

## **HALF-YEARLY FINANCIAL REPORT 2011**



## DEUTSCHE HYPO AT A GLANCE

Business progress figures (in € millions)	01.01.- 30.06.2011	01.01.- 30.06.2010	Change (in %)
Real estate finance	1,432	679	>100
Capital market transactions	573	1,301	- 56.0
of which public-sector loans	248	665	- 62.7
Loan drawdowns	1,657	1,577	5.1
Bond sales and loans taken up	3,287	3,766	- 12.7

Balance sheet figures (in € millions)	30.06.2011	31.12.2010	Change (in %)
Real estate finance (including interest)	11,645	11,456	1.7
Public-sector loans	8,478	9,328	- 9.1
Securities	11,181	12,367	- 9.6
Borrowed funds	32,367	34,253	- 5.5
Equity (excluding distributable profits)	1,381	1,396	- 1.0
of which: core capital	931	914	1.8
Total assets	34,083	35,998	- 5.3

Income statement figures (in € millions)	01.01.- 30.06.2011	01.01.- 30.06.2010	Change (in %)
Net interest income	97.5	84.8	15.0
Net commission income	5.5	8.3	- 33.6
Administrative expenses	36.5	33.7	8.4
Risk provisioning	39.8	30.8	29.2
Result from ordinary business activity	20.3	26.0	- 21.6
Income transferred for investments by silent partners	9.2	1.3	>100
Net income (after taxes)	10.6	21.8	- 51.3

Other information		
Cost/income ratio	30.06.2011 36.3 %	30.06.2010 36.1 %
Core capital ratio	30.06.2011 8.8 %	31.12.2010 7.7 %

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

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# **HALF-YEARLY FINANCIAL REPORT 2011**

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# INTERIM MANAGEMENT REPORT

The figures in the tables and charts in the Interim Management Report are expressed in thousands (k), millions (m) and billions (bn) of euros (€). 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.

## Market development

### Economy

Germany's economic upturn continued during the first half of 2011. The seasonally adjusted first quarter figure for the real gross domestic product (GDP) grew by 1.5 % compared with the previous three months. Particularly mild weather was a key factor, with activity in the construction sector enjoying its customary springtime boost somewhat earlier than usual. However, the highly dynamic nature of the economy could not be sustained through to the middle of the year. Growth levelled out again in the manufacturing sector, after having made up most of the ground lost during 2009's severe recession. In the eurozone, seasonally adjusted real GDP grew by 0.8 % during the first quarter of 2011 compared with the previous three months.

At 86.8 %, capacity utilisation is once again well above the long-term average. To meet rising levels of demand, more and more companies appear to be increasing their capacity and conducting capital-widening investments. In terms of building investments, the unusually clement weather distorted the figures for the beginning of the year, limiting the potential for the quarter that has just ended. Nevertheless, building activity held up well through until May, with the result that the business climate in the construction sector remains very positive. Housing construction projects in particular are continuing to benefit from historically low interest rates. The high level of consumer confidence and the good

business climate in the retail sector indicate strong growth in private consumption. Furthermore, disposable income will continue to benefit from the positive developments on the labour market.

The financial markets were shaken time and time again during the first half of 2011 by the debt crisis facing some of the eurozone countries. Following Greece and Ireland, Portugal too has now been forced to turn to the other eurozone countries for assistance. Greece in particular, where borrowing looked set to exceed 150 % of GDP, came under ever greater scrutiny from the capital markets once more.

### Office market

The upturn in the global economy, generally speaking, also had a positive impact on office markets. Employment levels rose slightly in the USA, creating rising demand for office premises over the course of 2010. Net absorption also increased at the beginning of 2011, albeit at a lower level. As net absorption levels exceeded the number of new completions, the vacancy rate dropped slightly. This recovery is set to continue at a low level, boosted by positive developments in the economy.

Office markets across Europe fared differently. It was the London market that benefited from the recovery on the international financial markets, with properties in prime locations being the subject of particularly strong demand. Consequently, rents for highly sought-after locations rose markedly again. At the other end of the scale was Spain, where the difficult economic situation continued to hamper the office markets, with no signs of recovery in the short or medium term.

Germany's office market benefited from the economic upturn, although it took until the end of 2010 for the effects to be felt. The early part of 2011 was less

dynamic but positive overall, as demonstrated by a small rise in net absorption. Given, however, that the number of completions is low by long-term standards, yet still above the level of net absorption, any positive impact on market indicators has only been limited so far. Vacancy levels at top locations stagnated at the beginning of the year. A significant fall can be expected over the course of the year, however. In contrast, a slight increase in regard to rents at the top end of the market can already be seen over recent months.

### Real estate investment market

The global investment market has picked up significantly over recent months, with this improvement applying across almost all regions. Essentially, the focus continues to be on core properties, although there is a shortage of suitable products and, in some cases, prices have risen considerably. The upturn in the USA was particularly marked with the market recovery gradually spreading from prime to secondary locations. The prices being paid for top-of-the-range properties in particular have risen strongly once more. Returns are coming under pressure and are again well down on the highs of 2009. The transaction volume on the US real estate investment market is set to rise again over the coming months, albeit from a low starting point.

The European investment market also profited from investors' growing interest in real estate, with core properties again being the main focus of their interest. In the UK too it was first-rate properties that were in particular demand, mainly located in London. Overall, the recovery from the financial crisis is at its most advanced in the UK capital. Prices for office properties in London have already made up most of the losses suffered during the financial crisis. Correspondingly, in terms of a Europe-wide comparison, it is here that returns have fallen the most strongly. The upturn on the French

investment market was equally distinct. In light of the tangible increase in interest among investors, prices for prime office premises in Paris have risen significantly again, with a corresponding drop in returns.

Germany too has seen its real estate investment market pick up speed compared with previous years. The transaction volume for the first six months was a good € 11 billion. Demand centred, once again, on core properties, with retail premises being the main preference among investors. Returns fell slightly as a result. The current trend is set to continue through the second half of the year.

## Income

### Overview

- New real estate finance business more than doubled, totalling € 1,432 million (H1 2010: € 679 million).
- Against the background of the euro crisis, new capital market business was only entered into on a very selective basis. This explains a considerably lower level of new business overall, at € 573 million (H1 2010: € 1,301 million).
- Total net interest and commission income grew by 11 % to total € 103.0 million (H1 2010: € 93.1 million).
- Provisioning for risk rose by € 9.0 million to € 39.8 million (H1 2010: € 30.8 million).
- General administrative expenses increased by € 2.8 million to € 36.5 million (H1 2010: € 33.7 million). The cost/income ratio, at 36.3 %, remained at a good level.
- The result from ordinary business activity totalled € 20.3 million (H1 2010: € 26.0 million).

- Total assets fell from € 35,998.3 million at the 2010 year-end to € 34,083.4 million.
- The strengthening of the Bank's capital base resulted in significantly higher regulatory ratios: the core capital ratio as at 30 June 2011 was 8.8 % (H1 2010: 7.7 %), whilst the total capital ratio was 12.1 % (H1 2010: 10.6 %).

The income statement positions for the reporting period and the comparable previous period are as follows:

(in € millions)			
Income Statement	30.06.2011	30.06.2010	Relative change
Net interest income	97.5	84.8	15.0 %
Net commission income	5.5	8.3	-33.6 %
Administrative expenses	36.5	33.7	8.4 %
of which personnel expenses	22.0	19.4	13.2 %
of which other administrative including depreciation	14.5	14.2	1.9 %
Other operating income	-2.5	0.2	>100 %
Risk result	-39.8	-30.8	-29.2 %
Balance of depreciation / write-downs / write-ups of investments, shares in affiliated companies and securities treated as fixed assets	-3.9	-2.8	-36.3 %
Income from ordinary business activity	20.3	26.0	-21.6 %
Extraordinary income	-0.3	-0.3	0.5 %
Income transferred on the basis of profit pooling, a profit transfer agreement or a partial profit transfer agreement	9.2	1.3	>100 %
Income before taxes	10.9	24.4	-55.5 %
Taxes	0.2	2.6	-91.2 %
Net income for the year	10.6	21.8	-51.3 %

### Net interest and commission income

Compared with the situation as at 30 June 2010, net commission income grew by 15 % from € 84.8 million to € 97.5 million.

Real estate finance business had a positive impact on net interest income, due to the expansion in the finance portfolios. This was partly due to a rise in the volume of new business as well as being related to the progress made in relation to the asset transfer (i.e. the transfer of the NORD/LB commercial real estate finance portfolios to Deutsche Hypo). Margins remained at a high level.

The deliberately reserved approach to governing len-

ding business in light of the high uncertainty on the markets saw a clear fall of approximately € 2.0 billion in the government finance portfolio. This fall was also reflected in the lower level of net interest income recorded in relation to capital market business.

Net interest income also includes income of € 6.8 million from the closing-out of hedge transactions. This has been reported under net interest income for the first time in accordance with the requirements of IDW RS HFA 35 (cf. Notes for further information). The corresponding opposing income effects related to the closing out of the underlying transactions continue to be reported under the risk result.

Net commission income of € 5.5 million was recorded during the first half of 2011. The decrease, compared to

the same figure for the first half of 2010 of € 8.3 million, can be partly attributed to the reduction in the service fee paid by NORD/LB to Deutsche Hypo for its servicing of the loan portfolio still held in the NORD/LB books. This reduction can therefore be viewed as planned in the context of advancing with the asset transfer. Additionally, net commission income in 2010 was markedly affected by the collection of fees and one-off income in conjunction with the restructuring of lending business. No comparable income was generated in 2011, as there were no significant instances of lending restructuring being required. Additionally, the commission income associated with the rise in new business is not reported in the 2011 interim results in its full amount due to accrual accounting.

Overall, net interest and commission income increased by € 9.9 million from € 93.1 million to € 103.0 million (+ 10.6 %).

#### **Administrative expenses**

Administrative expenses rose by € 2.8 million to € 36.5 million (+ 8.4 %).

This increase was mainly related to personnel costs, which grew from € 19.4 million to € 22.0 million due to a rise in the number of employees and to higher provisioning with regard to personnel.

Other administrative expenses including write-downs on intangible and tangible assets rose moderately, from € 14.2 million to € 14.5 million. Unlike during the previous year, these included pro-rata protection scheme fees of € 1.3 million. Adjusted to take account of this effect, other administrative expenses actually fell. This positive development is an indicator of the additional success achieved by Deutsche Hypo in its cost management. This is also reflected in the cost/income ratio, which was practically unchanged at 36.3 %.

#### **Other operating income**

The balance of other operating income and expenses fell from € + 0.2 million to € – 2.5 million. The contributions to the restructuring fund for credit institutions (bank levy), which were paid and reported under other operating expenses for the first time, has a key impact in this regard.

#### **Risk result**

The risk result for the reporting period was € – 39.8 million, compared with € – 30.8 million during the first half of 2010. This item includes the risk result from lending activities, i.e. risk provisioning for real estate finance business, and the risk result from securities held in the liquidity reserve. Whilst the risk result from lending was more or less unchanged compared with the same period of last year, at € – 32.9 million, and thus as expected, the result for securities held in the liquidity reserve was down € 8 million, at € – 6.9 million. This fall is mainly attributable to the change in the rules on the reporting of close-out payments, as described above. Negative close-out income from balance-sheet transactions has thus been included in the figures for this year. The positive effects from the closing out of economic hedges have been included in net interest income.

Overall, the risk result as at 30 June 2011 remained high, in line with our expectations. Looking to 2011 as whole, risk provisioning for lending business is again likely to be at the level anticipated for the year.

#### **Income from financial investments**

The balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets (income from financial investments) fell from € – 2.8 million to € – 3.9 million.



This result was mainly influenced by write-downs on securities held as fixed assets. The result during the year under review mainly relates to the writing-down of Greek government bonds. After write-downs that accounted for 40 % of the nominal volume, Deutsche Hypo's remaining exposure to Greek bonds is now a mere € 6.7 million.

### Result from ordinary business activity

The result from ordinary business activity totalled € 20.3 million at the end of the first half of 2011, which was € 5.6 million down on the result recorded on 30 June 2010. As well as effects from the Bank's operations, key factors responsible for this fall were the bank levy and contributions due for protection scheme membership.

## Performance by a business areas

### Overview

PERFORMANCE BY BUSINESS AREA (in € millions)	Real estate finance		Capital market business		Other		Overall result	
	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010
Net interest income	66.9	56.1	17.0	20.1	13.7	8.5	97.5	84.8
Net commission income	6.2	8.6	-0.2	0.0	-0.4	-0.2	5.5	8.3
Administrative expenses	22.3	20.6	3.7	3.4	10.5	9.7	36.5	33.7
Other operating income	0.3	-0.1	0.0	0.0	-2.8	0.2	-2.5	0.2
Risk result	-32.9	-32.0	-6.9	1.2	0.0	0.0	-39.8	-30.8
Balance of depreciation/write-downs/write-ups of investments, shares in affiliated companies and securities treated as fixed assets	0.0	0.0	-3.9	0.5	0.0	-3.3	-3.9	-2.8
Income from ordinary business activity	18.1	12.1	2.3	18.4	0.0	-4.5	20.3	26.0
Extraordinary income	0.0	0.0	0.0	0.0	-0.3	-0.3	-0.3	-0.3
Income transferred on the basis of profit pooling, a profit transfer agreement or a partial profit transfer agreement	0.0	0.0	0.0	0.0	9.2	1.3	9.2	1.3
Income before taxes	18.1	12.1	2.3	18.4	-9.5	-6.0	10.9	24.4
CIR*	30.4 %	31.8 %	22.1 %	17.0 %	100.2 %	113.7 %	36.3 %	36.1 %
RoRaC/RoE**	10.5 %	6.5 %	10.3 %	75.7 %	-134.9 %	-84.7 %	2.9 %	9.0 %

\*) The way in which the CIR is calculated has been modified slightly compared with the disclosure as at 31 December 2010. It is now calculated as follows:

CIR = Administrative expenses including depreciation / (net interest income + net commission income + other operating income)

\*\*) RoRaC reported at business segment level, RoE reported for entire Bank.

\*\*) RoRaC for business segments = income before taxes / fixed capital (= 5% of risk-weighted assets).

\*\*) RoE for entire Bank = income before taxes / average capital pursuant to commercial law (= subscribed capital + capital and revenue reserves).

With regard to the allocation of administrative expenses to the business segments, it should be noted that no such allocation was carried out during the course of 2010. For simplicity, the allocation formula used in the above table is based on the allocation of administrative expenses as at 30 June 2011.

### Extraordinary income

Extraordinary income totalled € -0.3 million.

### Net income for the year

Net income for the year was € 10.6 million and thus € 11.2 million down on the previous year's figure. This change can be attributed to the lower level of income from ordinary business activity (€ 5.6 million), increased expenses associated with investments by silent partners (€ 7.9 million) and lower tax expenses (€ -2.4 million). The rise in expenses in relation to silent partners resulted from the acceptance of new investments from these partners in the amount of € 150 million in 2010.

## Real estate finance

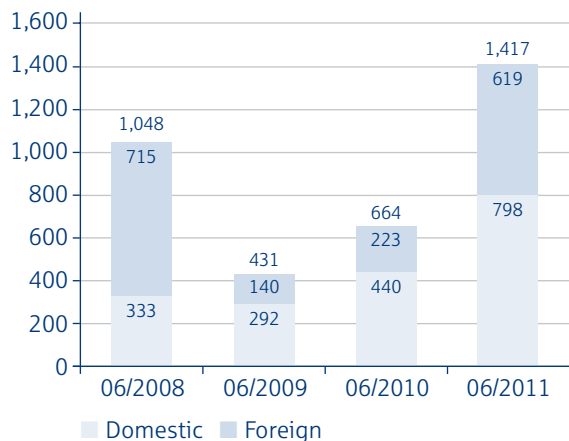
This business division encompasses real estate finance activities.

### New business

New commitments during the reporting period totalled € 1,432 million, some 111 % up on the previous year's figure (€ 679 million). In addition to pure real estate finance business worth € 1,417 million (H1 2010: € 664 million), Deutsche Hypo also recorded new guarantee business worth € 15.1 million (H1 2010: € 15.6 million).

The positive development of Germany's real estate market meant that there was a significant rise in new domestic business. The volume of new domestic commitments rose by 81% to reach € 798 million (H1 2010: € 440 million).

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



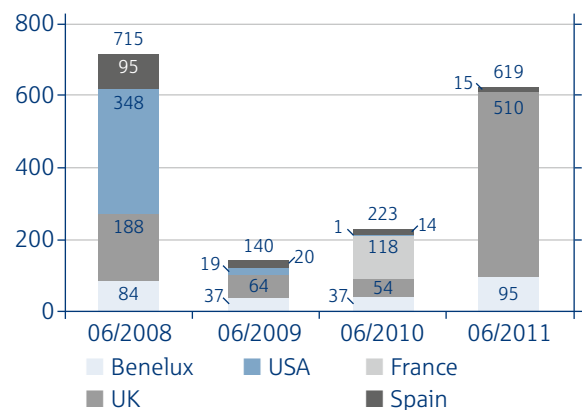
The development in new real estate finance business outside Germany was similarly gratifying. Foreign new business rose by 178 % to reach € 619 million (H1 2010: € 223 million). The distribution of the new business across the different markets highlights the Bank's fundamentally selective analysis and assessment of the different foreign markets.

The increase in new foreign business during the first half of 2011 is almost exclusively attributable to the strong expansion in commitments in the UK, entered into on a selective basis. These commitments totalled € 510 million (H1 2010: € 54 million). For Deutsche Hypo, this positive development confirms that it was the right decision to establish a branch in London, having previously only maintained a representative office there.

New commitments in the Benelux countries totalled € 95 million (H1 2010: € 37 million). In France, new business levels have not yet been able to keep pace with the previous year's results. However, the increase in staffing levels at the Paris representative office at the end of the first half of 2011 has laid the foundation for a significantly higher presence in future on this core market.

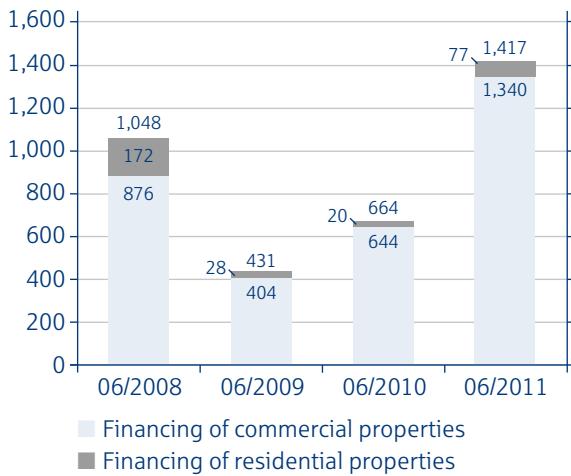
Deutsche Hypo remains reserved in its assessment of the Spanish property market, on which commitments totalled a mere € 15 million (H1 2010: € 14 million). Meanwhile, the Bank is also maintaining its cautious approach to the USA, where no new business was recorded during the first half of 2011.

### New real estate finance business on foreign markets (in € millions)



Financial products for residential property accounted for € 77 million or 5 % of new commitments in real estate finance. Commercial loans accounted for € 1,340 million (95 %).

**New real estate finance commitments (in € millions)**



**Portfolio**

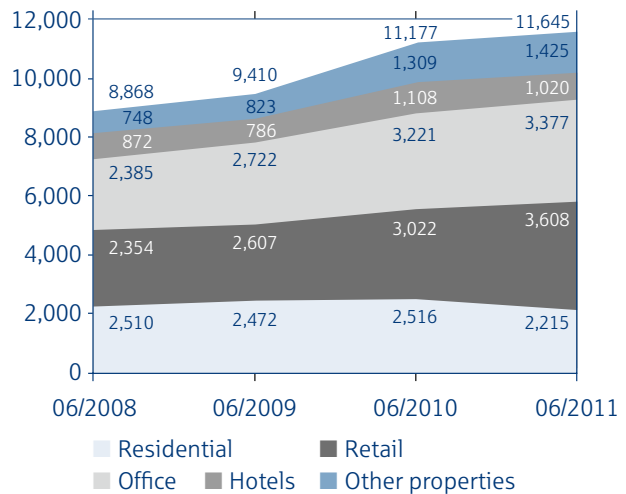
The real estate finance portfolio increased in size compared with the same period of the previous year, up by 4.2 % to € 11,645 million. Compared with the 2010 year-end, there was a 1.7 % rise. During the reporting period, as part of the transfer of the NORD/LB commercial real estate portfolio to Deutsche Hypo, a total volume of € 413 million was transferred over to the Bank.

The main portfolio increases were posted in the area of office real estate (€ + 156 million) and retail properties (€ + 586 million), as well as with regard to other real estate (€ + 116 million). Hotel real estate (€ – 88 million) and finance for residential properties (€ – 301 million) experienced reductions. However, the makeup of the portfolio by sector only changed very slightly in favour of retail properties, which now account for 31 % (compared with 27 % last year). Other property types continue to account for 12 % of the total portfolio.

Domestic financing business totalled € 7,118 million (an increase of € 877 million), whilst foreign finance deals

totalled € 4,527 million (a reduction of € 409 million). This meant that the share of foreign loans dropped to around 39 %, compared with 44 % of the total loan portfolio during the same period of the previous year.

**Development of real estate finance portfolio (in € millions)**



**Income**

Compared with the situation as at 30 June 2010, net interest income earned in real estate finance rose strongly, up by € 10.8 million. This positive development is mainly attributable to the rise in the loan portfolio. Margins were also maintained at a high level against a background of more favourable terms and conditions for new products.

Net commission income fell by € 2.4 million to € 6.2 million. This can be explained by the fall in the service fee paid by NORD/LB in the context of the transfer and planned reduction of its real estate finance portfolio. It is also the result of lower earnings from the restructuring and reorganisation of loan exposures.

Details of the development of administrative expenses as a whole have already been provided. The development in evidence can also be attributed to the individual

business segments. Additionally, the PRIMA project, which has now been successfully concluded, influenced the way in which administrative expenses associated with real estate finance developed. This project is aimed at optimising processes in real estate finance business, and will increase performance and efficiency in this sector over the long term. A cost/income ratio of 30.4 % as at 30 June 2011 highlights the Bank's strong positioning in this area of business.

The risk result for this business area, at € – 32.9 million, remained close to the previous year's level. The disclosures for the risk result represent the situation as at the reporting date and take account of all circumstances applicable on that date. As things currently stand, it can be assumed that the risk result at the year-end will also continue to be in line with the Bank's expectations.

Overall, income from ordinary business activity in the real estate finance business segment rose considerably, totalling € 18.1 million. A significant improvement in the RoRaC was also recorded, up from 6.5 % to 10.5 %.

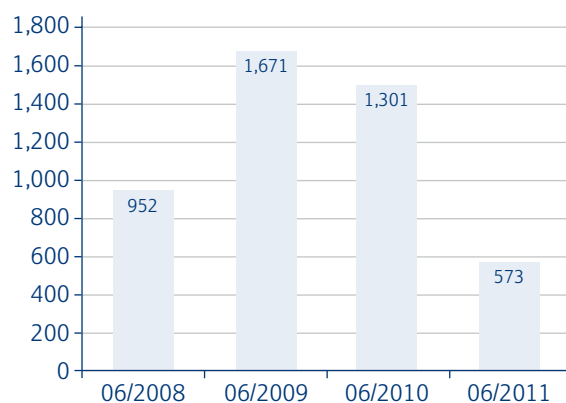
### Capital market business

This business segment encompasses government finance and refinancing business, including effects from Bank-wide risk management.

#### New business

In response to the turbulence surrounding Greece, Portugal and Ireland, Deutsche Hypo continued to impose very high quality requirements when entering into new business. The strategy adopted in 2010 of focusing on customers with first-rate ratings was implemented comprehensively. In this context, new capital market business fell to € 573 million for the first six months of

#### New capital market business (in € millions)



Deutsche Hypo used the first six months of the year to further expand its position and status as an issuing house of the highest renown. The result was that demand among investors remained at its customary high level during the first half of 2011 with regard to Deutsche Hypo's uncovered bonds and its Pfandbrief products.

The Bank sees a need to continue to work on widening its investor base. In order to raise its profile on the market, the Bank issued a jumbo benchmark bond (jumbo pfandbrief) once again for the first time after a relatively long absence from this sector. In contrast to the situation with private placements, many new investors were acquired via the order procedure.

#### Income

Net interest income earned by this business segment, at € 17.0 million, was down € 3.1 million on the same period of the previous year. This fall can be partly explained by new business levels in the area of government finance, an area of business in which a significantly more restrictive approach has been adopted in light of the government debt crisis in Europe. This resulted in a decrease in the finance portfolios and in lower margins. The contribution to income from bank-wide risk management also fell on a year-on-year basis.

Net commission income in this business segment was practically unchanged on the first six months of the previous year. Meanwhile, administrative expenses remained low.

Compared with the same period of 2010, there was a deterioration in the risk result, from € + 1.2 million to € – 6.9 million. The risk result as at 30 June of 2010 was primarily attributable to income received in conjunction with securities held in the liquidity reserve, in conjunction with the tangible recovery on the securities markets as the financial market crisis eased off. In contrast, during the first half of 2011, income effects in the context of the reacquisition of the Bank's own securities had a major impact. Contrary effects were reported under net interest income.

The development of write-ups/write-downs of securities held as fixed assets is another significant aspect of capital market business. The relevant figure as at 30 June 2011 was € – 3.9 million. Key items included in this figure were write-downs on securities issued by the Greek government.

Despite the negative changes in the risk result and the write-downs on securities held as fixed assets, income from ordinary business activity was positive overall, totalling € 2.3 million for the business segment for the first half of 2011. The RoRaC fell to 10.3 % and was thus substantially down on the previous year's exceptionally good figure (75.7 %).

### Other business

This business area encompasses the results achieved from investing the Bank's equity capital and from further non-strategic business activities. Income and expenses that cannot be directly allocated to the two other areas of business are also included here.

As a result of the significant strengthening of the Bank's capital base, interest earned on equity capital was initially considerably higher than during the previous year, this being a key component of net interest income. Economically, however, "Income transferred on the basis of profit pooling, a profit transfer agreement or a partial profit transfer agreement" is also reported under the return on equity capital. The accounting regulations require separate disclosure of interest expenses incurred in relation to capital held by silent partners under this item. Taking into account this expense, the net interest income figure for Other business as at 30 June 2011 was € 4.5 million, compared with € 7.2 million as at 30 June 2010. This fall can be attributed to the rise of € 150 million in capital held by silent partners as part of measures introduced in 2010 to strengthen the Bank's capital base.

Administrative expenses incurred by other business increased from € 9.7 million to € 10.5 million. The negative amount in other operating income is related to the introduction of the new bank levy. Whilst write-downs of € 3.3 million on non-strategic securities held as fixed assets were required during the first half of 2010, this item was neutral as at 30 June 2011.

Overall, income from ordinary business activity was neutral with regard to other business in the first half of 2011. The previous year's income totalled € – 4.5 million.

## Refinancing

Deutsche Hypo continued with its strategy of demand-oriented issuing during the first half of 2011, with its issuing business dominated by a high proportion of private placements, these being issues that are tailored to the needs of individual investors.

The Bank also issued a 3-year public Pfandbrief at the end of March with a benchmark/jumbo format, i.e. a volume of € 1 billion. German and international investors responded well to this jumbo issue.

The total issue volume of € 3.3 billion recorded during the first half-year was placed throughout the entire six-month period with no problems and on the basis of favourable conditions compared with those of the Bank's competitors. Solid demand from investors meant that the Bank's liquidity was guaranteed at all times and enabled Deutsche Hypo to be competitive on the market on a consistent basis in its two core areas of business, namely real estate finance and government finance.

### Rating

There have been no changes to Deutsche Hypo's ratings since the 2010 year-end. Both the public Pfandbriefe and the mortgage Pfandbriefe issued by the Bank continue to be rated Aaa by Moody's, this being the top rating. Similarly, there have been no changes to the ratings for short and long-term unsecured liabilities or

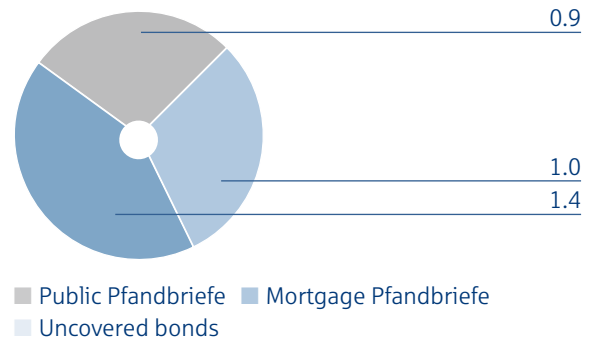
	Public Pfandbriefe	Mortgage Pfandbriefe	Short-term liabilities	Long-term liabilities	Financial strength
Moody's	Aaa	Aaa	Prime-1 (stable)	A1 (negative)	D+ (negative)

be examining, among other ratings, Deutsche Hypo's rating for long-term liabilities.

### Development of equity capital

The Bank's equity capital as defined in the German Solvency Ordinance (SolV) developed very favourably. The core capital ratio as at 30 June 2011 was 8.8 %, which compares with 7.7 % at the 2010 year-end.

The Bank's issues continued to be highly sought-after investments which means that a high level of investor acceptance, as in the past, can be assumed going forward.



during the first half of 2011.

Moody's announced in early July that it would be reviewing its ratings for the Landesbanken. It justified this move on the grounds that policymakers and the Sparkassen did not appear willing enough to support these institutions. It was also announced that Moody's would

The total equity figure also far exceeded the statutory

requirements, at 12.1 %, and improved by 1.5 percentage points compared with the end of 2010. Key factors in this gratifying development were a reduction in risk-weighted assets (RWA) and, in particular, a significant rise in eligible equity capital.

The strengthening of the Bank's capital base was achieved through the reinvestment of its profit and by cutting those items that are required to be deducted from equity capital under supervisory law. The lower volume of RWA was achieved through favourable rating migration and exchange rate developments. With a further increase in the real estate finance portfolio planned, Deutsche Hypo expects to see a rise in its RWA again over the course of the year. Nevertheless, its equity ratios will remain at a comfortable level.

The balance-sheet equity capital as at 30 June 2011

€ 111.6 million compared with the 2010 year-end.

## Risk Report

Deutsche Hypo's risk control and management system, the structures and procedures that it entails, and the processes and methods in place for risk assessment and monitoring were described in detail in the 2010 Annual Report and are unchanged in terms of their fundamental principles. Consequently, this interim report only examines key developments during the period

### Risk-bearing capacity (ICAAP)

(in € millions)	30.06.2011		31.12.2010	
	Value	%	Value	%
Risk capital	1,035.3	100 %	919.4	100 %
Credit risks	241.1	23 %	250.2	27 %
Investment risks	0.2	0 %	1.0	0 %
Market price risks	29.7	3 %	54.2	6 %
Liquidity risks	34.7	3 %	38.9	4 %
Operational risks	17.4	2 %	14.8	2 %
Total risk potential	323.1	31 %	359.1	39 %
Surplus cover	712.2	69 %	560.3	61 %
Degree of risk coverage		320 %		256 %

was unchanged, at € 930.9 million. € 15.0 million of the net income for the year was allocated to the revenue reserves at the end of the 2010 financial year. It was resolved at the Annual General Meeting on 25 May 2011 that the remaining distributable profit of € 16.7 million would be allocated in full to other revenue reserves.

Equity capital as reported on the balance sheet (including participatory capital and subordinated liabilities) thus totalled € 1,380.9 million excluding distributable profits as at 30 June 2011. Taking into account those items that are required to be deducted in accordance with supervisory law, a total of € 1,031.1 million constituted eligible equity capital. This represents a rise of

under review.

### Risk-bearing capacity

Risk-bearing capacity in the ICAAP case rose from 256 % at the 2010 year-end to 320 %. The strengthening of the Bank's capital basis as a result of reinvesting profit made a key contribution to this increase, as did the inclusion of the individual value adjustments carried out in 2010. The following table provides a detailed comparison of risk-bearing capacity in the ICAAP case pursuant to the terms of the minimum requirements in relation to risk management (MaRisk) between the 2010 year-end and the situation as at 30 June 2011.

In order to also be able to meet the intended target ratios for the stress case in future, in addition to the target ratio for the ICAAP case that has already been achieved, Deutsche Hypo has introduced measures to strengthen its degree of risk coverage in a stress case. These include the expansion of routine reporting on risk-bearing capacity to include a monthly, abbreviated report and the continuation of the Bank's strategy of successively eliminating credit spread risks. Mention should also be made of the continuation of the strategy of engaging in a reduced level of capital market business and only entering into new transactions on a selective basis.

Deutsche Hypo's risk-bearing capacity model is applied throughout the NORD/LB Group. As already referred to in the 2010 Annual Report, it is further developed on an ongoing basis as part of Group-wide project work and brought into line with changing economic and regulatory conditions. The model considers several risk types across comprehensive stress scenarios. In light

#### Market price risks

(in € thousands)	Maximum		Average		Minimum		Year-end values	
	from 01.01.11 to 30.06.11	from 01.01.10 to 31.12.10	from 01.01.11 to 30.06.11	from 01.01.10 to 31.12.10	from 01.01.11 to 30.06.11	from 01.01.10 to 31.12.10	30.06.11	31.12.10
Interest rate risk <sup>1)</sup> (VaR 95 %, 1 day)	3,141	3,208	2,051	2,084	1,258	1,107	1,329	2,419
Interest rate risk <sup>1)</sup> (100 bp parallel shift)	19,861	16,493	11,593	7,375	3,716	1,859	17,127	6,591

<sup>1)</sup> Including fund price risks from fixed-income funds

The table shows that, once again in 2011, Deutsche Hypo continued to have a low level of exposure towards interest rate risk. The Value-at-Risk (VaR) calculated on a daily basis for interest rate risk fluctuated between € 1.3 and 3.1 million during the reporting period, averaging € 2.1 million. The parameters used are based on a confidence level of 95 % and a holding period of one day.

of current economic developments, for example, the "sovereign crisis" stress scenario was adjusted with effect from the reporting date of 31 March 2011. The focus has now been changed to the extent that Deutsche Hypo's existing exposures in Portugal, Ireland, Italy, Greece and Spain (PIIGS) as well as in Belgium are now subject to stress-side analysis with the aim of closely monitoring developments surrounding the PIIGS states. This change in the scenario parameters tends to result in an increased risk potential under this stress scenario.

#### Market price risk

Deutsche Hypo's market price risk is comprised of interest rate risk and credit spread risk. In line with its strategy, the Bank does not enter into any significant currency risks.

The table below shows Deutsche Hypo's interest rate risks during the period under review and in comparison with 2010.

The back-testing carried out at the start of 2011 revealed a large number of outliers and led to the VaR being marked up by an average of 15 % for the months January to April due to the entry into the yellow phase. The return to a green phase in the months of May and June 2011 meant that the mark-up was no longer required.



Average utilisation of the VaR limit of € 5.4 million during the period under review was only 38 %. The limit was not exceeded at any point. This again reflects Deutsche Hypo's low tendency to risk with regard to interest rate risks.

The volatile market environment meant that a slightly negative result was generated from maturity transformation during the first half of 2011.

**Development of Value-at-Risk from interest rate risks (95 %, 1 day)**  
(in € millions)



In respect of the general interest rate risk in the banking book (SolV interest rate shock), Deutsche Hypo's ratio as at 30 June 2011 stood at 1.9 %, well below the regulatory threshold of 20 % of the liable equity capital.

credit spread risk, was reduced by around 8 % from € 7.4 billion at the 2010 year-end to € 6.8 billion. The key factor in this regard was a reserved and selective approach to new business, focusing on low-risk investments.

During the first half of 2011 the credit spread risks in the credit investment portfolio fell by around 10 % from € – 60.7 million as at the 2010 year-end to € – 54.7 million. This fall occurred against the background of falling market spreads and the consistent progression of the strategy to wind down the credit investment and credit derivatives portfolio in the interests of the income statement. Additionally, over the same period, the nominal volume of the portfolio, with its low level of

### Counterparty risk

Counterparty default risk continues to represent the greatest potential risk. Around 74 % of the entire risk potential relates to counterparty default risk. Whilst the risk potential has fallen markedly in real estate lending business, a slight increase is in evidence in the area of capital market business. The total loan exposure fell as expected during the first half of the year, down by € 1.9 billion or 5.2 %. This resulted in a slight improvement in the risk structure by rating class.

### Breakdown of the entire credit exposure by class and by rating:

(in € millions)	Loans	Securities	Derivatives	Other products	Total exposure 30.06.11	Total exposure 31.12.10
Very good to good	15,491.6	11,037.8	678.5	1,374.5	28,582.4	30,115.3
Good/satisfactory	3,020.4	119.7	0.0	0.0	3,140.1	3,089.6
Still good/sufficient	1,556.5	9.7	0.0	72.4	1,638.7	1,556.3
Elevated risk	919.6	0.0	0.0	0.0	919.6	1,111.1
High risk	490.9	6.9	0.0	0.0	497.8	521.2
Very high risk	553.8	0.3	0.0	0.0	554.1	730.6
Default (NPL)	807.1	0.0	0.0	0.0	807.1	997.6
<b>Total</b>	<b>22,840.0</b>	<b>11,174.5</b>	<b>678.5</b>	<b>1,447.0</b>	<b>36,140.0</b>	<b>38,121.7</b>

The proportion of the total exposure rated as “very good to good” is unchanged, at the high level of 79 %. Meanwhile, the proportion of items presenting an “elevated to very high risk” has fallen from 6.2 % to 5.5 %. The rise in defaults observed in earlier years did not continue during the year under review, with a drop from 2.6 % to 2.2 % of the total exposure.

A key factor in the improvement in the ratings was the positive development of new business, particularly in the case of real estate finance. Some 85 % of this new business involved the two top rating classes, thereby reflecting the Bank’s selective approach and risk policy.

#### Liquidity risk

Deutsche Hypo had good access to the money and capital market at all times during the reporting period. Over the course of the first half year it was able to place some € 3.3 billion in covered and uncovered issues on the market, doing so on the basis of favourable refinancing conditions compared with its competitors. This meant that the previous year’s level was maintained.

Deutsche Hypo is involved in markets that are as liquid as possible and maintains a portfolio of high-quality

securities, more than 75 % of which are eligible for open-market transactions with the European Central Bank. The Bank also enjoys a comfortable position with regard to refinancing risk. This is due, among other factors, to the capital market finance deals that were carried out in the form of uncovered issues and mortgage Pfandbriefe, and also to the refinancing of new business during the reporting period, which was carried out on a matched maturity basis wherever possible.

The Bank’s liquidity pursuant to the Liquidity Ordinance was consistently above the minimum of 1.00 stipulated by the supervisory authorities indicator during the reporting period. As at the reporting date of 30 June 2011 it was 1.66.

The dynamic liquidity stress test used for internal control and to establish limits, as well as the other stress tests used, indicated a satisfactory liquidity situation during the period under review. As was the case at the 2010 year-end, the Bank once again had an expected liquidity surplus to cover a period of more than 365 days in a stress case based on the dynamic scenario. Deutsche Hypo is thus well within the regulatory limits of a minimum of 180 days, and this was achieved consistently throughout the reporting period.

The securing of Pfandbrief liquidity required under the Pfandbrief Act was assured throughout the period under review. As at 30 June 2011, there was no cumulative liquidity requirement over the following 180 days in the cover pool of either public or mortgage Pfandbriefe.

Equally, as at 30 June 2011 the volume of the liquidity potential represented by liquid cover assets stood at € 5.5 billion within the cover pool of public Pfandbriefe and at € 825 million within the cover pool of mortgage Pfandbriefe. The liquidity potential in this context consists of the cover assets that meet the criteria for surplus cover for securing purposes and those cover assets that are eligible for refinancing with the central bank (cf. Section 4, para. 1a of the PfandBG).

### **Operational risk**

There were no instances of damage of an operational nature during the first half of 2011 that had a significant influence on Deutsche Hypo's profit situation. Similarly, there were no known risks with the potential to cause a high level of damage during the reporting period. The introduction of the advanced approach for measuring operational risk pursuant to the Solvency Ordinance, as announced in the 2010 Annual Report, was launched during the first half of 2011 in the form of a project. As part of this project, the current risk indicator and scenario analysis system is being further developed.

### **Summary and outlook**

The latest effects of the European debt crisis surrounding the PIIGS states and the resulting uncertainty on the financial markets have obviously left their mark on Deutsche Hypo's current business situation and risk position. In order to be able to react in good time to changing economic and political conditions, the Bank

will continue to monitor developments on the money and capital markets closely, with a view to taking any action deemed necessary.

Over and above the risks referred to above, no serious new risks have been identified at the present time. Deutsche Hypo has taken due account of all known and serious risks by implementing the necessary measures, and considers itself well prepared for the challenges ahead thanks to the risk provisioning that it has put in place.

## **Forecast**

### **Economic forecast**

The German economy will not be able to maintain what has generally been a high speed of growth during the first half of 2011. The latest hard indicators – order levels, industrial production and retail figures – are proof that the pace of growth had already slowed by the middle of the year. However, a long-lasting phase of weak activity is not expected. Yet a rapid easing of the tensions on the financial markets is needed in order to avoid any relatively major impact on the real economy. Looking to 2011 as a whole, GDP growth in Germany is expected to be around the 3.5 % mark, in line with the previous year's level.

In terms of the eurozone, the development of the economy as a whole will continue to vary greatly from one area to another, although the economic recovery is continuing at a moderate pace. Overall, GDP in the eurozone, at approximately 2 %, will remain some way behind the rate of growth in Germany, which is leading the way.

The financial markets will remain very volatile this year. In view of the heightened debt crisis, the heads of government and of state of the eurozone held an

extraordinary summit on 21 July in Brussels in order to adopt a package of measures. This includes a new loan deal worth more than € 109 billion for Greece and the extension of the term of existing loan agreements. Private investors are also involved on a voluntary basis. The markets' initial reaction was one of relief. It remains to be seen, however, how long this feeling will last.

### **Earnings forecast**

With regard to an earnings forecast for Deutsche Hypo, reference is made to the detailed information provided in the 2010 Annual Report. The following are simply minor adjustments resulting from current developments at the end of the first half-year.

### **Development of real estate market**

All the signs are that the global economic upturn will continue to have a positive impact on the real estate markets. Consequently, Deutsche Hypo expects rents on the office markets to tend upwards again, albeit with regional variations. Whilst the office market in Spain continues to suffer from the difficult economic situation in which the country finds itself, the upturn is set to continue in the UK and France in particular. This similarly applies to the German market, where, for example, a slight increase in the most expensive rents being paid for prime locations is a positive sign. All of the European real estate investment markets are likely to participate in the upturn that is currently in evidence, with investors also beginning to focus on properties outside the core markets.

In light of the state of the economy, Deutsche Hypo expects to be able to reach, if not possibly exceed, its new business target of approximately € 3 billion for real estate finance business. The Bank's core markets of the UK and France are viewed as particularly good sources

of further potential, this being the reason behind the measures to increase Deutsche Hypo's local presence on these markets. The Bank will continue to follow its tried-and-tested strategy of having two thirds of its new business based in Germany and approximately one third on foreign markets. In terms of property type, office and retail real estate will remain the main focus of the Bank's business activities. There are also signs that the financing of residential portfolios will become a greater focus again in the future.

The rise in the volume of new business will generate additional interest and commission income but it is likely that this will not be sufficient to fully offset the impact of the delay in the asset transfer process. Net commission income will only just match the previous year's level as a result of accounting on an accrual basis. Overall, Deutsche Hypo expects the real estate finance business segment to exceed the previous year's income level but to fall just short of the original target set for the year.

### **Capital market development**

In terms of the refinancing of its real estate business, Deutsche Hypo was again able to achieve exceptionally competitive conditions on the market during the first half of 2011. Owing to the very good refinancing platform provided by Pfandbriefe, together with lean and flexible processes associated with the implementation of new business, the Bank also continues to occupy a good position in the area of public-sector lending. Deutsche Hypo will continue in future to focus on lending to those borrowers with the best credit ratings. The high demands made in terms of the quality and profitability of new business mean that it is too early to say whether the Bank can continue its good results of the first six months during the second half of the year, although the current supply situation points toward a pleasing development at the very least.

Given its positive experience to date, the Bank will continue with its product mix of private placements and benchmarks, striking a balance between maintaining investors' attention and actually gaining that attention in the first place. With the market as a whole being sufficiently liquid, Deutsche Hypo continues to firmly believe that it can achieve the issue volume needed for new business. Numerous conversations with investors have confirmed the Bank's view that its uncovered bonds and its Pfandbrief products will continue to enjoy high levels of demand in future.

As far as the further development of results in capital market business is concerned, it should be noted that this will be crucially influenced by the current uncertainty on the capital markets. Against this backdrop, Deutsche Hypo will continue with its very selective approach to new business. This will impact on how the Bank's portfolio develops and thus also on net interest income.

The risk result for this business segment is expected to be negative, but not more than in a negative single-digit range. In conjunction with the crisis in the eurozone it is not currently possible to foresee whether there will be a need for further risk provisioning over the months to come. Overall, the contribution to income from this business segment is not expected to match last year's comparatively very good result.

### Outlook

The above forecasts for the key business segments are likely to mean, based on the current situation, that Deutsche Hypo's income from ordinary business activity for 2011 as a whole will be below the level of income recorded in 2010.

### Opportunities and risks

Deutsche Hypo believes that it remains well positioned to master the challenges that lie ahead. It will continue in future to focus on the successful interplay between the two pillars of its proven business model - real estate finance and public-sector lending - and by means of its stable funding basis provided by Pfandbriefe.

Leaving aside the risks that have already been described in connection with the current government debt crisis and the delay in the asset transfer process, there is also the general risk that Deutsche Hypo might not be able to generate the expected level of new business on the basis of the expected margins on its target markets. A further risk to our operational business is that our customers might not be able to repay their loans as originally planned.

These risks exist alongside opportunities for Deutsche Hypo. The first of these is the possibility that the real estate markets could well ignore the government debt crisis and remain robust and resistant to crisis, combined with the continuation of a gratifying trend in margins. It is the Bank's aim, when working in its core markets, to drive forward with project development business, as well as real estate investment banking and cross-selling business, and to become increasingly involved in syndicated finance arrangements.

The cornerstones of Deutsche Hypo's good starting position are its sound equity ratio and its solid re-financing basis. The Bank's customer and investors place particular value on our long-term and consistent market presence, as well as on the Bank's high degree of expertise in national markets and its reliability. Against this background, Deutsche Hypo is confident, assuming that its core markets develop as planned, that it has a



# INTERIM FINANCIAL STATEMENTS

**Balance sheet**

**Income statement**

**Statement of changes in shareholders' equity**

## BALANCE SHEET

## ASSETS

		€	€	30 June 2011 €	31 Dec. 2010 k€
1. Cash reserve					
a) Cash on hand			1,992.80		3
b) Credit with central banks of which: with the German Central Bank	37,442,434.54 (2010: k€ 46,719)		37,442,434.54		32,556
c) Credit at postal giro offices			0.00		0
				37,444,427.34	32,559
2. Debt certificates from public authorities and bills of exchange eligible for refinancing at central banks					
a) Treasury bills and non-interest- bearing Treasury bills as well as similar notes of which: refinanceable with the German Central Bank	0.00 (2010: k€ 0)		0.00		0
b) Bills of exchange			0.00	0.00	0
					0
3. Due from banks					
a) Mortgage loans			7,732,177.23		8,054
b) Loans to local authorities			2,364,351,850.43		2,664,930
c) Other receivables			1,933,582,737.45		2,231,874
of which: due daily against pledging securities as collateral	817,384,801.42 (2010: k€ 882,232) 0.00 (2010: k€ 0)			4,305,666,765.11	4,904,858
4. Due from clients					
a) Mortgage loans			11,637,389,610.87		11,447,739
b) Loans to local authorities			6,113,228,128.75		6,662,603
c) Other receivables			397,033,511.03		298,718
of which: against pledging securities as collateral	0.00 (2010: k€ 0)			18,147,651,250.65	18,409,060
5. Bonds and other fixed interest- interest securities					
a) Money market instruments					
aa) from public issuers		0.00			
ab) from other issuers		0.00	0.00		299,693
b) Bonds and debentures					
ba) from public issuers		4,845,252,281.98			
of which					
borr. from Ger. Central Bank	2,916,058,144.18 (2010: k€ 3,352,922)				
bb) from other issuers		6,253,153,035.18	11,098,405,317.16		11,939,271
of which:					
borr. from Ger. Central Bank	5,479,469,081.13 (2010: k€ 5,788,730)				
c) Own bonds			32,810,268.08	11,131,215,585.24	76,408
Nominal amount	32,770,000.00 (2010: k€ 76,262)				12,315,372
6. Shares and other variable- interest securities				50,080,924.32	51,129
7. Participatory interests				76,949.43	227
of which:					
In banks	0.00 (2010: k€ 0)				
In financial services institutions	0.00 (2010: k€ 0)			12,436,285.37	10,807
8. Shares in affiliated companies					
of which:					
In banks	0.00 (2010: k€ 0)				
In financial services institutions	0.00 (2010: k€ 0)			4,919,311.00	5,006
9. Trust assets					
of which:					
Loans on a trust basis	4,919,311.00 (2010: k€ 5,006)				
10. Equalisation claims against the public sector including bonds from their exchange				0.00	0
11. Intangible assets					
a) in-house industrial property rights and similar rights and assets			0.00		
b) purchased licences, industrial property, as well as licences to those rights and assets			324,360.65		
c) goodwill			0.00		
d) payments made on account			0.00	324,360.65	292
12. Tangible assets				3,867,589.65	3,910
13. Outstanding deposits on the subscribed capital of which: called up	0.00 (2010: k€ 0)			0.00	0
14. Other assets				313,504,512.60	183,531
15. Accrued and deferred items					
a) from the issue and loan transaction			51,516,261.06		53,900
b) others			24,700,320.55		27,616
				76,216,581.61	81,516
16. Active deferred taxes				0.00	0.00
17. Assets arising from the overfunding of pension obligations				0.00	0.00
<b>Total assets</b>				<b>34,083,404,542.97</b>	<b>35,998,267</b>



## BALANCE SHEET

## LIABILITIES

		€	€	30 June 2011 €	31 Dec. 2010 k€
1. Bank loans and overdrafts					
a) Issued registered mortgage Pfandbriefe			288,235,318.04		305,918
b) Issued registered public Pfandbriefe			528,670,990.37		679,108
c) Other liabilities			<u>5,572,817,261.25</u>		7,310,566
of which:				6,389,723,569.66	8,295,592
due daily	365,348,956.56 (2010: k€ 557,748)				
issued to lenders to secure loans which have been taken on:					
registered mortgage Pfandbriefe	0.00 (2010: k€ 0)				
registered public Pfandbriefe	0.00 (2010: k€ 0)				
2. Amounts owed to customers					
a) Issued registered mortgage Pfandbriefe			944,324,611.25		949,121
b) Issued registered public Pfandbriefe			8,121,218,941.67		8,039,930
c) Savings deposits					
ca) with an agreed period of notice of three months		0.00			
cb) with an agreed period of more than three months		0.00	0.00		
d) Other liabilities			<u>1,080,146,932.40</u>		0
of which:				10,145,690,485.32	10,041,433
due daily	18,582,423.20 (2010: k€ 40,218)				
issued to lenders to secure loans which have been taken on:					
registered mortgage Pfandbriefe	0.00 (2010: k€ 0)				
registered public Pfandbriefe	0.00 (2010: k€ 0)				
3. Securitised liabilities					
a) Assigned bonds					
aa) Mortgage Pfandbriefe		6,116,584,394.44			5,461,872
ab) Public Pfandbriefe		6,451,091,103.20			7,177,466
ac) Other bonds		<u>3,263,415,670.10</u>			3,276,711
b) Other securitised liabilities			15,831,091,167.74		15,916,049
of which:			0.00		0
Money market papers	0.00 (2010: k€ 0)			15,831,091,167.74	15,916,049
4. Trust liabilities				4,919,311.00	5,006
of which:					
Loans on a trust basis	4,919,311.00 (2010: k€ 5,006)				
5. Sundry liabilities				204,584,444.45	217,651
6. Accrued and deferred items					
a) from the issue and loan transaction			52,849,995.74		50,855
b) other			<u>19,449,442.57</u>		20,584
				72,299,438.31	71,439
6a. Passive deferred taxes				0.00	
7. Provisions					
a) Provisions for pensions and similar obligations			25,593,161.00		23,743
b) Tax provisions			1,000,681.09		5,379
c) Other provisions			<u>16,917,773.28</u>		9,727
				43,511,615.37	38,849
9. Subordinated liabilities				352,000,000.00	383,300
10. Jouissance right capital				98,000,000.00	98,000
of which:					
due within the next two years	0.00 (2010: k€ 0)				
11. Fund for general bank risks				0.00	0
12. Shareholders' equity					
a) Subscribed capital			80,640,000.00		80,640
Capital held by silent partners			194,000,000.00		194,000
b) Capital reserve			406,313,877.23		406,314
c) Profit reserves					
ca) Statutory reserve		18,917,799.60			18,918
cb) Reserve for shares in a controlling or majority-owned company		0.00			0
cc) Reserves acc. to articles of association		0.00			0
cd) Other profit reserves		<u>231,076,545.78</u>			214,424
			249,994,345.38		233,342
			0.00		
d) Balance sheet profit			<u>10,636,288.51</u>	941,584,511.12	16,652
			<u>10,636,288.51</u>		930,948
<b>Total liabilities</b>				<u>34,083,404,542.97</u>	<u>35,998,267</u>
1. Contingent liabilities					
a) Contingent liabilities from settled bills of exchange which have been rediscounted			0.00		0
b) Liabilities arising from sureties and guarantee agreements			819,940,384.82		842,981
c) Liability from the provision of collateral for third-party liabilities			<u>0.00</u>	819,940,384.82	0
					842,981
2. Other obligations					
a) Repurchase commitments from non-genuine repo transactions			0.00		0
b) Placement and underwriting obligations			0.00		0
c) Irrevocable credit commitments			<u>913,320,593.37</u>	913,320,593.37	719,456
					719,456

## Income statement

	€	€	30.06.2011 €	30.06.2010 k €
1. Interest earnings from				
a) Credit and money market transactions	427,994,190.34			
b) Fixed interest bearing securities and book-entry securities	<u>186,621,117.11</u>	614,615,307.45		591,628
2. Interest expenses		<u>518,627,465.18</u>	95,987,842.27	<u>508,520</u> 83,108
3. Current income from				
a) Shares and other variable interest bearing securities		1,500,000.00		
b) Participatory interests		725.00		
c) Shares in affiliated companies		<u>0.00</u>	1,500,725.00	1,668
4. Income from profit pooling, surrender or partial-surrender agreements			0.00	0
5. Commission income		6,230,127.17		8,716
6. Commission expenses		<u>687,332.29</u>	5,542,794.88	<u>366</u> 8,350
7. Net income or net expenses from the trading portfolio			0.00	0
8. Other operating income			1,670,558.79	1,301
10. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	17,620,385.44			
ab) Social security and expenses for pension plans and for support of which:	<u>4,394,286.08</u>	22,014,671.52		
for pension plans	2,067,283.14 (2010: k€ 1,791)	<u>14,116,059.31</u>		
b) Other administrative expenses			36,130,730.83	33,295
11. Write-downs and value adjustments of intangible assets and tangible fixed assets			374,898.06	369
12. Other operating expenses			4,138,119.74	1,144
13. Write-downs and value adjustments on receivables and specific securities, well as allocation to provisions in credit business		39,837,682.58		30,828
14. Income from writing up receivables and specific securities as well as from the release of provisions in credit business		<u>0.00</u>	39,837,682.58	<u>0</u> 30,828
15. Write-downs and value adjustments of participatory interests, shares in affiliated companies and securities treated as fixed assets		3,871,691.81		2,840
16. Income from writing up participatory interests, shares in affiliated companies and securities treated as fixed assets		<u>0.00</u>	3,871,691.81	<u>0</u> 2,840
17. Expenses from pooled losses			0.00	0
<b>19. Result from normal operations</b>			<b>20,348,797.92</b>	<b>25,951</b>
20. Extraordinary income		0.00		0
21. Extraordinary expenses		<u>285,041.00</u>		<u>284</u>
<b>22. Extraordinary result</b>		<b>-285,041.00</b>	<b>-285,041.00</b>	<b>-284</b>
23. Taxes on income		184,206.02		2,533
24. Other taxes not included under item 12		<u>41,770.37</u>	225,976.39	<u>30</u> 2,563
25. Income from pooled losses			0.00	0
26. Profits surrendered under a profit pooling, surrender or partial surrender agreement			9,201,492.02	1,272
<b>27. Profit/loss for the year</b>			<b><u>10,636,288.51</u></b>	<b><u>21,832</u></b>
28. Profit/loss brought forward from previous year			0.00	476
30. Transfers from profit reserves d) from other profit reserves			0.00	0
<b>34. Balance sheet profit</b>			<b>10,636,288.51</b>	<b>22,308</b>

## Statement of changes in shareholders' equity

in € thousands	Subscribed capital	Silent deposits	Capital reserve	Revenue reserve	Distributable profit	Total equity
<b>Equity as at 01.01.11</b>	<b>80,640</b>	<b>194,000</b>	<b>406,314</b>	<b>233,342</b>	<b>16,653</b>	<b>930,948</b>
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Additional payments acc. to Section 272, para. 2, no. 4 of HGB	0	0	0	0	0	0
Allocations to the profit reserves	0	0	0	16,653	-16,653	0
Income for the period	0	0	0	0	10,636	10,636
<b>Equity as of 30.06.11</b>	<b>80,640</b>	<b>194,000</b>	<b>406,314</b>	<b>249,994</b>	<b>10,636</b>	<b>941,585</b>

in € thousands	Subscribed capital	Silent deposits	Capital reserve	Revenue reserve	Distributable profit	Total equity
<b>Equity as at 01.01.10</b>	<b>80,640</b>	<b>44,000</b>	<b>311,314</b>	<b>218,342</b>	<b>476</b>	<b>654,771</b>
Capital increases	0	75,000	0	0	0	75,000
Dividend payments	0	0	0	0	0	0
Other changes						
Additional payments acc. to Section 272, para. 2, no. 4 of HGB	0	0	0	0	0	0
Pre-allocations to the profit reserves	0	0	0	0	0	0
Income for the period	0	0	0	0	21,831	21,831
<b>Equity as of 30.06.10</b>	<b>80,640</b>	<b>119,000</b>	<b>311,314</b>	<b>218,342</b>	<b>22,307</b>	<b>751,602</b>

# CONDENSED NOTES

## General information on accounting and valuation principles

The interim financial statements as at 30 June 2011 have been prepared in accordance with the provisions of the German Commercial Code (HGB) in conjunction with the Ordinance on the Presentation of Accounts of German Banks (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG), the Pfandbrief Act, and the recommendations of the German accounting standards (DRS 16). The interim financial statements form part of the interim financial report as defined in the German act of 5 January 2007 transposing the European Transparency Directive into German law (Section 37w of WpHG).

The interim financial statements as at 30 June 2011 comprise the balance sheet, the income statement, the statement of changes in shareholders' equity and selected disclosures provided in the form of the condensed notes. A (condensed) statement of cash flows has not been prepared, this being optional, and the Bank has also refrained from segment reporting.

The reporting currency for the interim financial statements is the euro (€). Unless specified to the contrary, all amounts are reported in thousands of euros (k€), rounded up or down in accordance with standard rounding rules. The use of rounded figures can result in rounding differences in the totals stated in individual tables and charts.

With regard to the events and circumstances relevant to an understanding of the current interim report period, reference is made to the information on assets, liabilities, financial position and profit or loss provided in the interim management report.

The interim financial statements have been prepared using the same accounting methods as applied during preparation of the annual financial statements as at 31 December 2010, without modification.

Income taxes are reported on the basis of the best estimate of the rate of income tax expected for the year as a whole.

## Notes to the balance sheet

Overall, total assets fell by € 1.9 billion or 5.3 % compared with 31 December 2010. This reduction is primarily attributable to falls in capital market business due to significantly lower volumes of new business.

## Notes to the Income Statement

### Net interest income

The adoption on 10 June 2011 by the Accounting and Audit Board of the German Institute of Auditors of IDW Accounting Principle HFA 35 on the reporting of valuation units pursuant to HGB led to a change in the reporting of close-out payments from derivatives used for hedging. In a move away from its previous approach, the Bank is now required to report these under net interest income. As at 30 June 2011 the resulting positive effect on net interest income totalled € 6.8 million.

### Write-downs and value adjustments of receivables and specific securities, and allocations to provisions for lending (risk provisioning)

Income from close-out payments in the amount of € 6.8 million was, as referred to above, reported under net interest income, and not under risk provisioning as has been the case to date.

**Other operating expenses**

The rise of € 3.0 million in other operating expenses compared with the same period of the previous year can be primarily attributed to the bank levy which was charged for the first time during the year under review.

**Income transferred on the basis of profit pooling, a profit transfer agreement or a partial profit transfer agreement**

The rise in this item can be explained by new investments made in 2010 by silent partners in the amount of € 150 million.

**Other disclosures****Information on cover assets**

The quarterly disclosures required pursuant to Section 28 of the German Pfandbrief Act are available on the Bank's website at [www.deutsche-hypo.de](http://www.deutsche-hypo.de).

**Report on subsequent events**

No significant events have occurred since the end of the reporting period.

Hanover, August 2011

The Board of Managing Directors



Dr. Allerkamp



Pohl



Rehfus

## RESPONSIBILITY STATEMENT

"We guarantee that, to the best of our knowledge, in accordance with the applicable accounting principles, the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank, and the interim management report includes a fair review of the development and performance of the business and position of the Bank, together with a description of the principal opportunities and risks associated with the Bank's expected development."

Hanover, August 2011

The Board of Managing Directors



Dr. Allerkamp



Pohl



Rehfus

## REVIEW REPORT

To Deutsche Hypothekbank (Actien-Gesellschaft),  
Hanover/Berlin

We have reviewed the interim condensed financial statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity and the condensed notes, and the interim management report of Deutsche Hypothekbank (Actien-Gesellschaft), Hanover/Berlin, for the period from 1 January 2011 to 30 June 2011, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG („Wertpapierhandelsgesetz“: German Securities Trading Act). The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG applicable to interim management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed financial statements and the interim management report based on our review.

We conducted our review of the interim condensed financial statements and the interim management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed financial statements are not prepared, in all material respects,

in accordance with German commercial law and that the interim management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with the provisions of German commercial law or that the interim management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports.

Hanover, 5 August 2011

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Hultsch  
Wirtschaftsprüfer  
(German Public Auditor)

Sterz  
Wirtschaftsprüfer  
(German Public Auditor)

# CORPORATE BODIES

## Supervisory board

### DR. GUNTER DUNKEL

– Chairman –

Hanover

Chairman of the Board of Management  
of Norddeutsche Landesbank

Girozentrale

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### ECKHARD FORST

– Vice-Chairman –

Hanover

Member of the Board of Management  
of Norddeutsche Landesbank

Girozentrale

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### DIRK METZNER

Hanover

Bank employee

### DR. JOHANNES-JÖRG RIEGLER

Hanover

Member of the Board of Management  
of Norddeutsche Landesbank

Girozentrale

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### WILHELM ZELLER

Burgwedel

since 25 May 2011

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### FRANK WOLFF

Hanover

Bank employee



## Lending committee

DR. JOHANNES-JÖRG RIEGLER

– Chairman –

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DR. GUNTER DUNKEL

---

ECKHARD FORST

---

WILHELM ZELLER

– Substitute member –

since 25 May 2011

## Personnel committee

DR. GUNTER DUNKEL

– Chairman –

---

ECKHARD FORST

---

DR. JOHANNES-JÖRG RIEGLER

## Audit committee

DR. JOHANNES-JÖRG RIEGLER

– Chairman –

---

FRANK WOLFF

---

WILHELM ZELLER

since 25 May 2011

---

ECKHARD FORST

– Substitute member –

## Appointments committee

DR. GUNTER DUNKEL

– Chairman –

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ECKHARD FORST

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DR. JOHANNES-JÖRG RIEGLER

## Board of managing directors

DR. JÜRGEN ALLERKAMP

– Chairman –

Hanover

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ANDREAS POHL

Hanover

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ANDREAS REHFUS

Hanover

## Executive manager

MICHAEL MÜLLER

## Public trustees

DR. GUNTHER KRAJEWSKI

– Trustee –

Hanover

Retired Assistant Director

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WOLFDIETRICH KÜHNE

– Deputy Trustee –

Hanover

Degree in business

## Departmental managers

SABINE BARTHAUER

---

GUNTER BIERWISCH

---

JOACHIM BLOSS

---

CARSTEN DICKHUT

---

MARC GROTE

---

MARKUS HEINZEL

---

DIRK HUNGER

---

DIETER KOCH

---

WOLFGANG KOPPERT

---

ALBRECHT MAYER

---

UWE MENNINGER

---

JÖRG QUENTIN

---

DIRK SCHÖNFELD

---

THOMAS STAATS

---

RALF VOGEL

---

DR. WULFGAR WAGENER

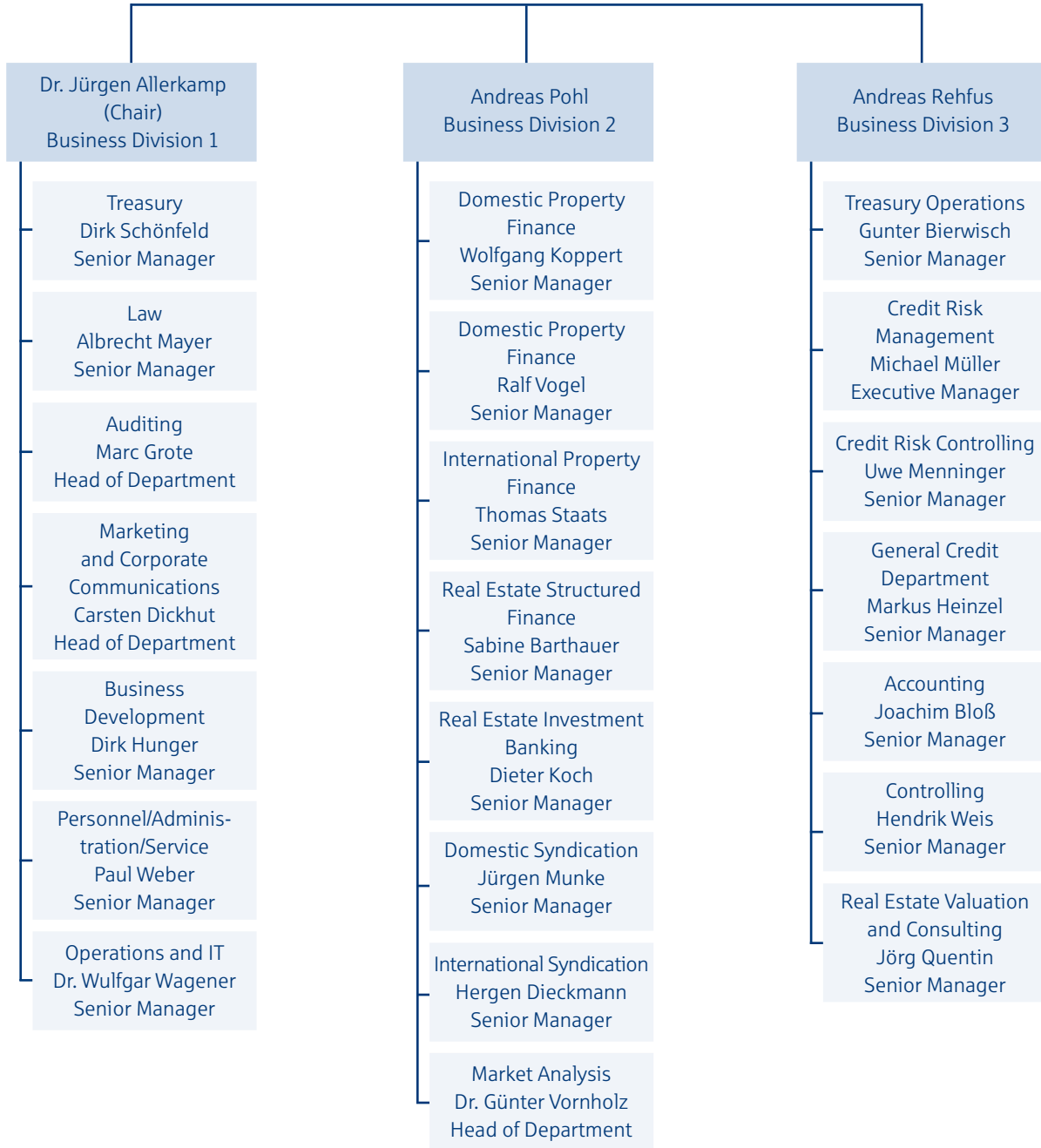
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PAUL WEBER

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HENDRIK WEIS

# ORGANISATIONAL STRUCTURE



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### State Supervisory Body

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Graurheindorfer Straße 108  
53117 Bonn







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