DEUTSCHE HYPO

Member of NORD/LB

Half-yearly Financial Report

2020

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.-30.06.2020	01.01.-30.06.2019	Change (in %)
New business figures			
Commercial real estate finance business	765.5	1,495.7	– 48.8
Domestic finance	477.1	815.2	– 41.5
Foreign Finance	288.5	680.5	– 57.6
Funding volume	1,157.5	1,279.4	– 9.5
Mortgage Pfandbriefe	1,000.0	1,045.0	– 4.3
Unsecured	157.5	234.4	– 32.8

in € millions	30.06.2020	31.12.2019	Change (in %)
Portfolio figures			
Commercial real estate finance business	11,655.1	12,188.3	– 4.4
Domestic finance	6,305.3	6,472.9	– 2.6
Foreign Finance	5,349.8	5,715.4	– 6.4
Loans to local authorities	2,321.9	2,473.7	– 6.1
Securities	3,243.4	4,016.8	– 19.3
Funding capital	18,115.2	19,023.7	– 4.8
Mortgage Pfandbriefe	8,294.3	8,330.9	– 0.4
Public Pfandbriefe	3,095.4	3,286.7	– 5.8
Unsecured	1,509.1	1,661.7	– 9.2
Other liabilities	5,216.5	5,744.4	– 9.2
Equity *)	1,038.6	1,193.6	– 13.0
Balance sheet total	19,412.0	20,454.2	– 5.1

in € millions	01.01.-30.06.2020	01.01.-30.06.2019	Change (in %)
Income figures			
Net interest income	82.9	87.1	– 4.8
Net commission income	1.3	1.3	0.0
Administrative expenses **)	46.6	49.3	– 5.5
Risk result	– 10.3	– 9.1	– 13.2
Income from securities and participatory interest	0.0	0.1	– 100.0
Result from normal operations	24.0	33.0	– 27.3
Extraordinary result	0.1	0.0	100.0
Profit before taxes and profit and loss transfer agreement	24.1	33.0	– 27.0

in %	30.06.2020	30.06.2019	
Other information			
Cost-income ratio	57.6	54.0	

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

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

HALF-YEARLY FINANCIAL REPORT 2020

CONTENT

INTERIM MANAGEMENT REPORT

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

Economic report

Macroeconomic and sector environment[1]

Economic performance in Germany and Europe

The coronavirus pandemic that is rampant in large areas of Europe already affected a massive decline in real economic output in the eurozone in the first quarter of 2020. Gross domestic product (GDP) in the eurozone saw a quarter-on-quarter contraction of 3.6 % in the first quarter and 12.1 % in the second quarter respectively. The drop in economic activity was particularly steep in France, Italy and Spain, where the most rigid containment measures to combat the pandemic were instated and where economic activity was particularly hard hit as a result. May and June then saw increasing signs of a gradual stabilisation of the situation and the beginning of a countermovement.

Germany also slid into a serious recession in the first quarter of 2020. Compared to the previous quarters, GDP decreased by 2.0 % in the first quarter and 10.1 % in the second quarter. While private consumption recorded a significant decline, public consumption and construction investments had a stabilising effect. In April, for example, incoming orders recorded a year-on-year decrease of 36.6 % while industrial production was cut back by 25.3 %, with exports (– 31.1 %) and imports (– 21.6 %) also dropping sharply. Economic activity bottomed out in April. In Germany, however, the unemployment rate of 6.4 % in June was significantly lower than in other countries. A key factor in explaining this is the extensive implementation of short-time work as a tool to help prevent the majority of redundancies.

Developments in the banking sector

Developments on capital and financial markets

Both monetary and fiscal policy have adopted a large number of supporting measures in order to counteract an even stronger economic contraction. This has resulted in capital market yields remaining at a low level. Accordingly, interest on ten-year German government bonds stood only slightly above the – 0.50 % mark in June. The global stock markets were able to benefit from the high liquidity worldwide and hopes of an imminent recovery of economic activity. The yield on ten-year US government bonds levelled off above 0.60 % in June. The US dollar traded at 1.12 USD/EUR as at 30 June 2020. Despite the crisis situation, the EUR/USD basis swap spreads remained within relatively narrow ranges for all maturities.

[1] Source for economic developments and developments on capital and financials markets: NORD/LB Fixed Income & Macro Research; Source for development of real estate target markets: Research conducted by CBRE and JLL

Development of real estate target markets

In the first half of 2020, the global real estate investment market was characterised by market volatility and uncertainty as a result of the coronavirus pandemic. Global transaction volumes declined in the reporting period by roughly 29 % year-on-year, with development varying significantly from region to region. Investor interest in Europe was also dampened on account of the coronavirus pandemic. The first half of 2020 was defined by, among other things, interrupted liquidity flows and a suspended financing market. The winners included the residential asset class, which was seen as a safe haven, as well as logistics real estate. Hotels and certain areas of retail properties were counted among the losers. The real estate target markets of Germany, Austria and the Netherlands in particular bucked the overall trend and achieved increases in transaction volumes. On the whole, the German real estate investment market developed positively due to the continued high pressure on investments from institutional investors. Investments that could no longer be closed at the end of 2019 were postponed to the first quarter of 2020. This even allowed transaction volumes to record an overall increase in the first half of 2020 despite the coronavirus pandemic, although this was due in particular to a very strong first quarter.

Course of business at a glance

Deutsche Hypo's business development during the first half of the year was strongly influenced by the coronavirus pandemic. The Bank set up a situation team at the outset of the pandemic so as to be able to assess the impact on Deutsche Hypo at any given time. Through the implementation of various measures, the Bank was able to respond to the rate of infection and the massive restrictions imposed by authorities and thereby protect its business partners and employees. These measures included the establishment of a home office concept for employees in rotation, in which around half of the staff temporarily worked exclusively from home, and the near complete discontinuation of business trips.

Various working groups also monitored any effects the uncertainties in the market environment were having on the Bank's loan portfolio. In addition to the ongoing observation of property types particularly affected by the coronavirus pandemic, a large number of regulatory adjustments were implemented. Economic and industry-specific developments have not yet resulted in any significant negative developments regarding the Bank's existing loan portfolio. As at the reporting date for the half-yearly financial report, there were only a very small number of requests for coronavirus-related deferrals from customers in relation to credit exposure. This underscores the Bank's focus on maintaining the high quality of its finance portfolio in recent years, as reflected by an ongoing high proportion of loans with good and very good rating classes and a very low ratio of non-performing loans (NPL). For more information, please refer to the statements in the expanded risk report to this interim management report. The report also contains statements concerning actions undertaken by the Bank, the potential impact of the coronavirus pandemic on the real estate market, risk-weighted assets (RWA) and risk provisioning.

New business in commercial real estate finance was significantly lower than in the previous year as well as the initial forecast at the beginning of the year, standing at € 765.5 million (2019: € 1,495.7 million) due to the reduction in credit demand and the Bank's cautious new business lending policy as a result of the coronavirus pandemic. Overall, € 477.1 million (2019: € 815.2 million) of the Bank's new business was concluded on the domestic market and € 288.5 million (2019: € 680.5 million) on foreign target regions. Of total new commitments in real estate finance business (domestic and foreign) in the first half of 2020, a significant proportion was attributable to office properties at € 275.4 million (2019: € 822.5 million) and logistics properties at € 247.9 million (2019: € 208.9 million). The volume of new business with residential real estate amounted to € 99.4 million (2019: € 280.5 million).

As regards the capital market business, the Bank continued its portfolio reduction in its public sector lending business as planned. The portfolio of securities in particular declined significantly as a result of maturities. Against the backdrop of the coronavirus pandemic and its effects, developments on the capital markets led to temporary expansion of credit spreads, particularly in those countries hardest hit by the pandemic, with corresponding negative effects on the market values of the corresponding securities holdings. As at the reporting date for the half-yearly financial report, both credit spreads and the impacts on the Bank's capital market portfolio had returned to normal. The Bank has examined potential future coronavirus-related effects within the scope of scenario analyses. For more information on this topic, please refer to the statements in the expanded risk report.

In the year to date, Deutsche Hypo has undertaken funding in accordance with demand and on competitive terms. A € 1,000 million benchmark mortgage Pfandbrief was issued in February 2020 and was oversubscribed 1.5-fold. In total, the Bank issued own securities in the first half of 2020 in the amount of € 1,157.5 million (2019: € 1,279 million). In addition, the Bank received term deposits with terms of more than 360 days totalling € 1,144.9 million. In the first half of 2020, Deutsche Hypo also participated in the ECB's targeted longer-term refinancing transactions (TLTRO-III).

Within the framework of projects, further cost-saving and optimisation measures were prepared and implemented as part of the ongoing cost-reduction programme. As a result, the number of employees also saw a further year-on-year reduction.

Net assets, financial and income position

Income position

in € millions	Total result		Commercial reals estate finance		Capital market & other business	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Net interest income	82.9	87.1	74.6	78.2	8.3	8.9
Net commission income	1.3	1.3	1.1	1.6	0.2	– 0.3
Administrative expenses	46.6	49.3	21.1	22.4	25.5	26.9
Other operating income	– 3.3	3.0	0.1	0.0	– 3.5	2.9
Risk result	– 10.3	– 9.1	– 19.2	2.3	8.9	– 11.4
Income from securities and participatory interest	0.0	0.1	0.0	0.0	0.0	0.1
Result from normal operations	**24.0**	**33.0**	**35.6**	**59.7**	**– 11.6**	**– 26.7**
Extraordinary result	0.1	0.0	0.0	0.0	0.1	0.0
Profit before taxes and profit and loss transfer	**24.1**	**33.0**	**35.6**	**59.7**	**– 11.5**	**– 26.7**

With the first half of 2020 taking place against the backdrop of the coronavirus pandemic, Deutsche Hypo sees itself as having achieved a satisfactory result from normal operations of € 24.0 million (2019: € 33.0 million). The basis for this result was a largely stable level of earnings in the core business area and the Bank's consistent cost management as reflected by the decline in administrative expenses. The significantly deteriorated market environment that has resulted from the pandemic has not yet been reflected in an increase in loan loss provisions at Deutsche Hypo. Be that as it may, the Bank has reacted to the increased uncertainties associated with the coronavirus pandemic and has adjusted the method of calculation to reflect existing latent credit risks in a risk-adequate manner. In addition to taking expected losses into account, default risks arising from future economic developments are also increasingly being included. Through this change in calculation methodology, the general loan loss provisions increased by € 19.6 million.

Net interest and commission income for the Bank as a whole totalling € 84.2 million was slightly below the previous year's level of € 88.4 million. Net interest income in the core business area also recorded a slight decrease, though development remained stable overall at € 74.6 million (2019: € 78.2 million). One of the reasons for the decrease was the reduced credit demand as a result of the coronavirus pandemic and the resulting slight reduction of the real estate finance portfolio. In addition, a slight decline in the average margin in the real estate finance portfolio further contributed to this development.

Administrative expenses of € 46.6 million were down on the same period in the previous year of € 49.3 million. Despite a higher bank levy of € 10.4 million (2019: € 9.8 million), administrative expenses were reduced thanks to the implementation of the cost-reduction programme launched in 2019. In spite of this development, the cost-income ratio (CIR) rose slightly to 57.6 % (2019: 54.0 %) in the first half of 2020 due to slightly lower earnings.

Other operating income of € – 3.3 million (2019: € 3.0 million) was significantly lower than the previous year's figure, which was influenced by one-off effects, and resulted primarily from interest-related allocations to pension provisions.

The risk result for the Bank as a whole of € – 10.3 million (2019: € – 9.1 million) was marked by a coronavirus-related allocation to the general loan loss provisions in the core business area. The increased uncertainty resulting from the pandemic has not yet led to an increase in loan loss provisions in the core business area at Deutsche Hypo. The general credit risk, which has increased as a result of the market environment, was taken into account on the reporting date for the half-yearly financial report by adjusting the method of calculation for the general loan loss provisions. This resulted in a significant increase in general loan loss provisions. For more information, please refer to the notes to the accounting and valuation methods in the condensed notes to the financial statements. The risk provisioning expenses from the allocation to the general loan loss provisions amounted to € 18.3 million in the reporting period. The risk result in capital market and other business was impacted by effects from the repurchase of the Bank's own Pfandbriefe for the purpose of market servicing and changes in reserves already formed. After higher negative net earnings effects from market servicing in the same period of the previous year, this contribution to earnings – which also includes the effects from the closing of associated hedging transactions – normalised in the current reporting period to stand at a net result of € 0.9 million (2019: € – 7.2 million). The coronavirus pandemic exerted no effects on the risk result of the capital market business.

Overall, profit before taxes and profit and loss transfer totalled € 24.1 million (2019: € 33.0 million). The associated RoE figure was 5.7 % (2019. 7.7 %).

Asset position

in Mio. €	30.06.2020	31.12.2019
Receivables		
Mortgage loans	11,655.1	12,188.3
Loans to local authorities	2,321.9	2,473.7
Other receivables	1,522.2	1,214.2
Securities	3,243.4	4,016.8
Other assets	669.4	561.2
Total assets	**19,412.0**	**20,454.2**

The decrease in Deutsche Hypo's balance sheet total to € 19,412.0 million as compared to the end of 2019 (2019: € 20,454.2 million) resulted both from the portfolio reduction in the capital market business due to scheduled maturities in loans to local authorities and in the securities portfolio and a slight decrease in the commercial real estate finance portfolio. The latter is mainly due to the cautious approach to lending in the first half of 2020 as a result of the coronavirus pandemic.

Of the overall commercial real estate finance portfolio in the amount of € 11,655.1 million (2019: € 12,188.3 million), € 6,305.3 million (2019: € 6,472.9 million) was attributable to the domestic market. The decline in portfolios in the foreign target regions to € 5,349.8 million (2019: € 5,715.4 million) was in large part the result of a significant drop in the UK to € 1,392.5 million (2019: € 1,699.9 million). In addition, the Benelux foreign market recorded a slight decline to € 2,058.3 million (2019: € 2,144.5 million). Portfolios in the other foreign target markets remained largely stable.

In terms of portfolio distribution by property type, the main decreases were recorded in office properties falling to € 4,251.3 million (2019: € 4,554.7 million) and retail properties to € 3,661.1 million (2019: € 3,815.3 million). The portfolio of residential properties including open commitments of € 2,429.3 million (2019: € 2,435.7 million) remained largely unchanged compared to 31 December 2019. The hotel financing portfolio including open commitments decreased to € 1,004.6 million (2019: € 1,057.4 million) as at 30 June 2020. Other properties also saw slight decreases to € 1,524.1 million (2019: € 1,599.5 million).

Financial position

in € millions	30.06.2020	31.12.2019
Liabilities		
Mortgage Pfandbriefe	8,294.3	8,330.9
Public Pfandbriefe	3,095.4	3,286.7
Unsecured bonds	1,509.1	1,661.7
Other liabilities	5,216.5	5,744.4
Subordinated liabilities	186.0	341.0
Funds for general banking risks	14.4	14.4
Equity	838.2	838.2
Other liabilities	258.1	236.9
Total liabilities	**19,412.0**	**20,454.2**
Contingent liabilities	435.0	393.8
Other obligations	1,019.0	1,072.6

On the liabilities side, the decline in the balance sheet total was mainly the result of a decrease in term and overnight deposits from financial institutions. Similarly, as in the past, the Bank's own securities were repurchased for purposes of market management which reduced the portfolio of public Pfandbriefe in particular. For information on the maturities or the due dates for liabilities, please refer to the maturity breakdowns for the liabilities in the condensed notes to the financial statements. The expanded risk report also depicts the Bank's liquidity situation. Information about Deutsche Hypo's funding activity in the previous financial year can be seen in the descriptions of the business performance.

The reported equity remained unchanged at € 838.2 million in comparison to 31 December 2019. Due to the control and profit and loss transfer agreement, Deutsche Hypo transfers all of its profits to NORD/LB. For information on the regulatory equity, reference is made to the explanations in the expanded risk report of this interim management report. Contingent liabilities rose to € 435.0 million (2019: € 393.8 million) due to an increase in guarantee facilities. The other liabilities, resulting exclusively from irrevocable credit commitments, decreased to € 1,019.0 million (2019: € 1,072.6 million).

Rating

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

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

Sustainability Ratings

	imug
Sustainability Rating	positive BB
Mortgage Pfandbriefe	positive BBB
Public Pfandbriefe	very positive A

Oekom research
Overall Score B–
Investment Status „Prime"

In March 2020, the sustainability rating agency imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH reassessed the Bank in its annual cycle. Deutsche Hypo took 3rd place among the assessed mortgage banks (17 in total) with the assigned ratings, and 5th place among all European banks (121 in total).

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

Deutsche Hypo's business development during the first half of the year was strongly influenced by the coronavirus pandemic, making considerable organisational adjustments temporarily necessary. In economic terms, the significantly deteriorated market environment at Deutsche Hypo that has resulted from the pandemic has not yet been reflected in a necessary increase in individual loan loss provisions. Be that as it may, the Bank has reacted to the increased uncertainties and has adjusted the method of calculation to reflect existing latent credit risks. This resulted in a significant increase in general loan loss provisions.

Against the backdrop of this very challenging market environment, Deutsche Hypo sees itself as having achieved a satisfactory result from normal operations in the first half of 2020. In addition to a continued low NPL ratio, this was based on a largely stable level of earnings in the core business area and the Bank's consistent cost management as reflected by the decline in administrative expenses.

New business in the core business area was significantly lower than in the previous year due to the Bank's cautious new lending policy as a result of the coronavirus pandemic, which in turn resulted in a slight decline in the real estate finance portfolios.

As regards the capital market business, the Bank continued its portfolio reduction in its public sector lending business as planned. The portfolio of securities in particular declined significantly as a result of maturities. Following a temporary increase in credit spreads in countries hardest hit by the pandemic, Deutsche Hypo's capital market portfolio was able to return to normal as at the reporting date for the half-yearly financial report. In the year to date, funding has been undertaken in accordance with demand and on competitive terms. In addition, the Bank also participated in the ECB's targeted longer-term refinancing transactions (TLTRO-III) in the first half of 2020.

Report on subsequent events

There were no events of particular significance that occurred after the end of the interim reporting period and that could have a material impact on the Bank's risk situation and the assets, financial and income position.

Forecast, opportunity and risk report

Forecast report

The following section should be read in conjunction with the other chapters of this interim management report. The forward-looking statements contained in this forecast report are based on assessments and conclusions from information available at the present time. The statements are based on a range of assumptions about future events. There are uncertainties and risks related to the occurrence of future events, including many factors that the Bank is unable to influence. Accordingly, actual results may deviate from the prognoses set out below.

In particular, the specific impact that the coronavirus pandemic will have on the economy, individual markets and sectors cannot yet be conclusively assessed. Taken within this context, the forecasts presented below are characterised by a high degree of uncertainty.

Development of business and framework conditions

Assumptions regarding economic development

Macroeconomic activity in Germany is expected to have already bottomed out in the second quarter of 2020. Global economic activity can be expected to recover in the second half of the year, with the German government's economic stimulus package likely to make a substantial contribution. However, growth rates in Germany, the eurozone and the United States will be markedly negative for 2020 as a whole. At present, GDP is expected to decline by 6.0 % for the year overall. Recent, more localised coronavirus outbreaks have also made it very clear that the pandemic is far from over. From an economic perspective, a second wave of infections resulting in renewed massive economic restrictions must be avoided at all costs as it would jeopardise the assumed recovery. The traditionally strongly export-oriented German economy, in particular, is highly dependent on the main trading partner countries also being able to control the situation and ensure long-term stability in terms of infection numbers.

An overall decline of 8.5 % in GDP is forecast for the eurozone for 2020. The dramatic economic slump, the poorer employment outlook and the increase in public and private debt pose considerable risks for the medium-term economic development. Support from fiscal and monetary policy will remain essential.

Assumptions regarding development of real estate target markets

The outlook for the global transactions market in commercial real estate finance is characterised by uncertainty. A further normalisation of business activities will likely also lead to increasingly dynamic transactions. As a result, investment activities should begin to increase again in the third quarter of 2020. The expansive monetary policy approaches undertaken by the European Central Bank and other central banks indicate that the low interest rate environment will continue for some time. In addition, many governments have initiated further easing of their fiscal policy. The German residential properties sector and the market for project developments will limit the downward trend in the crisis. The German real estate market is considered one of the most stable and safest investment havens in the world, which is why investment momentum is expected to pick up again in the second half of the year. This development is in part also due to a lack of investment alternatives in the market. The effects of the coronavirus crisis are considered to be comparable within Deutsche Hypo's target real estate markets (Germany, UK, France, Benelux, Spain, Poland and Austria).

Assumptions regarding development of international financial markets

Key global central banks are also not expected to raise benchmark interest rates in the medium term. As such, capital market yields in the major currency areas are not expected to rise significantly.

Business performance and forecast

The following section looks at the changes in the forecast for the development of new business and the portfolio as well as the earnings forecast for the financial year 2020 as compared with the forecast published in the 2019 management report.

Contrary to previous forecasts, Deutsche Hypo sees itself in a significantly deteriorated economic and industrial environment for the financial year 2020. As a result of the high levels of uncertainty caused by the coronavirus pandemic and the cautious new lending policy, Deutsche Hypo now expects a moderate year-on-year decline in the volume of new business for commercial real estate finance for financial year 2020 as a whole. The prerequisite for this development is that the expected recovery tendencies will be reflected in a renewed increase in new business. Previously, the Bank had expected the volume of new business to be on par with the previous year. Correspondingly, a slight year-on-year decline in the volume of existing business in the core business area is expected as opposed to the previous forecast of a sideways movement towards the end of the current financial year.

The Bank adjusted the method for calculating general loan loss provisions in the first half of the year based on current assessments of the further development of the market environment. This resulted in a significant increase in risk provisioning via general loan loss provisions. Against this backdrop and in contrast to last year's forecast, Deutsche Hypo is expecting a slightly higher burden on the risk result of the core business area for the current financial year. Despite this, Deutsche Hypo still currently expects a clearly positive result from normal operations though, in contrast to the previous forecast, this result will be slightly below the previous year's level. This will also be reflected in a slightly lower RoE as compared with the previous year. Deutsche Hypo had previously assumed that it would achieve a result and RoE at the previous year's level. In terms of the CIR, the Bank continues to expect a slight year-on-year increase.

Opportunities and risks of future business development

The opportunities and risks of future business development are set out in detail in the management report as at 31 December 2019 and remain valid. Please refer to the statements in the section “Opportunities and risks of future business development” of the management report as at 31 December 2019. Important changes in the opportunities and risks are therefore presented in the following.

Economic activity has seen severe restrictions in some areas of economic activity as a result of the coronavirus pandemic, with as yet uncertain consequences for the economic environment. Should the effects of the coronavirus pandemic be reflected in sustained effects on the economy and capital market beyond current expectations, this could have a negative impact on the real estate markets through vacancies and further losses in the value of commercial real estate, leading to increased risk provision expenses, particularly in hotel finance or special retail use finance. Furthermore, the Bank could also see a decline in the volume of new business and commercial real estate finance. Risks also exist with regard to the forecast earnings figures (i.e. net interest income, result from normal operations) and the Deutsche Hypo central performance indicators RoE and CIR. In addition, this may also result in corresponding consequences for regulatory capital ratios and the regulatory indicators at the Bank and Group institution level. It cannot currently be ruled out that further developments in the coronavirus crisis in financial year 2020 may also have a significant negative impact on the risk management indicators.

Furthermore, analogous crisis situations have shown that distortions in credit spreads or market liquidity on the capital markets can occur. This may result in increased liquidity risks for credit institutions that may also then affect Deutsche Hypo.

At the same time, however, there is also a chance that the negative effects of the coronavirus pandemic may prove not to be as long-lasting or milder than currently estimated by the Bank within in this forecast. In such a case, the real estate markets could possibly recover more quickly or more strongly than currently anticipated by the Bank. A renewed increase in demand for real estate due to the lack of investment alternatives is a viable example of how such a development could occur. The associated increase in demand for loans would create opportunities for the Bank to develop new business and portfolios in its core business area. A higher demand for real estate could also lead to a recovery in real estate prices, which would have a positive effect on the Bank’s risk result.

The possibility of a considerable decrease in real estate prices in the UK after Brexit cannot be excluded, which could lead to higher risk provisioning costs. However, in consideration of the existing portfolio structure, risk parameters and the orientation of Deutsche Hypo’s real estate finance portfolio in the UK, which has a volume of € 1,392.5 million (31 December 2019: € 1,699.9 million), the result risks for 2020 are still considered to be low.

In capital market business, it is the portfolio of countries hardest hit by the coronavirus pandemic that are subject to particularly strong fluctuations. This means that, despite cautious planning to date, a further negative development in external conditions could lead to a deterioration in the credit ratings of borrowers and result in the need for additional loan loss provisions with a negative effect on the Bank’s overall result. However, the Bank considers this risk to be low for the rest of the reporting year due to the EU support measures.

The following expanded risk report describes the significant risk-related developments and changes in the first half of the current financial year.

Expanded risk report

Current developments in risk management

As a result of the waiver rule under Section 2a (1) of the German Banking Act (old version) and Art. 7 CRR, the risk-bearing capacity of Deutsche Hypo is secured at the level of the NORD/LB Group. The NORD/LB Group's risk-bearing capacity model includes a range of considerations. Based on the ECB guidance on ICAAP, the risk bearing capacity is considered from a normative and an economic perspective. The interplay of both perspectives is taken into account. For Deutsche Hypo, concrete limits are derived from this interplay in terms of the credit risk, market price risk and liquidity risk, compliance with which represents a central aspect of risk management. It can be established that the relevant limits at the level of Deutsche Hypo were complied with as at 30 June 2020.

Due to the strategic orientation on the commercial real estate finance business, counterparty risks are the focus of risk management. The Bank deliberately manages market price and liquidity risks closely. The risks resulting from the capital market business (both counterparty risks and credit spread risks) were also further reduced in the first half of 2020 as a result of the targeted reduction of positions and regular maturities. As a result of the coronavirus crisis, operational risks gained more importance for the management though their significance in risk management remains comparatively low. There was no overall material change to the risk profile as compared to 31 December 2019.

The Bank has examined the potential impact of the coronavirus pandemic on the real estate and capital markets within the scope of scenario analyses. The effects on RWA and risk provisioning as well as additional liquidity and market price risks arising in the capital market area were taken into account. In addition, an analysis of the stress resistance of individual finance transactions in the real estate segment was undertaken on the basis of event-related portfolio reports, particularly in the retail, hotel and project development sectors. As a result of the analyses, the Bank regards the stress resistance to fundamentally be given; the expected effects can be cushioned to a large extent by the existing finance structures. Due to the dynamic nature of the situation, a final assessment is not yet possible at present and is very much dependent on the further course of the pandemic and the resulting economic development. It is therefore particularly important to continue to regularly monitor the portfolios as well as the early warning criteria.

Developments in the first half of 2020 are discussed below for each individual risk type.

Counterparty risk

Breakdown of total credit exposure by rating category

30.06.2020 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva-tives	Other	Total exposure	Share in total exposure
Very good to good	10,027.8	2,327.0	2,825.8	584.1	746.3	**16,511.0**	81.2 %
Good / satisfactory	1,860.1	0.0	339.9	0.0	0.0	**2,200.1**	10.8 %
Still good / sufficient	603.6	0.0	71.8	0.0	0.0	**675.4**	3.3 %
Elevated risk	241.8	0.0	6.7	2.3	478.0	**728.8**	3.6 %
High risk	102.2	0.0	0.0	0.0	0.0	**102.2**	0.5 %
Very high risk	52.6	0.0	0.0	0.0	0.0	**52.6**	0.3 %
Default (=NPL)	50.4	0.0	0.0	17.4	0.0	**67.8**	0.3 %
Total	**12,938.5**	**2,327.0**	**3,244.2**	**603.8**	**1,224.3**	**20,337.9**	**100.0 %**

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

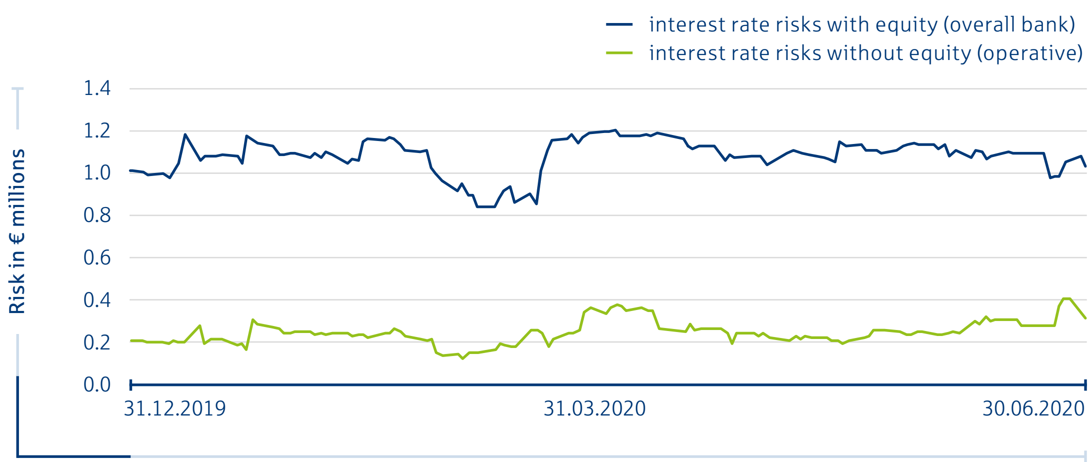
Total credit exposure declined in the first half of 2020 compared to the reporting date of 31 December 2019. The proportion of finance with a rating of at least satisfactory was 95.3 % of the overall exposure (2019: 96.7 %). The share of non-performing loans (NPL) in the overall exposure remained constant at 0.3 % (2019: 0.3 %), thereby persisting at an extremely low level as compared to the long-term average. Overall NPL volume amounted to € 67.8 million (2019: € 67.4 million).

Within the core business area, the share of financing with a rating of at least satisfactory changed only slightly to 96.5 % (2019: 97.9 %). At the same time, the share of real estate financing in default bucked the negative trend of the last years and remained unchanged at 0.4 % (2019: 0.4 %) of the overall portfolio in the core business area, still the lowest level of the last 10 years.

Market-price risk

The value-at-risk (VaR) for interest rate risks of the whole Bank risk fluctuated in the reporting period between € 0.8 million and € 1.2 million, with an average value of € 1.1 million. The development of the VaR of the overall bank (95 % confidence level, 1 day holding period) and the VaR of the operative portfolio (without equity) is displayed in the following figure. The chart does not include the credit spread risks.

Value-at-risk interest rate risks (95 %/1 day)



The assumption of interest rate risks plays a secondary role for Deutsche Hypo from a risk strategy perspective. The change in interest rate risks for Deutsche Hypo was negligible in the first half of the year. The value at risk as at 30 June 2020 was still largely a result of the investment of the perpetual equity and, still only to a very minor extent, from the operating business.

The Bank successfully continued to reduce items in the banking book portfolio exposed to credit spread risks in the first half of 2020. The nominal volume of this portfolio fell by around € 0.9 billion to around € 5.5 billion.

Liquidity risk

In the first half of 2020, Deutsche Hypo had adequate access to money markets and capital markets at all times at fair market conditions. In the dynamic liquidity stress test used for management and limits, a satisfactory liquidity situation was observed throughout the entire period. The distance to illiquidity as at 30 June 2020 was 222 days (31 December 2019: 305 days) and thus within internal specifications.

Deutsche Hypo held a sufficient portfolio of highly liquid securities in the reporting period, such that the Minimum Requirements for Risk Management (MaRisk) rules regarding the liquidity buffer to be maintained were met in full. The applicable regulatory minimum performance value regarding the liquidity coverage ratio (LCR) of 100 % had been satisfied by a clear margin at 365.0 % as of the end of June 2020 (31 December 2019: 396.3 %). The minimum LCR value was maintained throughout the entire reporting period.

Operational risk

A special situation team was set up to deal with the operational risks arising from the coronavirus pandemic, which advises on the latest developments and initiates any necessary measures. All employees were equipped with a mobile workplace in order to safeguard the Bank's operating business. The implementation of these health protection measures thereby made it possible to establish a rolling home office concept. There were no material losses from operational risks in the reporting period.

Regulatory equity resources

Due to the exercising of the waiver rule, the obligations to provide individual bank reports and compliance with the equity and capital requirements in accordance with CRR, part 2 and 3, do not apply to Deutsche Hypo at the level of the individual institution. For the reports on the equity resources on the Group level in accordance with IFRS and for internal controlling pursuant to the German Commercial Code (HGB), Deutsche Hypo calculates, after exercising the waiver rule, the eligible equity and the risk-weighted assets (RWA). The results in accordance with IFRS are consolidated at NORD/LB level for the IFRS calculation for the Group. Additionally, the Bank calculates an equity ratio based on HGB rules that compared all allowable equity pursuant to Art. 4 (1) no. 71 CRR at individual institute level with the risk-weighted assets.

In accordance with the regulatory requirements, a total of € 992.4 million (2019: € 1,003.2 million) was eligible for recognition under regulatory capital. The planned decline in equity compared to 31 December 2019 due to the phase-out of subordinate funds, but with a slightly higher excess of loan loss provision, is offset by a slight increase of 0.2 % in the risk-weighted assets. As a result, the equity ratio as at 30 June 2020 stood at 17.4 % (2019: 17.6 %), marking a marginal change as compared to 31 December 2019.

Summary and outlook

The key quality criteria and risk parameters of Deutsche Hypo's real estate finance portfolio, in particular the rating development and NPL ratio, confirm the previous level as at 30 June 2020 as compared with 31 December 2019. Own scenario analyses and portfolio reviews lead to different results depending on the duration of the restrictions and the extent of the economic recovery, yet confirm the current valuation of the portfolio. Although the risks cannot be reliably predicted, the effects known to date are considered to be manageable.

The capital market portfolio was further reduced during the reporting period. The measures that were started some time ago for reducing the capital market portfolio without impacting results were continued.

Beyond the risks described in this interim management report, no significant further risks can currently be identified compared to those illustrated in the management report as at 31 December 2019. Deutsche Hypo has accounted for known and material risks appropriately by means of precautionary measures.

Hanover, den 11. August 2020

The Board of Managing Directors


Barthauer


Rehfus

HALF-YEARLY FINANCIAL STATEMENTS

Balance sheet as of 30 June 2020

Income statement for the period from 1 January to 30 June 2020

Statement of changes in equity

Condensed notes

BALANCE SHEET AS OF 30 JUNE 2020

ASSETS

	€	€	€	31 December 2019 (in € thousands)
1. Cash reserve				
b) Credit with central banks		477,001,169.32		451,735
of which:				
with the "Deutsche Bundesbank"				
€ 477,001,169.32 (PY € 451,735 thousand)				
			477,001,169.32	**451,735**
2. Receivables from financial institutions				
a) Mortgage loans		4,258,211.97		5,092
b) Loans to local authorities		182,681,763.84		183,729
c) Other receivables		1,516,614,640.54		1,186,408
of which: due daily				
€ 1,036,694,772.15 (PY € 899,011 thousand)				
			1,703,554,616.35	**1,375,229**
3. Receivables from customers				
a) Mortgage loans		11,650,870,565.50		12,183,227
b) Loans to local authorities		2,139,172,282.44		2,289,955
c) Other receivables		5,564,465.26		27,750
			13,795,607,313.20	**14,500,932**
4. Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers	1,837,676,088.97			2,120,991
of wich:				
lendable to the "Deutsche Bundesbank"				
€ 1,053,031,899.55 (PY € 1,317,983 thousand)				
bb) from other issuers	1,405,712,489.56			1,895,852
of wich:				
lendable to the "Deutsche Bundesbank"				
€ 1,239,558,711.93 (PY € 1,722,672 thousand)				
		3,243,388,578.53		
c) Own bonds		596,162.88		278
Nominal amount				
€ 580,000.00 (PY € 263 thousand)				
			3,243,984,741.41	**4,017,121**
5. Intangible assets				
b) Purchased licenses, industrial property rights, as well as licenses to such rights and assets		972,140.67		1,174
d) Payments made on account		99,019.90		99
			1,071,160.57	**1,273**
6. Tangible assets			**2,097,434.45**	**1,808**
7. Other assets			**149,307,898.35**	**64,012**
8. Accrued and deferred items				
a) from the issue and loan transaction		34,246,272.56		37,800
b) others		5,095,216.52		4,266
			39,341,489.08	**42,066**
Total assets			**19,411,965,822.73**	**20,454,176**

LIABILITIES

	€	€	€	31 December 2019 (in € thousands)
1. Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		193,135,677.16		193,353
b) Issued registered public Pfandbriefe		158,787,522.70		218,090
c) Other liabilities		1,608,391,309.10		2,442,150
of which: due daily				
€ 349,688,395.08 (PY € 346,520 thousand)				
			1,960,314,508.96	**2,853,593**
2. Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		567,019,868.22		565,311
b) Issued registered public Pfandbriefe		2,801,559,633.14		2,935,857
d) Other liabilities		3,608,111,339.22		3,302,208
with which: due daily				
€ 751,753.19 (PY € 4,303 thousand)				
			6,976,690,840.58	**6,803,376**
3. Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,534,123,643.99			7,572,263
ab) public Pfandbriefe	135,068,362.57			132,802
ac) other bonds	1,509,111,261.34			1,661,686
		9,178,303,267.90		
			9,178,303,267.90	**9,366,751**
4. Other liabilities			**85,254,536.89**	**92,200**
5. Accrued and deferred items				
a) from the issue and loan transaction		44,139,661.03		45,576
b) other		6,997,898.10		8,225
			51,137,559.13	**53,801**
6. Provisions				
a) Provisions from pensions and similar obligations		65,156,007.34		61,049
b) Tax provisions		249,506.79		37
c) Other provisions		56,287,971.95		29,797
			121,693,486.08	**90,883**
7. Subordinated liabilities			**186,000,000.00**	**341,000**
8. Funds for general banking risks			**14,400,000.00**	**14,400**
9. Equity				
a) Subscribed capital		80,640,000.00		80,640
b) Capital reserves		481,313,877.23		481,314
c) Profit reserves				
ca) statutory reserves	18,917,799.60			
cd) other profit reserves	257,299,946.36			18,918
		276,217,745.96		257,300
			838,171,623.19	**838,172**
Total liabilities			**19,411,965,822.73**	**20,454,176**
1. Contingent liabilities				
b) Liabilities arising from sureties and guarantee agreements		434,993,199.01		393,798
			434,993,199.01	**393,798**
2. Other obligations				
c) Irrevocable credit commitments		1,018,966,417.84		1,072,646
			1,018,966,417.84	**1,072,646**

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2020

	€	€	€	€	1 January 2019 – 30 June 2019 (in € thousands)
1. Interest earnings from					
a) Credit and money market transactions	186,609,706.45				205,229
less negative interest from money market transactions	–2,535,737.10				–1,593
		184,073,969.35			
b) Fixed interest bearing securities and book-entry securities		50,770,062.10			55,651
			234,844,031.45		
2. Interest expenses					
Interest expenses from the banking business		154,651,898.86			175,501
less positive interest from the banking business		–2,712,472.07			–3,328
			151,939,426.79		
				82,904,604.66	**87,114**
3. Commission income			5,009,043.75		5,908
4. Commission expenses			3,724,778.31		4,614
				1,284,265.44	**1,294**
5. Other operating income				**652,446.71**	**7,096**
6. General administrative expenses					
a) Personnel expenses					
aa) wages and salaries		18,069,726.43			19,988
ab) social security and expenses for pension		4,045,918.71			
plans and for support					3,945
of which: for pension plans € 973,670.30 (PY € 1,510 thousand)					
			22,115,645.14		
b) Other administrative expenses			23,957,924.30		24,965
				46,073,569.44	**48,898**
7. Write-downs and value adjustments of intangible assets and tangible fixed assets				**493,467.14**	**428**
8. Other operating expenses				**3,971,701.55**	**4,133**
9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business			10,309,200.90		9,062
				10,309,200.90	**9,062**
10. Income from write-ups of participatory interest, shares in affiliated companies and securities treated as fixed assets			0.00		61
				0.00	**61**
11. Result from normal operations				**23,993,377.78**	**33,044**
12. Extraordinary income			104,962.97		0
13. Extraordinary expenses			0.00		14
14. Extraordinary result				**104,962.97**	**–14**
15. Taxes on income			1,363,768.63		1,048
16. Other taxes not included under item 8			20,442.38		23
				1,384,211.01	**1,071**
17. Profits to be transferred on the basis of a profit pooling, a profit transfer or a partial profit transfer agreement				**22,714,129.74**	**31,959**
18. Profit for the period				**0.00**	**0**
19. Transfer to the profit reserves				**0.00**	**0**
20. Balance sheet profit				**0.00**	**0**

STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Subscribed capital	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2020	**80,640**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**
Capital increase / reduction	0	0	0	0	0	0	0
Allocation to / withdrawal from reserves	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0
As of 30 June 2020	**80,640**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**

in Tsd. €	Subscribed capital	Subscribed capital	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2019	**80,640**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**
Capital increase / reduction	0	0	0	0	0	0	0
Allocation to / withdrawal from reserves	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0
As of 30 June 2019	**80,640**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**

CONDENSED NOTES

The figures in the tables in the condensed notes are expressed in thousand euros (€ thousands) or million euros (€ million). It should be noted that the amounts quoted in the tables and the text are rounded figures, resulting in rounding differences in some cases. Comparison values for balance sheet performance figures relate to the annual financial statements as of 31 December 2019, while comparison values for income statement performance figures relate to the interim financial statements as of 30 June 2019.

General information on accounting and valuation principles

The half-yearly financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, (Deutsche Hypo or the Bank) as of 30 June 2020 have been prepared in accordance with the provisions of the German Commercial Code (HGB) in conjunction with the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG), the German Pfandbrief Act (PfandBG) and the recommendations of the German accounting standards.

The half-yearly financial statements as of 30 June 2020 comprise the balance sheet, the income statement, the statement of changes in equity and selected disclosures provided in the form of the condensed notes. A voluntary cash flow statement was not prepared, in contrast to the previous year. With regard to the events and circumstances in the current interim reporting period that are of relevance for an understanding of the material changes in the positions in the balance sheet and income statement as compared to the presented comparison figures, reference is made to the information in the condensed notes and the information in the economic report provided in the interim management report.

For the preparation of the half-yearly financial statements, the accounting, valuation and measurement methods used for the preparation of the annual financial statements as of 31 December 2019 have been adopted largely unchanged. An adjustment was made in the calculation of the general loan loss provisions. These were previously formed in accordance with the requirements of the letter from the Federal Ministry of Finance dated 10 January 1994. In order to reflect existing latent default risks in the lending business in a risk-adequate manner, these were determined against the background of the effects of the corona pandemic on the reporting date 30 June 2020 on the basis of expected losses in line with the procedure for determining risk provisions for Level 1 and Level 2 in accordance with IFRS 9. In this way, the default risks of future economic development are also increasingly taken into account. As a result of the change made, the half-yearly financial statements give a better picture of the net assets, financial and income position in accordance with generally accepted accounting principles.

Due to the fiscal tax unit on account of the profit and loss transfer agreement between Deutsche Hypo and Norddeutsche Landesbank Girozentrale (Anstalt offentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB), Deutsche Hypo only reports income taxes that relate to a foreign branch. These have been calculated on the basis of the anticipated taxable result at the applicable income tax rate and have been recognised at the corresponding proportion. The profit to be transferred and recognised in item 17 of the income statement as of 30 June 2020 has not been transferred yet because it is governed by the result at the end of the financial year. For this reason, the amount reported therein has been added to the provisions.

Notes on the balance sheet

Receivables from financial institutions

in € thousands	30.06.2020	31.12.2019
Breakdown of residual maturities		
due daily	1,036,695	899,011
up to three months	167,837	7,347
between three months and one year	211,200	149,528
between one year and five years	87,573	93,419
more than five years	90,000	90,000
proportionate interest in total	110,250	135,924
Balance sheet item	**1,703,555**	**1,375,229**

Receivables from customers

in Tsd. €	30.06.2020	31.12.2019
Breakdown of residual maturities		
up to three months	420,955	437,971
between three months and one year	1,854,193	1,523,932
between one year and five years	5,825,859	6,490,602
more than five years	5,651,448	5,977,497
proportionate interest in total	43,152	70,930
Balance sheet item	**13,795,607**	**14,500,932**

Bonds and other fixed income securities

in € thousands	30.06.2020	31.12.2019
Balance sheet item	**3,243,985**	**4,017,121**
of which due in the following year	349,225	1,152,369
of which not valued at the lower of cost or market value*)	131,608	124,910
fair value of securities not valued at lower of cost or market value	101,870	96,766

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

Other assets

in € thousands	30.06.2020	31.12.2019
Balance sheet item	**149,308**	**64,012**
of which adjustment items from foreign currencies	147,524	62,748

Liabilities to financial institutions

in € thousands	30.06.2020	31.12.2019
Breakdown of residual maturities		
due daily	349,688	346,520
up to three months	334,712	1,210,471
between three months and one year	190,690	545,045
between one year and five years	627,882	199,148
more than five years	331,306	397,403
proportionate interest in total	126,037	155,006
Balance sheet item	1,960,315	2,853,593

Liabilities to customers

in Tsd. €	30.06.2020	31.12.2019
Breakdown of residual maturities		
due daily	752	4,303
up to three months	351,910	154,445
between three months and one year	1,296,191	877,290
between one year and five years	2,183,677	2,455,931
more than five years	3,067,462	3,216,004
proportionate interest in total	76,699	95,403
Balance sheet item	6,976,691	6,803,376

Securitised liabilities

in € thousands	30.06.2020	31.12.2019
Balance sheet item	9,178,303	9,366,751
due in the following year	1,557,266	1,434,057

Other liabilities

in € thousands	30.06.2020	31.12.2019
Balance sheet item	85,255	92,200
of which adjustment items from foreign currencies	77,823	79,258
of which pro-rata interest on subordinated liabilities	5,655	9,929

Subordinated liabilities

As a result of scheduled maturities, subordinated liabilities fell to € 186.0 million (previous year € 341.0 million) compared with the reporting date of 31 December 2019.

Provisions

Provisions increased to € 121.7 million compared to 31 December 2019 (2019: € 90.9 million). This was primarily due to accounting for the profit and loss transfer of € 22.7 million, which had not been carried out as at 30 June 2020, in other provisions as well as an increase in pension provisions to € 65.2 million (2019: € 61.0 million).

Contingent liabilities and other obligations

in € thousands	30.06.2020	31.12.2019
Liabilities arising from sureties and guarantee agreements	434,993	393,798
of which total return swaps	118,861	118,956
of which sureties in the mortgage business	316,132	274,842

The risk of utilising contingent liabilities continues to be considered low as obligations are processed within the scope of the Bank's standard credit monitoring processes. Other liabilities relate exclusively to irrevocable credit commitments.

Derivative financial instruments

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

Market values represent the current value of the derivatives at market conditions without accrued interest calculated using an evaluation model (mainly discounted cash-flow model) on the basis of parameters observable on the market (yield curves, forex rates etc.). The figures determined in this way are summarized in the following tables by product category.

30.06.2020 in € thousands	Nominal amount	Market value positive	 negative
Currency-related transactions	218	7	0
Interest rate-related transactions	31,262	1,478	2.082
Interest rate and currency related transactions	2,356	149	230
Total	**33,836**	**1,634**	**2,312**

31.12.2019 in € thousands	Nominal amount	Market value positive	 negative
Currency-related transactions	377	1	7
Interest rate-related transactions	32,659	1,388	1,842
Interest rate and currency related transactions	2,429	89	221
Total	**35,465**	**1,478**	**2,070**

Notes on the income statement

Other operating income

in € thousands (01 January – 30 June)	2020	2019
Income statement item	652	7,096
of which reimbursement of expenses	400	2
of which income from the release of provisions	197	6,944

Other operating expenses

in € thousands (01 January – 30 June)	2020	2019
Income statement item	3,972	4,133
of which expenses from the discounting of provisions (including interest rate effects from the discounting of provisions	3,714	3,772

Extraordinary income

in € thousands	30.06.2020	30.06.2019
Income statement item	105	0
of which release of provisions in connection with the efficiency improvement programme	105	0

Other disclosures

Disclosures regarding cover analysis

The quarterly disclosures required pursuant to Section 28 of the PfandBG are available on the Bank's website at www.deutsche-hypo.de. They are not part of this half-yearly financial report.

Size of workforce on average over the year

	2020	2019
Female Employees	180	187
Male employees	213	229
Total	**393**	**416**

Hanover, 11 August 2020

The Board of Managing Directors

Barthauer   Rehfus

REVIEW REPORT

To Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover

We have reviewed the interim financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover – comprising the balance sheet, income statement, statement of changes in equity and condensed notes – together with the interim management report of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, for the period from 1 January to 30 June 2020 that are part of the semi annual report according to § 115 WpHG ["German Securities Trading Act"]. The preparation of the interim financial statements in accordance with German principles of proper accounting and of the interim management report in accordance with the requirements 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 financial statements and on the interim management report based on our review.

We performed our review of the interim financial statements and the interim management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim financial statements have not been prepared, in material respects, in accordance with German principles of proper accounting, and that the interim management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the interim financial statements have not been prepared, in material respects, in accordance with German principles of proper accounting or that the interim management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim management reports.

Hanover, 11 August 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thiede	Röwekamp
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

RESPONSIBILITY STATEMENT

"We affirm that, to the best of our knowledge and pursuant to the applicable accounting principles for half-yearly financial reporting, the half-yearly financial statements provide a true and fair view of net assets, financial and income position of the Bank and that the interim management report presents the business development, including the Bank's results and position, such that an accurate picture is presented, with a suitable description of the opportunities and risks relating to the probable development of the Bank in the rest of the financial year."

Hanover, 11 August 2020

The Board of Managing Directors

Barthauer

Rehfus

ADDRESSES IN GERMANY AND ABROAD

Management

30159 Hanover
Osterstraße 31 · Tel.: +49 511 3045-0 · Fax: +49 511 3045-459 · www.Deutsche-Hypo.de

Domestic locations

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Kürfürstendamm 22 (Kranzler-Eck) · Tel.: +49 30 2850163-0 · Fax: +49 30 2850163-15

60311 Frankfurt am Main
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20457 Hamburg
Brodschrangen 4 · Tel.: +49 40 37655-310 · Fax: +49 40 37655-305

30159 Hanover
Osterstraße 31 · Tel.: +49 511 3045-591 · Fax: +49 511 3045-599

80538 Munich
Widenmayerstraße 15 · Tel.: +49 89 512667-0 · Fax: +49 89 512667-25

Foreign locations

UK: London EC2V 7WT
One Wood Street · Tel.: +44 207 4294700 · Fax: +44 207 4294701

France: 75002 Paris
23, rue de la Paix · Tel.: +33 1 550484-85 · Fax: +33 1 550484-89

The Netherlands: 1077 XX Amsterdam
Zuidplein 108 · WTC Tower H / 13 · Tel.: +31 20 6914551 · Fax: +31 20 6919811

Poland: 00-021 Warszawa
ul. Chmielna 25 · Tel.: +48 22 8280253 · Fax: +48 22 6924428

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Calle de Goya 6 · Tel.: +34 91 0228414 · Fax: +34 91 4116183

Supervisory body

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Bundesanstalt für Finanzdienstleistungsaufsicht · Graurheindorfer Straße 108 · 53117 Bonn

DEUTSCHE HYPO
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