0 % compared to the previous year. Economic output in the Eurozone fell even more sharply (– 6.8 %). The severity of the recession also had an impact on the labour market. In Germany, the number of unemployed also increased significantly, but the unemployment rate peaked at 6.4 %, which is much lower than in other countries. One explanation for this is the extensive use of short-time work, which has often made it possible to avoid layoffs. With the second wave of infections in autumn and winter, the strains on overall economic development also increased again. Economic sectors that rely on significant social contact were particularly affected by the containment measures. This affected, among others, large parts of the service sector, the hotel and restaurant industry as well as stationary retail. In the manufacturing sector, on the other hand, the recovery continued until the end of the year, so that the overall economic impact for Germany and the Eurozone was considerably lower in the fourth quarter as compared to last spring.

2.1.2 Developments of the banking sector

2.1.2.1 Developments on money and capital markets

Both monetary and fiscal policymakers adopted a variety of supportive measures in response to the crisis, thus counteracting an even stronger economic contraction. Major central banks such as the European Central Bank (ECB) and the US Federal Reserve have also made it clear that rising key interest rates are not to be expected in the medium term. Instead, the ECB decided on a package of measures at the end of the year, which once again extended the crisis response in terms of time and volume. Capital

[1)] Source for economic developments and developments on money and capital markets: NORD/LB Fixed Income & Macro Research, source for developments in real estate target markets: CBRE Research market yields remained relatively stable anchored at a low level over the course of 2020. Since the beginning of the pandemic, the interest rate on German federal bonds with a ten-year residual term has fluctuated in a relatively narrow range around the – 0.50 % mark. Global equity markets benefited from high liquidity worldwide and hopes of an imminent recovery in economic activity fuelled by the development of various vaccines. The euro appreciated significantly in the course of the year and at times climbed above the USD 1.23 mark. The EUR/USD basis swap spreads remained in relatively narrow ranges in all maturities despite the crisis situation.

2.1.2.2 Development of real estate target markets

In the reporting year 2020, the industry environment was shaped by the coronavirus pandemic. The initially rather unknown challenges placed a great burden on politics and the economy in the European countries. The commercial property markets in Europe also registered a decline in activity compared to the previous year. Nevertheless, they proved to be relatively stable investment markets during this politically and economically uncertain period. The expansionary monetary policy continued in Europe and real estate investments were favoured by the low interest rate environment.

Compared to the rest of Europe, the German real estate investment market was solid in 2020. The decline in transaction volume was less pronounced there than in the other European countries. The UK remained in a period of political and economic uncertainty due to the stalled Brexit negotiations. The situation also affected the transaction volume in the UK real estate investment market. In France, the transaction volume was largely determined by demand from domestic investors. A significant decline in transactions was recorded on the office property market in particular. In the Netherlands, the transaction volume was comparatively stable. At the same time, the logistics real estate market gained in importance as a result of the coronavirus pandemic. The transaction volume also fell in Spain. However, the retail property market showed particular strength with individual large deals and an increase in grocery store sales. In the Polish real estate market, the transaction volume decreased as well. The logistics property market accounted for almost half of the transaction volume.

The office property market continued to be the most important asset class in Europe in terms of transaction volume. The coronavirus pandemic accelerated the digitalisation processes in different areas. Companies adapted to the new situation by introducing flexible home office solutions and restructuring existing office concepts. The logistics sector recorded increasing demand for logistics space in 2020. The growth of e-commerce has been reinforced in European countries by temporary closures of stationary retail and has led to further demand for space in the logistics real estate markets. In the retail sector, particularly the high-street sector and shopping centres were hit. In part, the yields of these retail properties came under pressure as a result of weaker sales figures. This drove structural change in the industry as many retailers adapted, including by adding new distribution channels. The hotel industry faced major challenges across Europe due to the travel restrictions and measures in place to contain the coronavirus.

Around € 79.2 billion was invested in the German real estate investment market in 2020 as a whole. Demand from German and international investors for local real estate remained strong. Prime yields declined in 2020 in almost all real estate segments compared to the previous year. Exceptions were the prime yields from shopping centres and hotels, which recorded an increase.

The office property market remained Germany's largest investment market in 2020. The transaction volume reached € 27.6 billion. The short supply of modern and high-quality space in central locations led to rising rents, particularly in Berlin (+ 8.1 %), Frankfurt (+ 7.4 %) and Munich (+ 6.7 %). On the German residential real estate market, the transaction volume rose by 23 % year-on-year to around € 20.0 billion. A transaction volume of around € 7.6 billion was achieved on the German logistics property market. Strong investor demand in the logistics segment was once again spurred on by the coronavirus pandemic. The transaction activity included properties of all risk classes. The coronavirus pandemic had a massive impact on the hotel investment market with the transaction volume falling by 60 % to € 1.95 billion compared to the previous year.

2.1.2.3 Development of the competitive environment

As in previous years, Deutsche Hypo believes that the financing of commercial real estate was very competitive last year in the sectors that are still in demand. A large number of real estate financiers continues to be represented in the real estate markets that are relevant for Deutsche Hypo. Those developments continued to result in comparatively high pressure on margins, particularly with regard to the financing of properties in locations with strong demand.

2.2 Course of business at a glance

2.2.1 Significant influential factors and developments in financial year 2020

Deutsche Hypo's business performance in the past financial year was strongly influenced by the coronavirus pandemic. The Bank set up a situation team at the beginning of the pandemic in order to be able to assess the impact on Deutsche Hypo at any time. The Bank responded to the risk of infection and the massive restrictions imposed by the authorities by implementing various measures to protect its employees and business partners. This involved, among other things, the establishment of a rolling home office concept for the employees, with about half of the employees temporarily working exclusively from home and the almost complete discontinuation of business trips during this period.

Various working groups also monitored the impact of uncertainties in the market environment on the Bank's loan portfolios. In addition to the ongoing monitoring of the property types particularly affected by the coronavirus pandemic, affected financings were analysed on an ongoing basis.

These prevailing major uncertainties as well as the massive restrictions imposed by the authorities had, among other things, a major negative impact on the Bank's new business. For example, Deutsche Hypo's new business volume declined significantly in the first half of 2020 compared to the previous year in the wake of the coronavirus-related lower demand for credit and the Bank's cautious and prudent lending policy. The slight easing of the pandemic situation, at least for the time being, led to an increase in demand for loans in the second half of the year and a significant rise in new business compared to the first half. The Bank thereby continued to place great importance to financing with what it considers good risk-return profiles.

However, the pandemic-related negative economic and sector-related developments have not yet had a direct impact on the Bank's risk provisioning. Accordingly, the share of defaulted financings remained at a historically low level. There were also only a very small number of coronavirus-related deferral requests in relation to the credit exposure. All of this underlines the Bank's focus on maintaining what it considers to be the good quality of the lending portfolio in recent years. For detailed data and statements on the development of credit risk parameters, please refer to the explanations in the extended risk report included with this management report. This also includes statements on the Bank's approach to assessing the potential impact of the coronavirus pandemic on the real estate market as well as RWA and risk provisioning.

In the capital market business, the Bank continued its strategic portfolio reduction in the public sector finance business through planned maturities. As a result of maturities, the portfolio of securities in particular declined significantly. In addition, as in the previous year, the Bank also took advantage of the stable market conditions for selective disposals in the course of bank management. The coronavirus-related uncertainties led to temporary widening of credit spreads in the capital markets, especially at the beginning of the pandemic, for particularly affected countries, with consequent negative effects on the market values of the corresponding securities portfolios. As time went on, credit spreads and the impact on the Bank's capital market portfolio returned to normal.

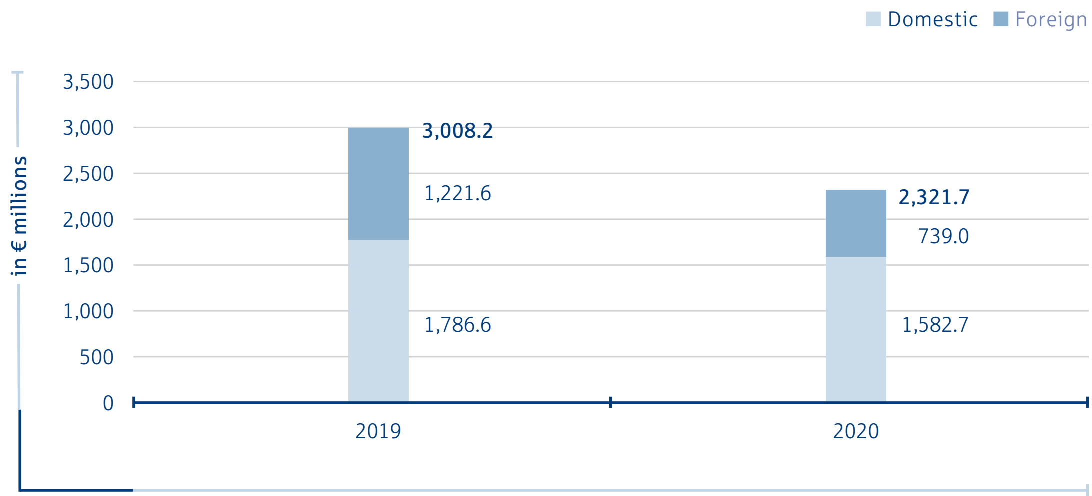
The cost-cutting programme initiated to ensure future competitiveness was completed in the past business year. In addition to efficiency improvements in the Bank's internal processes, this also included investments in the Bank's technical infrastructure for the digitalisation of internal processes. In the course of implementing personnel management measures, the average number of employees decreased to 390 (2019: 416).

In the past financial year, the business developments described above led to a satisfactory result on normal operations in the amount of € 43.5 million (2019: € 55.1 million) from the perspective of the Board of Managing Directors.

2.2.2 New business development

With new loan commitments totalling € 2,321.7 million (2019: € 3,008.2 million), Deutsche Hypo was unable to achieve last year's forecast of a new business volume at the previous year's level in light of the coronavirus pandemic. The background to this was, in particular, a significant decline in the volume of new business in the first half of 2020 as a result of the great uncertainties and restrictions at the beginning of the pandemic. In the course of the economic recovery, at least temporarily, and the decline in uncertainties, the Bank was able to significantly increase new business in the second half of the year to the level expected for this period.

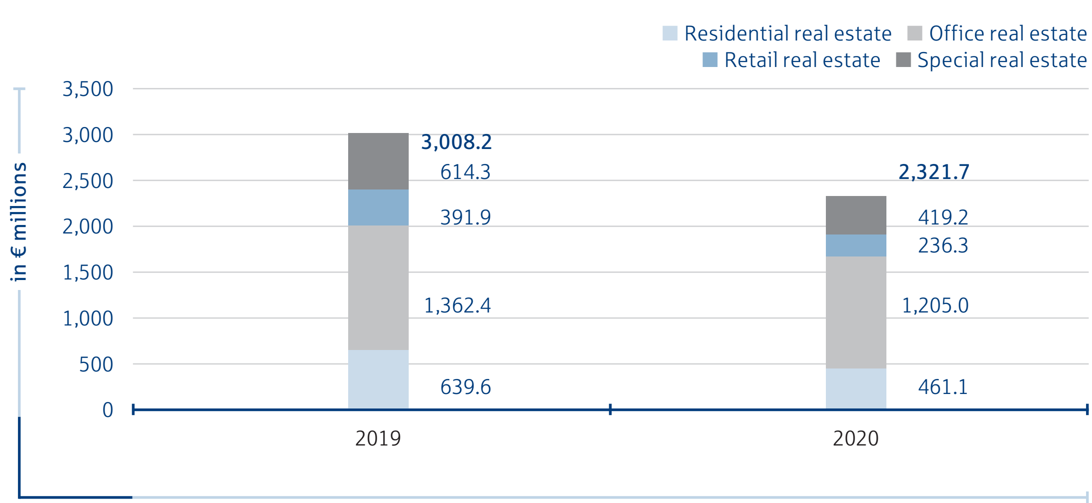
Commitments real estate finance domestic – foreign



Almost 70 % of the commitment volume at € 1,582.7 million (2019: € 1,786.6 million) was accounted for by the domestic market, which the Bank considers stable even in a generally uncertain market environment. Compared to the previous year, the decline in new business in Germany, at € 203.9 million, was much less severe than in the foreign markets. There, new loan commitments declined by € 482.6 million to € 739.0 million (2019: € 1,221.6 million).

A significant share of the new business abroad, € 328.2 million (2019: € 542.1 million), was attributable to the Benelux countries, the largest foreign target market for the Bank in terms of portfolio. In France, loan commitments amounted to € 164.9 million (2019: € 40.0 million). Deutsche Hypo's volume of new business in the UK again declined sharply to € 103.9 million (2019: € 290.4 million). Due to the continuing uncertainties surrounding Brexit and the additional uncertainties arising from the coronavirus pandemic, the Bank acted with particular caution in this area.

Real Estate finance by property types



At € 1,205.0 million (2019: € 1,362.4 million), office properties accounted for more than 50 % of the volume of new business. In special real estate, commitments for logistics properties increased slightly to € 295.6 million (2019: € 261.3 million). In the course of the increased use of online retail, logistics properties benefited from the coronavirus-related developments. In contrast, hotel properties, which were particularly negatively affected by the coronavirus pandemic due to travel restrictions, showed a significant decline in new business to € 117.0 million (2019: € 289.8 million).

Deutsche Hypo was also cautious in its financing of retail properties. Parts of this asset class were also strongly negatively affected by the coronavirus pandemic, partly as a result of closures ordered by the authorities. Accordingly, the volume of new business in this asset class was significantly lower than in the previous year at € 236.3 million (2019: € 391.9 million). At € 461.1 million (2019: € 639.6 million), new residential property financing was below the previous year's figure, which was very high in a multi-year comparison, but remained the second most important property type after office properties.

Project developments also continue to represent an important proportion of the new business. A large part of this was concluded in Germany.

2.2.3 Funding activities

In reporting year 2020, Deutsche Hypo issued its own securities in the amount of € 1,537.3 million (2019: € 2,235.2 million). These were mortgage Pfandbriefe with a volume of € 1,000.0 million (2019: € 1,795.0 million) and uncovered bonds with a volume of € 537.3 million (2019: € 440.2 million). In addition, time deposits of more than 360 days were acquired in the amount of € 1,050.7 million (2019: € 369.8 million). Thus, the funding volume in maturities greater than 360 days totalled € 2,588.0 million.

Deutsche Hypo's funding was carried out in line with requirements and at competitive conditions. The contracted business in commercial real estate finance was consistently funded at market conditions. Deutsche Hypo's liquidity was, therefore, ensured at all times. In February 2020, a € 500 million mortgage Pfandbrief was issued in the benchmark format, which was oversubscribed by 1.5 times. Deutsche Hypo also participated in the ECB's targeted longer-term refinancing operations (TLTRO-III). As usual, Deutsche Hypo was engaged in secondary market servicing for its own securities.

2.3 Net assets, financial and income position

2.3.1 Income position

in Mio. €	Total result		Commercial reals estate finance		Capital market & other business	
	2020	2019	2020	2019	2020	2019
Net interest income	159.0	182.5	145.3	163.5	13.7	19.1
Net commission income	2.2	0.9	1.9	1.6	0.3	– 0.7
Administrative expenses	76.2	81.2	39.3	40.4	37.0	40.8
Other operating income	– 6.4	0.0	0.2	0.0	– 6.6	0.0
Risk result	– 33.5	– 41.6	– 71.0	– 4.3	37.5	– 37.3
Income from securities and participatory interest	– 1.5	– 5.5	0.0	0.0	– 1.5	– 5.5
Result from normal operations	**43.5**	**55.1**	**37.0**	**120.5**	**6.5**	**– 65.3**
Extraordinary result	3.7	– 0.9				
Taxes	– 0.3	0.0				
Profit and loss transfer	**47.5**	**54.2**				

Deutsche Hypo achieved a result from normal operations of € 43.5 million in financial year 2020 (2019: € 55.1 million). Although the forecast stable profit development could not be achieved, in view of the clearly bleak market environment, a satisfactory result was achieved from the Bank's point of view. The main driver of the decline in earnings were additions to the general loan loss provisions, with which the Bank reacted to the increased uncertainties in light of the impacts of the coronavirus pandemic by adjusting the calculation methodology. Nevertheless, a coronavirus-related increase in individual value adjustments has not yet occurred.

Net interest and commission income at the overall bank level in the amount of € 161.2 million was below the previous year's level of € 183.4 million, which was positively influenced by one-time effects. On the one hand, the declining development can be explained in connection with the market environment. The volume of one-time early repayment penalties decreased significantly compared to the previous year, in line with the trend of lower extraordinary repayments. In addition, the lower volume of new business and the slightly lower portfolio of real estate financing in the core business area on average for the year led to declining income with largely stable margins compared to the previous year. In addition, lower profit margins were recorded at the overall bank level in the course of the progressive reduction of the capital market portfolio.

Despite a slightly higher bank levy of € 10.4 million (2019: € 9.8 million), administrative expenses of € 76.2 million were significantly below the previous year's expenses of € 81.2 million. This is mainly due to consistent cost management in the course of implementing the cost reduction programme launched in 2018. As a result of the developments on the earnings side, there was nevertheless a slight increase in the cost-income ratio (CIR) to 49.3 % (2019: 44.2 %), as expected in last year's forecast.

The other operating income of € – 6.4 million (2019: € 0.0 million) was significantly below the previous year's value, which was influenced by a positive one-off effect, and resulted mainly from interest-related allocations to provisions.

The risk result from an overall bank perspective in the amount of € – 33.5 million (2019: € – 41.6 million) was characterised by a coronavirus-related addition to the general loan loss provision in the core business area. The increased uncertainties as a result of the pandemic have not yet led to an increase in individual value adjustments for commercial real estate financing at Deutsche Hypo. However, the increased latent credit risk due to the market environment was taken into account by adjusting the calculation methodology for the general loan loss provision. In this regard, reference is made to the explanations on the accounting and valuation methods in the notes or to the explanations in the section "Credit risk – measurement" of the extended risk report included with this management report. The risk provisioning expense from the addition to the general loan loss provision included in the risk result in the reporting year amounted to € 69.9 million in the reporting period. The risk result in the capital markets and other business area in the previous year was characterised by the formation of contingency reserves as well as effects from the repurchase of own Pfandbriefe in the course of market servicing. After high negative net income effects from market servicing in the previous year, this contribution to earnings normalised to a net result of € – 1.4 million (2019: € – 17.2 million), taking into account effects from the closing of related hedging transactions. There were no significant effects from the coronavirus pandemic on the risk result of the capital market business.

As in the previous year, the income from securities and participatory interest in the amount of € – 1.5 million (2019: € – 5.5 million) resulted from disposal effects in the active reduction of the capital market portfolio. Based on the result achieved, the RoE was 5.5 % (2019: 6.4 %) and thus, contrary to the original forecast, showed a slightly lower level than in the previous year.

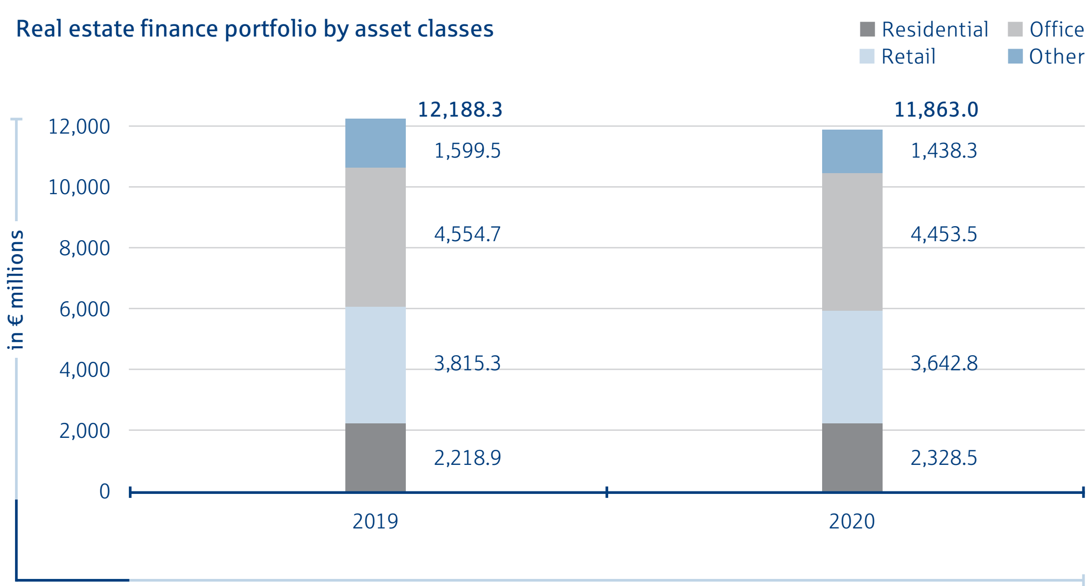
2.3.2 Net assets

in € millions	31.12.2020	31.12.2019
Receivables		
Mortgage loans	11,863.0	12,188.3
Loans to local authorities	2,327.6	2,473.7
Other receivables	1,289.5	1,214.2
Securities	3,046.0	4,016.8
Other assets	203.4	561.2
Total assets	**18,729.4**	**20,454.2**

Deutsche Hypo's balance sheet total decreased compared to the previous year, to € 18,729.4 million (2019: € 20,454.2 million). While the portfolio of commercial real estate financing declined slightly by € 325.3 million, the portfolio of loans to local authorities and securities again fell significantly by a total of € 1,116.9 million in the past financial year. This decrease was due both to planned maturities and selective disposals. New business with securities was conducted for liquidity and cover pool management in the past financial year with a nominal volume of € 265.0 million (2019: € 301.0 million).

As a result of the coronavirus-related significant decline in the volume of new business, the commercial real estate financing portfolio also fell slightly to € 11,863.0 million (2019: € 12,188.3 million) as at the balance sheet date. The sideways movement in the loan portfolio forecast in the previous year was, therefore, not achieved. For detailed information on the distribution of the finance portfolio by rating categories and regions, please refer to the presentations for the analysis of credit risk in the expanded risk report.

Real estate finance portfolio by asset classes

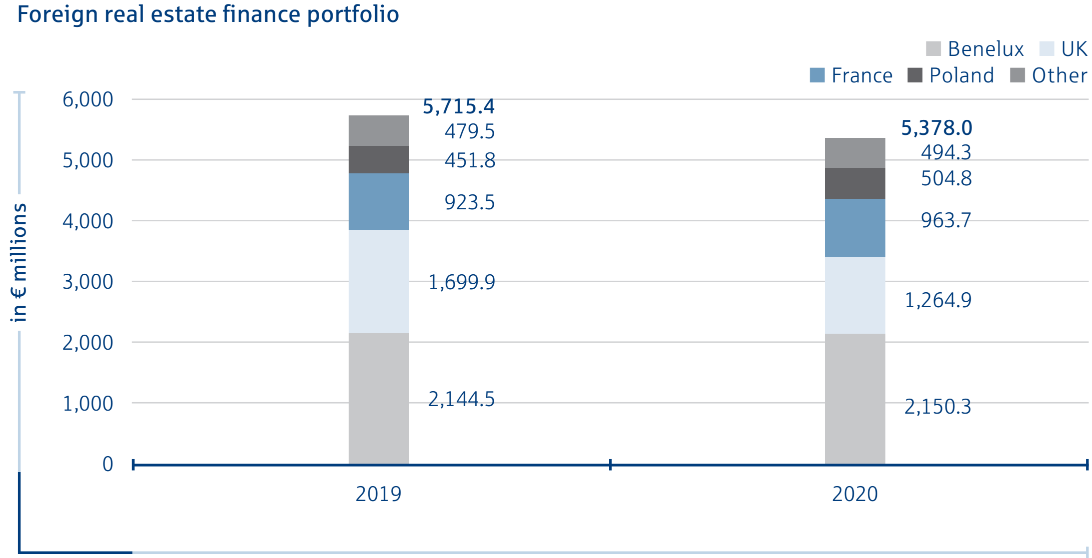


In terms of the total portfolio of commercial real estate financing, office properties represented a stable and still by far the largest share of the loan portfolio in the core business area despite the slight decline to € 4,453.4 million (2019: € 4,554.7 million). In contrast, the percentage of financing for retail properties continued to decline slightly to € 3,642.8 million (2019: € 3,815.3 million), as in previous years in the course of the portfolio decline.

With the increase in the portfolio volume to € 2,328.5 million (2019: € 2,218.9 million), the share of residential financing at Deutsche Hypo in the total portfolio rose further to around 19.6 % (2019: 18.2 %). From the Bank's point of view, the portfolio of residential construction financing is a stable addition to the commercial loan portfolio, which has, therefore, been further expanded for several years now.

The share of other real estate in the total financing portfolio declined slightly compared to the previous year. The loan portfolio in the amount of € 1,438.3 million (2019: € 1,599.5 million) mainly consisted of hotel and logistics properties, the majority of which were financed in Germany. At € 869.8 million (2019: € 949.6 million), the percentage of hotel properties in Deutsche Hypo's total real estate financing portfolio that were particularly negatively affected by the coronavirus pandemic was relatively small and fell to 7.3 % (2019: 7.8 %) compared to the previous year as a result of a low volume of new business.

Foreign real estate finance portfolio



At € 6,485.0 million (2019: € 6,472.9 million), the domestic portfolio volume remained stable compared to the previous year despite the slight decline in new business. Domestic financings, thus, continued to represent the predominant share of the real estate financing portfolio.

In contrast, the portfolio in the foreign markets decreased by a total of € 337.4 million to € 5,378.0 million (2019: € 5,715.4 million) as of the balance sheet date. This development resulted primarily from a significant decrease in the credit volume of € 435.0 million to € 1,264.9 million (2019: € 1,699.9 million) in the UK. Against the backdrop of the existing uncertainties as a result of Brexit and the particular impact of the coronavirus pandemic, the Bank further reduced its exposure in the UK by significantly lowering the volume of new business. In all other foreign target markets, loan portfolios remained largely stable or increased slightly, as in France and Poland.

In addition to the balance sheet portfolio of commercial real estate financing, there were irrevocable loan commitments amounting to € 925.2 million (2019: € 1,072.6 million) and guarantee credit agreements with a volume of € 300.2 million (2019: € 274.8 million) as at the balance sheet date.

2.3.3 Financial position

in € millions	31.12.2020	31.12.2019
Liabilities		
Mortgage Pfandbriefe	8,230.2	8,330.9
Public Pfandbriefe	2,878.6	3,286.7
Unsecured bonds	1,022.0	1,661.7
Other liabilities	5,363.2	5,744.4
Subordinated liabilities	186.0	341.0
Funds for general banking risks	14.4	14.4
Equity	838.2	838.2
Other liabilities	196.8	236.9
Total liabilities	**18,729.4**	**20,454.2**
Contingent liabilities	386.1	393.8
Other obligations	925.2	1,072.6

In line with the overall decline in the finance portfolio in the lending business, funding capital declined year-on-year as of the balance sheet date. That included a reduction in both secured liabilities via a decline in the portfolio of current mortgage Pfandbriefe and unsecured liabilities in the form of a decrease in the bond portfolio. The fall in secured liabilities was a result of the significant reduction in current public Pfandbriefe. The decrease was largely due to maturities. In addition, as in the past, the Bank selectively repurchased its own public Pfandbriefe as part of the usual secondary market maintenance. The portfolio of mortgage Pfandbriefe also decreased slightly in line with the declining real estate financing portfolio. Please see the cash flow statement for further information on the development of the Bank's financial position. Regarding the terms and maturities of the liabilities, please refer to the maturity breakdown for liabilities in sections 15 to 17 of the notes. The expanded risk report also includes discussions of the Bank's liquidity situation. Information about Deutsche Hypo's funding activity in the past financial year is found in the descriptions of the course of business.

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

Off-balance sheet commitments in the form of irrevocable loan commitments amounted to € 925.2 million as at the balance sheet date (2019: € 1,072.6 million). Contingent liabilities decreased slightly to € 386.1 million (2019: € 393.8 million). The background to this was a further reduction in off-balance sheet liabilities from credit derivatives to € 85.9 million (2019: € 119.0 million). At the same time, contingent liabilities from guarantees in the real estate financing business increased to € 300.2 million (2019: € 274.8 million).

2.3.4 Rating

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

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

Sustainability ratings

The rating agency ISS ESG (formerly oekom research) awarded Deutsche Hypo a "Prime" rating for the last time in February 2020 as part of its two-year rating interval. The Bank's sustainability rating improved from "C+" to "B–". At the time the rating was prepared, Deutsche Hypo was, thus, in the top ten percent of all banks assessed and has a high relative sustainability performance. In the view of the rating agency, the Bank is among the top-rated companies in its industry.

ISS ESG
Overall Score B–
Investment Status "Prime"

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

From the perspective of the Board of Managing Directors, Deutsche Hypo can look back on a satisfactory financial year 2020 overall, despite the significantly bleak market environment as a result of the coronavirus pandemic and its associated challenges. The previous year's level of earnings could not be reached, partly due to the absence of last year's positive one-off effects in the interest and other operating income. Taking into account the special market environment and the considerable addition to the general loan loss provisions made in this context to reflect increased latent credit risks in a risk-adequate manner, the Bank nevertheless considers the development of results to be satisfactory. This was also supported in particular by a declining development of administrative expenses, which demonstrated the Bank's consistent cost management.

Direct coronavirus-related effects on the loan portfolio in the form of an increase in specific loan loss provisions have not yet occurred, and the portfolio of defaulted loans remains at a historically low level. Nevertheless, there is an increase in latent credit risks in the credit portfolio. Details on the Bank's credit risk situation are explained in detail in the extended risk report.

As a result of the high uncertainties and restrictions, especially during the first half of the year, the volume of new business decreased significantly compared to the previous year. In view of the significant improvement in the second half of the year and the associated visible recovery in new business, the Bank considers this to be a satisfactory development as well. Despite the slight decline, this also applies to the portfolio development of the core business area.

3 Report on subsequent events

After the reporting date on 31 December 2020, an extended hard lockdown was imposed from January 2021 with a significant reduction in economic activity and restrictions to the business activities of a large number of companies (including hotels, the retail industry, travel and leisure businesses). The spread of the coronavirus pandemic, therefore, continues to have a significant impact on operating activities in a host of markets. The probability of adverse effects on economic development and negative consequences for the real estate industry has risen substantially as a result. This, therefore, constitutes a non-adjusting event after the reporting date.

There is no way of predicting the ultimate and specific effects of the pandemic on the economy, individual markets or sectors. In view of the dynamic nature of the current situation, the forecasts included in the management report are subject to a high level of uncertainty. Deutsche Hypo has commented in depth in this respect in the “Effects of the coronavirus pandemic on future business development” section of the forecast report, which forms part of the management report. For this reason, we refer at this point to these statements in the management report.

In relation to the decision to integrate Deutsche Hypo into NORD/LB, the merger agreement between NORD/LB and Deutsche Hypo was concluded on 15 January 2021.

4 Forecast, opportunity and risk report

4.1 Forecast report

4.1.1 Significant assumptions in the forecast

As described in the introduction in the section Fundamentals of the Bank, the Owners’ Meeting of NORD/LB and the Annual General Meeting of Deutsche Hypo decided on 14 December 2020 that Deutsche Hypo should be fully integrated into NORD/LB. The merger is expected to be completed on 30 June 2021, by entry in the commercial register. Against the background of the resulting low residual uncertainties and for the purposes of the unlikely scenario that the integration does not take place in the financial year 2021, for example due to possible resource bottlenecks or changing framework conditions, the following statements in this forecast report are based on the assumption of Deutsche Hypo’s continued existence as an independent legal entity.

The forecast report should be read in the context of the other sections of this management report. The forward-looking statements in this forecast report are based on estimates and conclusions on the basis of the information that is currently available. These statements are supported by a number of assumptions regarding future events that were included in Deutsche Hypo’s corporate planning. This was adopted by the Bank’s bodies in December 2020, even before the integration decision. There are uncertainties and risks related to the occurrence of future events, including many factors that the Bank is unable to influence. Actual events may, therefore, deviate from the predictions in the forecast report. There is no way of predicting the ultimate and specific effects of the pandemic on the economy, individual markets or sectors. In this context, the forecasts presented below are characterised by a high degree of uncertainty. The assumptions made in the course of planning are described in greater detail below.

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

Deutsche Hypo's multi-year plan, which is compiled annually, provides the basis for the statements on the income forecast. Its foundation consists of economic assumptions, expectations with regard to developments on real estate markets, forecasts on financial market developments and regulatory requirements. Factors such as new business, the development of the portfolios and the margins are planned on the basis of these reports. Forecasts on the key performance indicators for the coming financial year 2021 are presented below.

In terms of macroeconomic framework data, the Bank's planning is based on market mechanisms that are largely fully functional. The economic and industry environment, clouded by the coronavirus pandemic, is predicated on the assumption of an economic recovery. The prevailing low-interest environment ensures ongoing high liquidity in the markets, which is going to underpin the attractiveness of commercial real estate. For Deutsche Hypo, this means that the environment is stabilising, although at the beginning of the year it is still affected by the prevailing uncertainty and strong competition on the lender side. It is assumed that Deutsche Hypo will continue to have access to funding on a sufficient scale and on the basis of standard market conditions at all times.

The result forecast based on the corporate planning takes into account the following structural and business policy measures to strengthen Deutsche Hypo in the long term, assuming the continued existence of Deutsche Hypo as an independent legal entity:

- Creating added value for customers through tailor-made financing and securing the Bank's market position at home and in the foreign focus markets
- Targeted portfolio management with a focus on profitability and risk aspects for effective equity utilisation
- Further expansion and utilisation of structuring competence and expertise in disposal of loans and the associated risk to third parties.
- Continuation of the product development business
- Pursuit and development of sustainability measures; for example, by issuing more green bonds, issuing green loans and maintaining good sustainability ratings
- Depletion of the public sector finance portfolio with an accompanying reduction of credit spread risks
- Further investments in the organisational and technical infrastructure to realise opportunities in connection with modern technologies and methods of operation and also for the implementation of regulatory requirements
- Optimisation of processes and structures to increase efficiency and sustainably reduce costs

4.1.2 Forecast for economic development[2)]

The second wave of infections from the coronavirus pandemic can be expected to have another impact at the beginning of 2021. However, a recovery in global economic activity is expected from spring onwards and throughout the rest of the year, supported by progress in vaccination and more favourable weather conditions. Positive growth rates are expected in Germany and the Eurozone in 2021 as a whole. In Germany, real gross domestic product is expected to expand by more than 3 %, in the Eurozone even by a good 4 %. Both monetary and fiscal policy will remain geared towards expansion and support the economic recovery. However, the outlook for the further development of the economy remains marked by a particularly high level of uncertainty. Downside risks could arise primarily from a less favourable pandemic development. This could conceivably be due to failures with the vaccines, too little willingness to vaccinate or mutations of the virus. At present, however, there is much to suggest that the pandemic will gradually become more manageable in 2021.

4.1.3 Forecast for the industry’s development

Real estate investment in Europe is forecast to increase by around 8.5 % in 2021. The economy should gradually recover from the coronavirus pandemic in Europe, especially as of the second half of the year. The low interest rate environment should persist and strengthen the demand for real estate investments. European office property markets are expected to remain resilient despite the challenges posed by the rise of hybrid working models. However, investors' interest could be directed towards higher-value properties and locations. The logistics sector should continue to be characterised by growing demand for logistics space in 2021. The need will arise, in particular, from the continuing expansion of the e-commerce sector in Europe. The retail sector should stabilise overall after the national lockdowns. However, retail properties could trade at lower levels and see rising yields in the short to medium term. Investments in the residential property markets could increase even further in 2021. Residential real estate is likely to gain in importance due to its resistance to crises and its share of the real estate investment market is likely to increase.

A transaction volume of well over € 70 billion is expected on the German real estate investment market in 2021. Government stimulus measures, the short-time work scheme and the ECB’s expansionary monetary policy should support the German economy in the coronavirus pandemic and bring about a rapid recovery. In addition, the further course of the coronavirus pandemic is expected to influence the development on the investment market. Office properties are likely to remain the focus of investors. In particular, core and core-plus properties in established locations in office market centres should be in high demand. In the office segment, office space should be of high quality and a centrally located, among other things, in order to be able to offer employees an attractive working environment. The high level of investor interest should continue in the residential segment. However, the transaction volume on the German residential property market is likely to be determined by limited supply. In the retail property market, too, transaction volumes could be limited by a shortage of product availability. The large investor demand for specialist and food markets is unlikely to be met despite rising prices. A low transaction volume is expected for high-street properties and shopping centres in the first quarter. These will continue to be under pressure from the growing online trade after the coronavirus crisis. The strong demand for space in the German logistics property market should continue in 2021.

[2)] Source for assumptions on economic development: NORD/LB Fixed Income & Macro Research

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

4.1.4.1 Integration of Deutsche Hypo into NORD/LB

The Owners' Meeting of NORD/LB and the Annual General Meeting decided on 14 December 2020 that Deutsche Hypo should be fully integrated into NORD/LB. The integration shall take place by way of merger on the basis of a merger agreement pursuant to Section 16 (1) No. 2 of the State Treaty between the State of Lower Saxony, the State of Saxony-Anhalt and the State of Mecklenburg-Western Pomerania on Norddeutsche Landesbank – Girozentrale – dated 6 December 2019 (Lower Saxony Gazette of Laws and Ordinances No. 23/2019, p. 399) in conjunction with Sections 2 et seq. and 60 et seq. of the Transformation Act by way of merger. The merger agreement was signed on 15 January 2021.

The merger is expected to be completed on 30 June 2021, by entry in the commercial register. When the merger takes effect, all of Deutsche Hypo's assets and liabilities will be transferred to NORD/LB by way of legal succession with retroactive effect as of 1 January 2021.

Deutsche Hypo is to remain a profitable pillar in the NORD/LB Group. The full integration is expected to result in significant advantages with regard to costs (including IT), in particular by merging the respective staff and central departments. The Deutsche Hypo brand will be retained and is to be further strengthened. In future, Deutsche Hypo's customers will receive comprehensive financial services from a single source in addition to the pure real estate financing business.

A project entitled "Integration Deutsche Hypo" was set up at Group level and a project organisation was formed to implement the integration. A project management group was set up as a decision-making and controlling body, consisting of representatives from NORD/LB and Deutsche Hypo. The implementation project started work at the beginning of 2021. The personnel issues associated with the integration are a major focus of attention. In addition, preparatory work for an IT migration already began at the beginning of the year. The project is pursuing an ambitious timetable. This includes, among other things, the necessary legally and regulatory preparations for the first effective day of the merger, the functional integration as well as the customer and employee communication. The aim is to implement the largest possible data migration into NORD/LB's IT systems by the end of 2021. The full completion of the IT migration (including dismantling and archiving) is planned by the end of 2022 and the full realisation of the planned synergies by the end of 2023.

4.1.4.2 Impact of the coronavirus pandemic on future business development

As a result of the coronavirus pandemic, there were in some cases severe restrictions on economic activity with consequences for the economic environment that cannot yet be precisely assessed. In view of the dynamic nature of the current situation, the forecasts included in the management report are subject to a high level of uncertainty. If the effects of the coronavirus pandemic translate into sustained economic and capital market burdens beyond current expectations, this could have a significant negative impact on the real estate markets due to vacancies and further losses in the value of commercial properties and, thus, lead to increasing risk provisioning expenses, especially for hotel financing or financing of specific retail uses. Furthermore, there could be a decrease in the volume of new business and, in the medium term, a decline in the portfolios in the commercial real estate financing business.

It can, therefore, not be ruled out that further developments regarding the coronavirus crisis will lead to significant negative effects on the planned earnings figures. In such a situation, the result from normal operations in 2021 could also be significantly below the earnings in 2020 due to rising risk provisioning expenses and burdens in the interest income. In this case, the other key performance indicators CIR and RoE might also develop less favourably than presented in the forecast report. In addition, there may be corresponding consequences for the regulatory capital and the regulatory ratios at the level of the Bank and the group of institutions. In the long term, this may result in additional liquidity risks.

Furthermore, in corresponding crisis situations, there may be discrepancies in credit spreads or market liquidity on the capital markets. This may result in increased liquidity risks for credit institutions, which may also have an impact on Deutsche Hypo.

At the same time, however, there is also a chance that the negative effects from the coronavirus pandemic will prove to be less prolonged or milder than currently estimated by the Bank and incorporated into the forecast. Accordingly, in this case the real estate markets could possibly recover faster or more strongly than the Bank currently expects. For example, a renewed increase in demand for real estate due to the lack of investment alternatives could also contribute to this. This could also lead to a recovery in property prices, which would have a positive effect on the Bank's risk result.

The capital market business could also be affected more by the impact of the coronavirus pandemic. Thus, despite cautious planning so far, a further negative development in the external framework conditions could lead to a deterioration in the creditworthiness of borrowers and cause additional need for value adjustments, with a negative effect on the overall bank earnings. However, the Bank considers the risk from this to be low for the remainder of financial year 2021 due to the EU's support measures.

4.1.4.3 Development of new and existing business

Based on the assumption of an economic recovery and fundamental stabilisation of the economic and industry environment, Deutsche Hypo expects the volume of new business for the coming financial year 2021 to be significantly above the previous year's level. Deutsche Hypo will continue to apply high quality standards and prioritise financing yield criteria when it comes to lending. A sideways move is also aimed for in the development of the portfolio volume.

Opportunities and risks

Opportunities and risks for the development of existing and new business arise in particular from changes in the economic and sector environment. Strong economic growth or even a significantly falling interest rate level have a positive effect on the real estate markets and the associated demand for credit. This results in the opportunity of new business exceeding expectations. Furthermore, higher than expected new business may result from better acquisition performance by the Bank. A higher than expected volume of new business is also associated with the opportunity that the real estate financing portfolio will exceed the forecast.

Conversely, negative developments have an inhibiting effect on the demand for credit. Should the sometimes severe restrictions in economic activity as a result of the coronavirus pandemic, therefore, manifest in sustained economic and capital market burdens, this could have a considerable negative impact on the real estate markets due to vacancies and losses in the value of commercial properties. The same applies to an unexpectedly significant increase in the interest rate level. Both could have an impact on the volume of new business. Thus, there is a risk that the volume of new business in the commercial real estate financing business and respectively the portfolios will fall short of the forecast.

There is a chance that the negative impacts from the coronavirus pandemic will prove to be less prolonged or milder than currently assessed by the Bank and incorporated into the forecast. Accordingly, in this case the real estate markets could possibly recover faster or more strongly than the Bank currently expects. For example, a renewed increase in demand for real estate due to the lack of investment alternatives could also contribute to this. The associated higher demand for credit would create opportunities for the Bank to develop new business and its portfolio in the core business area.

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

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

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

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

4.1.4.4 Income forecast

Deutsche Hypo expects the result from normal operations to be slightly below the previous year's level in financial year 2021. Corresponding to the development of earnings, the Bank also expects RoE to be slightly below the previous year's level. The earnings forecast takes into account slightly higher risk costs at the overall bank level in connection with the coronavirus pandemic. Based on a slight increase in administrative costs, the CIR is expected to be slightly above the previous year's level.

Opportunities and risks

The significant opportunities and risks of the earnings and RoE forecast result from the existing counterparty risks in the Bank's loan and securities portfolio. The Bank plans a risk provision or loan loss provision requirement on the basis of the available assumptions when preparing the forecast. Limited predictable and unexpected developments of external economic, geopolitical and industry-related conditions or developments on the international financial markets may represent opportunities and risks for the risk result of capital market business and income from securities and participatory interest. In this context, particular mention should be made of the effects of the coronavirus pandemic, which were described in detail in the previous section. There is increased uncertainty with regard to the forecast earnings figures and key performance indicators RoE and CIR, since the negative effects from the coronavirus pandemic could either prove to be stronger or less enduring or milder. Despite careful planning, a trend reversal of the external framework conditions, for example a considerable drop in real estate prices following an interest rate increase, could also lead to the deterioration of borrower creditworthiness and to an impairment of the value of the collateral provided, and could also result in a need for additional risk provisions and loan loss provisions for the commercial real estate finance business. It is also possible that, if economic conditions improve, the risk provisioning requirement will be lower than expected.

Following the UK's exit from the EU, it cannot be ruled out that there will be a significant decrease in real estate prices there, which could lead to increased risk provisioning expenses. However, taking into account the existing portfolio structure, the risk parameters and the orientation of Deutsche Hypo's real estate financing portfolio in the UK with a volume of € 1,264.9 million (2019: € 1,699.9 million), the earnings risks for 2021 are still considered to be low.

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

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

Furthermore, regulatory changes in the future may be associated with restrictions and, therefore, with earnings risks as well as the implementation of new regulatory requirements with additional administrative expenses. There are also risks due to the Bank's membership in the Sparkassen-Finanzgruppe's institute-specific protection scheme. Special payments could be demanded from the institutions under the protection scheme in the course of compensation and support measures, impacting the

Bank's result. This applies correspondingly to possible supplementary payment obligations to the restructuring funds for financial institutions. Whether and in what amount such payments will occur cannot be predicted at this time.

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

4.1.5 Overall statement

The Owners' Meeting of NORD/LB and the Annual General Meeting decided on 14 December 2020 that Deutsche Hypo should be fully integrated into NORD/LB. The merger is expected to be completed on 30 June 2021, by entry in the commercial register. Deutsche Hypo assumes that the integration will be implemented according to plan and, thus, that the merger will be implemented by 30 June 2021. Minor residual uncertainties exist for the occurrence of the unlikely scenario that the integration will not take place in financial year 2021, for example due to possible resource bottlenecks or changing framework conditions.

Deutsche Hypo will continue to attach importance to good credit ratings in its lending activities in order to secure the value of the company in the long term. The focus is also on achieving good profitability and creating added value for customers. To this end, it is important to use further optimization and innovation potential. Deutsche Hypo is assuming a stabilising market environment on the real estate markets, so that a volume of new business is expected significantly above the previous year's level, which was influenced by the coronavirus. On the assumption of a slight decline in earnings, the corresponding RoE will also be slightly below the previous year's level. The CIR is also expected to be slightly above the previous year's level due to a slight increase in administrative expenses.

4.2 Expanded risk report

4.2.1 Risk management

4.2.1.1 Fundamentals of risk management

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

As a Pfandbrief bank within the meaning of Section 1 of the German Pfandbrief Act (PfandBG), the Bank is subject to the requirements of the PfandBG which set forth in Section 27a 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 an inter-divisional risk management process and is closely integrated in the risk management process of the NORD/LB Group. The risk management process at Deutsche Hypo includes identifying, assessing, reporting, managing and monitoring risk and is subject to continual review and refinement.

The risk organisation of Deutsche Hypo corresponds to the risk strategy principles both at individual institution level and at Group level. Deutsche Hypo attaches great importance to an appropriate risk management system from a business perspective, and such a system is deeply anchored in its corporate culture. Deutsche Hypo promotes an appropriate risk culture and continuously develops it further.

4.2.1.2 Risk management – strategies and goals

The strategic orientation of the NORD/LB Group is determined in compliance with Section 25a (1) of the German Banking Act (KWG), among others, on the basis of a consistent compendium of strategies. The Group risk strategy describes the risk policy principles of the NORD/LB Group. The institute-specific risk strategy of Deutsche Hypo is also defined. Based on the risk inventory carried out at Group level, management at Deutsche Hypo in the narrower sense will focus on the risk types that are qualified as essential: credit risks, market price risks, liquidity risks and operational risks. At the same time, compliance with the existing risk strategy requirements was checked. In this connection, it was discovered that the risk strategy goals were complied with.

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

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

At the level of NORD/LB as the Group institution, boards have been established for handling the risk management process and exercising the consulting, monitoring, control and coordination functions. These include the Group Risk Committee, the Methodenboard Risikomanagement (Method Board Risk Management) and various working groups. Due to the integration of Deutsche Hypo in the risk management process at Group level, the results of the previously mentioned boards have an impact on Deutsche Hypo, which is included by sending representatives to these boards.

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

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

In addition, Deutsche Hypo has an established compliance management system, which monitors developments regarding legal and regulatory framework conditions and initiates implementation measures if applicable. It serves to protect the Bank and its customers and thereby boosts customer confidence in Deutsche Hypo. The Bank has set up a central compliance function that safeguards compliance of legal and regulatory projects and supports other departments in performing their tasks in terms of compliance-relevant aspects. The compliance management function is complemented by cross-divisional boards. The compliance function also carries out regular preventive measures, as well as suitability and effectiveness surveys in the divisions, and creates risk analyses.

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

With regard to activities in new products or new markets, a "New Product Process" (NPP) is in place throughout Deutsche Hypo. As a standard process, the NPP regulates the development of new products and the approach taken to new markets, new sales channels and new services. The early identification of risks, the appropriate assessment of their impact on the overall risk profile of the Bank and the determination of reasonable measures to manage the risks take precedence. After the successful conclusion of the NPP, it is possible to include the product in running business operations.

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

4.2.1.4 Risk management – reporting

The quarterly risk report on different types of risk is a central report for the Board of Managing Directors and the Supervisory Board. It provides a complete and comprehensive overview of the main types of risk identified at Deutsche Hypo. Furthermore, the Board of Managing Directors is informed at various intervals (daily to quarterly, depending on the requirements) about the situation 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 case of material events.

4.2.1.5 Management of risks in the cover pool

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

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

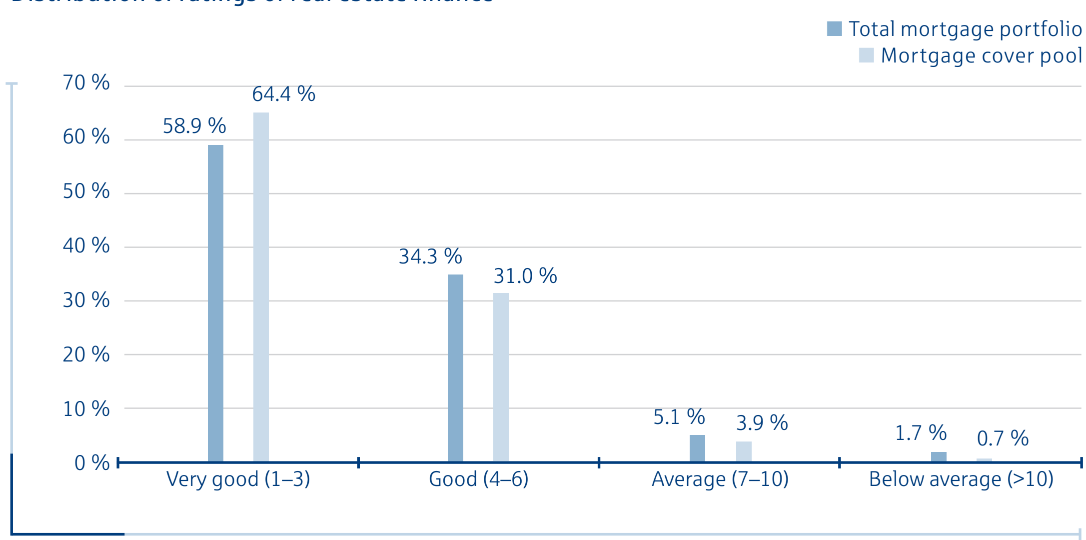
To comply with the requirements of the transparency provision in Section 28 of the German Pfandbrief Act, Deutsche Hypo publishes the appropriate information in the notes to the financial statements and – together with the historical values – on the Bank's website. The information on the Bank's website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

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

Mortgage cover pool

The proportion of good and very good credit ratings (rating scores 1 to 6 in line with the DSGV rating master scale) in the mortgage cover pool amounted to 95.4 % as of 31 December 2020 (2019: 95.8 %). In terms of the total real estate business portfolio, this share was 93.2 % (2019: 93.3 %). The rating distribution in the mortgage cover pool is a good indicator for the quality of the Pfandbriefe.

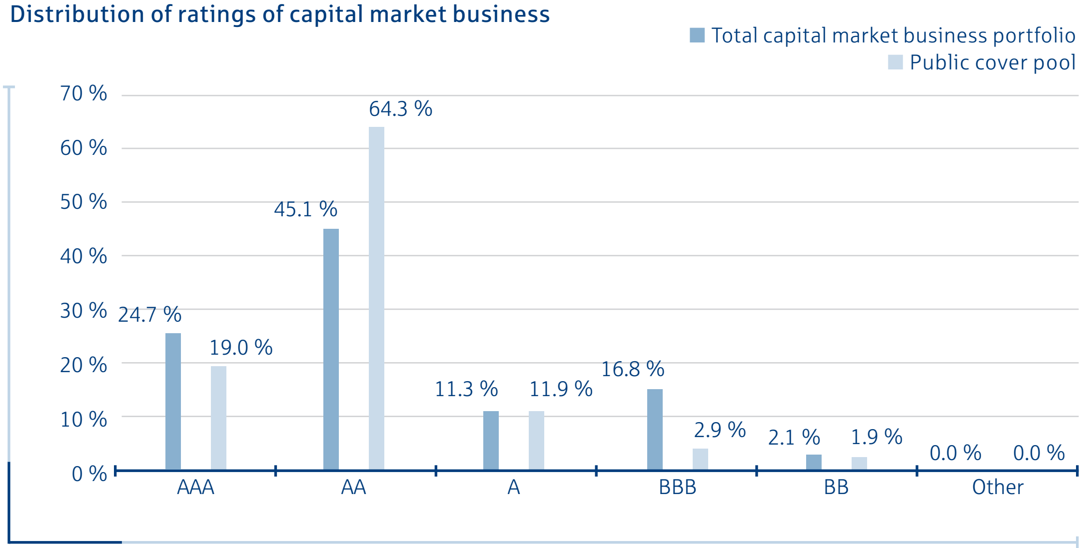
Distribution of ratings of real estate finance



Public cover pool

The share of loans with a rating of A to AAA in the cover pool of public Pfandbriefe was 95.2 % as of 31 December 2020 (2019: 89.4 %). This contributes to a good rating for the Bank's issued Pfandbriefe by external rating agencies and documents the quality of the cover pool.

Distribution of ratings of capital market business



4.2.1.6 Risk management – risk bearing capacity

The risk bearing capacity (RBC) of Deutsche Hypo is monitored at the level of the NORD/LB Group due to the exercising of the waiver rule. Various factors are examined under the NORD/LB Group's RBC model. In this context, risk-bearing capacity is considered from a regulatory perspective as well as an economic perspective. Specific limits are derived for Deutsche Hypo from the RBC model with regard to credit risk, market price risk and liquidity spread risk, while operational risk is limited at NORD/LB Group level. To check compliance with these limits, which constitute a central aspect of risk management at Deutsche Hypo, the risk contributions of the relevant risk types are calculated regularly. In the course of a value-at-risk approach, the risk contributions are standardised to a uniform confidence level of 99.9 % and generally a holding period of one year. Corresponding escalation mechanisms have been established for the exceeding of limits. Note that the relevant limits for the respective reporting dates were adhered to at the Deutsche Hypo level.

4.2.1.7 Current developments

In 2020, the Bank intensively addressed the potential impact and operational response to the coronavirus pandemic and established various credit process-spanning working groups. Initial scenario calculations to estimate the consequences of the coronavirus pandemic on the debt service capacity and development of market values were already prepared in spring 2020. The scenarios formed the basis for estimating the changed credit risk parameters and, thus, the forecast of credit risk, risk provisions and risk-weighted assets (RWA). As a result, certain asset classes were identified as being more affected than others, such as hotels or the non-food retail sector. The portfolios concerned were examined in more detail in special analyses. The analysis also included short- and long-term scenario calculations. Findings from this have also been incorporated into the regular review process as well as the event-related re-rating. For the results from the scenario analyses as well as the general developments in credit risk, please refer to the comments in the section credit risk – analysis of credit exposure.

The money and capital markets continued to be defined by ongoing low interest rates and an even flatter yield curve, which however had no material impact on the Bank's earnings and risk situation due to the position and tight management of the change in interest rate risks. The Bank was able to cover its entire funding needs in 2020 at market rates despite a challenging environment caused by the coronavirus pandemic. Counterparty and credit spread risks arising from the capital market business were further lowered through the selective reduction of positions and regular maturities.

As a result of the coronavirus pandemic, operational risks became more of an operational management focus in financial year 2020. The establishment of a situation team ensured a short-term response to current developments at all times. Special focus was placed on the protection of employees and business partners as well as on guaranteeing the operational business activity.

4.2.2 Counterparty risk

Deutsche Hypo's counterparty risk consists of the credit risk, including the country risk. The financial investment risk has no strategic importance and is not relevant today since there are no investments as of 31 December 2020. The credit risk refers in general to the possibility that a loss may be incurred that is not covered by securities as a result of an external counterparty defaulting or suffering a deterioration in creditworthiness. As well as the classic default risk, collateral risk is a further component of credit risk. This is understood as the risk that it might not be possible to recover the assumed fair values of loan collateral in the event of realisation.

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

4.2.2.1 Counterparty risk – goals and strategies

Credit risks are handled on the basis of the Bank's risk strategy for credit risks which, in turn, is part of the Group risk strategy. Deutsche Hypo's aim is to achieve a market level of profitability under risk and reward aspects by minimising unanticipated losses in terms of the active management of the credit risk items. The management of credit risks is a core competency in the portfolio and new business at Deutsche Hypo, and one that is continuously being developed and expanded.

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

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

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

4.2.2.2 Counterparty risk – structure and organisationn

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. Credit decisions are always made by two authorised employees or, for certain 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. Processing and decisions on pure portfolio financing are made exclusively in the back office.

Before the credit decision is made by the responsible employee, two additional consenting votes – one vote from the market division and one from the back office division – are first required. The responsibility of the authorised employees is 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 loan decision is not based solely on the amount of the desired loan, but rather on the risk potential inherent in the overall commitment.

4.2.2.3 Counterparty risk – management and monitoring

Deutsche Hypo's counterparty credit risk is controlled and monitored primarily through the stipulation of financial principles, the limit system and the rating system. The Bank also operates 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 requirements for potential business. The financing principles will be used as a pre-selection mechanism for business initiation and do not anticipate definitive decisions in individual cases. Here the focus is on the financing structure in connection with general property-related financing requirements:

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

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

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

Limit system

Deutsche Hypo is included in the limit systems for risk concentrations of the NORD/LB Group as part of strategic limiting. There are limits on the concentration of counterparty, country and sector risks. This system combines, monitors and controls the counterparty risk concentrations in the Group. The limits are binding across the Group. Deutsche Hypo supplies the information required for this and, in turn, is informed about Group-wide concentrations of risk with regard to its own borrowers. If the limits are exceeded, uniform Group rules for the monitoring and reduction of the affected unit shall apply. Other sub-limits for each business area at Deutsche Hypo exist within this framework. Risks are limited at the level of country risk, sector risks and on the basis of individual risk bearers. In order to avoid concentrations of risk at the borrower level, limits have been put in place for economic units that extend beyond the rules for borrower units (the group of affiliated customers in terms of 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 twelve-month period. This is then updated as part of the annual credit rating assessment and any assessment carried out following a particular occurrence. The rating modules in use were developed as part of cooperation projects involving the savings bank group and the Landesbanks. Deutsche Hypo uses the rating results as part of the Group-wide approval for the basic internal ratings based approach to estimate the regulatory equity backing required and for the determination of expected economic losses.

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

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

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

4.2.2.4 Counterparty risk – collateral

Deutsche Hypo accepts collateral in order to reduce its credit risk. With regard to the commercial real estate finance business area, 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 observing the limit for financing not collateralised by mortgages.

The value of the property and, thus, the value of the related securities are monitored on a regular basis, generally at least annually. If there have been any influential factors that are of relevance to the value of the security, a revaluation must be carried out. Deutsche Hypo's credit guidelines and lending principles set out definitions of the basic types of security and properties being mortgaged that may be used as collateral, and the maximum share of the value of the collateral or of the financed property that can be lent. Both the fair value and the lending value calculated in accordance with the strict provisions of the German Regulation on the Determination of Mortgage Lending Value (BelWertV) are applied. The latter has a direct impact on the cover eligibility of the loan receivables and, thus, influences the volume of the cover pool available as security for Pfandbriefe issued, in accordance with the terms of the German Pfandbrief Act (PfandBG). Mortgages, guarantees and similar collateral, assignments of claims and other rights, liens on property, claims and other rights and transfers of ownership as security are all basically accepted as loan security. Only mortgage liens and guarantees from suitable credit institutions or public authorities and assigned funds provided as collateral are taken into account for the purposes of risk assessment in the loan portfolio and the easing of capital requirements as stipulated in the CRR.

4.2.2.5 Counterparty risk – measurement

The direct quantification of the credit risk takes place for the Bank on the one hand on the level of the NORD/LB Group and on the other on the level of the individual institution of Deutsche Hypo. Credit risk is measured using the risk key figures of expected loss and unexpected loss. These are calculated on the basis of the determined probability of default and the anticipated loss amount per loan, taking account of any collateral. The expected loss is the expected defaults in the loan portfolio over the next twelve months. To cover expected losses, the Bank collects a risk premium as part of its margin. The amount of this premium for each individual loan depends on the volume of receivables after adjustments for the loan conversion factor, the rating or probability of default and on the expected loss ratio. The unexpected loss for the credit risk is quantified using an economic credit risk model and a time horizon of one year.

The credit risk model used by the NORD/LB Group incorporates correlations and concentrations into the risk assessment. The credit risk model calculates the unexpected loss at the level of the portfolio as a whole. The credit risk model can be used to study sub-portfolios and their share of the unexpected loss. The results of such analyses have a direct impact on the fundamental structure of the limit system and on the setting of specific individual limits. In this way, it is possible to manage risk concentrations in the portfolio. Deutsche Hypo uses the internal ratings based approach (basic IRBA) to calculate the regulatory equity 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. The same applies to other scenarios, such as a stress analysis of a real estate crisis on the basis of an annual, regular determination process. This makes it possible to carry out a risk-causing assignment of the credit risk potential to the business areas. The scenario analyses can be used as early warning instruments. Additional scenarios, for example focused on real estate financing, are calculated on a case-by-case basis.

Latent credit risk is accounted for in the form of general loan loss provisions. The method of calculating general loan loss provisions was adjusted compared to the previous year. In the past, general loan loss provisions had been calculated in accordance with the requirements of the Federal Ministry of Finance Circular dated 10 January 1994. In order to adequately account for the risk of latent default risks in lending business against the backdrop of the coronavirus pandemic, the method was adjusted compared to the approach taken as of 31 December 2019, with general loan loss provisions calculated on the basis of expected losses in reference to the level 1 and level 2 risk provision calculation approach in accordance with IFRS 9. This new approach takes greater account of the risk of default due to future economic developments. The change means that the annual financial statements now present a truer and fairer view of the net assets, financial or income position in accordance with the principles of proper accounting. In addition, the change also takes into account the corresponding legal developments. As of 31 December 2020, the general loan loss provision in accordance with German commercial law calculated using the adjusted method was € 71.7 million higher than the general loan loss provision amount under German commercial law that would have been calculated as of the same date under the previous method based on the Federal Ministry of Finance Circular dated 10 January 1994. All in all, the addition to the general loan loss provision resulted in risk provision expenses of € 69.9 million in the past financial year.

4.2.2.6 Counterparty risk – reporting

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

4.2.2.7 Counterparty risk – analysis of the credit exposure

The credit exposure, a key reference indicator in credit risk controlling, represents the quantification of all transactions. Its calculation is based on drawdowns – at nominal value in the case of guarantees or carrying amount in the case of securities, or on the credit equivalent amounts of derivatives – including add-ons and taking account of netting agreements. Irrevocable credit commitments are usually included in the credit exposure at 75 %. Revocable credit commitments or internal credit lines are not taken into account. As part of the internal reporting process, the Board of Managing Directors and the Supervisory Board are kept informed at all times of the development and analysis of the credit exposure.

As at 31 December 2020, Deutsche Hypo's credit exposure totalled € 19,581.7 million, a reduction of € 3,196.2 million compared to the end of the previous year. The volume of commercial real estate financing declined by € 382.9 million to € 13,086.7 million. The credit exposure of loans to local authorities decreased by € 148.1 million to € 2,331.4 million. There was also a significant decline of € 1,081.2 million in the portfolio of securities and derivatives. The portfolio of other financial products decreased by € 1,583.9 million. The significant decrease is mainly due to an adjustment of the capital charges for securities repurchase transactions. The exposure of these transactions corresponds to the respective volatility premium for the reporting date 31.12.2020, compared to the previous charges at nominal value. These developments reflect the business policy of the Bank, which aims to turn the Bank into a pure real estate finance bank.

The focus of the credit exposure continued to be on the very good to good IFD classes. This classification corresponds to the standard IFD ratings scale as agreed on by the banks, Sparkassen and associations that together form the Initiative Finanzstandort Deutschland (IFD). The aim of this scale is to make it easier to compare the ratings awarded by individual credit institutions. The rating classes of the 18-level DSGV rating master scale used throughout Deutsche Hypo can be translated directly into the IFD classes. The proportion of total exposures in the rating class "very good to good" was 79.7 %, up slightly from the previous-year level. The share of non-performing loans (NPL) in the overall exposure at 0.2 % was below the level of the previous year (0.3 %). The absolute volume decreased by € 24.0 million to € 43.4 million.

In the following, the breakdown of the credit exposure by rating categories is described in table form. The breakdown of the credit exposure by segments and regions shows that 96.0 % (2016: 96.1 %) of

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

31.12.2020 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva-tive	Other	Total exposure	Share in total exposure
Very good to good	9,647.9	2,331.4	2,626.3	437.60	568.00	15,611.2	79,7 %
Good/satisfactory	2,432.2	0.0	366.8	0.0	0.0	2,799.1	14,3 %
Still good/sufficient	489.6	0.0	47.0	0.0	0.0	536.5	2,7 %
Elevated risk	312.2	0.0	5.1	0.0	97.0	414.3	2,1 %
High risk	74.8	0.0	0.0	0.0	0.0	74.8	0,4 %
Very high risk	102.5	0.0	0.0	0.0	0.0	102.5	0,5 %
Default (=NPL)	27.5	0.0	0.0	15.9	0.0	43.4	0,2 %
Total	13,086.7	2,331.4	3,045.1	453.5	665.0	19,581.7	100.0 %

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

At the end of the year, 96.0 % (2019: 97.9 %) of the credit exposure of the Bank's real estate financing business consisted of financing with customers who were rated at least satisfactory. The volume-weighted average probability of default in the commercial real estate business (excluding defaults) changed only slightly last year and remained at a very low level of 0.46 % (2019: 0.35 %) on average over many years as at the reporting date of 31 December 2020. The volume of NPLs fell further compared to the previous year to € 27.5 million (2019: € 50.0 million). The share of NPLs in the total portfolio was below the level of the previous year at 0.2 % (2019: 0.4 %). The NPL portfolio was almost entirely covered by foreign financing in the UK. Overall, the proportion of the NPL credit exposure was significantly below the level of the long-term average values.

Breakdown of the total credit exposure by segments and region:

31.12.2020 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva-tives	Other	Total exposure	Share in total exposure
Eurozone	11,221.3	2,253.2	2,144.5	341.6	655.6	16,616.2	84.9 %
of which, Germany	7,340.1	1,608.0	793.7	332.5	653.7	10,728.1	54.8 %
Other EU	1,834.0	8.2	188.7	11.4	2.2	2,044.5	10.4 %
of which, UK	1,315.6	0	75.6	2.9	2.1	1,396.2	7.1 %
Other Europe	0.0	69.9	66.2	0.0	0.0	136.0	0.7 %
North America	31.3	0.0	407.5	100.6	7.3	546.7	2.8 %
Central America	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Middle East / Africa	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Asia	0.0	0.0	238.2	0.0	0.0	282.2	1.2 %
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0 %
Total	13,086.7	2,331.4	3,045.1	435.5	665.0	19,581.7	100 %

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

the entire exposure is in Europe. The proportion of the credit exposure in Germany in the total exposure decreased slightly in the reporting period to 54.8 % (2019: 57.5 %).

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

Real estate financing in the UK was analysed in light of the UK's exit from the EU. Even in case of considerable market changes, the results confirm what the Bank considers to be an overall conservative portfolio structure. No significant negative effects are expected aside from individual special cases.

Non-performing loans and credit exposures in arrears

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

The amount of individual value adjustments and provisions decreased in the past financial year compared to the previous year to € 16.6 million (2019: € 40.5 million). This amount was entirely attributable to Great Britain. Of the total credit exposure of the NPL portfolio of € 43.4 million (2019: € 67.4 million), € 27.5 million (2019: € 50.0 million) was attributable to commercial real estate financing and € 15.9 million (2019: € 17.5 million) to capital market transactions with derivatives. The ratio of individual value adjustments and provisions to the total credit exposure was 0.08 % as at 31 December 2020 (2019: 0.18 %). The overall amount of NPL exposures is secured by standard collateral, which is valued using the applicable lending principles.

Impact of the coronavirus pandemic on the development of credit risk

The Bank established a situation team in March 2020 due to the coronavirus pandemic. In addition, the necessary steps were taken to promptly assess the potential impact of the pandemic on the loan portfolio. Detailed analyses were carried out during the year. In spring 2020, scenario calculations were prepared to estimate the consequences of the coronavirus pandemic on the debt service capacity and development of market values. The scenarios formed the basis for estimating the changed credit risk parameters and, thus, the forecast of credit risk, risk provisions and risk-weighted assets (RWA). As a result, certain asset classes were identified as being more affected than others, such as hotels and shopping centres. In special analyses, the entire hotel portfolio (around 55 individual exposures with a total volume of around € 1 billion) as well as the entire retail portfolio (with a total volume of around € 3.5 billion, of which around € 1.9 billion is non-food retail) were examined more closely. The analysis also included short- and long-term scenario calculations. The results of the analyses showed that no specific risks could be identified within individual transactions. Individual exposures showed weaknesses in the analyses, but in no case were measures required beyond admission to intensive monitoring. No pandemic-related loan defaults occurred during 2020.

Findings from the portfolio analyses are incorporated into the process of regularly reviewing and updating the ratings as well as into the event-related re-rating.

Measured against the overall economic impact of the coronavirus pandemic, only a small number of applications for support measures were submitted. 13 applications for repayment deferrals with a total financing volume of € 308 million were approved. The volume of contractually agreed deferrals amounted to € 5.0 million. Of these, no exposures fell under the requirements of the vdp moratorium.

4.2.2.8 Counterparty risk – outlook

The portfolio investigations and stress calculations already carried out due to the uncertainties of the coronavirus pandemic will be continued and adapted and updated to changing framework conditions. The results to date are considered manageable, and initial slight changes have not yet had a material impact on the key risk parameters. It cannot be assumed that the current low level of risk provisioning will be maintained in the long term, from the Bank's point of view. Deutsche Hypo, therefore, expects that the necessary risk provisioning and the risk-weighted assets from commercial real estate financing will once again approach the long-term average value in the medium term.

Any effects of the pandemic on capital market counterparties are also difficult to forecast. Compared to the financial crisis of 2008/2009 and the sovereign debt crisis that followed in Europe from 2011/2012 onwards, a significant decline in GDP, an increase in debt and, thus, credit rating restrictions with an impact on credit risk are also to be expected, however aid measures have been adopted much more quickly.

Deutsche Hypo will monitor the performance of real estate and capital markets attentively and take suitable measures, if need be.

4.2.3 Market price risk

Market price risk refers to the potential losses that could be incurred following changes in the market parameters. The focus of risk management and monitoring is on economic and earnings-oriented interest rate risks in the banking book, on credit spread risks and on currency risks.

4.2.3.1 Market price risk – goals and strategies

Deutsche Hypo does not currently have a trading book in accordance with Article 4 (86) CRR. The Bank also does not currently plan to engage in trading book activities in the future. In accordance with its strategic focus, the assumption of market price risks is of secondary importance. Deutsche Hypo's positioning in the money, currency and capital markets is primarily based on the needs of customers, and the support of the market divisions and overall Bank management. Further opportunistic positioning – particularly with the goal of achieving the short-term realisation of speculative profits – is not pursued and is also not planned.

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

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

4.2.3.2 Market price risk – structure and organisation

Against the background of the risk-related organisational structure, diverse divisions and committees are involved in the management of market price risks. The controlling of the strategic market price risk banking book positions is handled by the Bank's Asset-Liability Committee (ALCO) and the operative implementation by Treasury. In the context of the requirements laid down by ALCO and in accordance with the market price risks and counterparty limits as well as the risk strategy requirements, Treasury decides on and manages the business activities in the capital market business. The ensuring of the correctness of the transaction data in the data processing systems and the proper processing of the financial market business is handled by the Treasury Operations department in the market price risk management process. Controlling is responsible for various risk controlling tasks, for example related to risk assessment, controlling and monitoring processes, and reporting. It provides methods for managing, assessing and monitoring market price risks internally. Controlling and Treasury Operations are functionally and organisationally independent of Treasury.

4.2.3.3 Market price risk – managing and monitoring

Market price risks are mainly managed using limits that take the risk strategy requirements into account. Factors including interest sensitivities, internal and regulatory interest shocks and probability-based figures such as value-at-risk (VaR) are used to manage interest rate risks in the banking book.

VaR indicators are also used to manage credit spread risks, supplemented by the monitoring of hidden charges and the analysis of adverse scenarios, which determine the effects of an unfavourable widening of credit spreads on hidden charges. The management of currency risks is primarily handled by limiting currency results on the income statement in accordance with the German Commercial Code. To achieve these goals, the open nominal overhangs per currency are controlled within narrow early warning limits. A major component of risk monitoring is the audit of compliance with the pre-set limits and early identification of risks, e. g. through traffic light systems or P&L analyses. Escalation processes are implemented for violations of the limit. Compliance with the limits is monitored at various intervals from daily to quarterly.

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

4.2.3.4 Market price risk – reporting

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

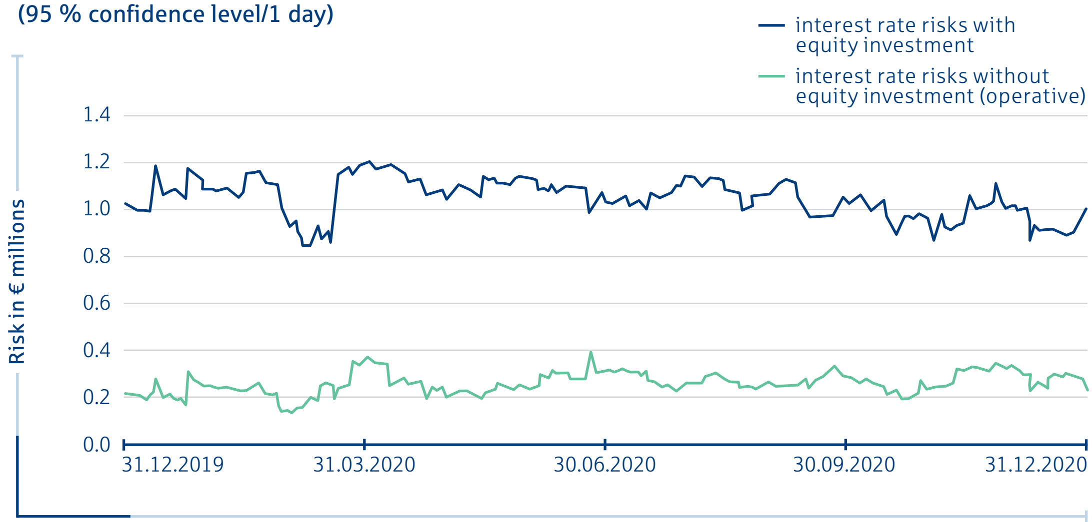
The Board of Managing Directors and Treasury receive a daily report to keep them informed of the economic interest rate risks and the income from the Bank's interest maturity transformation. Weekly reporting is in place for the ALCO and also includes VaR indicators for interest rate and credit spread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

4.2.3.5 Market price risk – developments and outlook

The predominantly negative interest rate level observed on the markets as well as the further flattening of the euro interest rate curve had, as expected, a negligible effect on the Bank's earnings and risk situation. A market-wide widening of credit spreads was observed at the beginning of the coronavirus pandemic. However, these recovered in the course of the year.

The economic interest rate risk was mainly caused by the investment of perpetually available equity. Other interest rate risk caused by the Bank's operational business activities, measured as a 100 basis point interest rate shock, was around € 5.5 million at the end of the year. The daily calculated VaR for the interest rate risk (95 % confidence level, 1 day holding period) fluctuated between € 0.85 million and € 1.2 million in the reporting period, with an average of € 1.05 million. The following chart shows the development of the VaR for interest rate risk in the past reporting year, including the equity investment, along with the operative portfolio VaR (excluding the equity investment). Credit spread risks of the banking book are not included in the VaR. The chart clearly shows the minor importance of the operational portfolio for the economic interest rate risk. Both results confirm Deutsche Hypo's low risk appetite.

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



The amount of the nominal volume subject to credit spreads amounted to € 5,290.2 million as at 31 December 2020 (2019: € 6,403.4 million) and, thus, decreased significantly by € 1,113.2 million in the course of the year. The hidden charges in the capital market portfolio increased only very slightly in 2020.

The systematic pursuit of the conservative risk-strategic goals and the attentive monitoring of the market developments in 2021 are also the focal points of controlling for the market price risk at Deutsche Hypo. In this context, this includes the continued strategy for a reduction in the positions that have credit spread risks in a way that protects the income statement, among others. For 2021, Deutsche Hypo expects the interest rate risk to remain low.

4.2.4 Liquidity risk

Liquidity risk includes risks that may arise as a result of disruptions in the liquidity of individual market segments, unexpected events in the credit, deposit or issuing business, or changes to the Bank's own funding conditions. Internally the liquidity risk is divided into classic liquidity risk including intra-day liquidity risk and liquidity spread risk.

4.2.4.1 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. This is ensured by holding highly liquid, diversified and unencumbered assets and by being able to issue mortgage Pfandbriefe as a stable source of funding. Both unencumbered liquid assets and stable funding sources serve to hedge against expected and unexpected liquidity risks. To meet the legal requirements of the German Pfandbrief Act, liquid securities are also held in the cover pools for public and mortgage Pfandbriefe as needed to ensure liquidity. The total volume as well as structural requirements with regard to diversification to the total liquid assets to be held are determined regularly and take into account management buffers that exceed the regulatory and supervisory minimum requirements, reflect Deutsche Hypo's risk tolerance with regard to liquidity risk and ensure adequate flexibility within the framework of operational business management. The costs associated with holding liquid assets are taken into account in the liquidity transfer pricing system.

In the funding of the business activities in the market areas, Deutsche Hypo fundamentally pursues the strategy of term-congruent funding. This is reflected in the liquidity and funding planning prepared annually. Involvement in structural liquidity-term transformation positions is of minor strategic significance for the Bank. The intraday liquidity risk is currently assessed as not material. Exceeding the regulatory LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) requirements at all times is anchored in the liquidity risk objectives and strategies.

The Bank's liquidity policy (LP) constitutes the strategic framework directive for ensuring adequate liquidity. In the case of a liquidity crisis, the management of the liquidity risk in accordance with the LP concept is assumed by an independent team in close coordination with the Board of Managing Directors and – depending on the type of crisis – with crisis managers from NORD/LB.

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

4.2.4.2 Liquidity risk – structure and organisation

The process of liquidity risk management must include the ALCO first and foremost, and also Treasury and Controlling. The ALCO at Deutsche Hypo assumes responsibility for the management of the banking book positions, which includes in particular the liquidity positions. Treasury handles the operating liquidity risk management. It is also responsible for the management of the intraday liquidity positions. As an independent monitoring unit, Controlling defines the internal processes for the measurement, limiting and monitoring of liquidity risks and carries out the operative validation, monitoring and reporting functions. Controlling handles the liquidity notifications in accordance with CRR. The preparation of liquidity and funding planning and forecasts as well as the determination of the need for liquid assets to be held is carried out jointly by Treasury and Controlling.

4.2.4.3 Liquidity risk – controlling and monitoring

Present value limits derived from the risk bearing capacity model of the NORD/LB Group and volume structure limits are used to control and monitor the liquidity spread risks. The limit utilisation of the volume structure limits is monitored daily on the basis of the liquidity development report of the overall position. The calculated balances for the individual maturity bands from one month to 30 years may not exceed the approved volume structure limits. If limits are exceeded, the Board of Managing Directors is informed immediately. Furthermore, the liquidity spread risks from significant foreign currencies are determined and capped through volume structure limits.

The classic liquidity risk is limited by a dynamic stress test scenario. The Distance to Illiquidity (DtI) performance indicator is used in the internal management and limiting of such risk. 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. They also include the unencumbered liquid assets as well as modelled incoming payments from stable funding sources. Compliance with the limits is monitored daily. Additional scenarios and stress tests are also examined. They model both the institution-specific and market crisis scenarios. 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.

Compliance at all times with minimum regulatory requirements for the liquidity coverage ratio (LCR) is ensured by the daily management and monitoring of the ratio. Management includes internal target ratios, which are set intentionally higher than the minimum regulatory requirements. The Net Stable Funding Ratio (NSFR) is also managed via an internal target ratio that is above the regulatory minimum.

4.2.4.4 Liquidity risk – reporting

The quarterly risk report provides the Board of Managing Directors and the Supervisory Board with comprehensive information about the current situation regarding the classic liquidity risk and liquidity spread risk as well as the regulatory liquidity indicators, LCR and NSFR. The report on the dynamic stress scenario is also provided daily to Treasury and the Board of Managing Directors. The utilisation of the liquidity buffer stipulated by MaRisk, the liquidity maturity balance sheet and the utilisation of the volume structure limits and the present value limit for the liquidity spread risk as well as the LCR positions and ratio are also made available to Treasury on a daily basis. The ALCO receives weekly reports on expected liquidity flows. In addition, the development of the LCR ratio is reported to the ALCO on a monthly basis.

4.2.4.5 Liquidity risk – developments and outlook

Deutsche Hypo had sufficient access to the money and capital markets at conditions in line with the market at all times in 2020, despite a challenging environment due to the coronavirus pandemic. The total issue volume presented in the economic report and measured in terms of the Bank's need made it possible to place sufficiently covered and uncovered issues on the market. The improvement in Moody's bank ratings for Deutsche Hypo published on 9 January 2020 in conjunction with the lowering of the overcollateralisation requirements for both the mortgage and public Pfandbriefe has had a positive effect on the funding conditions, as expected. Following the market-wide trend, funding conditions deteriorated slightly again with the outbreak of the coronavirus pandemic in the first quarter of 2020, but recovered over the course of the year. Operational liquidity management continued to be strongly influenced by the challenging environment. As in the previous year, detailed enquiries were made at close intervals in the market segments regarding expected disbursements, prolongations and extraordinary repayments, which resulted in regular forecasts of the internal and external liquidity ratios relevant to management. In this way, necessary control measures could be identified in advance in order to fulfil the internal, regulatory and statutory liquidity requirements.

In the past business year, the volume structure limits were always adhered to. The present value liquidity spread risk dropped slightly compared to the previous year, and was met at all times. The DtI metric from the dynamic liquidity stress test used for internal controlling and limiting was within the existing required range in 2020. The green phase in the traffic light system was maintained throughout the year. As of 31 December 2020, DtI was 327 days (2019: 305 days).

The applicable minimum regulatory LCR requirements of 100 % were met continuously in 2020. As at 31 December 2020, the ratio was 994.3 % (2019: 396.3 %, Ø 2020: 395.2 %). The regulatory minimum NSFR ratio of 100 % applicable from June 2021 was significantly exceeded as at 31 December 2020 with a ratio of 123.0 %.

Due to the continuing uncertainties resulting from the effects of the coronavirus pandemic on funding options and conditions, the principle of close management and monitoring of the liquidity situation will continue to be pursued in 2021. The Bank considers itself well prepared for the regulatory requirement of an NSFR ratio of at least 100 %.

4.2.5 Operational risk

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

4.2.5.1 Operational risk – goals and strategies

The guidelines for dealing with operational risks are formulated in the Group risk strategy. These encompass the timely identification of operational risks and the initiation of meaningful countermeasures regarding economic and risk strategy aspects. Operational risks should generally be avoided, transferred or alleviated. The guidelines also include the goal of avoiding future damage through a solid risk culture, which encompasses dealing with operational risks openly. Operational risks must be taken into account in all company decisions. There are framework conditions in the form of technical and organisational measures, contractual provisions and 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 method. A functioning internal control system (ICS) prevents operational risks. The appropriateness and effectiveness of the ICS is checked with regard to risk at regular intervals. In order to ensure uniform treatment of operational risks within the NORD/LB Group, a Group-wide risk management tool has been established to support the divisions in recording, assessing and controlling risks.

4.2.5.2 Operational risk – structure and organisation

The Board of Managing Directors and all other Bank divisions are included in the process of managing operational risks. Within the set framework conditions, responsibility for the controlling of the operational risks is decentralised and lies with the individual divisions. An integrated, Group-wide approach is used for controlling operational risks and continuously optimised. The Risk Round Table committee is a platform for discussing important matters of relevance to operational risk, the evaluation of such matters by the Bank, and the assessment of possible future risks within Deutsche Hypo at the level of division heads and experts. A uniform risk matrix is used for the assessment of risks. Controlling handles the central tracking of operational risks and the independent reporting. Due to the coronavirus pandemic, a situation team was set up to supplement the existing structures, which advises on current developments and initiates any necessary measures.

4.2.5.3 Operational risk – controlling and monitoring

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

The management of operational risks is supported in this context by a methodological framework for risk assessment. Against the background of a constantly updated assessment of the risk situation, ongoing extensive information such as cases of loss, risk indicators and the results of scenario analyses is evaluated. Suitable measures are taken by the responsible divisions if the occasion requires it. For example, in the past financial year, investments in the IT systems continued with the aim of strengthening the level of IT and information security over the long term, among other things. The plans for continuing business, the emergency plans and the appropriateness of the insurance coverage are checked at regular intervals. Escalation processes have been set to ensure the prompt introduction of countermeasures.

4.2.5.4 Operational risk – reporting

In the course of the ongoing risk management process, the results from the Risk Round Table committee are prepared as part of the risk report. Current risk is assessed using a traffic light system overview on the basis of different risk categories. This examination includes the recorded risk indicators, information from the loss event database, the results of the scenario analyses and the risk assessment of the ongoing legal disputes and externally outsourced significant activities. In addition, special events in the reporting period such as loss or ad-hoc reports are reported and the OpVaR calculated by NORD/LB for Deutsche Hypo is reported. The Board of Managing Directors and the Supervisory Board are informed of the current status in the quarterly risk report.

4.2.5.5 Operational risk – development

A situation team was set up in the first quarter of the financial year to specifically manage the operational risks arising with the coronavirus pandemic. To safeguard the Bank's operational business activities, all employees were equipped with a mobile workstation and specific hygiene protection measures were also taken. A flexible home office concept was, thus, made possible and established for the purpose of health protection. There were no significant loss events from operational risks in the reporting period.

4.2.6 Accounting-related internal control system (ICS) and risk management system

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

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

- Responsibility for the process of preparing the annual financial statements and the management report lies with the accounting department. The accuracy and completeness of the accounting transactions from supplying divisions is their responsibility, and is subject to directed controls. The areas of responsibility within the accounting process are clearly assigned, taking into account an appropriate separation of functions.
- The IT systems and files used in the accounting process are protected against unauthorised access, manipulation and loss by means of regular data backups and access restrictions.
- The permanent monitoring of the IT systems by appropriately trained employees of the Bank and external systems partners reduces the risk of downtime and ensures high availability.
- The Bank has implemented a system of guidelines and instructions in an organisational manual that takes the form of organised structure and workflows.
- All accounting processes are subject to consistent manual and automated controls according to the four-eyes principle.
- Bookkeeping files that are received or forwarded are checked for completeness and accuracy, for example by means of random sampling. Programmed plausibility tests take place as a result of the used software.
- The plausibility of the data that is calculated in the accounting process is regularly checked.
- Internal Audit checks the observance of the ICS independently of processes.

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

4.2.7 Regulatory equity resources

Due to the use of the waiver rule, Deutsche Hypo's obligations to submit separate institution reports and to comply with the capital requirements and regulatory equity resources requirements in accordance with the Capital Requirements Regulation (CRR), Parts 2 and 3, do not apply at the level of the separate institution. For the reports on the equity resources at Group level according to IFRS and for internal controlling in line with HGB, Deutsche Hypo calculates, after exercising the waiver rule, the equity capital and risk-weighted assets (RWA) that are consolidated in the IFRS reports prepared by

NORD/LB for the Group. The Bank also follows the HGB to calculate an equity ratio, which compares all eligible equity in accordance with Art. 4 (1) no. 71 CRR with the risk-weighted assets.

In accordance with the regulatory requirements, a total of € 966.3 million (2019: € 1,003.2 million) was eligible for recognition under regulatory capital requirements in the Group as of 31 December 2020. This means a decline of € 36.9 million relative to the end of 2019 due to the scheduled run-off of components in equity. At the same time, RWA remained roughly constant. The equity ratio was, thus, 16.9 % (2019: 17.6 %). The calculated core capital ratio was 14.7 % (2019: 15.0 %).

4.2.8 Summary of the risk position

From the perspective of the Board of Managing Directors, Deutsche Hypo has continued its conservative risk policy in 2020 and has also taken into account the increased uncertainties resulting from the coronavirus pandemic. The increased latent credit risk due to the market environment was also taken into account by adjusting the calculation method for the general loan loss provision. Overall, the key risk parameters in the core business area are still at a good level from the Bank's perspective as at the balance sheet date of 31 December 2020. This is indicated, among other things, by the historically low proportion of financing in default out of the overall portfolio. The constant focus on good credit ratings and sustainable collateral in the context of new business acquisition helps to mitigate possible negative effects of the coronavirus pandemic on the loan portfolio, although the historic lows will also be a thing of the past.

The capital market portfolio was further reduced in 2020 in line with the business strategy and the associated risks from credit spreads were reduced. The Bank's interest rate risk also remained very low as a result of Deutsche Hypo's low risk appetite. Deutsche Hypo was able to adequately cover its funding requirements at all times at conditions in line with the market during the past challenging financial year. The internal, regulatory and statutory minimum liquidity requirements as well as the Group strategic limit requirements were consistently met.

Deutsche Hypo will, in its estimation, continue to systematically pursue its conservative risk policy. This also includes adhering to existing risk standards in the commercial real estate financing business as well as continuing to reduce the public finance portfolio in a way that is not detrimental to the profit and loss account. The continuous improvement of risk competence will be maintained in the future.

Hanover, 2 March 2021

The Board of Managing Directors

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ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2020

ASSETS

	€	€	€	31 December 2019 (in € thousands)
1. Cash reserve				
b) Credit with central banks		97,505,558.05		451,735
of which:				
with the "Deutsche Bundesbank"				
€ 97,505,558.05 (PY € 451,735 thousand)				
			97,505,558.05	**451,735**
2. Receivables from financial institutions				
a) Mortgage loans		3,418,573.23		5,092
b) Loans to local authorities		173,327,172.39		183,729
c) Other receivables		1,284,396,896.94		1,186,408
of which: due daily				
€ 935,480,895.48 (PY € 899,011 thousand)				
			1,461,142,642.56	**1,375,229**
3. Receivables from customers				
a) Mortgage loans		11,859,560,478.49		12,183,227
b) Loans to local authorities		2,154,263,586.10		2,289,956
c) Other receivables		5,054,766.99		27,750
			14,018,878,831.58	**14,500,932**
4. Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers	1,716,059,174.93			2,120,991
of which:				
lendable to the "Deutsche Bundesbank"				
€ 1,037,497,293.88 (PY € 1,317,983 thousand)				
bb) from other issuers	1,329,965,957.67			1,895,852
of which:				
lendable to the "Deutsche Bundesbank"				
€ 1,245,339,861.62 (PY € 1,722,672 thousand)				
		3,046,025,132.60		
c) Own bonds		309,439.02		278
Nominal amount:				
€ 300,000.00 (PY € 263 thousand)				
			3,046,334,571.62	**4,017,121**
5. Intangible assets				
b) Purchased licenses, industrial property rights, as well as licenses to such rights and assets		774,355.69		1,174
d) Payments made on account		232,475.58		99
			1,006,831.27	**1,273**
6. Tangible assets			**2,636,006.95**	**1,808**
7. Other assets			**66,731,102.97**	**64,012**
8. Accrued and deferred items				
a) from the issue and loan transaction		31,393,949.95		37,801
b) others		3,808,906.42		4,266
			35,202,856.37	**42,067**
Total assets			**18,729,438,401.37**	**20,454,176**

LIABILITIES

	€	€	€	31 December 2019 (in € thousands)
1. Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		168,258,799.34		193,353
b) Issued registered public Pfandbriefe		136,895,604.56		218,090
c) Other liabilities		1,585,708,056.51		2,442,150
of which: due daily				
€ 259,221,883.67 (PY € 346,520 thousand)				
			1,890,862,460.41	2,853,593
2. Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		540,271,021.89		565,311
b) Issued registered public Pfandbriefe		2,690,877,987.75		2,935,857
d) Other liabilities		3,777,526,131.60		3,302,208
of which: due daily				
€ 1,347,025.33 (PY € 4,303 thousand)				
			7,008,675,141.24	6,803,376
3. Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,521,624,388.63			7,572,262
ab) public Pfandbriefe	50,833,387.56			132,802
ac) other bonds	1,021,977,492.84			1,661,686
		8,594,435,269.03		
			8,594,435,269.03	9,366,751
4. Other liabilities			57,801,078.07	92,200
5. Accrued and deferred items				
a) from the issue and loan transaction		42,021,958.65		45,576
b) other		5,298,410.89		8,225
			47,320,369.54	53,801
6. Provisions				
a) Provisions from pensions and similar obligations		67,775,027.08		61,049
b) Tax provisions		35,000.00		37
c) Other provisions		23,962,432.81		29,797
			91,772,459.89	90,883
7. Subordinated liabilities			186,000,000.00	341,000
8. Funds for general banking risks			14,400,000.00	14,400
9. Equity				
a) Subscribed capital		80,640,000.00		80,640
b) Capital reserves		481,313,877.23		481,314
c) Profit reserves				
ca) statutory reserves	18,917,799.60			18,918
cd) other profit reserves	257,299,946.36			257,300
		276,217,745.96		
			838,171,623.19	838,172
Total liabilities			18,729,438,401.37	20,454,176
1. Contingent liabilities				
b) Liabilities arising from sureties and guarantee agreements		386,102,588.69		393,798
			386,102,588.69	393,798
2. Other obligations				
c) Irrevocable credit commitments		925,207,941.13		1,072,646
			925,207,941.13	1,072,646

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2020

	€	€	€	€	1 January 2019 – 31 December 2019 (in € thousands)
1. Interest earnings from					
a) Credit and money market transactions	364,749,723.93				427,035
less neg. interest from money market transactions	– 5,158,883.28				– 3,875
		359,590,840.65			
b) Fixed interest bearing securities and book-entry securities		96,764,886.33			109,323
			456,355,726.98		
2. Interest expenses					
Interest expenses from the banking business		302,741,561.49			356,609
less positive interest from the banking business		– 5,391,356.84			– 6,666
			297,350,204.65		
				159,005,522.33	182,540
3. Commission income			9,259,795.32		10,065
4. Commission expenses			7,079,619.63		9,167
				2,180,175.69	899
5. Other operating income				1,434,814.56	8,559
6. General administrative expenses					
a) Personnel expenses					
aa) wages and salaries		31,551,604.83			33,652
ab) social security and expenses for pension plans and for support		7,375,601.89			7,570
of which: for pension plans € 1,982,528.28 (PY € 1,510 thousand)					
			38,927,206.72		
b) Other administrative expenses			36,303,642.72		39,074
				75,230,849.44	80,296
7. Write-downs and value adjustments of intangible assets and tangible fixed assets				1,015,156.14	887
8. Other operating expenses				7,848,390.88	8,515
9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business			33,539,739.04		41,643
				33,539,739.04	41,643
10. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securites treated as fixed assets			1,488,072.47		5,514
				1,488,072.47	5,514
11. Result from normal operations				43,498,304.61	55,142
12. Extraordinary income			3,664,931.18		0
13. Extraordinary expenses			0.00		928
14. Extraordinary result				3,664,931.18	– 928
15. Taxes on income			– 385,663.57		– 65
16. Other taxes not included under item 8			46,040.13		76
				– 339,623.44	11
17. Profits surrendered under partial surrender agreements or a profit and loss transfer agreement				47,502,859.23	54,203
18. Profit for the period				0.00	0
19. Transfer to profit reserves				0.00	0
20. Balance sheet profit				0.00	0

STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2020	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**
Capital increase/ reduction	0	0	0	0	0	0	0	0
Allocation to/withdrawal from reserves	0	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0	0
As of 31 December 2020	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2019	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**
Capital increase/ reduction	0	0	0	0	0	0	0	0
Allocation to/withdrawal from reserves	0	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0	0
As of 31 December 2019	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**

CASH FLOW STATEMENT

in € thousands		1 January – 31 December 2020	1 January – 31 December 2019
1.	**Net result**	**0**	**0**
2.	Write-downs, value adjustments and write-ups to receivables and tangible fixed assets	38,346	36,715
3.	Increase/decrease in reserves	4,557	– 8,620
4.	Other non-cash expenses/income	0	0
5.	Profit/loss from the disposal of tangible fixed assets	– 13,721	– 12,900
6.	Profit to be surrendered under a profit and loss transfer agreement	47,503	54,203
7.	Other adjustments (balance)	– 1,769	– 2,848
8.	Increase/decrease of receivables from financial institutions	– 103,303	– 91,756
9.	Increase/decrease of receivables from customers	438,158	282,949
10.	Increase/decrease of securities (if not financial assets)	– 38	46,555
11.	Increase/decrease of other assets from current operations	– 3,732	52,240
12.	Increase/decrease of liabilities to financial institutions	– 946,281	– 246,157
13.	Increase/decrease of liabilities to customers	213,707	– 500,583
14.	Increase/decrease of securitised liabilities	– 766,998	182,352
15.	Increase/decrease of other liabilities from current operations	– 16,648	40,153
16.	Interest expenses/income	– 159,006	– 182,540
17.	Expenses/income from extraordinary items	– 3,665	928
18.	Income tax expenses/income	– 386	– 65
19.	Interest and dividend payments received	473,592	547,193
20.	Interest paid	– 299,123	– 345,549
21.	Extraordinary deposits	0	0
22.	Extraordinary disbursements	0	0
23.	Income tax payments	– 1,980	– 2,667
24.	**Cash flow from current operations (total of items 1 to 23)**	**– 1,100,786**	**– 150,397**
25.	Deposits from disposals of financial assets	1,250,202	1,031,564
26.	Disbursements for investments in financial assets	– 274,053	– 327,662
27.	Deposits from disposals of tangible fixed assets	1	0
28.	Disbursements for investments in tangible fixed assets	– 1,431	– 530
29.	Deposits from disposals of intangible fixed assets	0	0
30.	Disbursements for investments in intangible fixed assets	– 146	– 166
31.	Deposits from disposals from the consolidated group	0	0
32.	Disbursements for additions to the consolidated group	0	0
33.	Changes in funds from other investment activities (balance)	0	0
34.	Deposits from extraordinary items	0	0
35.	Disbursements for extraordinary items	0	0
36.	**Cash flow from investment activities (total of items 25 to 35)**	**974,573**	**703,206**
37.	Deposits from equity contributions by shareholders of the parent company	0	0
38.	Deposits from equity contributions by other shareholders	0	0
39.	Disbursements for equity reductions to shareholders of the parent company	0	0
40.	Disbursements for equity reductions to other shareholders	0	0
41.	Deposits from extraordinary items	0	0
42.	Disbursements for extraordinary items	0	0
43.	Dividends paid to shareholders of the parent company	0	0
44.	Dividends paid to other shareholders	0	0
45.	Other disbursements to company owners	– 18,813	– 21,040
46.	Profit and loss transfer	– 54,203	– 55,196
47.	Changes in funds from other capital (balance)	– 155,000	– 38,500
48.	**Cash flow from financing activities (total of items 37 to 47)**	**– 228,016**	**– 114,736**
49.	Cash changes in finance funds (total from 24, 36, 48)	– 354,229	438,073
50.	Exchange-rate and valuation-related change in finance funds	0	0
51.	Consolidation-related change in finance funds	0	0
52.	Finance funds at the start of the period	451,735	13,662
53.	**Finance funds at the end of period (total of items 49 to 52)**	**97,506**	**451,735**

The cash flow statement has been prepared in accordance with the recommendations of German Accounting Standard (GAS) 21. Finance funds are derived from the bank's cash reserve reported in the balance sheet, which exclusively comprises credit balances with the Deutsche Bundesbank. The credit balance is not subject to any restraints on disposal. Existing bank balances at other banks were not included in the finance funds. Deutsche Hypo does not hold any securities that meet the definition of GAS 21 for inclusion in cash equivalents and thus for addition to the finance funds.

NOTES

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

General information on annual financial statements and accounting and valuation principles

1. General information on the company and on group affiliation

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

According to Section 271 (2) of the German Commercial Code (HGB), Deutsche Hypo (Actien-Gesellschaft), Hanover, (Deutsche Hypo or the Bank) is a company affiliated to Norddeutsche Landesbank Girozentrale (Anstalt öffentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB), and is included in the consolidated financial statements of NORD/LB. NORD/LB's consolidated financial statements as of 31 December 2019 were published on 4 May 2020 in the federal gazette.

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

2. Events after the reporting date

After the reporting date on 31 December 2020, an extended hard lockdown was imposed from January 2021 with a significant reduction in economic activity and restrictions to the business activities of a large number of companies (including hotels, retail, travel and leisure businesses). The spread of the coronavirus pandemic, therefore, continues to have a significant impact on operating activities in many markets. The probability of adverse effects on economic development and negative consequences for the real estate industry has risen substantially as a result. This, therefore, constitutes a non-adjusting event after the reporting date.

There is no way of predicting the ultimate and specific effects of the pandemic on the economy, individual markets or sectors. In view of the dynamic nature of the current situation, the forecasts included in the management report are subject to a high level of uncertainty. Deutsche Hypo has commented in depth in this respect in the "effects of the coronavirus pandemic on future business development" section of the forecast report, which forms part of the management report. For this reason, we refer at this point to these statements in the management report.

In relation to the decision to integrate Deutsche Hypo into NORD/LB, the merger agreement between NORD/LB and Deutsche Hypo was concluded on 15 January 2021.

3. Statements on the continuation of business activities

The Owners' Meeting of NORD/LB and the Annual General Meeting decided on 14 December 2020 that Deutsche Hypo should be fully integrated into NORD/LB. The integration will take place by way of a merger on the basis of a merger agreement in accordance with Section 16 para. 1 clause 2 of the State Treaty between the Federal State of Lower Saxony, the Federal State of Saxony-Anhalt and the Federal State of Mecklenburg-Western Pomerania via Norddeutsche Landesbank – Girozentrale – dated 6 December 2019 (Lower Saxony Gazette of Laws and Ordinances No. 23/2019, p. 399) in conjunction with Sections 2 et seq. and 60 et seq. of the Transformation Act by way of merger.

The merger is expected to be completed on 30 June 2021, by entry in the commercial register. When the merger takes effect, all of Deutsche Hypo's assets and liabilities would be transferred to NORD/LB by way of legal succession with retroactive effect as of 1 January 2021.

4. Accounting regulations

The annual financial statements of Deutsche Hypo for the financial year 2020 have been prepared in accordance with the provisions of the HGB in conjunction with the German Ordinance on Accounting of Financial Institutions (RechKredV) and with due adherence to the provisions of the German Stock Corporation Act (AktG) and the German Pfandbrief Act (PfandBG). The annual financial statements comprise the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes. The breakdown of the balance sheet and the income statement is based on forms 1 and 3 of the RechKredV.

Due to the fiscal tax unit with NORD/LB, Deutsche Hypo only reports income taxes that relate to foreign locations. These are calculated on the basis of the taxable result at the applicable income tax rate.

5. Accounting and valuation principles

Receivables from institutions and customers are reported at their nominal value (Section 340e (2) of the HGB). Any differences between the nominal value and the payout value, as far as similar in nature to interest, are reported under accrued and deferred items, which are released on a straight-line basis. Appropriate loan loss provisions and provisions according to cautious criteria are formed to cover identifiable risks in the credit business. Irrecoverable receivables are written off.

Latent credit risk is accounted for in the form of general loan loss provisions. The method of calculating general loan loss provisions was adjusted compared to the previous year. In the past, general loan loss provisions had been calculated in accordance with the requirements of the Federal Ministry of Finance Circular dated 10 January 1994. In order to adequately account for the risk of latent default risks in lending business against the backdrop of the coronavirus pandemic, the method was adjusted compared to the approach taken as of 31 December 2019, with general loan loss provisions calculated on the basis of expected losses in reference to the level 1 and level 2 risk provision calculation approach in accordance with IFRS 9. This new approach takes greater account of the risk of default due to future economic developments. The change means that the annual financial statements now present a truer and fairer view of the net assets, financial and income position in accordance with the principles of proper accounting. In addition, the change also takes into account the corresponding legal developments. As of 31 December 2020, the general loan loss provision in accordance with German commercial law calculated using the adjusted method was € 71.7 million higher than the general loan loss provision amount under German commercial law that would have been calculated as of the same date under the previous method based on the Federal Ministry of Finance Circular dated 10 January 1994. All in all, the addition to the general loan loss provision resulted in risk provision expenses of € 69.9 million in the past financial year.

Bonds and other fixed interest securities are reported at cost if they involve securities held as fixed assets. If a permanent reduction in value is considered likely, impairments are recognised pursuant to Section 253 (3) clause 5 of the HGB. Reductions in value are assessed on the basis of evaluations of the relevant issuer's credit rating. Changes in the fair value of such securities are considered to be possible indications of impairment, but are not deemed to be a sufficient criterion on their own for a permanent reduction in value. Impairments are reversed pursuant to Section 253 (5) clause 1 of the HGB if the reasons for the impairment no longer exist. Securities from the liquidity reserve are recognised in accordance with the lower-of-cost-or-market principle pursuant to Section 253 (4) of the HGB. Zero coupon bonds are measured at cost plus accrued interest. If there are securities transferred under repurchase agreements, this is conducted as part of real securities repurchase transactions, which are reported in accordance with the requirements of Section 340b (4) of the HGB.

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

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

Tangible assets and intangible fixed assets are carried at their acquisition cost less straight-line depreciation over their ordinary useful life. Impairments are recognised in a permanent reduction in value is considered likely. Assets acquired at a cost of between € 250.01 and € 1,000.00 are capitalised as compound items in accordance with Section 6 (2a) of the German Income Tax Act (EStG) and written off over a period of five years at a flat rate of 20 % per year. Low-value assets with costs of less than € 250.00 are written off in full in the year of acquisition in accordance with the procedure under tax law.

Deutsche Hypo does not recognise deferred taxes due to the existing fiscal tax unit.

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

Pension provisions are calculated by independent actuaries using the project unit credit method. In this method, pensions paid on the reporting date and the share of entitlements accrued (or earned) during the service period as of the reporting date is evaluated. Increases based on expected future salary trends or pension adjustments are also taken into account.

The cash value of the obligation is calculated by discounting the expected future benefits (settlement value) pursuant to Section 253 (2) clause 1 of the HGB at the average market rate of interest in accordance with its residual term over the past ten years. The difference pursuant to Section 253 (6) clause 1 of the HGB totalled € 9.8 million as of 31 December 2020 (2019: € 9.2 million). When discounting pension provisions, use is made of the simplification rule set out in Section 253 (2) clause 2 of the HGB and the average market interest rate is applied on a flat-rate basis for a residual term of 15 years. The 2018 G mortality tables published by Heubeck AG were used as of the reporting date to calculate pension provisions. The calculation was based on the following actuarial assumptions as of 31 December 2020:

	31.12.2020	31.12.2019
Actuarial interest	2.31 %	2.71 %
Mortality tables	Heubeck RT 2018 G	Heubeck RT 2018 G
Expectancy dynamics	2.00 % p.a.	2.00 % p.a.
Pension dynamics	2.75 %; 2.87 %; 1.00 %	2.75 %; 2.87 %; 1.00 %

Fund assets from reinsurance contracts for a small portion of the calculated obligation existed as of the balance sheet date at a fair value of € 3.7 million (2019: € 3.8 million); these assets are netted with the pension provisions under application of Section 246 (2) clause 2 of the HGB. The fair value as defined in Section 255 (4) clause 4 of the HGB is equal to amortised cost calculated in accordance with the lower-of-cost-or-market-principle pursuant to Section 253 (4) of the HGB. The fund assets of the insurance contract were calculated in accordance with the calculation principles as defined in Section 169 (3) of the German Insurance Contracts Act (VVG). The settlement value of the covered obligations amounted to € 13.0 million as of the balance sheet date (2019: € 12.4 million). The reinsurance contract resulted in an income contribution equal to the change in the asset value compared to the previous period, plus insurance benefits received in financial year 2020 and less insurance premiums paid in financial year 2020. Income from pledged reinsurance contracts amounted to € 0.1 million in the reporting year (2019: € 0.1 million).

Tax provisions and other provisions are formed in accordance with the requirements of Section 249 (1) clause 1 of the HGB in conjunction with Section 253 (1) clause 2. 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 pursuant to Section 253 (2) clause 1 of the HGB. The applicable discount rate is determined by Deutsche Bundesbank in accordance with the German Provision Discounting Ordinance (RückAbzinsV) and published monthly. Expenses and income from the compounding or discounting of provisions are disclosed in net interest result for provisions from the credit business and in other operating result for provisions from the non-banking business.

Restructuring provisions are recognised to the extent that the Bank incurs liabilities or surplus obligations under a restructuring programme imposed upon it. Deutsche Hypo recognises provisions from announced personnel-related measures under other provisions. There were no further restructuring provisions from the cost-reduction programme in previous years as of the balance sheet date (2019: € 7.8 million). As soon as the obligation is quantifiable and can be defined with a suitable degree of certainty, for example due to signed contracts, amounts are reclassified to other liabilities if they relate to settlement payments or to provisions for pensions and similar obligations if there are benefit commitments after reaching retirement age. Benefit commitments concerning periods prior to retirement age are recognised in other provisions. Income and expenses from restructuring measures are recognised in the extraordinary result.

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

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

6. Currency conversion

The assets, liabilities and off-balance-sheet transactions denominated in foreign currencies are converted in line with the principles stipulated in Sections 256a and 340h of the HGB (“special cover”). All of the Bank’s foreign currency transactions are subject to the special cover. Excesses in the total positions per currency are, as a rule, insignificant amounts and have a term of up to one year. If an asset in a foreign currency is at acute risk of default, it will be reduced by the amount in question, so that it is no longer taken into consideration in the special cover. Receivables and liabilities in a foreign currency are converted at the mean spot exchange rate on the reporting date. Forward transactions are valued using the split forward price method (spot price and swap rate), as they are concluded to hedge interest-bearing items. All exchange rates are calculated by and taken from the European System of Central Banks (ECB reference rate).

The adjusting items created from valuing swap and forward exchange transactions at current rates are reported as net amounts in relation to the currency and disclosed under other assets or other liabilities as appropriate. Expenses arising from currency conversion are included in the income statement. Income arising from currency conversion is taken into consideration insofar as it is based on specially covered transactions, or if the assets and liabilities being converted have a residual term of one year or less. These expenses and this income are reported as net amounts under “other operating expenses” or under “other operating income”.

The amount of net assets denominated in foreign currency totalled € 1,931.9 million as of the reporting date (2019: € 2,498.8 million); the amount of the liabilities denominated in a foreign currency was € 453.0 million (2019: € 566.5 million).

7. Derivatives

All derivatives of Deutsche Hypo are assigned to the non-trading portfolio and are, therefore, governed by the principle of non-accounting of pending transactions. The bank checks the requirement for provisions for contingent losses with regard to the banking book on the respective reporting date. Please refer to the next section of the notes to the financial statements for more information.

Balance sheet valuation units did not exist as of the reporting date.

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

The Bank also has credit derivatives in its portfolio. With regard to the credit derivatives where the Bank is the collateral-provider, these qualify as issued loan collateral They are reported under contingent liability, provided that no provision was formed for them.

Compensation payments have been arranged between the Bank and a number of derivatives counterparties due to the discounting switch for cash collaterals from EONIA to €STR as part of IBOR reforms for euro derivatives. These payments were calculated separately for each individual transaction and recognised immediately through profit or loss in interest income or interest expenses. The compensation payments resulted in Deutsche Hypo incurring total interest expenses of € 0.5 million.

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

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

Notes on the balance sheet

9. Receivables from financial institutions

in € thousands	31.12.2020	31.12.2019
Breakdown of residual maturities		
due daily	935,481	899,011
up to three months	39,130	7,347
between three months and one year	201,276	149,528
between one year and five years	86,721	93,419
more than five years	80,000	90,000
proportionate interest in total	118,535	135,924
Balance sheet item	**1,461,143**	**1,375,229**
of which from affiliated companies	**238,794**	159,544

10. Receivables from customers

in € thousands	31.12.2020	31.12.2019
Breakdown of residual maturities		
up to three months	610,079	437,971
between three months and one year	1,609,041	1,523,932
between one year and five years	6,338,842	6,490,602
more than five years	5,397,590	5,977,497
proportionate interest in total	63,327	70,930
Balance sheet item	**14,018,879**	**14,500,932**

11. Bonds and other fixed interest securities

in € thousands	31.12.2020	31.12.2019
Balance sheet item	**3,046,335**	**4,017,121**
of which to affiliated companies	10,008	509,841
of which due in the following year	241,842	1,152,369
of which exchange eligible	3,046,335	4,017,121
of which listed on exchanges	2,845,750	3,788,954
of which not listed on exchanges	200,585	288,167
of which not valued at the lower of cost or market value*)	184,917	124,910
fair value of securities not valued at lower of cost or market value	164,100	96,766

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

12. Fixed asset schedule

in € thousands	Intangible assets	Tangible assets*)
Balance sheet date 31.12.2019	1,273	1,808
Historical costs 01.01.2020	8,663	5,045
Change in additions	146	1,431
Change in disposals	0	86
Historical costs 31.12.2020	8,810	6,390
Accumulated depreciation as of 01.01.2020	7,391	3,237
Depreciation in current financial year	412	603
Change in disposals	0	86
Accumulated depreciation as of 31.12.2020	7,803	3,754
Balance sheet date 31.12.2020	1,007	2,636

*) Tangible assets involve only business and office equipment.

in € thousands	Securities**)
Balance sheet date 31.12.2019	4,016,843
Change*)	– 970,818
Balance sheet date 31.12.2020	3,046,025

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

13. Other assets

in € thousands	31.12.2020	31.12.2019
Balance sheet item	66,731	64,012
of which adjustment items from foreign currencies	62,776	62,748
of which tax receivables	2,859	496
of which adjustment items from foreign currencies	62,748	120,633

14. Accrued items

in € thousands	31.12.2020	31.12.2019
Balance sheet item	35,483	42,067
of which premium on receivables	6,217	6,387
of which issuing discount from bonds	25,177	31,414

15. Liabilities to financial institutions

in € thousands	31.12.2020	31.12.2019
Breakdown of residual maturities		
due daily	259,222	346,520
up to three months	128,496	1,210,471
between three months and one year	288,852	545,045
between one year and five years	857,687	199,148
more than five years	211,348	397,403
proportionate interest in total	145,257	155,006
Balance sheet item	1,890,862	2,853,593
of which not senior liabilities with preferential treatment*)	198,952	214,447
of which to affiliated companies	125,512	412,834
assets pledged as collateral	287,349	1,508,097
of which within the context of real pension transactions	287,349	1,508,097

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

16. Liabilities to customers

in € thousands	31.12.2020	31.12.2019
Breakdown of residual maturities		
due daily	1,347	4,303
up to three months	432,390	154,445
between three months and one year	999,718	877,290
between one year and five years	2,521,170	2,455,931
more than five years	2,967,055	3,216,004
proportionate interest in total	86,995	95,403
Balance sheet item	7,008,675	6,803,376
of which not senior liabilities with preferential treatment*)	1,279,043	1,589,435

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

17. Securitised liabilities

in € thousands	31.12.2020	31.12.2019
Balance sheet item	8,594,435	9,366,751
of which not senior liabilities with preferential treatment*)	609,626	1,448,054
of which due in the following year	1,380,266	1,434,057
of which to affiliated companies	120,122	241,203

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

18. Other liabilities

in € thousands	31.12.2020	31.12.2019
Balance sheet item	57,801	92,200
of which adjustment items from foreign currencies	52,821	79,258
of which pro-rata interest on subordinated liabilities	2,577	9,929

19. Deferred items

in € thousands	31.12.2020	31.12.2019
Balance sheet item	47,320	53,801
of which discounts on receivables	3,046	3,969

20. Subordinated liabilities

Subordinated liabilities stood at € 186.0 million as of the balance sheet date (2019: € 341.0 million). Three subordinated liabilities exceeded 10.0 % of the total amount reported. These liabilities concerned an amount of € 20.0 million subject to an interest rate of 6.00 % and due on 27 September 2022, an amount of € 20.0 million subject to an interest rate of 5.30 % and due on 20 November 2023 and an amount of € 75.0 million subject to an interest rate of 5.00 % and due on 23 December 2026. Early repayment will only be possible in the event of additional payments to the lender or its legal successor due to changes in taxation or negative developments in regulatory recognition. In the event of dissolution, liquidation or insolvency of the Bank, or in the case of a settlement or procedure aimed at preventing the Bank's insolvency, the liabilities are subordinate to other non-subordinated liabilities. There is no intention to convert liabilities into balance sheet equity or another form of debt. These conditions also relate to other borrowings.

Interest expenses related to subordinated liabilities amounted to € 11.5 million in the reporting period (2019: € 20.0 million). As of the balance sheet date, there were subordinated liabilities to affiliated companies in the amount of € 75.0 million (2019: € 165.0 million).

21. Notes on the development of equity

As of 31 December 2020, Deutsche Hypo held subscribed capital of € 80.6 million divided into 13,440,000 individual shares, as in the previous year.

22. Contingent liabilities and other obligations

in € thousands	31.12.2020	31.12.2019
Liabilities arising from sureties and guarantee agreements	386,103	393,798
of which total return swaps	85,856	118,956
of which sureties in the mortgage business	300,247	274,842
of which assets pledged as collateral	3,084	2,090

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

Other obligations relate exclusively to irrevocable credit commitments.

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

Deutsche Hypo is a member of the security reserve of Landesbanks and giro centres. The membership amounts are measured on the basis of the risk-oriented principles in accordance with the Articles of Association. Furthermore, the Bank is obligated to make annual contributions to the restructuring funds for financial institutions (bank levy). The Bank did not make use of the option to provide a portion of the annual contributions to the restructuring funds in the form of irrevocable payment obligations. Accordingly, there are no financial obligations in terms of Section 285 (3a) of the HGB. However, the Bank is also obligated to provide reserve liability, if requested. This represents a risk for the financial position in terms of Section 285 (3) of the HGB.

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

24. Derivative financial instruments

The Bank uses derivative financial instruments to manage the general interest rate risk (overall bank management) as well as to hedge foreign currency risk. Forward exchange transactions to hedge against foreign currency positions (currency-related transactions) are reported under forward transactions. Other reported items exclusively comprise swap transactions to hedge against interest rate risk (risk-related transactions) and changes in interest rate and currency risk (currency and interest rate-related transactions). The Bank also has credit derivatives in its portfolio related to the credit substitution business. According to IDW RS BFA 1, these represent collateral issued and received; as a result, they are not included in the presentation below.

Market values represent the current value of the derivatives at market conditions without accrued interest, calculated using a calculation model (in most cases the discounted cash flow model) on the basis of observable market parameters (yields curves, forex rates, etc.). The book values (without pro-rata interest) are comprised of upfronts. The figures determined in this way are summarised in the following tables by product category.

31.12.2020	Nominal amount	Market value		Book value		Balance sheet item
in € millions		positive	negative	positive	negative	
Currency-related transactions	344	1	2	0	0	
Interest rate-related transactions	31,581	1,399	1,967	4	5	Assets 8; Liabilities 5
Interest rate- and currency-related transactions	1,872	67	177	0	0	Assets 8; Liabilities 5
Total	33,797	1,467	2,146	4	5	

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

Notes on the income statement

25. Other operating income

in € thousands	31.12.2020	31.12.2019
Income statement item	1,435	8,559
of which significant items:		
income from the release of provisions*)	584	8,291
reimbursement of prepayments	565	62
reimbursement of expenses	73	110
gains from currency transactions	15	0

*) The amount of the previous year resulted mainly from the reversal of provisions due to legal uncertainties in existing contracts in the lending business.

26. Other operating expenses

in € thousands	31.12.2019	31.12.2019
Income statement item	7,848	8,515
of which significant items:		
expenses from the discounting of provisions*)	7,326	7,986
additions to provisions due to litigation claims	311	218
losses from currency transactions	0	37

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

27. Extraordinary income

in € thousands	31.12.2020	31.12.2019
Income statement item	3,665	0
of which release of provisions from the cost-reduction programme	3,509	0
of which release of provisions from the efficiency improvement programme	156	0

28. Extraordinary expenses

in € thousands	31.12.2020	31.12.2019
Income statement item	0	928
of which additions to provisions due to cost-reduction programme*)	0	900
of which additions to provisions due to efficiency improvement programme	0	28

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

Other information

29. Services rendered to third parties for management and brokerage

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

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

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

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

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

Mortgage Pfandbriefe:

	Nominal		Net present value		Risk net present value*)	
in € millions	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Mortgage Pfandbriefe	8,707	8,306	9,092	8,628	8,704	8,117
of which derivatives	–	–	–	– 2	–	– 2
Cover pool	9,041	8,866	10,015	9,736	9,485	9,028
of which derivatives	–	–	13	11	19	15
Excess cover	334	561	923	1.108	781	911

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

	31.12.2020		31.12.2019	
in € millions	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	445	967	500	579
more than 0.5 years up to 1 year	528	637	25	635
more than 1 year up to 1.5 years	775	757	467	762
more than 1.5 years up to 2 years	580	520	528	548
more than 2 years up to 3 years	1,308	964	1,380	1,157
more than 3 years up to 4 years	1,816	971	1,308	866
more than 4 years up to 5 years	775	874	1,316	908
more than 5 years up to 10 years	2,173	2,746	2,468	2,776
more than 10 years	308	605	313	637
Total	8,707	9,041	8,306	8,866

Public Pfandbriefe:

	Nominal		Net present value		Risk net present value*)	
in € millions	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Public Pfandbriefe	2,815	3,215	3,705	4,172	3,493	3,799
of which derivatives	–	–	0	–	–	– 5
Cover pool	2,922	3,483	4,096	4,717	3,699	3,869
of which derivatives	–	–	5	–	13	–
Excess cover	**107**	**268**	**390**	**544**	**205**	**70**

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

	31.12.2020		31.12.2019	
in € millions	Pfandbriefe in circulation	Cover pool	Pfandbriefe in circulation	Cover pool
up to 0.5 years	183	221	106	394
more than 0.5 years up to 1 year	74	131	192	107
more than 1 year up to 1.5 years	109	53	183	47
more than 1.5 years up to 2 years	192	72	74	16
more than 2 years up to 3 years	293	290	301	180
more than 3 years up to 4 years	129	373	293	318
more than 4 years up to 5 years	130	98	129	443
more than 5 years up to 10 years	1,103	724	1,243	867
more than 10 years	603	962	696	1,110
Total	**2,815**	**2,922**	**3,215**	**3,483**

Other cover assets for mortgage Pfandbriefe:

in € millions	Germany		EU		France		Italy	
(each as of 31.12.)	2020	2019	2020	2019	2020	2019	2020	2019
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	–	–	39	41	–	–	15	15
of which: uncovered debt securities in terms of Art. 129 of Regulation (EU) 575/2013	–	–	39	41	–	–	15	15
Claims in terms of Section 19 (1) clause 3 of the PfandBG	314	86	–	–	48	48	–	–
Total	**314**	**86**	**39**	**41**	**48**	**48**	**15**	**15**

in € millions (each as of 31.12.)	Japan		The Netherlands		Other countries/ institutions		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
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	–	–	50	–	45	–	149	56
Claims in terms of Section 19 (1) clause 2 of the PfandBG	–	–	50	–	45	–	149	56
Claims in terms of Section 19 (1) clause 3 of the PfandBG	149	149	–	–	–	–	511	283
Total	**149**	**149**	**50**	**–**	**45**	**–**	**660**	**339**

Other cover assets for public Pfandbriefe were not available in either the previous year or as of 31 December 2020:

Other key figures about the Pfandbriefe in circulation and the cover assets used:

Mortgage Pfandbriefe:

		31.12.2020	31.12.2019
Pfandbriefe in circulation	in € millions	8,707	8,306
of which share of fixed-rate Pfandbriefe	%	89.17	94.38
Cover pool	in € millions	9,041	8,866
of which total amount of claims that exceed the limits in accordance with Section 13 (1) of the PfandBG	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 2 of the PfandBG	in € millions	–	–
of which total amount of claims that exceed the limits of Section 19 (1) clause 3 of the PfandBG	in € millions	–	–
of which share of fixed-rate cover pool	%	76.2	73.7
Net cash value in accordance with Section 6 of the PfandBarwertV for each foreign currency (in € millions) (net of assets and liabilities)	CHF	19.5	20.1
	GBP	451.5	**750.3**
	USD	27.9	**31.9**
Volume-weighted average of age of claims (past term since credit award seasoning (Section 28 (1) clause 11 of the PfandBG)	years	5.3	4.8

Public Pfandbriefe:

		31.12.2020	31.12.2019
Pfandbriefe in circulation	in € millions	2,815	3,215
of which share of fixed-rate Pfandbriefe	%	88.24	87.71
Cover pool	in € millions	2.922	3.483
of which total amount of claims that exceed the limits of Section 20 (2) of the PfandBG	in € millions	–	–
of which share of fixed-rate cover pool	%	81.9	81.6
Net cash value in accordance with Section 6 of the PfandBarwertV for each foreign currency (in € millions) (net of assets and liabilities)	CAD	12.2	20.2
	CHF	79.4	78.7
	GBP	132.9	118.8
	JPY	33.2	– 44.6
	USD	30.7	182.7

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	31.12.2020	31.12.2019
up to and including € 0.3 million	10	12
more than € 0.3 million up to and including € 1 million	29	36
more than € 1 million up to and including € 10 million	1,022	1,111
more than € 10 million	7,321	7,369
Total	**8,381**	**8,528**

Breakdown of receivables by areas and types of use:

in € millions	Germany		Belgium		France	
(each as of 31.12.)	2020	2019	2020	2019	2020	2019
Apartments	1	1	–	–	0	0
Detached family homes	3	3	–	–	–	–
Multi-family homes	358	357	8	–	210	212
New buildings, not yet completed or not yet a source of income	2	15	–	–	–	–
Total residential	363	377	8	–	211	213
Office buildings	1,294	1,249	–	–	269	210
Commercial buildings	1,760	1,765	26	26	252	255
Industrial buildings	15	27	–	–	–	–
Other commercially used buildings	330	366	–	–	40	40
New buildings, not yet completed or not yet a source of income	346	316	–	–	18	54
Building sites	41	50	–	–	–	11
Total commercial	3,785	3,772	26	26	578	571
Total value of cover	**4,148**	**4,148**	**33**	**26**	**789**	**783**

in € millions	UK		Ireland		Luxembourg	
(each as of 31.12.)	2020	2019	2020	2019	2020	2019
Apartments	–	–	–	–	–	–
Detached family homes	–	–	–	–	–	–
Multi-family homes	79	83	–	–	–	–
New buildings, not yet completed or not yet a source of income	56	60	–	–	–	–
Total residential	135	143	–	–	–	–
Office buildings	386	629	83	83	34	13
Commercial buildings	397	475	50	50	–	–
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	11	12	–	–	–	–
New buildings, not yet completed or not yet a source of income	21	89	18	11	–	–
Building sites	–	–	–	–	–	–
Total commercial	814	1,204	150	143	34	13
Total value of cover	**949**	**1,347**	**150**	**143**	**34**	**13**

in € millions (each as of 31.12.)	The Netherlands 2020	The Netherlands 2019	Austria 2020	Austria 2019	Poland 2020	Poland 2019
Apartments	–	–	–	–	–	–
Detached family homes	63	64	–	–	–	–
Multi-family homes	898	903	25	–	–	–
New buildings, not yet completed or not yet a source of income	24	4	–	–	–	–
Total residential	985	971	25	–	–	–
Office buildings	281	273	80	84	223	164
Commercial buildings	216	165	8	9	175	123
Industrial buildings	–	–	–	–	–	–
Other commercially used buildings	136	163	–	–	23	23
New buildings, not yet completed or not yet a source of income	–	–	–	–	–	–
Building sites	–	–	–	–	–	–
Total commercial	633	601	88	93	420	309
Total value of cover	**1,618**	**1,572**	**113**	**93**	**420**	**309**

in € millions (each as of 31.12.)	Spain 2020	Spain 2019	USA 2020	USA 2019	Total – all countries 2020	Total – all countries 2019
Apartments	–	–	–	–	1	2
Detached family homes	–	–	–	–	66	68
Multi-family homes	–	–	–	–	1,577	1,556
New buildings, not yet completed or not yet a source of income	–	–	–	–	83	79
Total residential	–	–	–	–	1,726	1,703
Office buildings	17	8	31	35	2,697	2,747
Commercial buildings	72	43	–	–	2,954	2,910
Industrial buildings	–	–	–	–	15	27
Other commercially used buildings	7	8	–	–	546	611
New buildings, not yet completed or not yet a source of income	–	–	–	–	402	469
Building sites	–	–	–	–	41	61
Total commercial	96	59	31	35	6,655	6,824
Total value of cover	**96**	**59**	**31**	**35**	**8,381**	**8,528**

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

		31.12.2020	31.12.2019
Information pursuant to § 28 (2) clause 2 PfandBG			
Total amount of payments overdue by at least 90 days	in € millions	–	–
oof which total amount of claims if the overdue amount totals at least 5 % of the claim	in € millions	–	–
Information pursuant to § 28 (2) clause 3 PfandBG			
Average weighted loan-to-value ratio	in %	57.93	57.73
Average weighted loan-to-value ratio (on market basis)	in %	38.12	38.45
Information pursuant to § 28 (2) clause 4 PfandBG			
Foreclosures pending at the balance sheet date		–	–
Sequestration pending at the balance sheet date		–	–
Foreclosures executed in the past financial year		–	–
Real estate acquired in the past financial year		–	–
Total amount of interest overdue	in € millions	–	–

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

Breakdown by size groups:

in € millions	31.12.2020	31.12.2019
up to and including € 10 million	180	212
more than € 10 million up to and including € 100 million	2,742	3,146
more than € 100 million	–	125
Total	**2,922**	**3,483**

Distribution of claims by country and type of debtor:

	Germany		Belgium		EU		Finland	
in € millions as of 31.12.	2020	2019	2020	2019	2020	2019	2020	2019
Central state	–	–	–	–	–	3	–	–
Regional authority	1,433	1,450	75	125	–	–	9	10
Local authority	32	34	–	–	–	–	–	–
Other	284	375	125	125	93	157	–	–
Total	**1,748**	**1,860**	**200**	**250**	**93**	**160**	**9**	**10**

	France		UK		Italy		Japan	
in € millions as of 31.12.	2020	2019	2020	2019	2020	2019	2020	2019
Central state	–	–	–	–	23	237	–	–
Regional authority	–	22	–	–	39	47	10	10
Local authority	–	–	–	–	–	–	–	–
Other	11	12	55	59	–	–	–	–
Total	**11**	**34**	**55**	**59**	**61**	**284**	**10**	**10**

	Canada		Latvia		Austria		Poland	
in € millions as of 31.12.	2020	2019	2020	2019	2020	2019	2020	2019
Central state	–	–	–	–	428	430	32	33
Regional authority	13	65	11	12	7	9	–	–
Local authority	–	–	–	–	–	–	–	–
Other	28	57	–	–	25	25	–	–
Total	**41**	**122**	**12**	**12**	**460**	**464**	**32**	**33**

	Sweden		Switzerland		Spain		USA	
in € millions as of 31.12.	2020	2019	2020	2019	2020	2019	2020	2019
Central state	–	–	–	–	–	–	–	–
Regional authority	8	8	69	69	15	–	82	94
Local authority	–	–	–	–	–	–	–	–
Other	–	–	–	–	16	16	–	–
Total	**8**	**8**	**69**	**69**	**31**	**16**	**82**	**94**

	Total	
in € millions as of 31.12.	2020	2019
Central state	482	703
Regional authority	1,770	1,921
Local authority	32	34
Other	638	825
Total	**2,922**	**3,483**

As of 31 December 2020, there were no payments overdue by at least 90 days which were owed by public authorities.

31. Cover for bonds in circulation

	Mortgage Pfandbriefe		Public Pfandbriefe	
in € millions	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Ordinary cover				
Receivables from financial institutions				
Public sector loans	–	–	170	180
Receivables from customers				
Mortgage loans	8,381	8,528	–	–
Public sector loans	–	–	2,168	2,304
Bonds of public sector issuers	–	–	584	999
	8,381	8,528	2,922	3,483
Substitute cover				
Other receivables from financial institutions	175	24	–	–
Bonds and other fixed interest securities	485	315	–	–
	660	339	–	–
Total value of cover	9,041	8,866	2,922	3,483
Total amount in circulation requirement cover	8,707	8,306	2,815	3,215
Surplus cover	334	561	107	268

32. Members of the Board of Managing Directors

ANDREAS REHFUS

CHRISTIAN VEIT (since 1 September 2020)

SABINE BARTHAUER (until 31 August 2020)

33. Members of the Supervisory Board

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

CHRISTOPH SCHULZ (since 4 June 2020)
Member of the Board of Managing Directors of NORD/LB
– Vice Chairman of the Supervisory Board – (since 4 June 2020)

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

DORIS NORDMANN (since 4 June 2020)
State Secretary in the Ministry of Finance of Lower Saxony

ANDREA BEHRE
Bank employee, Deutsche Hypo

MICHAEL GEHRING
Bank employee, Deutsche Hypo

GÜNTER TALLNER (until 3 June 2020)
Bank employee, Deutsche Hypo
– Vice Chairman of the Supervisory Board – (until 3 June 2020)

THOMAS KRÜGER (until 3 June 2020)
Member of the Board of Managing Directors of VGH Versicherungen (retired)

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

in € thousands	2020	2019
Total emoluments		
Board of Managing Directors	910	800
Former Members of the Board of Managing Directors and their surviving dependants	1,045	1,302
Supervisory Board	120	120

in € thousands	2020	2019
Provisions for pension obligations owed to former Members of the Board of Managing Directors and their surviving dependants	15,949	15,664
of which in reserves	15,949	15,664

35. Size of workforce on average over the year

	2020	2019
Female employees	178	187
Male employees	212	229
Total	**390**	**416**

36. Auditor's fees

KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements of Deutsche Hypo. The audit included the audit and/or audit review of Group reporting packages as well as the audit review of the half-yearly financial report. Furthermore, a comfort letter was issued, confirmations were provided relating to the requirements of the Sparkassen-Finanzgruppe's institute-specific protection scheme, a quality-control check was performed on the efficiency review of Supervisory Board activities, confirmations were provided in relation to the targeted longer-term refinancing operations (TLTROs) and assistance was provided in relation to an audit conducted by the Deutsche Prüfstelle für Rechnungslegung.

As in the previous year, the disclosures in accordance with Section 285 clause 17 of the HGB have not been made. Instead, reference is made to the inclusion of the Bank in NORD/LB's consolidated financial statements. The auditor's fees incurred by Deutsche Hypo are accounted for in the corresponding disclosure in the consolidated financial statements.

Hanover, 2 March 2021

The Board of Managing Directors

Rehfus Veit

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, 2 March 2021

The Board of Managing Directors

Rehfus Veit

INDEPENDENT AUDITOR'S REPORT

To Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover

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

Opinions

We have audited the annual financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover, which comprise the balance sheet as at 31 December 2020, the profit and loss statement, the statement of changes in equity and the statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of the Company for the financial year from 1 January to 31 December 2020.

In accordance with German legal requirements, we have not audited the content of the components of the management report mentioned in the annex to the auditor's report.

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

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not extend to the content of the components of the management report mentioned in the annex to the auditor's report. The management report contains cross-references not required by law. Our audit opinion does not extend to these cross-references or to information the cross-references refer to.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

We refer to the disclosures in the "Accounting and valuation principles" section in the notes for the accounting and valuation principles applied at Deutsche Hypothekenbank (Actien-Gesellschaft).

THE FINANCIAL STATEMENT RISK

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

To calculate loan loss provisions for commercial real estate finance, the Company must estimate its expected cash flows from interest and principal payments and from the realisation of collateral provided. The cash flows are estimated on the basis of the expected development of material assumptions and parameters that have an impact on value. These include, in particular, the future development of the respective real estate markets and especially rents from the financed properties as well as the expected recoverable collateral. These estimates are subject to substantial uncertainties, which may be amplified by the impact of the Covid-19 pandemic.

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

OUR AUDIT APPROACH

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

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

We examined, according to materiality and risk aspects, the appropriateness of the determined loan loss provisions for receivables from commercial real estate finance for consciously selected individual exposures. In this context, we especially assessed the appropriate estimation of expected cash flows while taking into account the anticipated development of material assumptions and parameters that have an impact on value. This includes in particular assessing the appropriate reflection of the future development of the respective real estate markets, especially rents from the financed properties, as well as the expected recoverable collateral values, also taking into account the effects of the Covid-19 pandemic.

OUR OBSERVATIONS

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

Other Information

Management resp. the Supervisory Board is responsible for the other information. The other information comprises:

- the components of the management report not audited as to their content as set out in the annex to the auditor’s report.

The other information also includes the annual report expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Report on the audit of the electronic reproduction of the annual financial statements and the management report prepared for the purpose of disclosure in accordance with Section 317 (3b) HGB.

In accordance with section 317 (3b) of the HGB, we have performed an audit to obtain reasonable assurance about whether the data contained in the file "JA Deutsche Hypo ESEF. zip" (SHA256 hash value: d613fc183b66debcf 228973240090825a1f066a98db5a333b4eaa05e81bab255), which can be accessed in the protected client portal for the issuer, and which have been prepared for the purpose of disclosure of the annual financial statements and the management report (hereinafter also referred to as "ESEF documents") comply with the requirements of section 328 para. 1 HGB for the electronic reporting format ("ESEF format") in all material respects. In accordance with German legal requirements, this audit only covers the transfer of the information of the annual financial statements and the management report into the ESEF format and therefore neither the information contained in these reproductions nor any other information contained in the aforementioned file.

In our opinion, the reproductions of the annual financial statements and the management report contained in the aforementioned attached file and prepared for the purpose of disclosure comply in all material respects with the electronic reporting format requirements of section 328 (1) HGB. We do not express any opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file beyond this opinion and our opinions on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2020 contained in the preceding "Report on the audit of the annual financial statements and management report".

We conducted our audit of the reproductions of the annual financial statements and the management report contained in the above-mentioned attached file in accordance with section 317 (3b) HGB and in compliance with the draft IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for the Purpose of Disclosure pursuant to section 317 (3b) HGB (IDW EPS 410). Our responsibility thereunder is further described below. Our auditing practice has complied with the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents containing the electronic reproductions of the annual financial statements and the management report in accordance with section 328 (1) sentence 4 no. 1 HGB.

Furthermore, the Company's management is responsible for the internal controls that it determines are necessary to enable the preparation of the ESEF documents that are free from material intentional or unintentional non-compliance with the electronic reporting format requirements of section 328 (1) HGB. The legal representatives of the Company are also responsible for submitting the ESEF documents together with the auditor's report and the attached audited annual financial statements and audited management report as well as other documents to be disclosed to the operator of the Federal Gazette.

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of section 328 (1) HGB. During the audit, we exercise professional judgement and maintain a critical attitude. Furthermore, we

- identify and assess the risks of material non-compliance with the requirements of section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- obtain an understanding of internal control relevant to the audit of the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.
- evaluate the technical validity of the ESEF documentation, i. e. whether the file containing the ESEF documentation complies with the technical specification for that file as set out in Delegated Regulation (EU) 2019/815 as applicable at the reporting date.
- evaluate whether the ESEF documentation provides a consistent XHTML representation of the audited financial statements and the audited management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 12 June 2019. We were engaged by the supervisory board on 3 July 2019. We have been the auditor of the Company without interruption since the financial year 2012.

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

German Public Auditor Responsible for the Engagement

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

Hanover, 3 March 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

Annex to the auditor's report: Components of the management report not audited as to content and cross-references

We have not audited the content of the following part of the management report:
- The overview of the legally required disclosures on the proportion of women on the Supervisory Board, Executive Board and the two management levels below the Executive Board (Corporate Governance Statement, section 1.5 of the Management Report), to which reference is made in the Management Report.

We have not audited the content of the following cross-references contained in the management report that are not required by law and the information to which the cross-references refer:
- the cross-reference to Deutsche Hypo's sustainability reports (section 1.1 of the management report)
- the cross-reference to the Corporate Governance Report (Section 1.5 of the Management Report)

PERSONNEL REPORT

The challenge of maintaining an appropriate balance between the ambitious triad of the Bank's defined income targets, the simultaneously indispensable cost prudence and the ever-increasing regulatory requirements also characterised the 2020 calendar year. Despite the coronavirus pandemic, the Bank succeeded in doing this very well in the year under review through creative solutions and especially through the contributions of all employees.

The Owners' Meeting of NORD/LB and the Annual General Meeting of Deutsche Hypo resolved to fully integrate Deutsche Hypo into NORD/LB on 14 December 2020. This will result in the transfer of the employment contracts to NORD/LB as part of a transfer of operations in accordance with Section 613a of the German Civil Code (probably by 1 July 2021).

The Human Resources department supported the employees in the year under review with ongoing optimisation of the framework conditions and the working environment. However, the HR function not only sees itself as a service provider, but also as a facilitator and strategic partner for the company's management and the respective departments.

The HR function creates the framework of instruments, offers and products that are important for increasing employer attractiveness in general and for modern personnel development in particular. The communicated understanding of personnel development is that each individual takes responsibility for their own development and is encouraged and supported in this by their line manager, who acts as a champion and mentor. The Bank is convinced that this attitude promotes personal responsibility among employees, sharpens the role of each manager as a "local personnel developer" and, as a result, represents the right path for the successful and future-oriented development of the Bank or, after integration, for the development of the Commercial Real Estate Finance competence centre under the Deutsche Hypo brand within NORD/LB. After all, behind everything Deutsche Hypo offers its customers are the people who work here.

Remuneration system

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

Under the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung), 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 and Section 25a (5b) German Banking Act (KWG) (identification of the so-called "risk taker"). The Bank also had to comply with other provisions of the Remuneration Ordinance for Institutions applicable to significant institutions. In the reporting year, the company agreements on salary, bonus and annual review were revised in particular. The EBA's newly revised risk taker identification rules were used as the basis for the risk analysis conducted at the end of 2020.

Deutsche Hypo is bound by collective bargaining agreements. As a result, collective bargaining agreements for the private banking sector and public banks apply. Besides fixed remuneration in 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 basic annual salary in twelve equal parts. Variable remuneration is determined for all employees in a specifically defined, transparent process. The group context has to be taken into account appropriately since financial year 2018. As far as the risk takers are concerned, the variable remuneration is determined taking proper account of the individual profit contribution alongside the Bank's (and where relevant the Group's) overall success and the profit contribution of the organisational unit. Variable remuneration is limited to 100 % of fixed remuneration.

Personnel development

The path taken in 2019 to qualify Deutsche Hypo employees for the digital age was continued in 2020. As part of the development series "New Leadership", several seminars were held on "Leading in the Digital Age" and "Using Agile Methods Correctly". The latter seminar was open not only to managers and project leaders but also to interested employees and was conducted across the hierarchy. In addition, all those interested in digitalisation and new work topics had the opportunity to use the virtual learning programme offered by "Masterplan". As part of the "New Work@DH" series, a total of four lecture events were held on the topics of agility and new work.

The main factor influencing staff development in 2020 was the coronavirus pandemic. This completely turned the original event planning upside down as of March 2020, since all events had been planned as face-to-face formats up to that point. All seminars were suspended until August 2020. In the period from August to October, some seminars were held with a hygiene concept and a reduced number of participants in attendance. No face-to-face seminars were held during the remainder of the fourth quarter of 2020. Suitable seminars were occasionally offered in virtual form.

Foreign language teaching, which is important for many employees, was successively switched to remote starting in June 2020. This format is currently a pandemic transitional solution for French, Spanish, Dutch and Polish. In contrast, the English courses have been held exclusively virtually as standard since September 2020. In addition to a weekly online lesson with their language trainer, participants also have the opportunity to enhance their language skills independently using an online learning portal.

To promote the Bank's innovative capacity, another Learning Journey to Berlin was planned for May 2020, which was postponed to 2021 due to the coronavirus pandemic.

In addition to training courses, seminars and numerous on-the-job development measures, ongoing training and education play a key role in personnel development at Deutsche Hypo. As a result, Deutsche Hypo supports employees who are obtaining additional professional or bank-related training. In 2020, a total of twelve Bank employees took advantage of ongoing training and education opportunities, such as master's degree programmes or gaining specific professional qualifications.

A total of two employees took over management positions for the first time or were promoted to more senior management positions in Germany in 2020. These persons received training through corresponding NORD/LB development programmes. Furthermore, Deutsche Hypo supplements these measures with further training and seminar offers for all managers in line with requirements, as well as coaching in individual cases.

Encouraging/attracting the next generation

In financial year 2020, Deutsche Hypo also provided training in the classic occupation of bank clerk. In addition, this offer was expanded by the profession of information technology clerk with a focus on application development. The international Bachelor of Arts (B.A.) programme and the Bachelor of Science (B.Sc.) programme, which are offered in cooperation with the Leibniz University of Applied Sciences, complemented the training programme. The number of trainees and work-study students totalled nine in the reporting year. As part of the training cooperation with NORD/LB, the trainees form a Group-wide graduating class together with the NORD/LB trainees. Additionally, the joint training venture in the Group gave trainees of NORD/LB the opportunity to work in real estate banking at Deutsche Hypo in Hanover. In return, trainees from Deutsche Hypo had the opportunity to shadow staff in various divisions at NORD/LB. In addition, Deutsche Hypo trainees took advantage of the wide range of exam preparation, seminars and workshops offered by the Group.

Deutsche Hypo offers interested students the chance to get a first look at the workings of a real estate and mortgage bond bank through appealing work placement programmes. A total of seven internships were offered in the reporting year.

Since 2017, Deutsche Hypo has also been working closely with HAWK, the University of Applied Sciences and Arts in Holzminden. The HAWK students all have strong expertise in real estate matters as a result of their specific course of study. This creates optimal conditions for collaborations for dissertations or internships.

Since September 2020, Deutsche Hypo has been supporting the IHK (Chamber of Commerce and Industry) project Adelante by employing an intern from abroad. This programme enables young adults to obtain recognition of their existing qualification in Germany through an adaptation qualification at a company. All project participants have a Spanish vocational qualification and all are provided with the missing company practice after a six to eight-week preliminary internship and a subsequent adaptation qualification lasting up to twelve months. After that year, the participants receive a certificate documenting full equivalence with a German vocational qualification.

Work-life balance and social affairs

In order to be able to support employees working from home even better in balancing their professional and private lives, the offer of the associated company agreement was adapted once again in 2020.

For example, in addition to discounted holiday programmes, employees can now receive virtual childcare and support via an external service provider, which can also be used outside of day care and school holidays. In addition, Deutsche Hypo, together with NORD/LB, provides its employees with an online portal. The portal, which is also provided by an external service provider, offers help on various topics of private life such as sports and health, caring for relatives, support in finding a childcare place or domestic help.

In order to positively influence the health of employees, especially in light of the pandemic and the resulting increase in home office phases, Deutsche Hypo continues to work closely with the company's social counselling service. Thus, following the first lockdown, the "Time out at lunchtime" could be offered again. In addition, tips and advice on dealing with the pandemic and the increased time spent working from home were published on Sharepoint.

Cooperation with the Works Council

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

	31.12.2020	31.12.2019	31.12.2018
Employees	390	416	430
of which: male	212	229	240
of which: female	178	187	190
Employee structure			
Trainees*)	0	0	3
Average age	45.9	46.2	45.3
other			
Illness rate (in %)	3.2	5.1	4.5
10-year service anniversary (number of employees)	28	35	23
25-year service anniversary (number of employees)	9	8	12
40-year service anniversary (number of employees)	2	3	2

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

REPORT BY THE SUPERVISORY BOARD

The six-strong Supervisory Board of Deutsche Hypo and its committees performed the tasks required of them by law, under the Bank's articles of association and in accordance with the German Corporate Governance Code in 2020. During the past financial year, the Supervisory Board advised, supervised and monitored the Board of Managing Directors at all times. The Board of Managing Directors also informed the Supervisory Board regularly, promptly and comprehensively about key developments at the Bank.

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

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

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

In 2020, four regular meetings, two extraordinary meetings and one constituent meeting of the Supervisory Board were held. At the constituent meeting of the Supervisory Board following the Annual General Meeting, Mr Christoph Schulz was elected Vice Chairman of the Supervisory Board. He succeeds Günter Tallner, who resigned his mandate in due time due to a change in responsibilities on the Board of Managing Directors of NORD/LB. The Supervisory Board mandate of Mr Thomas Krüger ended as planned at the end of the Annual General Meeting. He was replaced by Ms Doris Nordmann. Furthermore, the composition of the committees was decided at this constituent meeting.

At the extraordinary meeting on 8 July 2020, Mr Christian Veit was appointed as a Member of the Board of Managing Directors of Deutsche Hypo. He succeeds Sabine Barthauer, who left Deutsche Hypo after four years on the Board of Managing Directors.

At the extraordinary meeting on 10 December 2020, the majority of the Supervisory Board approved the conclusion of the merger agreement between Deutsche Hypothekenbank (Actien-Gesellschaft) and NORD/LB.

To ensure the efficiency of its work, the Supervisory Board has formed four committees. They address specific, business-related matters and usually prepare the Supervisory Board resolutions. These committees are the lending and risk committee, the audit committee, the appointments committee and the remuneration committee.

In 2020 the lending and risk committee met four times. Alongside the risk reports, the committee discussed loans requiring approval and received reports from the Board of Managing Directors about trends on the Bank's target markets. In addition, the committee handled various portfolio reports in the past year. The UK portfolio was a focus here in view of the then imminent Brexit. In addition, the effects of the coronavirus pandemic on Deutsche Hypo's portfolio were highlighted for the property types particularly affected by the coronavirus pandemic.

The audit committee met twice in the reporting year. The focus was on the discussion of the auditor's reports at the end of 2019 as well as the 2020 half-yearly financial reports. At the same time, the committee was notified about the adequacy and effectiveness of the principles, methods and processes for compliance with the German Securities Trading Act (Wertpapierhandelsgesetz), the obligations relating to MaRisk compliance as well as the prevention of money laundering, the funding of terrorism and other criminal acts. Additionally, the audit committee dealt with the regular reports from Internal Audit as well as reports on the internal control system.

The remuneration committee met four times in 2020. In particular its focus was on looking at the remuneration systems of the employees and the Members of Board of Managing Directors. The committee also discussed the content of the remuneration control report and had the Board of Managing Directors report to it regularly on the status of implementing the revised Remuneration Ordinance for Institutions 3.0.

The Appointments Committee met three times during the reporting year. In particular, it had the task of nominating suitable candidates to the Supervisory Board for its proposals at the Annual General Meeting for the election of Supervisory Board members. In addition, the appointments committee addressed the results of the Supervisory Board survey conducted in 2020 with external support regarding the structure, size, composition and performance of management and Supervisory Board as well as the knowledge, skills and experience of all managers and Supervisory Board members. The survey did not reveal any problems or recommendations for action.

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

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

Supervisory Board member	Number of meetings attended/total (Supervisory Board and committees)
Thomas S. Bürkle (Chairman)	20 of 20
Günter Tallner (Vice Chairman until 3 June 2020)	7 of 7
Christoph Schulz (Vice Chairman since 4 June 2020)	12 of 12
Christoph Dieng	20 of 20
Thomas Krüger (until 3 June 2020)	5 of 5
Doris Nordmann (from 4 June 2020)	8 of 8
Michael Gehrig (employee representative)	11 of 11
Andrea Behre (employee representative)	7 of 7

The auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, which was elected by the Annual General Meeting and subsequently appointed by the Supervisory Board, audited the financial statements for the financial year 2020 and issued an unqualified audit certificate. This confirms that the bookkeeping and annual financial statements comply with the statutory requirements. The audit did not lead to any objections. The auditor was available to the Members of the Supervisory Board and of the audit committee to take questions and provide additional information. The Members of the Supervisory Board discussed the audit report in depth and agreed to the findings of the auditor's report. At its meeting of 12 March 2021, the Supervisory Boardapproved the management report and the annual financial statements as of 31 December 2020. The annual financial statements for 2020 are thereby approved.

The Supervisory Board thanks the employees of Deutsche Hypo for all their hard work during 2020. In a highly competitive market environment that was affected by the coronavirus pandemic, Deutsche Hypo once again succeeded in holding its own in the market and achieving a good business result.

Hanover, 12 March 2021

The Supervisory Board

Thomas S. Bürkle
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

The German Corporate Governance Code contains essential regulations for the management and supervision of German listed companies. It contains nationally and internationally recognised standards of good and trustworthy corporate governance, in particular with regard to the management and organisation of a company, control mechanisms and cooperation between the Board of Managing Directors and the Supervisory Board. The aim of the Code is to promote the confidence of investors, clients, employees and the public in the management and supervision of a company.

Due to its legal validity for listed stock corporations, the Code is not legally binding for Deutsche Hypo as a non-listed stock corporation. However, it is an important concern for Deutsche Hypo, which operates nationally and internationally, to position itself in the market as a reliable and trustworthy partner. Transparent corporate governance is an essential aspect of this ambition for the Bank. For this reason, Deutsche Hypo has decided to follow the principles, recommendations and suggestions within the framework of a voluntary commitment.

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

Composition of the Supervisory Board

According to the German Corporate Governance Code, the Supervisory Board should determine concrete objectives regarding its composition and prepare a profile of skills and expertise for the entire Board. The Supervisory Board shall pay attention to diversity in this context. Proposals of the supervisory board to the Annual General Meeting shall take these aims into consideration and, at the same time, strive to meet the competence profile for the Board as a whole. This is already the case at Deutsche Hypo. Ms Doris Nordmann is considered to be an independent member of the Supervisory Board of Deutsche Hypo within the meaning of the Corporate Governance Code. Excluding the employee representatives on the Supervisory Board, the proportion of independent Supervisory Board Members thus amounts to 25 %. The Bank considers this percentage to be adequate.

Transparency

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

Risk culture

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

Compliance

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

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

CORPORATE BODIES

Supervisory Board

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

CHRISTOPH SCHULZ
Hanover
Member of the Board of Managing Directors of NORD/LB
– Vice chairman of the Supervisory Board – (since 4 June 2020)

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

DORIS NORDMANN
Hanover
State Secretary in the Ministry of Finance of Lower Saxony (since 4 June 2020)

ANDREA BEHRE
Hanover
Bank employee

MICHAEL GEHRIG
Hanover
Bank employee

GÜNTER TALLNER
Hanover
Member of the Board of Managing Directors of NORD/LB
– Vice chairman of the Supervisory Board – (until 3 June 2020)

THOMAS KRÜGER
Hanover
Member of the Board of Managing Directors of VGH Versicherungen (retired) (until 3 June 2020)

Committees of the Supervisory Board

Lending and risk committee

CHRISTOPH DIENG
– Chairman –

GÜNTER TALLNER (since 3 June 2020)

CHRISTOPH SCHULZ (since 4 June 2020)

THOMAS S. BÜRKLE

THOMAS KRÜGER
– Substitute member – (since 3 June 2020)

DORIS NORDMANN
– Substitute member – (since 4 June 2020)

Audit committee

GÜNTER TALLNER
– Chairman – (until 3 June 2020)

CHRISTOPH SCHULZ
– Chairman – (since 4 June 2020)

THOMAS S. BÜRKLE

THOMAS KRÜGER (until 3 June 2020)

DORIS NORDMANN (since 4 June 2020)

CHRISTOPH DIENG
– Substitute member –

Appointments committee

THOMAS S. BÜRKLE
– Chairman –

CHRISTOPH DIENG

GÜNTER TALLNER (until 3 June 2020)

CHRISTOPH SCHULZ (since 4 June 2020)

Remunaration committee

THOMAS S. BÜRKLE
– Chairman –

CHRISTOPH DIENG

GÜNTER TALLNER (until 3 June 2020)

CHRISTOPH SCHULZ (since 4 June 2020)

MICHAEL GEHRIG

Board of Managing Directors

SABINE BARTHAUER
Hanover (until 31 August 2020)

ANDREAS REHFUS
Hanover

CHRISTIAN VEIT
Hanover (since 1 September 2020)

Public Trustees

ANDREAS WOLFF
Ronnenberg
Lawyer
– Trustee –

DORIS VOGEL
Hanover
Tax advisor
– Deputy trustee –

ORGANISATIONAL STRUCTURE

Andreas Rehfus
Business Area 1

- Domestic Property Finance
  Ralf Vogel
- Real Estate
  Investment Banking
  Dieter Koch
- London Branch
  Markus Nitsche
- Real Estate Structured Finance
  and International Property Finance
  Ingo Martin
- Transaction and
  Portfolio Management
  Jens Assmann
- Syndication
  Jürgen Munke
- Changemanagement, Agil,
  Digital
  Dirk Hunger
- Communications
  and Board Staff
  Dr. Pia Leipertz
- Human Resources and Legal
  Dr. Peter Hinze
- Treasury
  Dirk Schönfeld

Christian Veit
Business Area 2

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

ADDRESSES IN GERMANY AND ABROAD

Management

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Bundesanstalt für Finanzdienstleistungsaufsicht · Graurheindorfer Straße 108 · 53117 Bonn

DEUTSCHE HYPO

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