



## HALF-YEARLY FINANCIAL REPORT 2009

Quality is the basis  
of your success.

## DEUTSCHE HYPO AT A GLANCE

	01.01.-30.06. 2009 € millions	01.01.-30.06. 2008 € millions	Change in %
<b>Business progress figures</b>			
Mortgage loans	431	1,048	- 58.9
Capital market transactions of which public-sector loans	1,671 663	952 445	75.5 49.0
Loan drawdowns	2,134	2,220	- 3.9
Bond sales and loans taken up	2,456	2,492	- 1.4
<hr/>			
<b>Balance Sheet figures</b>			
	30.06.2009	31.12.2008	
Mortgage loans (including interest)	9,410	9,094	
Public-sector loans (including interest)	10,479	10,616	
Securities	12,441	12,305	
Borrowed funds	33,163	34,757	
Equity (excluding distributable profits)	1,023	1,023	
of which: core capital	686	686	
Total assets	34,392	36,047	
<hr/>			
<b>Profit and Loss Account figures</b>			
	01.01.-30.06. 2009	01.01.-30.06. 2008	
Net interest and commission income	47.5	59.2	- 19.9
Administrative expenses including depreciation	25.6	17.8	43.8
Result from ordinary business activity	0.6	22.3	- 97.3
Net income for the year	0.7	16.3	- 95.7
<hr/>			
<b>Other information</b>			
	30.06.2009	30.06.2008	
Cost/income ratio	54.0 %	30.0 %	
Core capital ratio	7.9 %	5.7 %	

<b>Rating</b>		
		Moody's
Public Pfandbriefe		Aaa
Mortgage Pfandbriefe		Aaa
Long-term liabilities		Aa3

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# THE SUPERVISORY BOARD AND ITS COMMITTEES

## .. Members of the supervisory board

### **Dr. Gunter Dunkel**

Hanover

Chairman of the Board of Management  
of Norddeutsche Landesbank

Girozentrale

– **Chairman** –

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### **Eckhard Forst**

Hanover

Member of the Board of Management  
of Norddeutsche Landesbank

Girozentrale

– **Vice-Chairman** –

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### **Dr. Jürgen Allerkamp**

Hanover

Member of the Board of Management  
of Norddeutsche Landesbank

Girozentrale

to 14 May 2009

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### **Reinhard Drexler**

Hanover

Bank employee  
to 14 May 2009

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### **Michael Gehrig**

Hanover

Bank employee  
to 14 May 2009

### **Dr. Elke König**

Hanover

since 14 May 2009

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### **Dirk Metzner**

Hanover

Bank employee

since 14 May 2009

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### **Dr. Hannes Rehm**

Hanover

Until 31 December 2008, Chairman of the Board  
of Management of Norddeutsche Landesbank

Girozentrale

to 20 February 2009

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### **Dr. Johannes-Jörg Riegler**

Hanover

Member of the Board of Management  
of Norddeutsche Landesbank

Girozentrale

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### **Frank Wolff**

Hanover

Bank employee

## .. Committees

### .. Lending Committee

Dr. Johannes-Jörg Riegler  
– Chairman –

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Dr. Gunter Dunkel

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Eckhard Forst

---

Dr. Jürgen Allerkamp  
– Substitute member –  
to 14 May 2009

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Dirk Metzner  
– Substitute member –  
since 14 May 2009

### .. Audit Committee

Dr. Jürgen Allerkamp  
– Chairman –  
to 14 May 2009

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Dr. Johannes-Jörg Riegler  
– Substitute member –  
to 14 May 2009  
– Chairman –  
since 14 May 2009

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Dr. Elke König  
since 14 May 2009

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Frank Wolff

---

Eckhard Forst  
– Substitute member –  
since 14 May 2009

### .. Personnel Committee

Dr. Gunter Dunkel  
– Chairman –

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Eckhard Forst

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Dr. Hannes Rehm  
to 20 February 2009

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Dr. Jürgen Allerkamp  
to 14 May 2009

---

Dr. Johannes-Jörg Riegler  
since 14 May 2009

### .. Appointments Committee

Dr. Hannes Rehm  
– Chairman –  
to 20 February 2009

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Dr. Gunter Dunkel  
– Chairman –  
since 14 May 2009

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Dr. Jürgen Allerkamp  
to 14 May 2009

---

Eckhard Forst  
since 14 May 2009

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Dr. Johannes-Jörg Riegler  
since 14 May 2009

## MANAGEMENT

### .. Board of Managing Directors

Jürgen Grieger  
Jürgen Morr  
Andreas Pohl  
Andreas Rehfus

### .. Executive manager

Michael Müller

### .. Departmental managers

Volker Basler  
Sabine Barthauer  
Gunter Bierwisch  
Joachim Bloß  
Markus Heinzel  
Dirk Hunger  
Wolfgang Koppert  
Albrecht Mayer  
Uwe Menninger  
Markus Nitsche  
Wolfgang Overkamp  
Jörg Quentin  
Dirk Schönfeld  
Thomas Staats  
Ralf Vogel  
Dr. Wulfgar Wagener  
Paul Weber

## PUBLIC TRUSTEES

Dr. Gunther Krajewski  
Hanover  
Retired Assistant Director  
– Trustee –

Wolfdietrich Kühne  
Hanover  
Degree in business  
– Deputy Trustee –

# MANAGEMENT REPORT

## .. Business performance

The deep recession in the major industrialised nations has resulted in a marked shrinking in the global economy. Many governments have resorted to unprecedented economic rescue packages in an attempt to bolster the real economy. Signs were beginning to emerge towards the end of the first half of 2009 that the measures taken across the world were in fact having an effect and that an end was in sight to the economic downturn. Nevertheless, the crisis on the financial markets that has been in evidence since 2008 continued during the reporting period, and with it the negative impact on finance conditions for the real economy. Consequently, investment activity waned, and combined with a fall in world trade, this represented the major factor responsible for the fall in overall economic output for economies like Germany that are highly dependent on exports.

Global commercial real estate markets have also been hit by the recession, with a direct impact on the Bank's new real estate finance business. Transaction volumes have fallen significantly in the key property markets and thus also in Deutsche Hypo's target markets. In addition to the US market, European real estate markets, particularly in the UK and Spain, have also experienced a major negative trend. Consequently, Deutsche Hypo has faced an unavoidable rise in risk provisioning for its financing business. For these reasons, Deutsche Hypo, in positioning itself with regard to its new business, is remaining as keenly aware of risk as ever and, in light of the market weakness, continuing to adopt a cautious and reserved approach.

Furthermore, the fact that refinancing conditions remain difficult impacted on the Bank's income situation during the first half of 2009. Widening spreads, as a result of the crisis, affected all issuers of securities and led to a general increase in refinancing costs, including those incurred by Deutsche Hypo. This duly impacted on net interest and commission income. Widening spreads also caused the prices of securities to fall, placing a corresponding burden on the income earned from securities held in the liquidity reserve.

Deutsche Hypo recorded the following results with regard to its business performance during the reporting period:

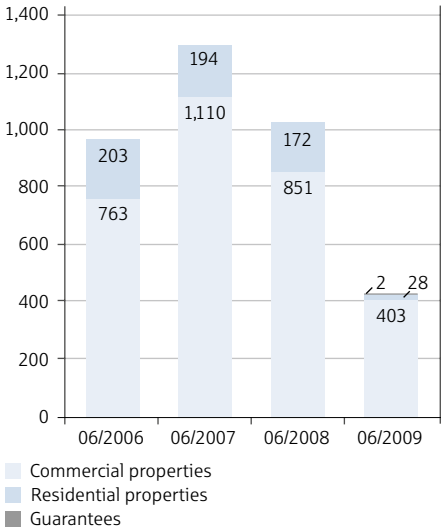
- .. Net interest and commission income fell to € 47.5 million (- 19.9 %).
- .. General administrative expenses rose by € 7.8 million.
- .. The weak state of the real estate markets meant that the Bank's risk provisioning for real estate finance business rose to € 23.3 million (H1 2008: € 4.3 million).
- .. Provisions were reversed in accordance with Section 340f of the German Commercial Code (HGB); the overall risk result was € 9.2 million.
- .. The overall pre-tax result was € 0.6 million (H1 2008: € 22.3 million).
- .. New real estate finance business amounted to € 431 million (H1 2008: € 1,048 million).
- .. New capital market business grew to € 1,671 million (H1 2008: € 952 million).

-- Real estate finance business

**New business**

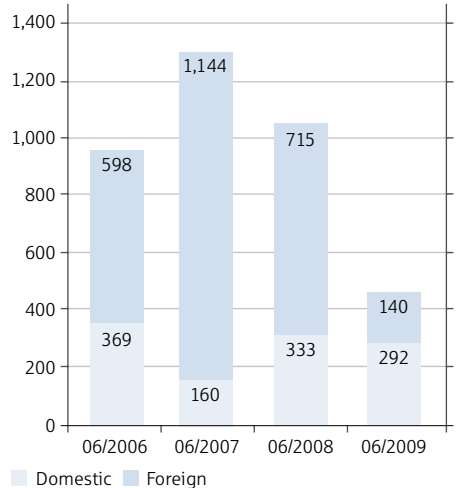
New commitments in real estate finance business totalled € 431 million, some € 617 million (- 59 %) down on the same period of 2008. Financings for residential property accounted for € 28 million of total new commitments, with commercial loans making up € 403 million. Guarantee business accounted for € 2.3 million.

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



The lower volume of new business can be attributed almost exclusively to the fall in foreign business, which was down by € 575 million to € 140 million (- 80 %). The reasons for this are to be found in the weak state of the property markets, primarily in the USA and the UK. Compared with the same period of the previous year, the impact of the financial crisis was particularly marked. The crisis only began to affect business during the second half of 2008, whilst business was still developing more smoothly during the first six months.

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



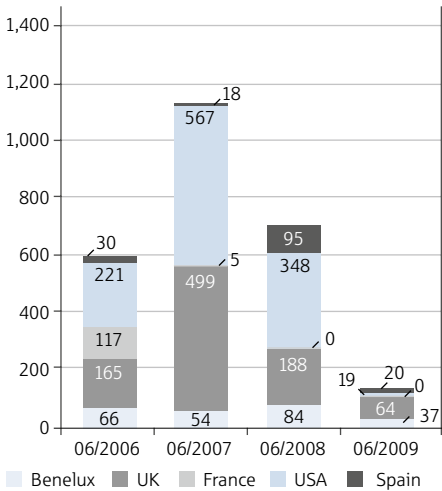
The strongest fall was recorded in the USA, where the volume of commitments shrank by € 348 million to € 19 million.

Meanwhile, in the UK, where new business totalled € 64 million, the Bank issued € 124 million less in new mortgage loans than in the first half of 2008.

New business in Spain totalled € 20 million, which was € 75 million less than during the same period of 2008.

Meanwhile, in the Benelux countries, the volume of new business fell by € 47 million to € 37 million.

**New foreign real estate business (in € millions)**



New mortgage business on the domestic market dropped by € 42 million to € 292 million (- 13 %) and, given the basic economic parameters, was therefore at a satisfactory level.

**Loan portfolio**

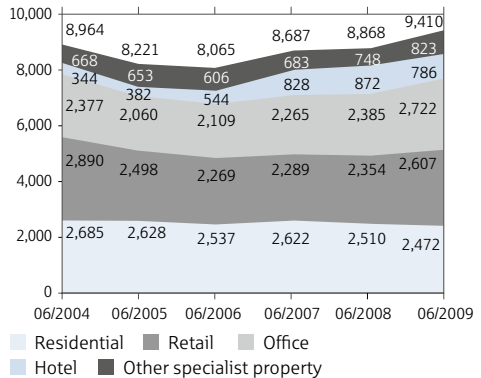
Compared with the same period of the previous year, the real estate finance portfolio increased by € 542 million (+ 6.1 %) to € 9,410 million. This rise was due in small measure to exchange rate conversion effects relating to loans denominated in sterling and US dollars. Excluding the

changes in exchange rates, the increase in the size of the mortgage portfolio would have been in the region of € 448 million.

Portfolio increases were posted in the area of office real estate (+ € 337 million) and retail properties (+ € 253 million), as well as in the case of other specialist real estate (+ € 75 million). Falls were recorded in relation to hotel properties (- € 86 million) and mortgages for residential properties (- € 38 million).

Domestic finance accounted for € 5,171 million (+ € 177 million), whilst foreign finance deals totalled € 4,239 million (+ € 365 million). This meant that the share of foreign loans rose to around 45 %, compared with 44 % of the total loan portfolio during the same period of 2008.

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



The portfolio of MBS structures fell by € 54.7 million to € 164.3 million (H1 2008: € 219 million). € 15.7 million of this fall can be attributed to scheduled redemptions, € 39.0 million can be attributed to write-downs.

In an early reaction to the crisis on the financial markets, the Bank ceased its MBS business back in May 2007 and consequently also refrained from acquiring any such papers during the period under review.

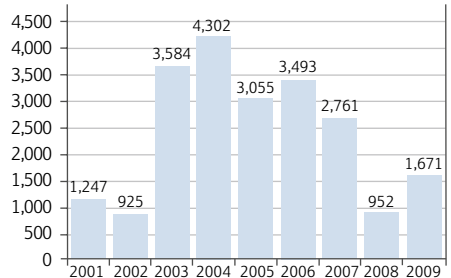
### -- Capital market transactions

Based on the experiences of the 2008 financial year, expectations with regard to how business would progress during the first half of 2009 were muted. Yet despite such fears, business in 2009 began relatively positively. Pfandbriefe enjoyed a renaissance, becoming the subject of increased demand again, primarily on the part of German investors.

The public sector's high liquidity requirement to finance state support measures resulted in an excess supply of bonds issued by the government and other public borrowers. This led to a significant widening in the premiums for new issues compared with outstanding secondary market bonds from the same issuers. With regard to the placement of benchmark transactions, for which the minimum issue volume is € 500 million, high premiums were being charged for new issues.

For its part, Deutsche Hypo continued its strategy of issuing demand-led customised Pfandbriefe, frequently in the form of registered papers. The Bank's comfortable refinancing situation meant that there was another slight rise in public lending business with attractive margins.

### New capital market business in € millions As at 30 June of each financial year



Premiums for public lending business began to fall back again during the second half of the first half-year, although not as quickly as the speed at which the Bank succeeded in cutting its refinancing costs. Consequently, it was possible for new lucrative agreements to be entered into. New commitments were matched with practically concordant refinancing. Despite the fact that the loan quality of lending business was up at the upper limits of the valuation scale, the Bank generated sufficiently high margins.

In this way, Deutsche Hypo was able to enter into new capital market business that fulfilled the Bank's requirements in terms of quality and profitability whilst at the same time financing domestic public coffers in particular.

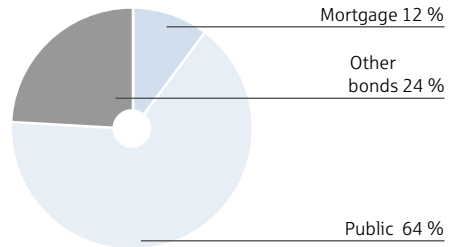
The high quality of new business maintained the already very good quality of the public sector loan pool. The Bank was once again awarded the top rating of Aaa for its public Pfandbriefe by the rating agency Moody's. S&P also awarded its top rating of AAA for the period under review. The decision made by Deutsche Hypo in July of this year to return the S&P rating was not viewed as critical by market participants.

## .. Refinancing

In the difficult fourth quarter of 2008, sales potential for both public and mortgage bonds was classed as limited given the market situation. Deutsche Hypo therefore adjusted its premiums for new issues in line with market conditions. In this way, the Bank succeeded in generating a sufficient level of sales and in guaranteeing liquidity for the Bank's new business at all times. The increasing willingness of traditional Pfandbrief investors to return to the market had a positive impact. Deutsche Hypo Pfandbriefe continued to be sought-after investments, providing due confirmation of the Bank's approach to new business and its risk strategy.

Liquidity procurement developed far more favourably than expected even during an early phase of the first half-year. Additional positive impetus was provided by the European Central Bank's announcement that it was launching a purchase programme worth € 60 billion for euro-denominated covered bonds. This announcement alone was enough to provide a tangible boost to the market. The rise in demand caused Deutsche Hypo to modify its issuing behaviour. Whilst it had been primarily private placements with smaller individual volumes that had tended to dominate the market until that point, the Bank was now also able to place considerably larger issues.

Breakdown of issue volume of € 2.5 billion  
(As at: 30 June 2009)



Since the beginning of the year, the Debt Issuance Programme (DIP) has been the standard documentation for our bearer issues, ensuring that the Bank complies with the latest requirements imposed by the European Prospectus Directive.

Overall, the Bank's issues totalled approximately € 2.5 billion during the first half of 2009, of which Pfandbrief products accounted for around € 1.9 billion. Non-covered issues were closely geared around demand in a cost-conscious approach, reaching a volume of around € 0.6 billion. This volume confirms that the Bank, even during a period of crisis, was always in a position to procure the requisite level of liquidity via the capital market.

Deutsche Hypo will continue to adhere to its successful strategy of demand-oriented issuing business, analysing potential opportunities on the basis of the market situation at any given time.

## .. Rating

### Deutsche Hypo rating

There were no changes to the Bank's ratings compared with the previous year. Deutsche Hypo has terminated its business relationship with the rating agency Standard & Poor's, which means that S&P will no longer conduct any rating analysis for Deutsche Hypo's public Pfandbriefe.

Standard & Poor's published a press release on this subject on 6 July 2009, which is available to view on the Deutsche Hypo website at [http://www.deutsche-hypo.de/pfa\\_rr\\_ratings.htm](http://www.deutsche-hypo.de/pfa_rr_ratings.htm)

	Public Pfandbriefe	Mortgage Pfandbriefe	Short-term liabilities	Long-term liabilities	Financial strength
Moody's	Aaa	Aaa	Prime-1	Aa3	C-
Standard & Poor's (up to 06.07.2009)	AAA	-	-	-	-

## .. Income position

Net interest and commission income fell by 20 % or € 11.7 million during the first half of the year, from € 59.2 million during the first six months of the previous year to € 47.5 million. The reasons for this include the unsatisfactory result from maturity transformation and the increased refinancing costs that arose due to the widening of liquidity spreads and that could not simply be passed on to loan customers.

The business divisions of real estate finance and capital market business recorded a satisfactory performance. The real estate finance portfolios

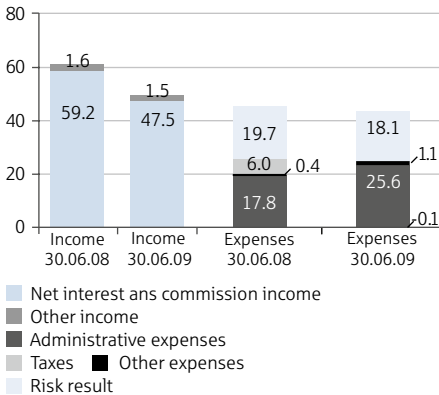
developed positively with no changes to the margins achieved. This positive development is partly due to changes in exchange rates. However, this did not result in higher income given that as a general rule Deutsche Hypo hedges its currency transactions against fluctuating exchange rates from the outset. This means that subsequent fluctuations have no impact, positive or negative, on net interest income.

Net interest income from capital market transactions stagnated. This was due to the volume of new business, which although increased re-

mained at a comparatively low level, resulting, on balance, in a practically unchanged portfolio volume compared with the same period of 2008.

Net commission income rose by approximately € 3.8 million year-on-year. This was primarily due to the service charges paid by NORD/LB to Deutsche Hypo to cover the additional expenses incurred by Deutsche Hypo in relation to the transfer of staff from NORD/LB to the Bank. This additional expenditure is not yet being offset by a higher contribution to income as the portfolio business of NORD/LB is due to be transferred to Deutsche Hypo in stages.

**Structure of income and expenses (in € millions)**



**General administrative expenses**

General administrative expenses rose by just under € 8 million, primarily due to higher personnel costs (+ € 6.6 million). The increase in these costs is essentially attributable to the acquisition of NORD/LB staff, in turn offset by the service charges paid by NORD/LB to Deutsche Hypo for

the servicing of its loan portfolio. Other administrative expenses rose by € 1.3 million as a result of higher costs in conjunction with the integration of the Bank into NORD/LB Group. The cost/income ratio deteriorated to 54 percent.

**Other operating income and expenses**

The balance of other operating income and expenses fell by some € 3.7 million to - € 3.1 million. The main contributory factor was the fact that a claim had to be written down as part of a restructuring measure. In economic terms, this change impacts on the credit risk result, with the amount only being reported under this item for balance-sheet reasons. Excluding this one-off effect, the balance of other operating income and expenses was unchanged.

**Risk provisioning**

The provisioning charge in relation to lending activities increased by € 19.0 million to € 23.3 million (H1 2008: € 4.3 million) against a background of weak real estate markets, particularly in the USA and UK. If the markets remain as weak, further negative burdens over the course of 2009 cannot be excluded.

The result based on securities held in the liquidity reserve, at € 0.2 million, was an improvement on the previous year (- € 10.3 million).

Provisions of € 14.0 million were reversed in accordance with Section 340f of the German Commercial Code (HGB) with an effect on the result.

Overall, the risk result therefore improved by € 5.3 million to - € 9.2 million (H1 2008: € 14.5 million).

### Result from financial investments

The result from financial investments was dominated by write-downs due to permanent valuation losses on securities held as fixed assets. At the same time, however, there were also cases of original values being reinstated when an improvement in the market situation meant that earlier write-downs proved not to be permanent in some instances. In terms of its investment result, the Bank recorded a negative balance of € 8.9 million (H1 2008: € 5.2 million). The write-downs included in this amount primarily related to structured securities held as fixed assets (MBS and CDOs), with regard to which the valuation losses can be classed as permanent.

### Result from ordinary business activity

The result from ordinary business activity was some € 21.5 million down on the result as at 30 June 2008, at € 608k. This result was strongly affected by the economic crisis, the fall-out from which could be felt in practically every segment of the income statement.

### Net income for the year

Net income for the year, at € 696k, was slightly up on the result from ordinary business activity and can be attributed to tax refunds of € 88k.

## .. Risk report

The Bank's entire risk management system was described and explained in detail in the 2008 Annual Report. The basic features of this system, and also of the risks to which the Bank is exposed as it carries out its business activities, are basically unchanged, with the result that reference is made at this point to Deutsche Hypo's Annual Report for the 2008 financial year.

Subsequent developments and improvements are detailed below. These can be divided into three different categories:

- .. Continuing integration into the NORD/LB Group's risk management system.
- .. Adjustment of risk measurement methods to take account of new situation presented by the crisis on the financial markets.
- .. Complete implementation and further improvement of risk-bearing capacity taking due account of stress scenarios.

Progressing with the Bank's integration into NORD/LB Group basically involved the further harmonisation and adjustment of reporting channels in particular and reporting in general. Greater demands have also been placed on the Group as a result of the financial crisis. Regular workshops are held with representatives from throughout the Group, with the aim of bringing permanent improvements to the existing systems. Deutsche Hypo is also fully integrated into this process.

The impact of the financial crisis meant that the calculation parameters for market and liquidity risk were adjusted. Taking account of the limited

trading options on the financial markets, longer holding periods are incorporated into the calculation of risk-bearing capacity in terms of market risk. Depending on the scenario, this has led to increases in the relevant risk amounts of up to 400 percent.

With regard to liquidity risk, which basically comprises the refinancing risk arising from the widening of refinancing spreads, adjustments have been made in the form of increases in the spreads used in the relevant calculations. These are based on the actually widening in spreads observed on the market. Again, this process has resulted in a clear rise in the calculated risks, in some cases in excess of 200 percent.

The fact that the levels of calculated risk are rising also impacts on the Bank's risk-bearing capacity, given that specific minimum values must be complied with.

Based on the Internal Capital Adequacy Assessment Process (ICAAP), the Bank's risk-bearing capacity, at 161 %, was sufficient (31 December 2008: 144 %). The result of the analysis of risk-bearing capacity under specific stress scenarios, based on ICAAP, was also positive (116 %).

Further scenarios examined in the context of risk-bearing capacity did, however, indicate a fundamentally higher potential threat. The Bank reacted accordingly by reducing limits and also adopting measures to cut risks.

In this way, Deutsche Hypo has acted to ensure that, even in difficult times, it has a sufficiently high buffer to withstand elevated risks.

The risk-bearing capacity figures based on stress scenarios have now become a fixed component of the Bank's reporting. Here too a calculation system is used that is based on analysis of regular risk-bearing capacity. This system has replaced the old method used up until autumn 2008. The results of this analysis provide an early-warning indicator and also impact on the Bank's planning process. Stress scenarios used, particularly in the area of counterparty/credit risk, result in a much higher overall burden than was previously the case with the old methods. Additionally, for the first half of 2009, stress testing was carried out for the Bank's risk capital as well as stress testing based on conventional risks.

#### Market price risk

The market price risk facing Deutsche Hypothekbank is composed of currency risk and both general and specific interest rate risks. Currency risks assumed in relation to foreign currency financings are eliminated through hedge transactions in the same volume and with the same term. The general interest rate risk is expressed as the value at risk (VaR), the underlying parameters for which are stipulated for the Group as a whole and comprise a confidence interval of 95 % and a holding period of 1 day. The value at risk for the Bank's total economic portfolio as at 30 June 2009 was € 2.0 million (compared with € 1.3 million as at 30 June 2008). As at the reporting date, the VaR was limited to € 5 million. There were no instances of the limit being exceeded during the reporting period.

The specific interest rate risk or spread risk results from changes in interest premiums based on credit rating. In terms of commercial law, these fluctuations in credit ratings are only reflected in profit

and loss for securities held as current assets. The VaR calculated from historical simulations for securities held as current assets as at the reporting date, with a confidence level of 99 % and a holding period of one month, was € 0.46 million.

### Counterparty default risk

#### Real estate business

The counterparty default risk in the real estate portfolio continues to represent the largest item within the Bank's total risk. There has been a marked rise in the level of counterparty default risk associated with real estate finance business compared with the situation as at 31 December 2008 as a result of the crisis on numerous real estate markets.

#### Rating

Of the Bank's real estate finance portfolio (including payment obligations) of approximately € 9.4 billion, 73 % consists of finance granted to customers whose credit rating is at least satisfactory on the basis of the rating scale of the IFD initiative (an initiative designed to support Germany as a financial base).

Rating based on IFD (in € millions)	30.06.2009	
	Volume	Share
Very good to good	3,543	37.7 %
Good/satisfactory	2,328	24.7 %
Still good/satisfactory	955	10.2 %
Elevated risk	1,200	12.8 %
High risk	659	7.0 %
Very high risk	333	3.5 %
Default	392	4.2 %
<b>Total</b>	<b>9,410</b>	

Compared with the beginning of the year, the portfolio's rating structure has, as expected, deteriorated. The proportion with an elevated risk has risen from 18.4 % to 22.9 %, whilst instances of credit default have similarly increased, currently equating to 4.2% of the portfolio and resulting almost exclusively from the foreign portfolio. By 30 June 2009 the portfolio of commercial real estate finance business had been completely revalued on the basis of the new Group-wide rating procedures. The ratings reflect the credit standing of the respective borrowers. Additionally, the risk associated with the finance is crucially determined by the quality of the real estate serving as security. This is another area in which the real estate crisis has triggered a fall in market values, particularly in the UK and the USA.

Broken down by regions, 55 % of the real estate portfolio related to domestic finance, with foreign finance accounting for 45 %, primarily the USA (18 %) and the UK (14 %). This is almost the same as in the previous year.

Rating based on IFD (in € millions)	Germany		USA		UK		Remaining portfolio	
	Volume	Share	Volume	Share	Volume	Share	Volume	Share
Very good to good	2,671	51.6 %	280	16.5 %	112	8.6 %	480	38.9 %
Good/satisfactory	1,624	31.4 %	210	12.3 %	145	11.1 %	350	28.4 %
Still good/satisfactory	410	7.9 %	250	14.7 %	169	12.9 %	126	10.2 %
Elevated risk	268	5.2 %	444	26.1 %	332	25.4 %	156	12.7 %
High risk	28	0.5 %	216	12.7 %	390	29.8 %	25	2.1 %
Very high risk	30	0.6 %	189	11.1 %	57	4.4 %	56	4.6 %
Default	141	2.7 %	110	6.5 %	101	7.8 %	39	3.2 %
<b>Total</b>	<b>5,171</b>		<b>1,699</b>		<b>1,306</b>		<b>1,234</b>	

Compared with domestic business, finance business in the USA and the UK includes major portions with an elevated or high level of risk. The proportion of credit defaults in these countries is approximately three times as high as in the case of domestic business. It was to these areas that a large portion of the new individual bad debt provisions related during the first half of the year, in the amount of € 31.8 million.

#### New business by rating

The Bank adopted a selective risk-oriented approach to new lending business. Of the total volume of new business recorded, 85 % related to the first two rating categories, thereby resulting in a slight improvement in the overall quality of the portfolio.

Rating based on IFD (in € millions)	New business 30.06.2009	
	Volume	Share
Very good to good	221	51.2 %
Good/satisfactory	147	34.0 %
Still good/satisfactory	62	14.5 %
Elevated risk	0	0.0 %
High risk	1	0.3 %
Very high risk	0	0.0 %
Default	0	0.0 %
<b>Total</b>	<b>431</b>	

### Capital market transactions

A slight improvement was recorded in relation to capital market transactions due to a fall in the size of the portfolio. This affected all segments of capital market business, which therefore continued to have a good rating of AA overall. The average rating of the securities portfolio was also AA. This portfolio does however also include papers with a lower rating than BBB-, primarily the MBS portfolio, for example, and securities from Icelandic banks. Value adjustments have already been made in the past due to permanent valuation losses but these papers are still currently included in the balance sheet at their residual book values. Further developments on the market and with regard to issuers' credit ratings will reveal whether and to what extent further permanent impairments are likely to occur, necessitating further write-downs.

### Operational risk

There were no instances of damage of an operational nature during the first half of 2009 that had a significant influence on Deutsche Hypo's profit situation. Similarly, the Bank is not aware of any potential risks that could represent a major threat.

### Liquidity risk

Deutsche Hypo once again met the requirements of Principle II without any problems throughout the reporting period. The Bank's liquidity ratio as at 30 June 2009 was 1.23 (H1 2008: 1.68). This means that short-term payment obligations were covered by incoming payments due in the short term by a factor of 1.23.

The Bank's analysis carried out on the basis of Group-wide stress testing continues to show a positive result. As at 30 June 2009, the Bank had a liquidity excess sufficient to cover a period of 228 days (31 December 2008: 317 days), which is well within the Group's required level of >180 days.

Leaving aside this stress scenario, the Bank's short-term liquidity situation is unchanged compared with 31 December 2008. Taking into account the option of issuing covered mortgage Pfandbriefe, liquidity is secured for a period of eleven months, which was also the case as at the 2008 year-end.

## .. Forecast

### The economy and real estate markets

Looking at the development of the economy as a whole in many of the major industrialised nations, there have been increasing signs, particularly during the second quarter of 2009, that the economic downturn experienced in earlier quarters is easing and gradually coming to a halt. In addition, activity has markedly picked up on the capital markets, with a fall in volatility.

Nevertheless, the global economy still finds itself in a difficult phase. Many companies still find themselves in a very tense situation, unemployment has risen and house prices – particularly in the USA – remain under pressure. The fall in value in real estate assets, and indeed in assets in general, and the ongoing uncertainty on the financial markets remain the core problems in terms of stabilising the world economy.

In this context, transaction volumes on the real estate investment markets continued to wane worldwide during the first quarter of 2009, with major price falls also in evidence on the property markets. As financial markets have dried up and risk premiums have risen, global real estate markets are recording rising initial rates of return. Returns have already increased by up to 250 basis points in Europe's top cities, with a rise of up to 100 basis points in Germany so far. Office property prices in Germany have fallen by as much as 15 % compared with the high levels achieved in 2007, whilst prices in London and Paris are down by half. As further value corrections are made, however, it can be expected that returns will already have peaked in some cases. Investment can also be expected to pick up again at the beginning of an economic recovery, which is expected to kick in towards the end of the year in London/Paris and in early 2010 in the case of Germany.

Rental markets tend to lag behind the investment markets. In view of the global recession we expect to see rising vacancy rates and falling rents worldwide for 2009/2010.

Rent levels have been falling in the USA since the middle of 2008. Rising unemployment, especially in the office sector, will further dampen demand for office premises in 2009. Whilst supply will fall slightly compared with last year, it will still be at a level such that rents will fall and vacancy rates will increase more strongly.

The ongoing economic uncertainty in Europe and the fall in employment levels have resulted in a clear fall in the total amount of space being let on the European property markets. The markets are likely to be dominated over the next few quarters by a continued fall in market rent levels, greater risks surrounding follow-on leases, and also general default risks with regard to rent payments. Demand for properties already fell substantially in 2008. Combined with an increase in new building activity, this has pushed up vacancy rates. Volatile markets such as Paris, London, Madrid and Barcelona have recorded what were in some cases major falls in rents (30 % in London, and 15 % in the case of Spain). In Germany, meanwhile, rents were actually still stagnating in some cases during the first quarter of 2009 with only minor falls recorded at other locations. It was only in Berlin that rents were 10 percentage points down on their previous all-time high. With regard to vacancy rates, signs of a turnaround are clearer, however. In Munich, Hamburg and Düsseldorf, vacancy levels are above those recorded during the same period of 2008 and also up on the previous quarter. The trend is still downwards in Berlin and Frankfurt. Over the course of the year, however, the expectation is that rents will fall and vacancy levels increase across Germany as a whole. Alongside negative net absorption, one of the key factors is also the rise in supply compared with the previous year.

Against this background, we do not expect new real estate finance business for the 2009 financial year as a whole to exceed the previous year's figure.

### Capital market development

The number of Pfandbrief banks involved in new business in the area of public lending fell during the year under review, with what were once leading establishments withdrawing from the market altogether in some cases. Other investor groups were not enough to offset this development. As a result, Deutsche Hypo was offered attractive investment opportunities at an early stage and in higher number than had previously been the case. This meant that the Bank was able to be very selective in its choice of new transactions whilst at the same time fulfilling all of its margin requirements.

In terms of issuing business, as in previous years Deutsche Hypo was able to benefit from its good reputation as a reliable issuer. Furthermore, the Bank's membership of NORD/LB Group also opened up new opportunities. The fact that Deutsche Hypo has been a member of the joint liability scheme of the German Savings Banks Finance Group since 1 January 2009 means that its issues are now automatically given a 0 % risk weighting by all of Germany's Sparkassen and Landesbanken. For these investors in particular, uncovered bonds, as well as Pfandbriefe, represent an attractive asset class. The Bank visibly benefited from this with regard to its issuing activity.

As things currently stand we expect the favourable basic conditions that have emerged over the past six months to continue. It is conceivable that the high margins realised in new public-sector lending in particular might no longer be realistic in the future. Much depends on the future state of public finances and, consequently,

the resulting need for credit. Considering the next twelve months, however, we expect demand for credit to remain high, resulting in favourable opportunities for the Bank to acquire new business.

### Earnings forecast

Deutsche Hypo believes that its business model is a sustainable one, with regard to both commercial real estate finance and capital market and refinancing business. Net interest income during the second half of 2009 will also be influenced by the way in which spreads on the capital markets develop. The markets have been seen to calm down recently, and provided that this calmness lasts, the Bank expects to achieve a higher level of net interest income than during the first half of 2009. On the other hand, it is currently not possible to foresee the extent of the negative burdens caused by the crisis on the financial markets for the rest of 2009. We cannot therefore exclude the possibility of further burdens on the Bank's risk provisioning, with a potential impact on both the real estate finance and the securities portfolios.

Deutsche Hypo's risk management system and entire business model have proved to be robust and viable. Despite the negative factors associated with the financial crisis, the Bank continues to believe that its risks are manageable.

Nevertheless, the fact that uncertainty remains as high as ever with regard to future economic developments in Deutsche Hypo's target markets means that it is still not possible to provide a sound earnings forecast for the entire 2009 financial year.

## .. Report on essential transactions with affiliated parties

### .. Norddeutsche Landesbank – Girozentrale –, Hanover („NORD/LB“)

NORD/LB holds approximately 100 % of the share capital and voting rights of Deutsche Hypo and is therefore to be viewed, in accordance with DRS 11 (German Accounting Standard No. 11), as an affiliated party that can control the company.

Deutsche Hypo considers the following to be key business events with NORD/LB:

- .. Purchase of borrowers' notes in the amount of € 97.5 million
- .. Purchase of bonds in the amount of € 335.0 million
- .. Sale of borrowers' notes in the amount of € 592.5 million
- .. Sale of bonds in the amount of € 437.0 million
- .. Forward deposits taken up in the amount of € 3.0 billion
- .. Invested forward deposits in the amount of € 397.0 million
- .. The volume of concluded derivative transactions is € 4.4 billion.
- .. Borrowing in exchange for transfer of securities (repo) in the amount of € 5.6 billion

These transactions were concluded at the normal market terms and conditions.

Pursuant to a service agreement entered into between NORD/LB and Deutsche Hypo in 2008, the Bank continued during the reporting period to receive commission payments of € 5.2 million for its servicing of the portfolio of loan claims contained in the NORD/LB loan book but processed by Deutsche Hypo staff.

Information on the companies in which NORD/LB directly or indirectly holds a majority share (affiliated companies) is not being provided here. Reference is made in this regard to the NORD/LB Annual Report for the 2008 financial year.

## ASSETS

	30.06.2009 € thousands	31.12.2008 € thousands
<b>Cash reserve</b>	108,724	85,854
<b>Due from banks</b>	5,375,065	7,118,014
a) Mortgage loans	0	0
b) Public-sector loans	3,881,097	3,988,942
c) Other claims	1,493,968	3,129,072
<b>Due from non-bank customers</b>	16,094,832	15,825,452
a) Mortgage loans	9,409,783	9,093,791
b) Public-sector loans	6,597,578	6,627,169
c) Other claims	87,471	104,492
<b>Bonds and other fixed-income securities</b>	12,441,332	12,305,146
<b>Shares and other variable-yield securities</b>	101,056	101,056
Investments	227	227
Other assets	270,804	611,389
<b>Total assets</b>	<b>34,392,040</b>	<b>36,047,138</b>

## LIABILITIES

	30.06.2009 € thousands	31.12.2008 € thousands
<b>Due to banks</b>	7,992,764	6,991,647
<b>of which:</b>		
a) Registered mortgage Pfandbriefe	215,896	175,864
b) Registered public Pfandbriefe	342,337	420,763
<b>Due to non-bank customers</b>	10,390,637	9,991,084
<b>of which:</b>		
a) Registered mortgage Pfandbriefe	1,160,632	1,155,748
b) Registered public Pfandbriefe	7,855,117	7,485,163
<b>Bonded liabilities</b>	17,779,849	17,774,645
<b>of which:</b>		
a) Mortgage Pfandbriefe	4,127,408	4,550,196
b) Public Pfandbriefe	7,883,012	9,850,940
c) Other bonds	2,769,429	3,373,509
<b>Other liabilities</b>	204,694	266,362
<b>Subordinated liabilities</b>	228,252	228,252
<b>Participatory capital</b>	108,226	108,226
<b>Equity</b>	686,922	686,296
<b>of which:</b>		
a) Subscribed capital	80,640	80,640
Capital held by silent partners	44,000	44,000
b) Reserves	561,656	561,656
<b>Profit carried forward/distributable profit for 2008</b>	626	626
<b>Profit 01.01.2009-30.06.2009</b>	696	
<b>Total liabilities</b>	<b>34,392,040</b>	<b>36,047,138</b>
<b>Contingent liabilities</b>	686,095	686,185
<b>Other obligations</b>	608,861	607,947

## PROFIT AND LOSS ACCOUNT

	01.01.-30.06. 2009 € millions	01.01.-30.06. 2008 € millions	Change in %
Interest income	702.7	814.6	- 13.7
Current income	2.1	13.3	- 84.2
Interest expenses	664.3	771.8	- 13.9
<b>Net interest income</b>	<b>40.5</b>	<b>56.1</b>	<b>- 27.8</b>
Commission income	7.2	4.7	53.2
Commission expenditure	0.3	1.6	- 81.3
<b>Net commission income</b>	<b>6.9</b>	<b>3.1</b>	
<b>Net interest and commission income</b>	<b>47.5</b>	<b>59.2</b>	<b>- 19.9</b>
Wages and salaries	13.3	7.9	68.4
Social security contributions	3.7	2.5	48.0
Other administrative expenses	8.6	7.4	16.2
<b>Administrative expenses</b>	<b>25.6</b>	<b>17.8</b>	<b>43.8</b>
<b>Balance of other operating income/expenses</b>	<b>- 3.1</b>	<b>0.6</b>	
<b>Operating result before risk provisioning</b>	<b>18.7</b>	<b>42.0</b>	<b>- 55.5</b>
Risk provisioning	9.2	14.5	- 36.6
Result from financial investments	- 8.9	- 5.2	
<b>Result from ordinary business activity</b>	<b>0.6</b>	<b>22.3</b>	<b>- 97.3</b>
Tax income/expenses	0.1	- 6.0	
<b>Profit for the period from 01.01. to 30.06</b>	<b>0.7</b>	<b>16.3</b>	

## NOTES

### -- General information

#### -- Accounting regulations

The half-yearly financial statements for the period from 1 January 2009 to 30 June 2009 have been prepared in accordance with the same statutory provisions as the 2008 year-end financial statements. The accounting and valuation methods referred to in the latter have been applied in the same way (cf. page 85 onwards of the 2008 Annual Report).

#### -- Audit/review by an auditor

The interim financial statements and management report have not been audited or reviewed by an auditor.

#### -- Calculation of cover

Current information on the calculation of cover in accordance with Section 28 of the Pfandbrief Act can be found on the Bank's website at [http://www.deutsche-hypo.de/all/download/para\\_28\\_german.pdf](http://www.deutsche-hypo.de/all/download/para_28_german.pdf)

### -- Notes on individual items of the balance sheet and profit and loss account

#### -- Other balance-sheet items

The other changes are the result of ordinary business activity (see also new business).

#### -- Risk provisioning

This includes the partial reversal of reserves in accordance with Section 340f of the German Commercial Code (HGB) in the amount of € 14.0 million.

#### -- Result from financial investments

This position mainly includes permanent valuation losses for securities held as fixed assets.

#### -- Other information

	01.01.-30.06. 2009	01.01.-30.06. 2008
Average no. of employees	315	208
of which:		
Part-time employees	35	23
Trainees	4	4

## RESPONSIBILITY STATEMENT

We guarantee that, to the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, 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 expected development of the Bank for the remainder of the financial year.

Hanover, im August 2009

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