Interim Report H1 2012

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE PFANDBRIEFBANK

Financial Highlights
Ratings

Financial Highlights		**1.1.–30.6.2012**	**1.1.–30.6.2011**
Operating performance according to IFRS			
Pre-tax profit/loss	in € million	51	120
Net income/loss	in € million	35	77
Key ratio		**1.1.–30.6.2012**	**1.1.–30.6.2011**
Return on equity before taxes	in %	3.2	7.6
Return on equity after taxes	in %	2.2	4.9
Cost-income ratio[1]	in %	73.5	59.4
Balance sheet figures		**30.6.2012**	**31.12.2011**
Total assets	in € billion	104.5	108.8
Equity (excluding revaluation reserve)	in € billion	3.3	3.2
Equity	in € billion	3.2	3.1
Personnel		**30.6.2012**	**31.12.2011**
Employees		1,027	1,032

[1] The cost-income ratio is the ratio of general administrative expenses and operating revenues

Ratings of Deutsche Pfandbriefbank AG and its covered bonds[1] as of 30 June 2012		**Fitch Ratings**	**Moody's**	**Standard & Poor's**
Deutsche Pfandbriefbank AG	Long-term rating	A–	A3	BBB
	Outlook	Stable	Stable	Stable
	Short-term	F1	P–1	A–2
Mortgage Pfandbrief		AA+	Aa1	AA+
Public sector covered bonds		–	Aaa	AA+

[1] Ratings of mandated rating agencies

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Contents

Preface of the CEO

The first half of 2012 was characterised by the continuing European government debt crisis and the resulting uncertainty on the credit and capital markets. In this climate, Deutsche Pfandbriefbank AG has focused on maintaining a comfortable liquidity position and on taking a risk-oriented approach to portfolio management. The Group has generated pre-tax profit of € 51 million, and has thus been profitable for two years.

In the second half of 2011 there were already indications on the funding markets of investor interest in covered and unsecured issues being limited. In this context, Deutsche Pfandbriefbank AG had reduced its origination activities. However, funding of our lending operations in the course of the first half of 2012 was much better than originally anticipated, and our overall funding volumes were in plan. Investor demand for the German Pfandbrief was considerable; this demand has also been reflected in the good performance of benchmark issues on the secondary market in the first half of the year.

Deutsche Pfandbriefbank AG issued three Pfandbrief benchmark issues in public transactions, and tapped two existing issues; we have thus also attained our objective of being regularly active on the market. The maturities of these issues extend until 2019. They were considerably oversubscribed, and spreads have tightened continuously – recently, new issues have not required a premium to the secondary-market price. There have also been private placements as well as unsecured issues.

The success which we have achieved with funding has enabled us to increase our origination efforts again in the course of the first quarter. The effect will, of course, first become evident after a certain delay, and we therefore anticipate a strong increase in new business in the second half of the year. This expectation is supported by the provisional new business figures for July of € 0.6 billion – including prolongations of longer than one year – and also the increase in the deal pipeline.

We have also further improved the quality of our portfolio. The Bank does not have any direct exposure in Greece and Ireland nor to the central government of Spain. At the sovereign level, we reduced our minor exposure to Portugal by approximately 30 percent to € 0.2 billion in the first half of the year. Our exposure of € 3 billion to Italy declined by € 0.8 billion in the first six months of the financial year, and we expect to see a figure of less than € 1.5 billion at the end of the year. In Italy, Portugal and Spain we also have sub-sovereign exposure and, to a minor extent, real estate exposure. Also here, we have been successful in reducing this exposure in the first half of the year. We achieved these quality improvements in our portfolio by way of regular expiries and active portfolio management.

In addition to focusing on our customers and the market, we are also working on numerous projects regarding the future positioning of the Bank. For instance, we are preparing to transfer servicing for the portfolio of FMS Wertmanagement to FMS Wertmanagement itself. Termination of this service is a requirement of the EU Commission and a strategic necessity for Deutsche Pfandbriefbank AG. Providing support for portfolios which are held exclusively by third parties does not form part of our business model, and we will be able to make the Bank even leaner by terminating servicing. In addition, we intend to focus to an even greater extent on the needs of our customers, to further improve our origination and optimise our processes. We are currently developing the corresponding target model. And finally, we intend this year to conclude the long-standing project for consolidating the IT landscape.

Kind regards

Manuela Better

Interim Financial Review

Interim Financial Review
Business and Conditions

Macro-economic Situation

The government debt crisis in some countries in the eurozone is the most significant individual factor influencing the macro-economic situation. In January 2012, the eurogroup decided to set up the European Stabilisation Mechanism (ESM). The ESM, which replaced the previous European Finance Stabilisation Facility (EFSF), is intended to make a further contribution towards stabilising the European financial markets, by in particular assuring access to the capital markets of the countries in the eurozone which are currently the focus of attention. At present, no decision has been taken with regard to the starting date for the activity of the ESM, as legal reviews in some member states are still being carried out.

Monetary policy worldwide continues to focus on supporting the financial markets. Following the recent reductions in central bank rates as part of expansionary monetary policy, the instrument of quantitative easing is now increasingly being used in order to boost the money supply.

On the other hand, fiscal policy, particularly in the eurozone, is relatively restrictive – this reflects the consolidation need of countries which is significant in certain cases. In the eurozone, decisions were adopted to reform the growth and stabilisation pact as well as the so-called fiscal pact during the period under review. The latter in particular envisages the establishment of limits to (government) debt at the respective national levels.

With growth rates in the first quarter of 0.0% in the eurozone and 0.1% in the entire EU, the recovery in the real economy seen in 2010 and 2011 has come virtually to a standstill. For the second quarter, available figures are again pointing to a slight downturn. For instance, as the fourth-largest economy in the EU, Spain has reported a decline of 0.4%. By way of comparison, the situation in Germany was positive, with growth of 1.2%. The positive development also continued in the United States with growth of 2.0%. This is also reflected in a further slight decline in the unemployment rates in these two countries.

As a result of the continuing government debt crisis, the euro has weakened against the main leading currencies. Rates of inflation worldwide are still moderate. In the period under review, consumer price inflation for the eurozone, at 2.6%, was equivalent to that seen in the USA, and the corresponding figure for Germany, namely 2.3%, was slightly lower. Following the recent 25 basis point cut in the main refinancing rate of the European Central Bank to 0.75%, the eurozone as well as many other economies currently have a very low level of interest rates.

Sector-specific Situation

Situation of the Bank Sector

The situation on the financial markets continues to be difficult, and is having a severely negative impact on the banking sector. In the context of an even more critical view of some country ratings, rating agencies have downgraded numerous German and European major banks in several actions. The risks of investment banks are also considered to be higher by some rating agencies, and this has resulted in downgrades at some institutions.

Public Sector Finance in Europe

Uncertainty on the public sector finance markets continues to be high. Many municipalities are able to refinance their operations, although – with the exception of Germany – the costs of refinancing are increasing. This is due to the fact that the financing banks are more sceptical with regard to the financial situation of countries, and this has resulted in a more differentiated rating assessment of municipalities and central, regional and local authorities.

In Germany, one of two core markets of Deutsche Pfandbriefbank AG, the public sector finance market provided adequate opportunities for new financing business. However, the low margins accepted by some competitors and the very long maturities of the finance facilities which are made available pose challenges in this respect.

In the French market, the second core market of Deutsche Pfandbriefbank AG, the wait-and-see attitude of some domestic banks and the withdrawal of former major competitors from public sector finance operations have been very much in evidence. The financing pressure for municipalities is demonstrated by a financing programme of the French government in conjunction with the French Caisse des Dépôts et Consignations. Loans with certain maturities and margins were made available to municipalities under this programme; however, demand exceeded the volume of the programme. For this reason, it was still possible to conduct business in France with very good risk/reward profiles.

In Italy and Spain, there was a noticeable reduction in activity on the public sector finance market with a simultaneous widening of risk premiums for some municipalities. In particular, the efforts of the government to restrict state and local debt have resulted in reduced demand for financing.

With regard to budget financing, the risk premiums in Germany for borrowing tended towards zero. On the other hand, there have been considerably higher risk premiums in the countries which are currently the focus of attention. The situation on the secondary market is similar, where the countries which are currently the focus of attention were affected by rising yields in the first half (with the exception of Portugal and Ireland); in Germany, the yield of 10-year government bonds fell to an all-time low during the first half.

Commercial Real Estate Finance

The real estate markets continued to be the focus of attention of investors in view of the lack of suitable alternative investments. With a volume of € 43.1 billion in the first half of 2012, Western European real estate investment turnover was only slightly lower (– 7 %) than in the corresponding previous year period. Investors still prefer real estate in good locations, with long-term rental agreements and tenants with good creditworthiness.

With a transaction volume of around € 9.4 billion, the German market for commercial real estate was approximately 15 % down compared with the corresponding previous year figure. A major reason for this situation was the lower number of large-volume transactions compared with the corresponding previous year period. The six major German centres of investment (Berlin, Düsseldorf, Frankfurt/Main, Hamburg, Munich and Stuttgart) accounted for approximately half of the total nationwide transaction volume.

German office real estate continues to be one of the most popular types of real estate, accounting for 48 % of turnover. Further progress was made with reducing the vacancy rates of office real estate. Vacancy rates have declined by approximately 8 % during the past 12 months, and the highest declines have been reported by Munich (– 15 %), Hamburg (– 13.5 %) and Cologne (– 12 %). The peak yields for office premises remained at a high level of between 4.5 % (Munich) and 5.3 % (Stuttgart).

German retail properties accounted for approximately one-third of the investment volume in the first half of the year; in the previous year, this figure was more than half. This is due to the shortage of supply of attractive properties.

With a volume of around € 7 billion, the market for residential property portfolios in Germany increased strongly in the first half of 2012 thanks to several transactions. This market is still considered to be a «safe haven». Stable yields and historically low financing rates are boosting demand for this asset category.

In the other European markets of Deutsche Pfandbriefbank AG, Great Britain (investment turnover + 20 %) and France (+ 37 %) dominated market events in the first half of 2012 compared with the first half of 2011. Of all European cities, London was the preferred location which attracted most investments. In France, the market concentrates on the «Office» sub-segment. The extent to which investors focused on the greater region of Paris has increased even further compared with the previous year. On the other hand, the Southern European markets continued to be weak (– 42% compared with the first half of 2011). The transaction volume in Poland declined, also as a result of the low product availability.

In the first half of 2012, some banks and insurers were reluctant to lend for commercial real estate. As a result of the refocusing of some German real estate financiers on their domestic market, the margin situation in Germany has become competitive again. On the other hand, in our the core markets of Deutsche Pfandbriefbank AG such as Great Britain, France as well as Central and Eastern Europe, much higher gross margins can be achieved in certain cases in conjunction with lower LTVs.

Insurers and pension funds are increasingly entering the direct real estate financing market as new competitors. Initial transactions have already been concluded in the form of mixed syndicates. However, the interest of insurers has previously tended to focus on less complex financing arrangements in selected countries. It is possible that greater cooperation in future between insurers and banks might increase their willingness to also finance more complex transactions.

Refinancing Markets

The troubled sentiment on the finance markets and the wait-and-see attitude of investors and banks are posing problems with regard to the refinancing possibilities for credit institutions. However, the German Pfandbrief has tended to benefit from this relatively difficult situation. Whereas Pfandbriefe at the beginning of the year were considered by investors to be expensive compared with other European covered bonds, this view changed in the course of the first half of the year and the Pfandbrief has recently been the subject of investor demand. This is clearly reflected by the strong secondary market performance of the benchmark issues of the first half of the year (approx. € 10 billion).

With the two three-year refinancing facilities at the end of 2011 and in February of this year, the ECB has taken measures to assure refinancing of the banks. Under the influence of these factors, worldwide only approximately € 70 billion of covered bonds were benchmark issues in the first half of 2012. Following a positive performance in January and February, there were only brief issuing windows for benchmark transactions – in conjunction with negative news from the peripheral countries.

Uncovered issues continued to be problematical with regard to refinancing. Only a small number of players came to the market with public transactions with low risk premiums in the first half. On the other hands, small private placings of promissory notes and uncovered securities were well received by German investors.

Company-specific Conditions

Major Events

In a market which overall is characterised by uncertainty, Deutsche Pfandbriefbank AG consistently pursued a conservative approach in the first half of the year. The Bank maintained a high degree of liquidity and conducted correspondingly moderate levels of new business, reduced risk positions and further improved the quality of the public cover funds. However, continuing the progress seen in the first half of the year, the refinancing markets were receptive, and Deutsche Pfandbriefbank AG has created the conditions for stronger new business activities in the second half with issues of Pfandbriefe and unsecured refinancing.

In addition to focusing on the market and customers, Deutsche Pfandbriefbank AG is operating numerous projects in order to create conditions necessary for reprivatisation.

New Business The new business of Deutsche Pfandbriefbank AG amounted to € 1.5 billion in the first half of 2012; this figure includes prolongations of more than one year. Of the entire new business, € 1.2 billion was attributable to the more significant Real Estate Finance segment, and € 0.3 billion was attributable to Public Sector Finance. Deutsche Pfandbriefbank AG has achieved higher margins than in 2011. In Real Estate Finance, margins in the first half of 2012 were more than 240 basis points, and margins in Public Sector Finance were more than 140 basis points.

Refinancing Measures The German Pfandbrief is the key refinancing instrument of Deutsche Pfandbriefbank AG. The Bank is one of the main market players with public issues and private placings. The Bank also refinances its operations via uncovered bonds and on the money market. The recently issued mortgage Pfandbriefe were considerably oversubscribed when they were issued, and are showing a good performance on the secondary market. Premiums have declined appreciably in secondary market trading. There were only a small number of private issues of public Pfandbriefe.

Benchmark issues of mortgage Pfandbriefe 1.1.–30.6.2012

ISIN	Announcement	Settlement	Maturity	Coupon	Volume	Issue Price
DE000A1K0RS7	10.1.2012	18.1.2012	18.1.2016	2.250%	€ 500 million	99.970%
DE000A1EWJU1 (1st Tap)[1]	22.2.2012	29.2.2012	6.10.2016	2.625%	€ 100 million	102.579%
DE000A1K0RS7 (1st Tap)	7.3.2012	14.3.2012	18.1.2016	2.250%	€ 175 million	101.904%
DE000A1MLUW0	24.5.2012	1.6.2012	3.6.2019	2.125%	€ 500 million	99.800%
DE000A1PGTJ2	27.6.2012	4.7.2012	4.7.2017	1.625%	€ 500 million	99.658%

[1] Tap of an issue of originally € 500 million of 6 October 2011

Projects The main purpose of the current projects is to create the conditions necessary for reprivatising Deutsche Pfandbriefbank AG.

In accordance with the requirements of the EU restructuring plan, servicing of the portfolio transferred to FMS Wertmanagement is to be transferred to FMS Wertmanagement as of 30 September 2013. In this connection, Deutsche Pfandbriefbank AG supports FMS Wertmanagement for defining a target model for servicing.

The project for harmonising information technology is making further progress. The measures which are currently ongoing represent the final step for system integration. For this purpose, mainly credit and security data are being migrated from the old bank system to the new target system. In addition, the credit management system is also being integrated in the new target architecture.

Personnel

As of 1 June 2012, Dr. Alexander Groß and Dr. Ludger Schuknecht were elected on to the Supervisory Board of Deutsche Pfandbriefbank AG.

Ratings

The senior unsecured ratings assigned to Deutsche Pfandbriefbank AG by the three mandated rating agencies, Fitch Ratings, Moody's and Standard & Poor's, remained unchanged during the first half of 2012. These ratings consider, to varying degrees, the likelihood of external support by the German government, which is the owner of HRE Group, in a crisis scenario.

During the course of the first half of 2012, the following changes took place with regard to covered bond ratings which are, inter alia, driven by the senior unsecured ratings: Deutsche Pfandbriefbank AG ended the agreement with Fitch Ratings regarding the rating of its Public Sector Pfandbriefe in February 2012 due to, in the bank's opinion, the agency's excessive cover pool overcollateralisation requirements. When withdrawing the rating, Fitch assigned a final rating of A+ to the Public Sector Pfandbriefe. In June 2012, the AA+ rating for Deutsche Pfandbriefbank AG's Mortgage Pfandbriefe was affirmed by Fitch Ratings.

In March 2012 Fitch Ratings completed its industry-wide review of subordinated debt announced in December 2011. For Deutsche Pfandbriefbank AG, the application of the adjusted rating criteria resulted in the downgrade of these ratings to BB– from BBB+.

The following table summarises the senior unsecured ratings and covered bond ratings as per 30 June 2012.

Ratings of Deutsche Pfandbriefbank AG and its covered bonds[1)]

as of 30 June 2012		**Fitch Ratings**	**Moody's**	**Standard & Poor's**
Deutsche Pfandbriefbank AG	Long-term rating	A–	A3	BBB
	Outlook	Stable	Stable	Stable
	Short-term	F1	P–1	A–2
Mortgage Pfandbrief		AA+	Aa1	AA+
Public sector covered bonds		–	Aaa	AA+

1) Ratings of mandated rating agencies

The rating agencies may alter or withdraw their ratings at any time. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations; the relevant terms of use are to be considered. Ratings should not substitute individual analysis. Ratings do not constitute any recommendation to purchase, hold or sell securities issued by Deutsche Pfandbriefbank AG.

Development in Earnings

Deutsche Pfandbriefbank Group

In the first half of 2012, the Deutsche Pfandbriefbank Group continued the positive development seen in previous periods, and again demonstrated its profitability. The Group has been operating profitably since mid-2010.

Despite the uncertain market climate, the pre-tax profit of € 51 million was in line with the expectations of the Management Board. For the whole of 2012, the Management Board expects a pre-tax profit of between € 100 million and € 140 million.

As expected, the pre-tax profit of the reporting period was lower than the corresponding figure for the first half of 2011 (previous year period), namely € 120 million; however, the figure for the previous year period was very much boosted by one-off and market-related factors. Higher charges of € –12 million (1.1.–30.6.2011: € –1 million) were incurred in the first half of 2012 as a result of the current bank tax and the bank tax to be paid in arrears.

In addition, the result was also affected by risk-reducing measures with which the Deutsche Pfandbriefbank Group produced a flexible response to the market climate. For instance, the exposure to some Southern European countries has been reduced. In consequence, high-margin financing arrangements were reduced, and no new business at all was concluded in some countries due to market factors. This strategy and the deliberate expansion or changed composition of the liquidity reserve affected net interest income negatively. Under net income from financial investments, capital gains were realised for securities which had been sold as part of the process of optimising liquidity holdings. Because the refinancing markets were too uncertain, new business was concluded only on a very selective basis in commercial real estate finance and public sector investment finance (1.1.–30.6.2012: € 1.5 billion; 1.1.–30.6.2011: € 4.1 billion). For the third and fourth quarters of 2012, the Deutsche Pfandbriefbank Group expects to see a considerable increase in new business figures as a result of the current efforts designed to generate new business.

There has been a positive development particularly in general administrative expenses compared with the corresponding previous year period; this item declined from € 174 million to € 164 million. This has also reflected the success achieved by cost-cutting measures. In addition, provisions for losses on loans and advances remained at a low level (€ 9 million; 1.1.–30.6.2011: € –1 million).

The following table sets out in detail the results of operations in the first half of 2012 compared with the corresponding previous year period:

Key financials Deutsche Pfandbriefbank Group		1.1.– 30.6.2012	1.1.– 30.6.2011	Change
Operating performance				
Operating revenues	in € million	223	293	–70
Net interest income and similar income	in € million	150	192	–42
Net commission income	in € million	6	19	–13
Net trading income	in € million	–2	–	–2
Net income from financial investments	in € million	5	–1	6
Net income from hedge relationships	in € million	–3	–27	24
Balance of other operating income/expenses	in € million	67	110	–43
Provisions for losses on loans and advances	in € million	9	–1	10
General administrative expenses	in € million	164	174	–10
Balance of other income/expenses	in € million	1	–	1
Pre-tax profit/loss	in € million	51	120	–69
Income taxes	in € million	16	43	–27
Net profit/loss	in € million	35	77	–42
Key ratios				
Cost-income ratio	in %	73.5	59.4	
Return on equity before taxes	in %	3.2	7.6	
Return on equity after taxes	in %	2.2	4.9	

Operating Revenues The operating revenues amounted to € 223 million, and were thus lower than the corresponding previous year figure of € 293 million. This was due to lower one-off effects as well as a cautious business strategy which took account of the turbulent market climate.

The net interest income of € 150 million for the reporting period was lower than the corresponding figure for the first half of 2011 (1.1.–30.6.2011: € 192 million). Compared with the previous year, the net interest income in the current period benefited to a minor extent from premature repayment penalties and profits from redeeming liabilities before maturity (1.1.–30.6.2012: € 6 million; 1.1.–30.6.2011: € 20 million). A further factor was that the Deutsche Pfandbriefbank Group has been following a conservative strategy in view of the uncertain development of the market and also in view of risk-reward considerations. For instance, liquidity holdings have been increased. However, the process of maintaining holdings which can be quickly sold in order to cover any shortages with regard to obtaining funds has a negative impact on net interest income compared with the previous year period. In addition, new business has been concluded only on a very selective basis. Redemptions have reduced holdings of interest-bearing assets. In addition, the Deutsche Pfandbriefbank Group has deliberately been reducing higher-risk business, thus enabling the exposure to certain counterparties to be reduced, for instance the countries which are currently the focus of attention and in particular Portugal. However, this has also meant that high-margin financing arrangements have been disposed.

Net commission income amounted to € 6 million (1.1.–30.6.2011: € 19 million), and was mainly attributable to loan commissions. In the previous year period, net commission income was boosted by a major one-off income item of € 7 million from a loan repayment.

As was the case in the previous year period, net trading income for the reporting period was virtually zero (€ – 2 million; 1.1. – 30.6.2011: € 0 million). The Deutsche Pfandbriefbank Group does not have a trading book in the regulatory sense of the term. Net trading income resulted from derivatives that do not or no longer qualify for hedge accounting under IAS 39.

The net income from financial investments of € 5 million (1.1. – 30.6.2011: € – 1 million) included income of € 11 million (1.1. – 30.6.2011: € 0 million) from the sale of securities (IFRS categories AfS and LaR). This resulted in capital gains being realised as part of the process of optimising the liquidity holdings. These were opposed by costs of € – 5 million for portfolio-based impairments of securities in the IFRS valuation category LaR (1.1. – 30.6.2011: € – 1 million).

The net income from hedge accounting improved in the first half of 2012 to € – 3 million (1.1. – 30.6.2011: € – 27 million). Assets in the IFRS valuation category dFVTPL, in conjunction with the related hedges, resulted in positive net income of € 2 million in the reporting period (1.1. – 30.6.2011: € – 22 million). The volatility of the position has declined appreciably following the sale of most of the dFVTPL assets in the first quarter of 2012. Hedge inefficiencies within the range of 80 % to 125 % permitted in accordance with IAS 39 resulted in costs of € – 5 million (1.1. – 30.6.2011: € – 5 million).

The balance of other operating income/expenses declined to € 67 million in the reporting period (1.1.–30.6.2011: € 110 million). This was due mainly to the lower net income, in line with general administrative expenses, from services for the ongoing operation of FMS Wertmanagement (€ 53 million; 1.1.–30.6.2011: € 65 million). The net income from IT services provided to the affiliated company DEPFA was € 17 million (1.1. – 30.6.2011: € 21 million). In addition, the current bank tax and the bank tax to be paid in arrears also depressed the balance of other operating income/expenses by € – 12 million (1.1.–30.6.2011: € – 1 million). Currency translation has resulted in net income of € 1 million (1.1.–30.6.2011: € 9 million).

Provisions for Losses on Loans and Advances Provisions for losses on loans and advances remained at a low level (€ 9 million; 1.1. – 30.6.2011: income of € – 1 million). Individual allowances of € – 4 million (net) were released in the reporting period (1.1. – 30.6.2011: net addition of € 11 million). A figure of € 14 million (net) was paid into the portfolio-based allowances (1.1. – 30.6.2011: net releases of € – 11 million). These charges have resulted in a changed risk assessment of some financing arrangements in Southern and Western Europe.

The Deutsche Pfandbriefbank Group did not have any exposure to Greek counterparties.

General Administrative Expenses The general administrative expenses declined in the first half of 2012 by € 10 million to € 164 million (1.1. – 30.6.2011: € 174 million) which was mainly due to lower costs of materials. Costs of materials declined to € 98 million (1.1. – 30.6.2011: € 107 million), mainly because the IT costs declined in the reporting period. Compared with the previous year period (1.1.–30.6.2011: € 67 million), personnel expenses of € 66 million remained more or less constant. Because operating revenues declined to a greater extent than general administrative expenses, the cost-income ratio increased to 73.5 % (1.1. – 30.6.2011: 59.4 %).

Balance of Other Income/Expenses The balance of other income/expenses of € 1 million (1.1.–30.6.2011: € 0 million) was mainly attributable to changes in the remaining restructuring provisions which were created in 2008.

Pre-tax Profit/Loss The profit before tax amounted to € 51 million (1.1. – 30.6.2011: € 120 million). The Deutsche Pfandbriefbank Group was thus profitable for the fourth half in succession. Return on equity before taxes amounted to 3.2 % (1.1. – 30.6.2011: 7.6 %).

Taxes on Income Income of € – 7 million from actual taxes (1.1.–30.6.2011: cost of € 26 million), and the cost of € 23 million for deferred taxes (1.1.–30.6.2011: € 17 million) combine to form a total tax expense of € 16 million (1.1.–30.6.2011: € 43 million).

Net Profit/Loss The profit/loss after tax of the Deutsche Pfandbriefbank Group amounted to € 35 million (1.1.–30.6.2011: € 77 million). Return on equity after taxes amounted to 2.2 % (1.1.–30.6.2011: 4.9 %).

Operating Segment Public Sector Finance (PSF)

Key financials Public Sector Finance		1.1.–30.6.2012	1.1.–30.6.2011	Change
Operating performance				
Operating revenues	in € million	19	44	–25
Net interest income and similar income	in € million	31	57	–26
Net commission income	in € million	–1	–2	1
Net trading income	in € million	–1	3	–4
Net income from financial investments	in € million	–3	3	–6
Net income from hedge relationships	in € million	–1	–25	24
Balance of other operating income/expenses	in € million	–6	8	–14
Provisions for losses on loans and advances	in € million	1	–	1
General administrative expenses	in € million	26	26	–
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	–8	18	–26
Key ratio				
Cost-income ratio	in %	> 100.0	59.1	

The Public Sector Finance segment comprises the financing arrangements of the public sector. Holdings in the PSF segment are based on eligibility to be used as cover funds in accordance with German law. The segment comprises public-sector investment finance arrangements, in which the Deutsche Pfandbriefbank Group operates new business, as well as expired budget financing. The pre-tax profit of the segment in the first half of 2012 amounted to € – 8 million as a result of lower operating revenues in conjunction with a constant cost base, and was lower than the corresponding previous year figure (1.1.–30.6.2011: € 18 million). New business in the segment amounted to € 0.3 billion (1.1.–30.6.2011: € 1.2 billion) and was generated in France and Germany, whereby the lower volume of new business compared with the corresponding previous year period is attributable to the uncertain refinancing markets. However, the current new business margins are higher than the corresponding previous year figures.

Operating Revenues Operating revenues in the PSF segment declined to € 19 million, mainly due to lower net interest income (1.1.–30.6.2011: € 44 million). Net interest income for the first half of 2012 amounted to € 31 million, compared with € 57 million in the corresponding previous year period. This is due to the deliberate policy of reducing high-margin but high-risk business and a general portfolio reduction. The costs of the liquidity holdings allocated to the PSF segment resulted in further charges which depressed net interest income. Net commission income did not contain any major individual issues and, at € – 1 million was roughly in line with the corresponding previous year figure (1.1.–30.6.2011: € – 2 million). There were no significant effects in the net trading income of € – 1 million (1.1.–30.6.2011: € 3 million). The net income from financial investments of € – 3 million (1.1.–30.6.2011:

€ 3 million) was mainly attributable to portfolio-based allowances of financial investments of the IFRS valuation category LaR. Following the reduction of risks resulting from the sale of Portuguese securities which were allocated to the IFRS valuation category dFVTPL, the net income from hedge accounting was much less volatile than was the case in the corresponding previous year period, and amounted to € –1 million (1.1.–30.6.2011: € –25 million). In the first half of 2012, the balance of other operating income/expenses was negative at € –6 million (1.1.–30.6.2011: € 8 million); this was mainly attributable to the allocation of the costs of the bank levy over the operating segments (1.1.–30.6.2012: € –8 million; 1.1.–30.6.2011: € –1 million).

Provisions for Losses on Loans and Advances Provisions for losses on loans and advances amounted to € 1 million in the reporting period (1.1.–30.6.2011: € 0 million). It was not necessary to create any further individual allowances with regard to other public issuers, because there were no objective indications of an impairment in accordance with IAS 39.59. A figure of € 1 million was added to portfolio-based allowances in the first half of 2012 as a result of downgraded country ratings (1.1.–30.6.2011: € 0 million).

The Deutsche Pfandbriefbank Group did not have any exposure to Greek counterparties.

General Administrative Expenses General administrative expenses at € 26 million were in line with the corresponding previous year figure (1.1.–30.6.2011: € 26 million). As a result of the decline in operating revenues, the cost-income ratio increased to over 100.0 % (1.1.–30.6.2011: 59.1 %).

Operating Segment Real Estate Finance (REF)

Key financials Real Estate Finance		**1.1.–30.6.2012**	**1.1.–30.6.2011**	Change
Operating performance				
Operating revenues	in € million	120	146	–26
Net interest income and similar income	in € million	109	123	–14
Net commission income	in € million	7	22	–15
Net trading income	in € million	–1	1	–2
Net income from financial investments	in € million	8	–	8
Net income from hedge relationships	in € million	–2	–2	–
Balance of other operating income/expenses	in € million	–1	2	–3
Provisions for losses on loans and advances	in € million	8	11	–3
General administrative expenses	in € million	69	67	2
Balance of other income/expenses	in € million	1	–	1
Pre-tax profit/loss	in € million	44	68	–24
Key ratio				
Cost-income ratio	in %	57.5	45.9	

The Real Estate Finance segment comprises all commercial real estate financing arrangements of the Deutsche Pfandbriefbank Group. The pre-tax profit of the segment of € 44 million was lower than the corresponding previous year figure (1.1.–30.6.2011: € 68 million). New business in the segment amounted to € 1.2 billion (1.1.–30.6.2011: € 2.9 billion) and was generated mainly in Great Britain, Germany and France, whereby the lower volume of new business compared with the corresponding previous year period is attributable to the uncertain refinancing markets at the beginning of the year. However, the current new business margins are higher than the corresponding previous year figures.

Operating Revenues In the first half of 2012, operating revenues in the REF segment declined to €120 million (1.1.–30.6.2011: €146 million); this was due mainly to lower net interest income as well as lower net commission income. The net interest income of €109 million (1.1.–30.6.2011: €123 million) was affected mainly by the costs of the liquidity holdings allocated to the REF segment as well as the decline in the volume of new business which was concluded. Net commission income of €7 million was lower than the corresponding previous year figure (€22 million). This was mainly due to one-off income of €7 million resulting from a financing arrangement in the previous year period as well as lower commission income in lending business in the reporting period as a consequence of the low level of new business. Net trading income for the first half of 2012 (€–1 million) was in line with the corresponding previous year figure (1.1.–30.6.2011: €1 million). Capital gains from the sale of securities as part of the process of optimising the liquidity holdings resulted in net income from financial investments of €8 million (1.1.–30.6.2011: €0 million). The net income from hedge relationships of €–2 million (1.1.–30.6.2011: €–2 million) is a result of hedge inefficiencies within the range permissible in accordance with IAS 39. The balance of other operating income/expenses was slightly negative at €–1 million (1.1.–30.6.2011: €2 million); this was mainly attributable to the allocation of the costs of the bank levy over the operating segments (1.1.–30.6.2012: €–4 million; 1.1.–30.6.2011: €0 million).

Provisions for Losses on Loans and Advances Provisions for losses on loans and advances remained at a low level (€8 million; 1.1.–30.6.2011: €11 million). Individual allowances of €–4 million were released as a result of the positive development of a receivable which had been completely written down in the past (1.1.–30.6.2011: additions of €16 million). A figure of €13 million was paid into the portfolio-based allowances (1.1.–30.6.2011: reversals of €–5 million). These charges have resulted in a changed risk assessment of some financing arrangements in Southern and Western Europe. Provisions of €–1 million were released in lending business (1.1.–30.6.2011: €0 million).

General Administrative Expenses General administrative expenses of €69 million were roughly in line with the corresponding previous year figure (1.1.–30.6.2011: €67 million), so that the cost-income ratio increased to 57.5% mainly due to the lower operating revenues (1.1.–30.6.2011: 45.9%).

Operating Segment Value Portfolio (VP)

Key financials Value Portfolio		1.1.–30.6.2012	1.1.–30.6.2011	Change
Operating performance				
Operating revenues	in € million	79	96	–17
Net interest income and similar income	in € million	5	4	1
Net commission income	in € million	–	–1	1
Net trading income	in € million	–	–	–
Net income from financial investments	in € million	–	–4	4
Net income from hedge relationships	in € million	–	–	–
Balance of other operating income/expenses	in € million	74	97	–23
Provisions for losses on loans and advances	in € million	–	–12	12
General administrative expenses	in € million	69	79	–10
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	10	29	–19
Key ratio				
Cost-income ratio	in %	87.3	82.3	

The Value Portfolio segment mainly comprises the income and expenses attributable to the services of the Deutsche Pfandbriefbank Group for the ongoing operation of FMS Wertmanagement as well as IT services provided to the affiliated company DEPFA. The segment also comprises the income and expenses of selected structured products. The pre-tax profit of the segment in the first half of 2012 amounted to € 10 million, and was lower than the corresponding previous year figure (1.1.–30.6.2011: € 29 million).

Operating Revenues In the first half of 2012, operating revenues in the Value Portfolio segment declined to € 79 million (1.1.–30.6.2011: € 96 million); this was due mainly to lower income for servicing FMS Wertmanagement. Net interest income at € 5 million was in line with the corresponding previous year figure (1.1.–30.6.2011: € 4 million); this was due mainly to the allocated investment in shareholders' equity. The following items were each reported as € 0 million in the period under review: Net commission income (1.1.–30.6.2011: € –1 million), net trading income (1.1.–30.6.2011: € 0 million), net income from financial investments (1.1.–30.6.2011: € – 4 million) and net income from hedge relationships (1.1.–30.6.2011: € 0 million). The balance of other operating income/expenses declined to € 74 million (1.1.–30.6.2011: € 97 million). This was due mainly to the lower net income, in line with general administrative expenses, from services for the ongoing operation of FMS Wertmanagement (€ 53 million; 1.1.–30.6.2011: € 65 million). The net income from IT services provided to the affiliated company DEPFA also declined (1.1.–30.6.2012: € 17 million; 1.1.–30.6.2011: € 21 million).

Provisions for Losses on Loans and Advances In the first half of 2012, it was not necessary to make any additions to allowances or releases from allowances in the Value Portfolio segment. In the previous year period, provisions for losses on loans and advances totalling € –12 million were released.

General Administrative Expenses General administrative expenses at € 69 million were lower than the corresponding previous year figure (1.1.–30.6.2011: € 79 million) because fewer costs were incurred for servicing of FMS Wertmanagement. The cost-income ratio amounted to 87.3 % (1.1.–30.6.2011: 82.3 %).

Consolidation & Adjustments

Key financials Consolidation & Adjustments		1.1.–30.6.2012	1.1.–30.6.2011	Change
Operating performance				
Operating revenues	in € million	5	7	–2
Net interest income and similar income	in € million	5	8	–3
Net commission income	in € million	–	–	–
Net trading income	in € million	–	–4	4
Net income from financial investments	in € million	–	–	–
Net income from hedge relationships	in € million	–	–	–
Balance of other operating income/expenses	in € million	–	3	–3
Provisions for losses on loans and advances	in € million	–	–	–
General administrative expenses	in € million	–	2	–2
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	5	5	–

In Consolidation & Adjustments, the sum of the segment results is reconciled with the consolidated results. This column contains consolidations as well as certain expenses and income which do not fall under the scope of the various operating segments.

Pre-tax profit in Consolidation & Adjustments was positive (€ 5 million; 1.1.–30.6.2011: € 5 million). The net interest income was generated primarily as a result of the investment of shareholders' equity which was not allocated to the segments.

Development in Assets

Assets in € million	30.6.2012	31.12.2011	Change
Cash reserve	52	323	–271
Trading assets	5,300	9,818	–4,518
Loans and advances to other banks	11,876	7,632	4,244
Loans and advances to customers	52,302	55,236	–2,934
Allowances for losses on loans and advances	–483	–477	–6
Financial investments	26,856	28,677	–1,821
Property, plant and equipment	3	3	–
Intangible assets	34	35	–1
Other assets	6,674	6,058	616
Income tax assets	1,896	1,474	422
Current tax assets	63	55	8
Deferred tax assets	1,833	1,419	414
Total assets	**104,510**	**108,779**	–4,269

The total assets of the Deutsche Pfandbriefbank Group amounted to € 104.5 billion as of 30 June 2012, and were thus € 4.3 billion (3.9 %) lower than the corresponding figure at the end of the previous year (31 December 2011: € 108.8 billion).

In addition to the streamlining of some portfolios in line with overall strategy, the decline on the assets side of the balance sheet is mainly attributable to declining effects which occurred when positions were transferred to FMS Wertmanagement. The positive market values of the back-to-back derivatives have declined to € 2.8 billion (31 December 2011: € 7.4 billion) mainly as a result of novations, and the carrying amounts of securities which were issued by FMS Wertmanagement declined to € 2.2 billion (31 December 2011: € 3.0 billion). On the other hand, the balance sheet total was boosted by the transmission of surplus liquidity of third parties to the central bank. These holdings which are shown under loans and advances to other banks amounted to € 2.8 billion as of 30 June 2012 (31 December 2011: € 0.7 billion).

Market-related factors which increased the total assets partially compensated for the decline in total assets resulting from the reduction in opposite effects and the planned streamlining of some portfolios. In particular, the lower level of long-term interest rates was reflected in an increase in derivative market values and the underlyings shown in fair value hedge accounting. The slight weakening of the euro against the USD, the Japanese yen and sterling resulted in an extension of the balance sheet shown in euros, because the carrying amount of foreign currency assets and liabilities in euros is boosted as a result of currency translation.

Development in the Financial Position

Equity and liabilities in € million	**30.6.2012**	**31.12.2011**	Change
Liabilities to other banks	8,607	8,223	384
Liabilities to customers	14,805	12,363	2,442
Liabilities evidenced by certificates	53,088	55,038	−1,950
Trading liabilities	5,252	9,903	−4,651
Provisions	172	163	9
Other liabilities	15,189	16,123	−934
Income tax liabilities	1,811	1,373	438
Current tax liabilities	67	82	−15
Deferred tax liabilities	1,744	1,291	453
Subordinated capital	2,421	2,501	−80
Liabilities	**101,345**	**105,687**	−4,342
Equity attributable to equity holders	**3,165**	**3,092**	73
Subscribed capital	380	380	–
Silent participation	999	999	–
Additional paid-in capital	5,036	5,036	–
Retained earnings	−3,160	−3,277	117
Foreign currency reserve	−35	−34	−1
Revaluation reserve	−90	−129	39
AfS reserve	−494	−549	55
Cash flow hedge reserve	404	420	−16
Consolidated loss 1.1.–31.12.	–	117	−117
Consolidated profit 1.1.–30.6.2012	35	–	35
Non-controlling interests in equity	**–**	**–**	–
Equity	**3,165**	**3,092**	73
Total equity and liabilities	**104,510**	**108,779**	−4,269

Shareholders' equity amounted to € 3.2 billion as of 30 June 2012 (31 December 2011: € 3.1 billion). No capital increases or capital reductions were carried out in 2011 or in the first six months of 2012. The AfS reserve was volatile during the first half of 2012 due to fluctuations in the values of Italian securities. As of 30 June 2012, the AfS reserve of € – 0.5 billion was virtually unchanged compared with the end of the previous year (31 December 2011: € – 0.5 billion). At € 0.4 billion, the cash flow hedge reserve was also unchanged compared with the end of the previous year (31 December 2011: € 0.4 billion).

The total consolidated liabilities amounted to € 101.3 billion as of 30 June 2012, compared with € 105.7 billion as of 31 December 2011. As was the case on the assets' side of the balance sheet, the changes on the liabilities' side of the balance sheet were also mainly attributable to the decline in the opposite effects in connection with the transfer of positions to FMS Wertmanagement. The negative market values of the back-to-back derivatives declined to € 2.8 billion (31 December 2011: € 7.4 billion). In addition, the refinancing requirement declined as a result of the streamlining of some portfolios on the assets side of the balance sheet in line with overall strategy. The investment of transmitted third-party funds at the central bank boosted the balance sheet total.

In addition, market-related effects have increased the balance sheet total on the assets side and also on the liabilities side of the balance sheet. Accordingly, the derivative market values and underlyings measured at fair value increased as a result of the lower level of long-term interest rates. The weak rate of the euro meant that there was an increase mainly in liabilities to other banks and liabilities to customers.

The securitised liabilities declined slightly to € 53.1 billion as of 30 June 2012 (31 December 2011: € 55.0 billion). In the first half of 2012, the Deutsche Pfandbriefbank Group issued three mortgage Pfandbrief benchmark issues and also topped up two issues, thus underlining its attractiveness on the refinancing markets. The issues and topping-up of previous issues were used mainly for replacing expiring securities. This also created the possibility of generating new business on the assets side of the balance sheet.

The irrevocable loan commitments declined from € 1.1 billion as of 31 December 2011 to € 0.7 billion as of 30 June 2012.

Regulatory Indicators According to German Solvency Regulation

In accordance with the waiver regulation set out in Section 2 a KWG, Deutsche Pfandbriefbank AG is exempted from the requirement to establish the equity and core capital ratios at the level of the institution.

The regulatory capital of the Deutsche Pfandbriefbank Group in accordance with the Solvency Regulation (SolvV) on a pro-forma basis is as follows:

Own funds[1] in € million	**30.6.2012**	**31.12.2011**
Core capital (Tier I)	2,729	2,762
Supplementary capital (Tier II)	1,334	1,383
Equity capital	**4,063**	**4,145**
Tier III capital	–	–
Total	**4,063**	**4,145**

[1] Consolidated pursuant to section 10 a German Banking Act [KWG]; pro forma as per prepared annual financial statements and after result distribution

The capital ratios have been determined on the basis of the definition of shareholders' equity in accordance with SolvV and also using risk-weighted assets in accordance with Basel II. On a pro-forma basis, the capital ratios are as follows:

Key capital ratios[1] in %	**30.6.2012**	**31.12.2011**
Core capital ratio[2]	17.1	16.3
Equity capital ratio[3]	25.5	24.5
Own funds ratio (overall indicator)[2]	25.4	24.4

[1] Pro forma as per prepared annual financial statements and after result distribution
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5
[3] Including risk-weighted credit risk positions as well as the capital requirements for operational risks scaled with the factor 12.5

Summary

The Deutsche Pfandbriefbank Group closed the first half of 2012 with a pre-tax profit of € 51 million, and was thus profitable in a fourth half in succession. The pre-tax profit was lower than the corresponding previous year figure, but is still in line with the expectations of the Management Board. The fact that the Deutsche Pfandbriefbank Group has been able to meet its objective in terms of pre-tax profit despite its conservative strategy in view of the troublesome market climate illustrates the sustainable success of the Group with its refocusing.

Events after 30 June 2012

As a result of a comprehensive review of bank ratings initiated in spring 2012 Moody's lowered a number of bank ratings during the first half of 2012, especially in the European Banking sector. In July 2012 Moody's has also placed the ratings of Deutsche Pfandbriefbank AG on review for downgrade. The following ratings are affected: the E+ bank financial strength rating, the A3 senior unsecured rating, the P–1 short-term rating and the B2 rating for subordinated debt. Due to the methodological linkages between senior unsecured ratings and covered bond ratings, the Moody's ratings for Deutsche Pfandbriefbank AG's Pfandbriefe were also placed on review for downgrade.

On 23 July 2011 the Deutsche Pfandbriefbank Group topped up the mortgage Pfandbrief of € 500 million issued in May 2012 by a further amount of € 200 million, which falls due on 3 June 2019. The coupon is 2.125 %, and the issue price is 102.806 %.

With the exception of the above, there have been no reportable events after 30 June 2012.

Risk Report

Organisation and Principles of Risk and Capital Management

HRE has set up a Group-wide risk management and risk controlling system. This represents as well an important precondition for the application of the so-called waiver according to Section 2a KWG. All tasks in accordance with Section 25a KWG for uniform risk identification, measurement and limiting as well as risk management are defined centrally by HRE. Operational implementation is the responsibility of the respective subsidiary and thus also of Deutsche Pfandbriefbank AG which is relevant for Deutsche Pfandbriefbank Group.

Organisation and Committees

The principles, methods and processes of the risk management system of HRE Group are specified centrally by risk management and controlling of HRE Holding and are applied in Deutsche Pfandbriefbank Group. The committees detailed in the following have been set up at the HRE Group level with the involvement of the respective decision makers of Deutsche Pfandbriefbank Group.

The Management Board of Deutsche Pfandbriefbank AG is responsible for the risk management system, and is responsible for taking decisions relating to the strategies and the main issues of risk management and risk organisation of Deutsche Pfandbriefbank Group. The risk management system comprises the plausible and systematic identification, analysis, valuation, management, documentation, monitoring and communication of all major risks.

Major components of the risk management system for which the Management Board is responsible at a glance:
> Defining, updating and communicating business and risk strategies as the basis of business activities and risk acceptance for all units in Deutsche Pfandbriefbank Group
> Defining and improving organisation structures within Deutsche Pfandbriefbank Group and in particular for risk management, which ensures that all major risks are managed and monitored
> Adopting credit competences as a decision-making framework along the credit processes within Deutsche Pfandbriefbank Group
> Taking decisions regarding (portfolio) management measures outside the competences which have been transferred

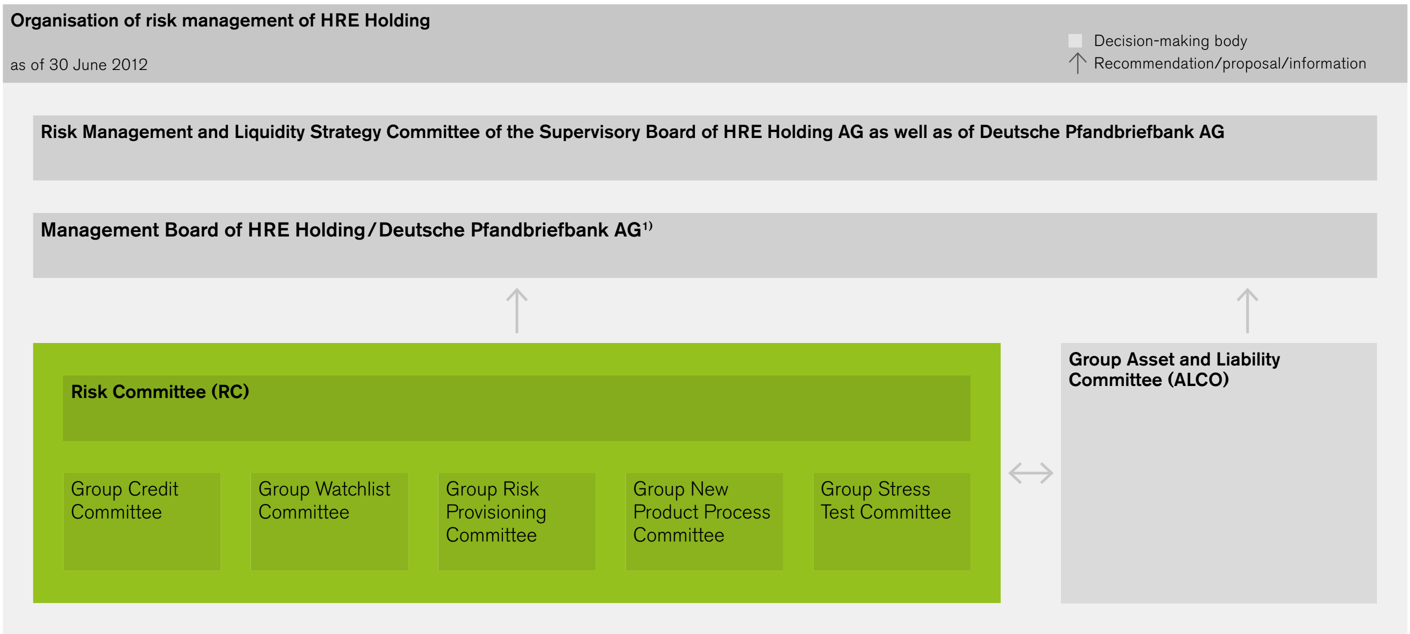
The Management Board of Deutsche Pfandbriefbank AG notifies the Supervisory Board of Deutsche Pfandbriefbank AG with regard to significant changes in the business and risk strategies as well as the risk profile of Deutsche Pfandbriefbank Group. The Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board is mainly responsible for controlling the overall risk situation and for monitoring, establishing and improving an efficient risk management system, and is also responsible for the liquidity management and assurance of Deutsche Pfandbriefbank Group. The Management Board notifies this committee of all increases to individual allowances and the creation of new individual allowances in excess of €5 million and has also notified this committee at regular intervals of major exposures with higher levels of risk.

The **Group Risk Committee (RC)** of HRE, acting simultaneously for Deutsche Pfandbriefbank AG, consists of the Chief Risk Officer (CRO; Chairman) and the Chief Financial Officer (CFO) of HRE Holding acting as CRO and CFO of Deutsche Pfandbriefbank AG simultaneously as well as the Chief Risk Officer of DEPFA Bank plc and the Chief Credit Officer (CCO) of Deutsche Pfandbriefbank AG as well as the Head of Risk Management & Control. In general, the committee meets on a monthly basis and adopts guidelines/policies, methods for risk measurement, the related parameters as well as methods of monitoring all risk types. The Risk Committee is responsible for the development of standard guidelines of risk management and risk controlling across the group and also monitors the development of risk-bearing capacity, economic capital, the risk cover funds as well as the credit portfolio and the compliance with limits. The Risk Committee discusses the portfolios of HRE Group and hence of Deutsche Pfandbriefbank Group.

There have been no major changes in the duties and composition of the bodies specified in the following compared with the previous reporting date; these details are set out in the risk report of Deutsche Pfandbriefbank Group in the Annual Report 2011.
> Group Asset and Liability Committee (ALCO)
> Group Credit Committee
> Group Watchlist Committee
> Group Risk Provisioning Committee
> Group New Product Process Committee
> Group Stress Test Committee

Organisation of risk management of HRE Holding

as of 30 June 2012



[1] Due to existing waiver according to Section 2a of the German Banking Act

Group Chief Risk Officer (CRO) In addition to the above-mentioned committees, the following organisation units of the Chief Risk Officer, who is also CRO of Deutsche Pfandbriefbank AG, form an integral part of the risk management system of HRE, in which Deutsche Pfandbriefbank Group is included:

Organisation of Chief Risk Officer of Deutsche Pfandbriefbank Group

as of 30 June 2012

Group Chief Risk Officer (CRO)

Risk Management & Control	Chief Risk Management (CRM) Real Estate I & Public Sector pbb

The organisation of the CRO function comprises the following monitoring and back-office entities on Deutsche Pfandbriefbank Group level
> The entity Risk Management & Control, which is also responsible for monitoring and managing market, credit, operational and liquidity risks of Deutsche Pfandbriefbank Group and which is also responsible for Group-wide uniform risk measuring methods, risk reports and credit processes
> The entities Credit Officer Real Estate I & Public Sector pbb of Deutsche Pfandbriefbank Group, who are each responsible for portfolio management and the analysis of new business
> The entity Global Workout Real Estate I, which is responsible for the restructuring and workout of all critical exposures in the real estate financing segment, and the Credit Secretary which in particular is responsible for the organisation of the Credit Committee. Both are allocated to the CRM Real Estate I & Public Sector pbb unit.

In the period under review Property Analysis & Valuation, which is responsible for the analysis and uniform valuation of the collateral properties using market and LTV methods, was put under the control of the CEO. In addition to the CRO function, the Compliance/Corporate Governance entity and the Group Internal Audit entity (independent) extend the risk management system of Deutsche Pfandbriefbank Group. The area of responsibility of Audit comprises the regular as well as the event-driven audit of processes and systems as well as significant transactions. Risk management is also supported by the Legal entity.

Risk Strategy and Policies

The risk strategy of Deutsche Pfandbriefbank Group is based on the business strategy, risk inventory and the results of the Group-wide financial planning process. It is applicable for the operating segments and legal entities of Deutsche Pfandbriefbank Group. The risk strategy was adopted by the Management Board of Deutsche Pfandbriefbank AG in February 2012 and presented to the Risk Management and Liquidity Strategy Committee of the Supervisory Board of Deutsche Pfandbriefbank AG and afterwards to the Supervisory Board plenum to be noted. In July 2012, the risk strategy was updated in order to take account of the modified risk-bearing capacity concept, which is also detailed in the sub-chapters «Economic Capital and Monitoring the Risk-bearing Capacity» as well as «Result of Risk-bearing Capacity Analysis».

The risk strategy reflects the strategic refocusing of Deutsche Pfandbriefbank Group as a specialist for real estate finance and public investment finance in Germany and selected countries in Europe with Pfandbrief-oriented refinancing. It is monitored at least annually and updated where necessary.

The operationalisation of the risk strategy is carried out via risk policies for the individual operating segments as well as for all major risk types (credit risk, market risk, liquidity risk and operational risk); these risk policies describe risk measurement, risk monitoring, risk management, the limit process as well as the escalation process if a limit is exceeded. The policies are regularly reviewed and updated where necessary.

Risk Reporting

Risk reporting reflects the structure of the operating segments. The Management Board of Deutsche Pfandbriefbank AG receives regular risk reports which include an extensive overview as well as detailed information concerning the risk situation for each risk type and company as well as other management-relevant information. The supervisory bodies are also notified of risk-relevant issues at regular intervals. In addition, special reports are prepared on an ad hoc basis or at the request of the Management Board or Supervisory Board; such special reports consider specific and acute risk issues, for instance in relation to critical markets, products or counterparties.

Risk Quantification and Risk Management

The credit risk, market risk, business risk and operational risk in particular are quantified and backed with risk cover funds as a part of the risk-bearing capacity analysis. The liquidity risk is quantified on the basis of the liquidity position. The individual calculation methods are described in detail in the risk report in the chapters «Result of Risk-bearing Capacity Analysis» respectively «Liquidity Risk».

Further risk types which are considered to be major as part of the regular internal risk inventory, such as regulatory risks as well as intangible risks which are considered to be minor risks, are not measured quantitatively; instead, they are managed and limited by way of regular detailed reports, clear specifications, e.g. the regulations concerning compliance and corporate governance.

At the portfolio level and at the level of individual transactions, risk in Deutsche Pfandbriefbank Group is managed by:

1. Monitoring the risk-bearing capacity on the basis of the comparison of economic capital and the risk cover funds of Deutsche Pfandbriefbank Group.
2. Monitoring of the risk-weighted assets (RWA) of Deutsche Pfandbriefbank Group at the portfolio level by means of stress tests which are intended to ensure that the core Tier 1 ratio does not fall below 10%.
3. Operational risk management via
   > the use of Basel-II-compliant risk parameters in lending business of Deutsche Pfandbriefbank Group. The Basel-II-compliant steering approach shows the average expected loss at the borrower level, and is therefore a major component in risk early recognition and ongoing profitability monitoring. The parameters are reviewed and recalibrated annually.
   > A limit system for counterparty and issuer risks on the basis of a standard application which has been tested in the market with a risk measurement method that is uniform throughout the Group.
   > Intensive monitoring and management of individual exposures.
   > Monitoring the risk of losses by way of appropriate impairment triggers in accordance with IAS 39.

Economic Capital and Monitoring the Risk-bearing Capacity

In accordance with Section 25 a (1) KWG, credit institutions are obliged to set up appropriate and effective procedures in order to ensure that their risk-bearing capacity can be determined and assured in the long term. These procedures complement the regulatory procedures defined in the Solvency Regulation. The Bank's own risk-bearing capacity calculation is the subject of regulatory reviews («Supervisory Review and Evaluation Process», SREP).

Deutsche Pfandbriefbank Group has implemented an Internal Capital Adequacy Assessment Process (ICAAP). This is based on the concept of economic capital. Economic capital is defined as the quantity of capital required by a bank in order to cover the largest potential total loss with a defined probability (the confidence level) over a time horizon of one year. Deutsche Pfandbriefbank AG has implemented the following changes or improvements in the first half of 2012.

A going-concern approach has been developed as the primary steering approach for demonstrating the risk-bearing capacity of Deutsche Pfandbriefbank Group; this has been completely integrated in the ICAAP. Unlike the previous Gone-Concern approach, this steering approach does not focus on the theoretical event of the Group being liquidated; instead, it focuses explicitly on the going-concern assumption and also assumes that the regulatory minimum capital ratios are met. In addition to protecting regulatory minimum capitalisation, the going-concern approach also comprises an extensive early warning system which generates corresponding early warning signals a long time before the minimum ratios are attained.

The process of determining economic capital for market risks was adjusted in the first half of 2012 in order to improve the significance of the ICAAP for the full year. In addition, a regular validation process carried out in the credit portfolio model has seen the introduction of a further developed correlation model which is adapted in an optimum manner to the new focus of the company and the current developments on the markets. In addition to market, credit, business and operational risks, the risk inventory carried out in the first half of the year has also shown that the valuation risk for real estate has to be considered to be material. It has therefore been included and capitalised as an independent risk type in the ICAAP.

The previous Gone-Concern approach has been further developed in two complementary perspectives which support in parallel the leading going-concern approach. Firstly, there is the instantaneous liquidation perspective which, in a theoretical liquidation case, does not assume opportunistic winding up of the portfolios and instead is based on the assumption of the immediate sale of, inter alia, the securities of the banking book at stressed market values. This approach takes account of the above-mentioned major risks in the instantaneous liquidation perspective and also credit spread risks arising from securities in the banking book for calculating the economic capital, or deducts the hidden losses attributable to these securities for determining the risk cover funds. Secondly, Deutsche Pfandbriefbank Group has developed a strategic Gone-Concern perspective which focuses on strategic business for calculating the economic capital. Risks from the Budget Finance portfolio which is earmarked for being streamlined and the Value Portfolio are covered by way of a buffer. For these two perspectives, the confidence level has initially been adjusted to 99.91% (99.95% in the Gone-Concern approach at the end of 2011). This adjustment is based on the change in the average probability of default of companies which have been awarded good long-term credit ratings by external rating agencies, namely A– at Standard & Poor's and A–/A3 at Fitch Ratings and Moody's, and is consistent with the fundamentally conservative parameters in the risk models. The methods of calculating the economic capital for the individual risk types as well as current parameters are described in greater detail in the chapter «Result of the Risk-bearing Capacity Analysis». As is standard practise in the sector, no economic capital is calculated for the liquidity risk.

In order to assess the adequate capitalisation of the capital backing of Deutsche Pfandbriefbank Group, the amount of economic capital is compared with the available financial resources which corresponds to the approach in the respective management parameters. In line with standard practise for the sector, in the leading going-concern perspective, the available risk cover funds essentially comprise the core capital in accordance with HGB less the capital which is maintained for assuring the regulatory minimum ratios. The remaining Tier 1 capital is suitable for absorbing potential losses and for maintaining a corresponding risk buffer. For determining the cover funds, the Gone-Concern approach takes account of IFRS equity as well as subordinate positions with a maturity of more than one year and hidden losses arising on securities. In order to verify the risk-bearing capacity, the economic capital must be completely covered by the available risk cover funds.

In addition to the presentation of risk-bearing capacity in the going-concern approach, the economic capital is analysed in the instantaneous liquidation perspective and the strategic Gone-Concern perspective.

The results of the risk-bearing capacity analysis and of the stress tests are regularly presented to the central Management Board and the Risk Committee. The results are discussed there and if necessary management measures are defined by the central Management Board and the Risk Committee.

Major Risk Types

Deutsche Pfandbriefbank Group distinguishes the following major risk types for its business activities:
> Credit risk
> Market risk
> Liquidity risk
> Operational risk
> Business risk
> Real estate risk

The following are major risk types of Deutsche Pfandbriefbank Group which are not quantified but which are limited by means of suitable reports, guidelines and policies:
> Strategic risks
> Reputational risks
> Regulatory risks

Credit Risk

Definitions

The counterparty risk in general is defined as the risk of an unexpected default or decline in the fair value of a receivable or a derivative, resulting from a deterioration in the hedging situation or deterioration in the creditworthiness of a country or a counterparty.

The counterparty risk comprises the credit risk, counterparty default risk, issuer risk, country risk, concentration risk and fulfilment risk which are defined as follows:

- Credit risk is defined as the risk which affects loans and traditional credit products as such. A major factor determining the credit risk is the probability of default in relation to the ability of the borrower to fulfil his financial obligations, and also the loss-given default, in relation to the value of securities. Declines in the fair value as a result of rating changes are taken into consideration for calculating the credit risk.
- Counterparty default risk is defined as the risk of a potential unexpected default or decline in the fair value of a claim or a derivative. This is due to a deterioration in the creditworthiness of a counterparty or a deterioration of the hedging situation. The counterparty default risk includes the replacement risk and the repayment risk.
- Issuer risk is defined as the risk in relation to bonds and other securities. In particular, it refers to the ability of the issuer to meet his financial obligations and also relates to the value of securities in the event of the default of an issuer. Declines in the fair value as a result of rating changes are taken into consideration for calculating the issuer risk.
- Country risk arises from changes in the values of international exposures due to country-specific political and economic conditions. It essentially comprises the risk that arises in connection with business activities in certain countries. The country risk includes the conversion risk, transfer risk and sovereign default risk.
- Concentration risk is defined as the risk of cluster formation in relation to a risk factor or counterparties, or a strongly correlated group of risk factors or counterparties.
- Fulfilment risk is defined as the risk that the bank makes a payment or delivers an asset which has been sold to a counterparty but does not receive a payment or the purchased asset.

Credit Risk Strategy and Principles

Deutsche Pfandbriefbank Group has broken down the overall credit portfolio into the segments Real Estate Finance, Public Sector Finance, Value Portfolio and «Consolidation & Adjustments». The strategic business is attributable to Real Estate Finance and Public Investment Finance as part of the Public Sector Finance portfolio. The risk strategy of Deutsche Pfandbriefbank Group also reflects this structure.

In the Public Sector Finance segment, new business of Deutsche Pfandbriefbank Group is confined to Pfandbrief-eligible financing of public investment financings in selected European countries.

New business in Real Estate Finance focuses on Pfandbrief-eligible financing of commercial real estate with sustainable cash flow in selected European countries. The main target customers of these operations are professional investors, institutional clients, real estate funds or selective developers.

New business is to be refinanced with matching maturities where possible, mainly using Pfandbrief issues.

Credit Risk Reports

The credit risk reports provide information about the following main components:

> The Group Risk Report contains the development in volumes as well as relevant credit risk management indicators such as the development of the expected loss as well as the unexpected loss via value at risk. The report shows the credit risk at the level of the Group and also at the level of the bank in the context of the overall bank risk and the risk-bearing capacity, it reports limit utilisations and violations of existing limits, and also identifies risk concentrations. Key indicators which are relevant for management purposes, such as the development of the EaD, the EL and the Credit VaR are integrated in this report and are discussed by the Management Board; The report is also submitted to the Risk Management and Liquidity Strategy Committee of the Supervisory Board to be noted.

> The Credit Risk Report contains details concerning the portfolio and risk parameters at the Group level and also at the level of the subsidiary institutes.

> For decisions relating to new business and adjustments of conditions, major parameters, contents and analyses are presented to the Credit Committee and discussed.

> In the active business, further regular reports support operational management with regard to the management and timely recognition of risks at the sub-portfolio level.

> Unusual developments which might result in a major deterioration in the risk position of an individual exposure are reported to a wider group by way of so-called «Credit Issue Notes».

Credit Risk Quantification via Economic Capital and Risk-weighted Assets under Basel II

Credit Portfolio Model For calculating the economic credit risk capital (credit value at risk) Deutsche Pfandbriefbank Group uses a credit portfolio model which is described in greater detail in the section «Result of Risk-bearing Capacity Analysis».

Stress Tests The stress tests for economic capital in credit risk are described in greater detail in section «Result of Risk-bearing Capacity Analysis».

In addition to the stress tests for economic capital, there are also RWA reverse stress tests. They investigate the extent to which a certain risk parameter (e.g. rating, LGD, currency) can change before the minimum capital ratio of 10% is no longer met. Tolerance change levels have been defined for all tested risk parameters; these levels must not be violated if the test of Deutsche Pfandbriefbank Group is to be successfully completed.

Credit Risk Quantification According to Basel II Deutsche Pfandbriefbank Group – apart from the former DEPFA Deutsche Pfandbriefbank AG – has already received regulatory approval to apply the so-called Advanced Internal Rating-Based Approach (Advanced IRBA) for determining the regulatory capital backing. The final result of the regulatory audit for the introduction of the Advanced IRBA at former DEPFA Deutsche Pfandbriefbank AG is expected in 2012.

Recapitalisation Survey HRE Group was involved in the recapitalisation survey which was carried out in the second half of 2011 by the European Banking Authority (EBA). The reference date for compliance with the minimum ratio of Tier 1 Capital specified by the EBA was 30 June 2012. HRE Group more than matched the minimum ratio for Tier 1 Capital specified by the European bank regulator on the occasion of the preliminary survey in the second half of 2011 and also as of the reference date 30 June 2012, and accordingly did not report any recapitalisation requirement due to EBA perspective.

Credit Risk Management and Monitoring

Credit Risk Management At the portfolio level, the intended portfolio structure is defined in the risk strategy by means of structure components. The limits are also based on the available financial resources, and include for Deutsche Pfandbriefbank Group for example:
- Limiting of country risks
- Definition of strategic risk parameters (e.g. target customers, regions, financing duration)

The following reports and measures are key elements for monitoring compliance with the defined limits and the intended risk and return parameters at the portfolio level and also at the level of individual transactions:
- Calculation of the credit risk VaR at the portfolio level by way of a credit portfolio model and limiting at segment level in certain cases; analysis of concentration risks and various stress tests.
- Central concern-wide monitoring of risk concentrations by way of special regular and ad hoc evaluations, such as regional, product-specific evaluations
- Continuous analysis of the portfolio and the relevant markets by the Credit Risk Management units
- Regular evaluation of the collateral
- Special reports for exposures which are potentially at risk (e.g. «credit issue notes»)

The credit competences also define the decision-making powers of the individual credit risk managers for prolongations in existing business, depending on the counterparty group and expected loss class.

Credit Risk Management and Monitoring At the level of individual transactions, the credit process guidelines define the necessary steps of assessing risk for new business, prolongations and of a regular risk review as well as the procedures for transferring exposures to the watchlist or workout.

With regard to the core processes of counterparty risk management and monitoring, please refer to the comments in the risk report of the Annual Report 2011.

Hedging and Minimising Risk by Collateral

At Deutsche Pfandbriefbank Group, property liens relating to the financed properties are particularly important in the Real Estate Finance segment. Other financial securities and guarantees in particular are also accepted as collateral (e.g. credit insurances, contractual guarantees from public authorities, fixed-income securities, purchase of receivables, etc.) in the Public Sector field and especially in Public Investment Finance. Additionally, in Public Investment Finance there exist legal framework requirements as the maintenance obligation, which allows recourse on a public sector entity.

The credit officers review the value of the collateral on an ad-hoc basis and as part of the regular annual rating assessment of borrowers of Deutsche Pfandbriefbank Group. In the case of property collateral, the value, where necessary, is reviewed by external or internal experts.

Credit Portfolio

The entire credit portfolio of Deutsche Pfandbriefbank Group was calculated by using a standard method in line with the Basel-II-compliant exposure at default (EaD).

EaD recognises the current utilisation as well as pro rata credit interest in relation to which a borrower may default before an exposure is defined as having defaulted (max. default of 90 days), as well as those credit commitments which a borrower will still be able to utilise in future despite a major deterioration in creditworthiness. In the case of derivatives, the EaD is defined as the sum of the current market value and the regulatory add-on, which constitutes a cushion for future potential increases of the market value.

The Group-wide EaD of the credit portfolio amounted to € 83.8 billion as of 30 June 2012 (EaD 31 December 2011: € 87.7 billion). This includes the EaD with regard to FMS Wertmanagement which is not considered to be core exposure of Deutsche Pfandbriefbank Group, which declined from € 4.9 billion as of the end of 2011 to € 2.1 billion. Bonds with an EaD of € 2.2 billion which were issued by FMS Wertmanagement and which were provided by FMS Wertmanagement in connection with the prorata compensation demand of Deutsche Pfandbriefbank Group for the transferred assets and liabilities have for the first time been treated as core exposure of Deutsche Pfandbriefbank Group. In order to permit a better comparison with the figures as of the end of 2011, the core exposure to FMS Wertmanagement is shown in the following diagrams for EaD distribution as of 31 December 2011. Previously, the core exposure to FMS Wertmanagement together with the other exposure to FMS Wertmanagement had been disclosed for information purposes in the form of footnotes to the diagrams.

The EaD of € 2.1 billion with regard to FMS Wertmanagement which is not considered to be core exposure is broken down as follows: it was initially not possible for beneficial ownership to be transferred for most of the derivatives earmarked for transfer to FMS Wertmanagement, so that the market price risks of the derivatives were transferred to FMS Wertmanagement by way of derivatives with identical conditions being concluded between Deutsche Pfandbriefbank Group and FMS Wertmanagement. An EaD of € 1.8 billion (31 December 2011: € 4.9 billion) was attributable to the so-called back-to-back transactions. Because FMS Wertmanagement does not have a bank status, Deutsche Pfandbriefbank Group has also assumed certain refinancing functions of FMS Wertmanagement, for which an EaD of € 0.3 billion was applicable as of 30 June 2012.

In addition, the credit portfolio EaD of € 83.8 billion also included assets with an EaD of € 0.8 billion which have been selected to be transferred to FMS Wertmanagement but which were not able to be transferred via the originally envisaged method as a result of various considerations, including considerations of tax law. With effect from 1 December 2010, the credit risks of these assets were transferred by means of guarantees provided by FMS Wertmanagement, so that Deutsche Pfandbriefbank Group ultimately retains a counterparty risk with regard to FMS Wertmanagement in connection with these positions.

In order to constantly avoid EaD fluctuations and distortions in the strategic operating segments of Deutsche Pfandbriefbank Group resulting from the refinancing function which has been taken on, and also to properly reflect the actual economic risk in Deutsche Pfandbriefbank Group, the above EaDs, not considered as core exposure, attributable to transactions with FMS Wertmanagement have been detailed merely for information purposes in the following overviews of the portfolio development and structure. The EaD for the total exposure of Deutsche Pfandbriefbank Group determined without the above position amounted to € 80.9 billion as of 30 June 2012 (EaD 31 December 2011: € 82.0 billion).

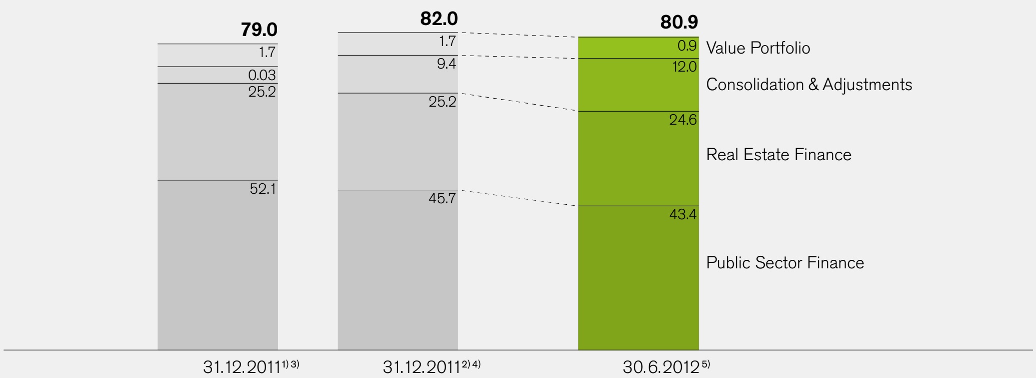
Overview of the Total Exposure of Deutsche Pfandbriefbank Group: € 80.9 billion EaD The credit portfolio is broken down into the following segments:
> Public Sector Finance (PSF)
> Real Estate Finance (REF)
as well as the non-strategic Value Portfolio (VP) which is earmarked for being wound down.

In addition to the internal reconciliation and consolidation positions, «Consolidation & Adjustments» also shows for the first time the EaD for transactions which are not directly attributable to the operating segments. These are asset positions for asset and liability management. Previously, the EaD of these asset items was essentially disclosed in the Public Sector Finance segment. In order to permit better comparability with the figures as of the end of 2011, the exposure which is not directly attributable to the operating segments will be attributed to «Consolidation & Adjustments» in the following EaD splits for 31 December 2011, in line with the procedure as of 30 June 2012.

The portfolio of the Public Sector Finance segment (PSF) had an EaD of € 43.4 billion as of 30 June 2012 (31 December 2011: € 45.7 billion); of this figure, € 10.3 billion was attributable to the strategic portfolio of Public Investment Finance. From the remaining portfolio an EaD of € 31.1 billion was related to the non-strategic portfolio of budget financing earmarked for streamlining.

Total exposure: EaD according to business segments

in € billion



[1] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
[2] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
[3] In addition € 8.7 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion (C & A: € 6.9 billion; PSF: € 1.3 billion; VP: € 0.5 billion)
[4] In addition € 5.7 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion (C & A: € 3.9 billion; PSF: € 1.3 billion; VP: € 0.5 billion)
[5] In addition € 2.9 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion (C & A: € 1.2 billion; PSF: € 0.8 billion; VP: € 0.9 billion)

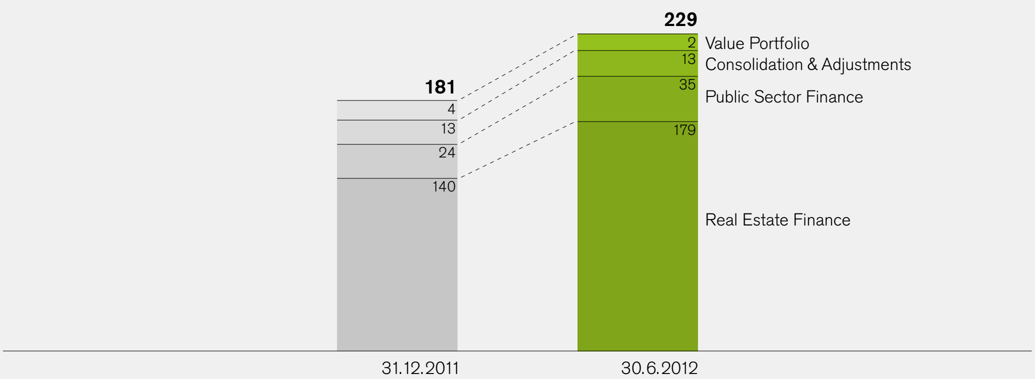
The exposure at default (EaD) of Deutsche Pfandbriefbank Group decreased at 30 June 2012 in comparison to the end of 2011 by € 1.1 billion down to € 80.9 billion. Overall, there were slight percentage decreases in the Public Sector Finance segment (54 %; previous year: 56 %) and the Real Estate Finance segment (30 %; previous year: 31 %) and the Value Portfolio (1 %; previous year: 2 %). On the other hand, the percentage attributable to Consolidation & Adjustments increased from 11 % to 15 %.

Risk Parameters **Expected Loss** Using the parameters defined under Basel II the expected loss (EL), which is calculated from the annual probability of default (PD), the loss-given default (LGD) and the EaD, amounts to € 229 million as of 30 June 2012. The considerable increase (31 December 2011: € 181 million) is primarily attributable to the Real Estate Finance and Public Sector Finance segment. In these segments, the EL has increased as a result of downgrades of various financing arrangements.

The expected loss for a period of one year is a key management parameter for the portfolio and is calculated for the entire exposure, with the exception of business with other institutes within HRE and non-performing loans for which an individual allowance has already been recognised.

Total exposure: expected loss according to business segments[1)]

in € million



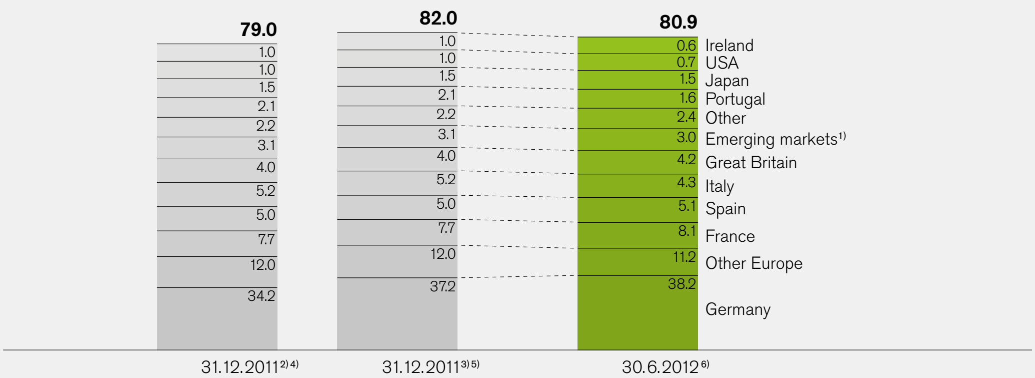
[1)] The expected loss is calculated for the entire exposure in the banking book, with the exception of non-performing loans for which an individual allowance has already been recognised

Economic Credit Risk Capital The economic capital for credit risk – calculated by the credit portfolio model – amounted to € 285 million (31 December 2011: € 343 million) for a confidence level of 95 % and a period of one year, thus considering the Going-Concern approach, disregarding diversification effects to other risk types. Details regarding the calculation are set out in the section «Result of Risk-bearing Capacity Analysis».

Regional Breakdown of the Portfolio At the reporting date, the main focus of the exposure of Deutsche Pfandbriefbank Group was unchanged on Western Europe. Germany continued to account for most of the overall exposure, with 47 % (€ 38.2 billion). Compared with the end of 2011, the exposure in Italy has declined by € 0.9 billion to € 4.3 billion as a result of the final maturity of a security. The reduction of the exposure in the category «Rest of Europe» was mainly due to a reduction of exposures in Austria (€ 6.5 billion; and of previous year: € 7.0 billion) and Switzerland (€ 0.5 billion; end of previous year: € 0.7 billion). The main items in the category «Rest of Europe», which at € 11.2 billion account for approximately 14 % of the overall portfolio, were Austria (€ 6.5 billion) and Sweden (€ 1.4 billion; 31 December 2011: € 1.3 billion). Compared with the previous year the percentage of the category «Emerging Markets» in accordance with the IMF definition had slightly decreased and mainly comprised Poland with € 2.0 billion (31 December 2011: € 2.1 billion) and Hungary with € 0.7 billion (31 December 2011: € 0.7 billion). Deutsche Pfandbriefbank Group no longer has exposures in the emerging-market country of Lithuania.

Total portfolio: EaD according to regions

in € billion



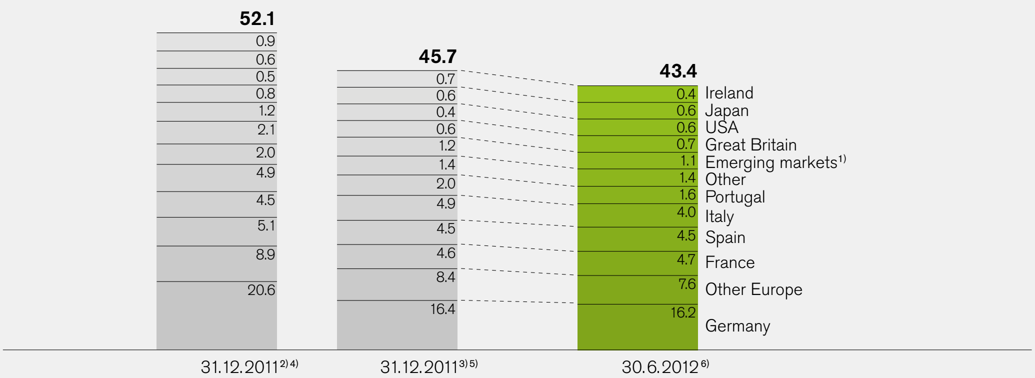
[1] Emerging markets in accordance with the IMF definition
[2] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
[3] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
[4] In addition € 8.7 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion. The figures without guaranteed positions were fully attributable to Germany (€ 7.9 billion). The guaranteed positions related to Germany (59 %, € 0.5 billion) and Italy (41%, € 0.3 billion).
[5] In addition € 5.7 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion. The figures without guaranteed positions were fully attributable to Germany (€ 4.9 billion). The guaranteed positions related to Germany (59 %, € 0.5 billion) and Italy (41 %, € 0.3 billion).
[6] In addition € 2.9 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion. The figures without guaranteed positions were fully attributable to Germany (€ 2.1 billion). The guaranteed positions related to Germany (59 %, € 0.5 billion) and Italy (41 %, € 0.3 billion).

Public Sector Finance: € 43.4 billion EaD Portfolio Development and Structure The portfolio of the Public Sector Finance segment (PSF) had an EaD of € 43.4 billion as of 30 June 2012 (31 December 2011: € 45.7 billion); of this figure, € 10.3 billion was attributable to the strategic portfolio of Public Investment Finance. From the remaining portfolio an EaD of € 31.1 billion was related to the non-strategic portfolio of budget financing earmarked for streamlining.

Most of the exposure was to be found in Western Europe. The major part of «Other Europe» contained Austria with € 6.1 billion (31 December 2011: € 6.6 billion). The EaD in Italy and Portugal decreased significantly due to a reduction of exposure in these countries. The exposure in the USA related almost entirely to financial institutions located in the USA.

Public Sector Finance: EaD according to regions

in € billion

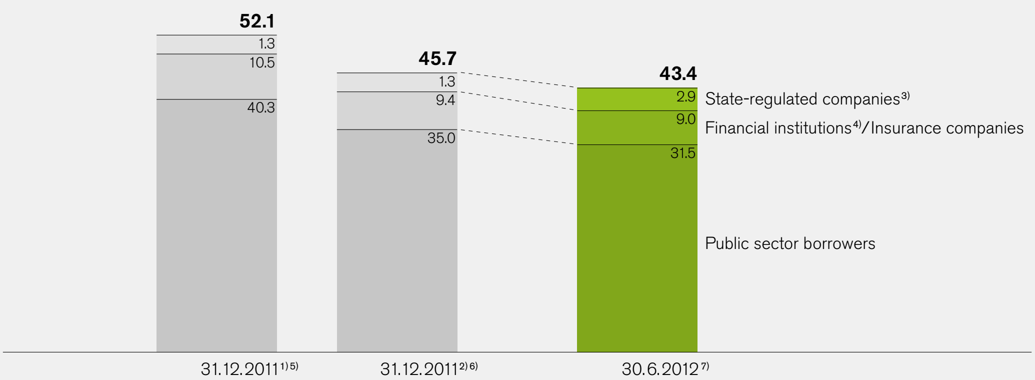


1) Emerging markets in accordance with the IMF definition
2) Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
3) Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
4) In addition € 1.3 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.5 billion
5) In addition € 1.3 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.5 billion
6) In addition € 0.8 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; no guaranteed positions

The position «Public Sector Borrowers» included receivables due from sovereigns (33 %), public sector enterprises (27 %) and municipalities (40 %).

Public Sector Finance: EaD according to counterparty structure

in € billion

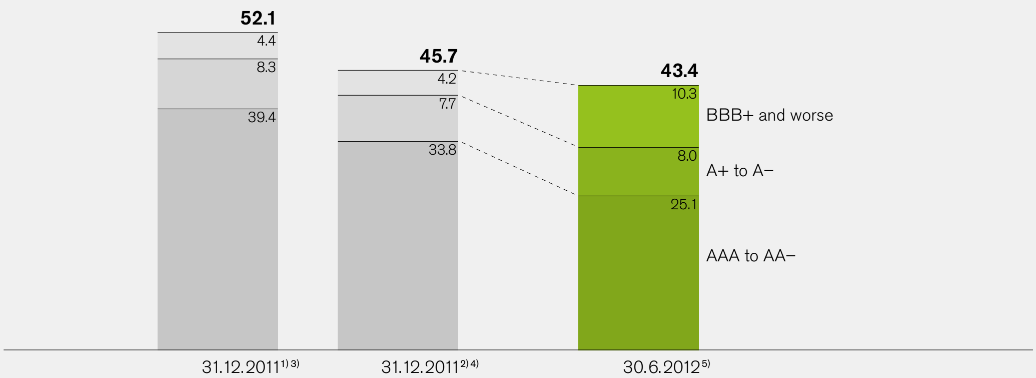


1) Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
2) Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
3) E.g. water utilities, power supply utilities, etc.
4) Financial institutions with a state background or state guarantee
5) In addition € 1.3 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.5 billion
6) In addition € 1.3 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.5 billion
7) In addition € 0.8 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany

The PSF segment again included a high percentage of public-sector borrowers as of the balance sheet date; this is reflected in the rating. More than 58 % of the EaD is attributable to the ratings AAA to AA– (31 December 2011: 74 %). The rating classes A+ to A– accounted for 18 % of the EaD (31 December 2011: 17 %). The percentage of positions with ratings of BBB+ and worse has increased from 9 % in December 2011 to 24 % mainly as a result of the downgrading of Portugal, Italy and Spain as well as further internal reclassifications.

Public Sector Finance: EaD according to internal ratings

in € billion



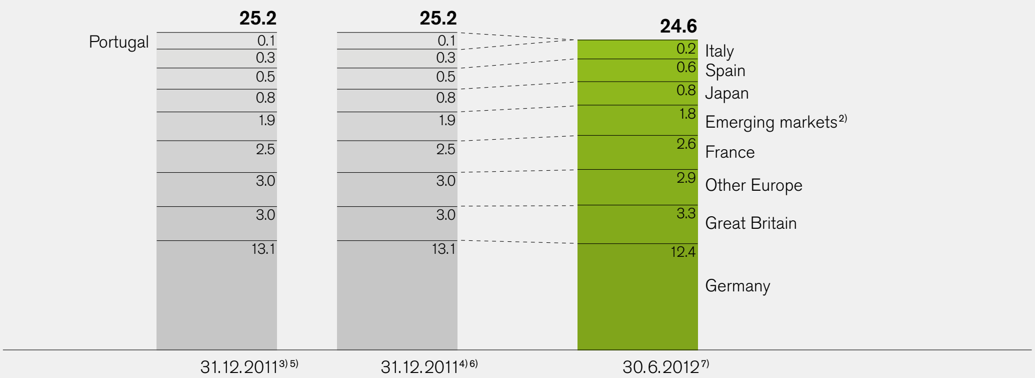
[1)] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
[2)] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
[3)] In addition € 8.2 billion EaD (including guaranteed positions of € 0.5 billion) to the counterparty FMS Wertmanagement, which was fully attributable to the rating class AAA to AA–
[4)] In addition € 1.3 billion EaD (including guaranteed positions of € 0.5 billion) to the counterparty FMS Wertmanagement, which was fully attributable to the rating class AAA to AA–
[5)] In addition € 0.8 billion EaD to the counterparty FMS Wertmanagement, which was fully attributable to the rating class AAA to AA–

Risk Parameters The expected loss (EL) of the portfolio of the Public Sector Finance segment has increased in the first half-year of 2012 by € 11 million (30 June 2012: € 35 million; 31 December 2011: € 24 million). The increase was mainly attributable to the downgrade of countries such as Portugal, Italy and Spain as well as downgrade of several single financings.

Real Estate Finance: € 24.6 billion EaD Portfolio Development and Structure The EaD of the Real Estate Finance portfolio of Deutsche Pfandbriefbank Group declined by a total of € 0.6 billion compared with 31 December 2011. The customer derivatives included in the portfolio accounted for an EaD of € 0.7 billion as of 30 June 2012, compared with a figure of € 0.8 billion EaD at the end of 2011. Whereas the percentage of Great Britain in relation to the overall portfolio increased, the percentage attributable to Germany declined slightly.

Real Estate Finance: EaD according to regions[1)]

in € billion

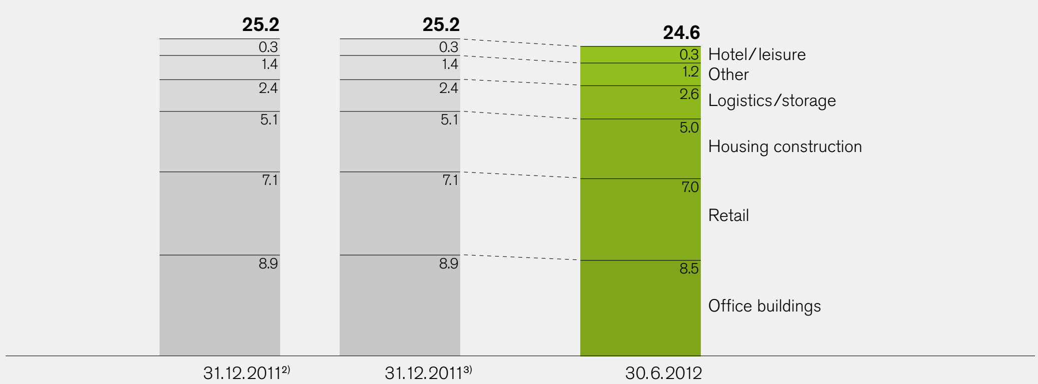


[1)] In the Real Estate Finance segment, there is no exposure to the counterparty FMS Wertmanagement.
[2)] Emerging markets in accordance with the IMF definition
[3)] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
[4)] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
[5)] Breakdown including customer derivatives for approx. € 0.8 billion
[6)] Breakdown including customer derivatives for approx. € 0.8 billion
[7)] Breakdown including customer derivatives for approx. € 0.7 billion

The breakdown of the portfolio according to types of property at 30 June 2012 had changed only slightly compared with end of 2011. The main items were the property types «Office buildings» with € 8.5 billion EaD or 35 % of the overall REF portfolio (31 December 2011: 36 %) and «Retail» with € 7.0 billion EaD or 29 % of the REF portfolio (31 December 2011: 28 %). The percentage of residential properties remained stable at 20 % in comparison to the end of 2011. Noteworthy is the percentage of 10 % of the portfolio amounted on the property type «Logistics/Storage» (31 December 2011: 9 %) of the overall REF portfolio.

Real Estate Finance: EaD according to property type[1]

in € billion

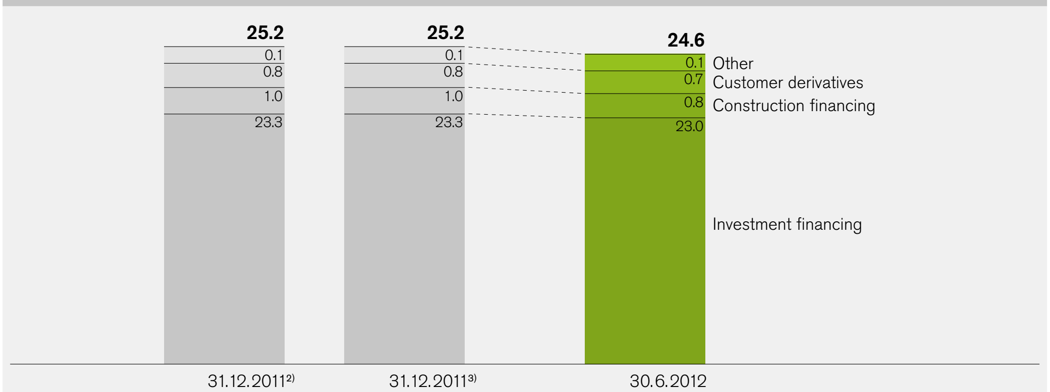


[1] In the Real Estate Finance segment, there is no exposure to the counterparty FMS Wertmanagement.
[2] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
[3] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote

At midyear 2012 the portfolio was still dominated by investment financing (94 %; 31 December 2011: 93 %). Higher risk construction projects in the building phase (building finance) only accounted for 3 % of the EaD (31 December 2011: 4 %). Real Estate Finance for which the capital is serviced mainly out of the current property cash flow is shown under investment financing.

Real Estate Finance: EaD according to loan types[1]

in € billion



[1] In the Real Estate Finance segment, there is no exposure to the counterparty FMS Wertmanagement.
[2] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
[3] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote

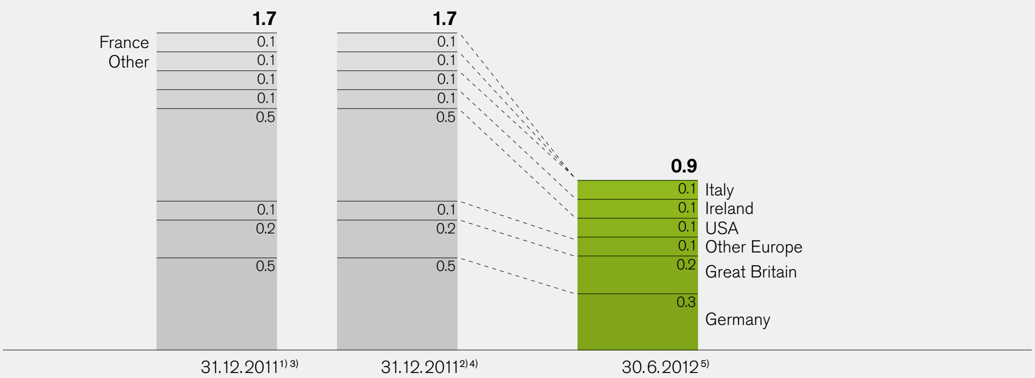
Risk Parameters Using the parameters defined under Basel II, the expected loss for the Real Estate Finance portfolio was € 179 million as of 30 June 2012. It has accordingly increased appreciably compared with December 2011 (€ 140 million). This is mainly attributable to the rating downgrades of two financing arrangements. The rating downgrades have been partially compensated for by a recalibration of the model for estimating the LGD for international real estate financing.

Value Portfolio: € 0.9 billion EaD Portfolio Development and Structure The Value Portfolio comprises non-strategic portfolios of Deutsche Pfandbriefbank Group as well as a part of the transactions which exist with the counterparty FMS Wertmanagement. The portfolio structure is inter alia affected by derivative business with financial institutions. In the Value Portfolio, emphasis is placed on the reduction of existing assets in a manner which poses minimum strain on capital and which is designed to maintain value.

The strategic decline of € 0.8 billion in the exposure as of 30 June 2012 compared with 31 December 2011 was mainly attributable to the decrease of the exposure of almost all countries especially in Germany, USA and category «Other». In the remaining portfolio as of 30 June 2012, a regional emphasis was formed particularly by Germany and Great Britain.

Value Portfolio: EaD according to regions

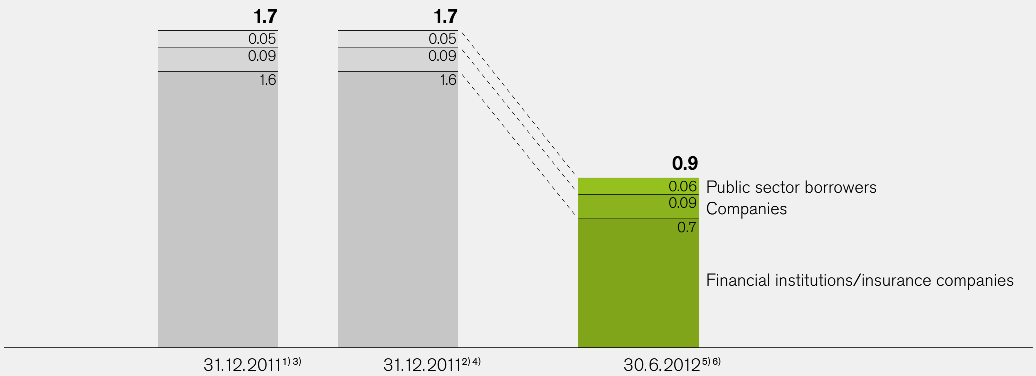
in € billion



[1)] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
[2)] Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
[3)] In addition € 0.5 billion EaD to the counterparty FMS Wertmanagement, including guaranteed positions amounting to € 0.3 billion. The content without guarantees was fully attributable to Germany. The positions including guarantees are fully attributable to Italy.
[4)] In addition € 0.5 billion EaD to the counterparty FMS Wertmanagement, including guaranteed positions amounting to € 0.3 billion. The content without guarantees was fully attributable to Germany. The positions including guarantees are fully attributable to Italy.
[5)] In addition € 0.9 billion EaD to the counterparty FMS Wertmanagement, including guaranteed positions amounting to € 0.8 billion. The content without guarantees was fully attributable to Germany. The guaranteed positions related to Germany (59 %) and Italy (41 %).

Value Portfolio: EaD according to counterparty structure

in € billion



1) Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011
2) Basis of figures: Annual Report of Deutsche Pfandbriefbank Group as of 31 December 2011; in addition the EaD which is not directly attributable to the operating segments has been classified under «Consolidation & Adjustments», and the so-called core exposure to FMS Wertmanagement has been shown in the diagrams whereas previously it had been shown as a footnote
3) Including exposure to the affiliated institution DEPFA Bank plc of € 0.1 billion as of 31 December 2011
4) Including exposure to the affiliated institution DEPFA Bank plc of € 0.1 billion as of 31 December 2011
5) Including exposure to the affiliated institution DEPFA Bank plc of € 0.1 billion as of 30 June 2012
6) In addition € 0.5 billion to the counterparty FMS Wertmanagement, including guaranteed positions of € 0.3 billion. The content without guarantees is fully attributable to Germany. The guaranteed positions relate with 100 % to Italy.

Risk Parameters Using the parameters defined under Basel II, the expected loss for the Value Portfolio was € 2 million as of 30 June 2012 and has been divided in half in comparison to December 2011.

Structured Products

As of 30 June 2012, Deutsche Pfandbriefbank Group had fully state-guaranteed collateralised debt obligations with a nominal value of € 0.8 billion (31 December 2011: € 0.8 billion) and a current internal fair value of € 0.7 billion (31 December 2011: € 0.7 billion).

Nominal holdings of structured securities without a government guarantee which Deutsche Pfandbriefbank Group breaks down into property-related real-estate-linked investments such as commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS) and credit-linked investments such as collateralised debt obligations (CDOs, in the narrower sense of the term) and collateralised loan obligations (CLOs) remained constant in comparison to the end of 2011 with € 0.1 billion.

A recognised discounted cash flow model is used as the basis of measuring the value of the CMBS and RMBS securities. Unlike the process used for measuring more simple CDO structures, a separate valuation model is mainly used for complex structures or illiquid underlying collateral. In this internal valuation model, the US and EU CDOs are measured using expected losses with a bottom-up distribution. Essentially, the valuation of this portfolio reflects the development of the underlying collateral, consisting primarily of ABS, MBS or CDO tranches.

The current internally calculated fair value of these securities which securitise credit risks amounted to € 9 million as of 30 June 2012 (31 December 2011: € 10 million).

Special-purpose Vehicles in Deutsche Pfandbriefbank Group

The special-purpose vehicle is an ABS structure which has been completely written down so that no further risks can result for Deutsche Pfandbriefbank Group from this special-purpose vehicle (30 June 2012: nominal € 0.5 billion, 31 December 2011: nominal € 0.5 billion). The consolidation of the special-purpose vehicle had resulted in particular in a balance sheet extension of € 0.3 billion (31 December 2011: € 0.4 billion). However, from the risk point of view, there had not been an increase in the volume. Accordingly, the volume exposed to risk was € 0.3 billion lower (31 December 2011: € 0.4 billion).

Watchlist and Non-performing Loans: € 3.5 billion

Early Warning System The early warning system of Deutsche Pfandbriefbank Group has defined triggers (= criteria) for including loans in the watchlist and for being classified as workout loans (e.g. past due payments, failure to meet covenants – e.g. loan to value [LTV], interest service coverage [ISC]). The system constantly monitors whether a trigger has been set off. In the event of any problems being identified, the counterparty is analysed and, where appropriate, promptly transferred to restructuring or workout loans.

Watchlist and non-performing loans (restructuring and workout loans) are defined as follows:
> Watchlist Loans Payments past due by more than 60 days or another early warning signal is triggered.
> Restructuring Loans Payments past due by more than 90 days or another defined early warning signal is triggered.
> Workout Loans There are no indications that the loan can be restructured. Enforcement measures have been/will be introduced, respectively individual allowances have been recognised.

Non-performing loan processing is also responsible for carrying out an impairment test in line with the relevant accounting regulations.

Development of Watchlist and Non-performing Loans of Deutsche Pfandbriefbank Group Breakdown of watchlist and non-performing loans as of 31 December 2011 and 30 June 2012:

Watchlist and non-performing loans of Deutsche Pfandbriefbank Group	30.6.2012				31.12.2011				
EaD in € million	PSF	REF	VP	Total	PSF	REF	VP	Total	Δ in € million
Workout loans	–	10	15	25	–	10	15	25	–
Restructuring loans[1]	34	1,526	–	1,560	35	1,273	–	1,308	252
Non-performing loans	**34**	**1,536**	**15**	**1,585**	**35**	**1,283**	**15**	**1,333**	252
Watchlist loans	1,201	756	–	1,957	–	648	–	648	1,309
Total	**1,235**	**2,292**	**15**	**3,542**	**35**	**1,931**	**15**	**1,981**	1,561

[1] In addition € 6 million EaD as of 30 June 2012 in the segment «Consolidation & Adjustments»

The watchlist loans increased by a total of € 1,309 million. In the PSF segment, this is mainly due to the fact that most of the Portugal exposure of the Bank (a total of € 1,201 million) has been classified as «watchlist». A prorata increase of € 108 million (net) is reported in the REF segment.

The non-performing loans increased by € 252 million, and are attributable to a small number of individual cases. The increase is also reflected in the development of the portfolio-based allowances.

Impairments and Provisions

Individual Allowances and Portfolio-based Allowances All financial assets which are not evaluated at fair value through profit or loss are subject to a regular impairment test. An assessment is first made to determine whether there is an objective indication of an impairment. The extent of any such impairment is then calculated as the difference between the carrying amount, at AfS assets (AfS = Available for Sale) plus AfS reserve, and the present value of the cash flows expected in future.

Portfolio-based allowances are calculated using risk parameters which are compliant with Basel II, such as probability of default (PD) and loss-given default (LGD). The resultant expected loss in relation to a time horizon of one year is scaled using an IFRS-compliant conversion factor to the period which on average is required for identifying the impairment event.

If differences are identified between long-term average values for the parameters PD and LGD on the one hand and the current figures on the other as a result of the market environment in some portfolios of the operating segments, these are taken into consideration accordingly.

The impairments are approved in the Group Risk Provisioning Committee in which the CROs of all subsidiary institutions hence as well of Deutsche Pfandbriefbank AG are represented.

Risk Provisioning of Deutsche Pfandbriefbank Group An overview of the development in provisions for losses on loans and advances and provisions is set out in the notes.

Coverage for Non-performing Loans

As of 30 June 2012, there was 37 % cover for the non-performing loans of Deutsche Pfandbriefbank Group (31 December 2011: 38 %).

As of 30 June 2012, there was 15 % cover for the non-performing loans of the Public Sector Finance segment. The non-performing loans in Real Estate Finance segment were covered by 30 % (31 December 2011: 33 %), in the Value Portfolio by 90 % (31 December 2011: 90 %).

Market Risk

Definition, Market Risk Strategy, Organisation of Market Risk Management and Market Risk Reports

With regard to the points mentioned above, please refer to the details in the market risk part of the risk report in the Annual Report 2011.

Methods and Assumptions of the Market Risk VaR Measurement

With regard to the points mentioned above, please refer to the details in the market risk part of the risk report in the Annual Report 2011.

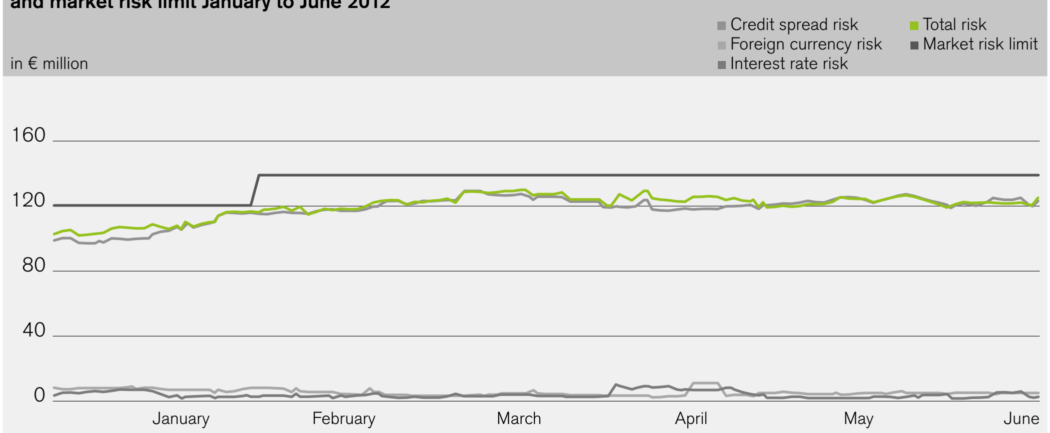
Development of Market Risk VaR

On 30 June 2012 the market risk VaR amounted to € 125 million. The comparison figure as of 31 December 2011 was € 103 million. The increase occurred in the first quarter, and was mainly attributable to higher credit spread volatilities. Because of the high limit utilisation, the Management Board decided to increase the market risk limit from € 120 million to € 140 million in February 2012.

There were no limit violations during the reporting period.

The following diagram illustrates the development of the market risk VaR as well as the VaR for the individual risk types compared with the market risk limit during the year.

Market risk VaR (10 days, 99 %) individual risk types and market risk limit January to June 2012



Stress Testing Hypothetical and historical stress scenarios are calculated on a monthly basis for all key risk drivers for all positions. For instance, an upward parallel shift of 200 basis points in the interest rate curve would have resulted in a loss of € 134 million in market value. The corresponding figure for the end of 2011 was € 125 million.

Economic Market Risk Capital For calculating the economic market risk capital, which is taken into consideration for the risk-bearing capacity analysis, the market risk VaR for the Going-Concern approach is scaled to a period of one year and also to a confidence level of 95 %. Deutsche Pfandbriefbank Group's economic capital for market risk, disregarding diversification effects for other risk types, amounted to €184 million as of 30 June 2012 (31 December 2011: €132 million). The method of calculation of the economic market risk capital had been adjusted in the first half of 2012 as described in the chapter «Result of Risk-bearing Capacity Analysis».

Market Risk Management, Monitoring and Reduction

With regard to the points mentioned above, please refer to the details in the market risk part of the risk report in the Annual Report 2011.

Liquidity Risk

General information in connection with the measurement and management of liquidity risk in Deutsche Pfandbriefbank Group (including risk strategy, risk limitation) can be found in the Annual Report 2011 of Deutsche Pfandbriefbank Group.

Development of the Risk Position of Deutsche Pfandbriefbank Group

The cumulative liquidity position in the base scenario calculated as part of the liquidity risk measurement as of 30 June 2012 amounted to €5.7 billion for a 12-month horizon.

The liquidity requirement of Deutsche Pfandbriefbank Group is still affected by several factors, e.g. new business as well as market fluctuations. Particular mention has to be made in this respect of interest rate, currency and credit spread fluctuations. The liquidity ratio in accordance with the Liquidity Ordinance amounted to 2.37 at Deutsche Pfandbriefbank AG as of 30 June 2012; it is thus higher than the statutory minimum of 1.0.

Refinancing

For refinancing, covered and uncovered issues are available as the main financing instruments to Deutsche Pfandbriefbank Group. Pfandbriefe are the main refinancing instruments. Because of their high quality and acceptance on international capital markets, Pfandbriefe are comparatively less affected by market fluctuations than many other sources of refinancing.

The refinancing markets in the first half of 2012 were characterised by uncertainty. However, with an increasing risk of news relating to the peripheral countries, there was a clear trend towards «flight to quality», which considerably benefited the German Pfandbrief. In this climate, Deutsche Pfandbriefbank AG was able to issue a total of three benchmark new issues and two top-up issues in the form of mortgage Pfandbriefe. In addition, pbb was able to handle most of the refinancing by way of private placings. In the field of uncovered refinancing, the private placing market continues to be the main market; in this connection, the primary market will first have to further stabilise in order to guarantee sustainable access to uncovered funding.

The stabilisation measures of the ECB involving programmes for buying government bonds and covered bonds, the reduction of leading interest rates as well as the unlimited provision of central bank money have only been able to calm down the markets to a certain extent. In December 2011 and in February 2012, Deutsche Pfandbriefbank participated in the three-year tender of the ECB.

Forecast Liquidity Requirement

In addition to the forecast liquidity requirement for new business activities, the actual extent of the future liquidity requirement depends on numerous external factors:

- Further development of the European financial crisis and possible effects on the real economy
- The future development of haircuts for securities for repo refinancing on the market and with the central banks
- Possible additional collateral demands as a result of changing market parameters (such as interest rates and foreign currency rates)
- The development in collateral demands for hedges
- Changed requirements of the rating agencies regarding the necessary surplus cover in the cover funds

Operational Risk

Definition

Deutsche Pfandbriefbank Group defines operational risk as «the risk of losses caused by processes which are not satisfactory or which have not even been implemented, human error, technology failure or external events». The definition includes legal risks, but excludes strategic and reputational risks.

Strategy for Operational Risks

The overriding aims of Deutsche Pfandbriefbank Group are the early recognition, recording, assessment as well as monitoring, prevention and limiting of operational risks as well as an early and meaningful management reporting. Deutsche Pfandbriefbank Group does not attempt to completely preclude the possibility of risk; instead, it aims to minimise potential losses. The approach is to ensure that there is sufficient information to make informed decisions about risk mitigation.

Organisation of Operational Risk Management

Within Risk Management & Control, the operational risk division is responsible for the coordination of consistent policy, tools and practices throughout the HRE Group for the management, measurement, monitoring and reporting of relevant operational risks. This also comprises Deutsche Pfandbriefbank Group.

Risk Reports, Monitoring and Management of Operational Risks

Operational risks are monitored by means of a network of controls, procedures, reports and responsibilities. Within Deutsche Pfandbriefbank Group, each individual business area and management level takes on responsibility for its own operational risks, and provides appropriate resources and processes for limiting such risks. The focus of the operational risk department is the proactive identification, management and mitigation of risks rather than on just risk monitoring, measurement, and reaction to risk.

The consolidated information is used in order to determine the operational risk profile of Deutsche Pfandbriefbank Group and any required measures in relation to mitigation of identified risks.

Regular reports are prepared for the Chief Risk Officer (CRO) and the Group Risk Committee. The monthly Group risk report includes details concerning operational risk events and losses and key risk issues affecting Deutsche Pfandbriefbank Group. In addition, a quarterly risk report regarding major risk indicators notifies the Management Board of potential risk sources. The results of the annual risk self-assessments for each department are reported to the Risk Committee after the assessment process has been completed. After the completion of a detailed risk assessment the relevant member of the Management Board receives a final report.

Risk Measurement

The economic capital for operational risk in the Going-Concern approach amounted to €14 million as of 30 June 2012 (31 December 2011: €14 million). Details of the calculation are set out in the chapter «Result of Risk-bearing Capacity Analysis».

Major Operational Risks of Deutsche Pfandbriefbank Group

Major operational risks result from the continuing enhancements at HRE Group and therefore also at Deutsche Pfandbriefbank Group. This also comprises the process of rendering services for FMS Wertmanagement as well as ongoing changes in the IT environment. Operational risks are furthermore attributable in particular to the high number of manual processes as well as the high number of different processing and monitoring systems. Until the consolidation process has been completed, there will be an increased level of susceptibility to errors with regard to the manual processes and controls which are carried out for ensuring data consistency.

There is also still a significant reliance on know-how of key personnel for dealing with the continuing enhancements on the one hand and for operating daily business on the other. This is particularly important given the environment of processing systems and manual processes and controls.

In addition to assessing own portfolios, HRE also handles servicer functions for FMS Wertmanagement, the extent of which is governed in specifications and a cooperation agreement. This insourcing arrangement involves a fulfilment risk for the HRE Group; if certain requirements are not met, this might result in claims for damages against FMS Wertmanagement.

Deutsche Pfandbriefbank Group suffered losses of €0.4 million in total from operational risks in the first half of 2012 (31 December 2011: €0.2 million). These are primarily related to manual errors in performing control processes. Process and control improvements have been implemented in order to remedy the underlying causes of the losses which have occurred.

Result of Risk-bearing Capacity Analysis

Going-Concern

Going-Concern in € million	30.6.2012	31.12.2011[1]	△ in € million
Credit risk	285	343	–58
Market risk	184	132	52
Operational risk	14	14	–
Business risk	131	78	53
Real estate risk	8	–	8
Total before diversification effects	**623**	**567**	55
Total after diversification effects	**550**	**513**	37
Available Financial Resources (Free Capital)	1,461	1,764	–303
Excess capital/capital shortfall	911	1,251	–340

[1] The pro-forma figures as of 31 December 2011 have been shown for comparison purposes

The newly developed Going-Concern perspective explicitly focuses on the protection of regulatory minimum capitalisation, and thus focuses on the ability of the Group to continue to exist as a going concern in difficult economic conditions. In order to verify excess capital/capital shortfall of potential unexpected losses out of available financial resources, the first step is for economic capital to be calculated at a confidence level of 95%. This includes the risk types which we define to be of a material nature, namely credit risk, market risk, operational risk, business risk and real estate risk. This is opposed by the so-called free Tier 1 Capital as available financial resources, comprising core equity Tier 1 less the Tier 1 Capital necessary for covering the regulatory minimum ratios and a buffer for risks which are minor and are not quantifiable or only partially quantifiable. In accordance with the principle of prudence, a mark-up in relation to the risk-weighted assets is taken into consideration in order to determine the Tier 1 Capital necessary for covering the regulatory minimum ratios. The amount of Free Capital as of the reference date was €1.5 billion (31 December 2011: €1.8 billion).

Excluding the diversification effects between the individual risk types, the economic capital of Deutsche Pfandbriefbank Group in the newly introduced Going-Concern approach amounted to €623 million (31 December 2011: €567 million). If these effects are taken into consideration, it was €550 million (31 December 2011: €513 million). The most significant risk type on the basis of the ICAAP (measured in terms of the economic capital) was the credit risk, which accounted for approximately 46% of the undiversified economic capital.

As of 30 June 2012, there was excess capital of €911 million for a one-year observation period (31 December 2011: €1.3 billion).

On 7 December 2011, BaFin detailed key aspects of the regulatory appraisal in its letter «Regulatory appraisal of bank-internal risk-bearing capacity concepts». The Going-Concern approach used by Deutsche Pfandbriefbank Group satisfies the requirements of this regulatory assessment for a Going-Concern approach. Because of the evidence provided for the ability and intention to hold securities in the investment portfolio under the Going-Concern approach, credit spread risks and hidden losses attributable to securities in the investment portfolio are only taken into consideration in the additional Gone-Concern perspectives.

Gone-Concern

In order to fully comply with the core aspects of the regulatory assessment of risk-bearing capacity concepts, Deutsche Pfandbriefbank Group has revised the previous Gone-Concern approach (liquidation perspective) and has implemented it as an additional steering approach. The purpose of the so-called instantaneous liquidation perspective is to guarantee protection of the senior lender in a theoretical liquidation scenario with a very high probability. Deutsche Pfandbriefbank Group has selected a confidence level of 99.91% derived from the target rating of A– for this purpose. This adjustment is based on the average probability of default of companies which have been awarded good long-term credit ratings by external rating agencies, namely A– from Standard & Poor's, A–/A3 from Fitch Ratings and Moody's. However, this liquidation scenario does not assume an opportunistic winding up of portfolios, and instead assumes an immediate sale at stressed market values of the assets and securities in the investment book recognised at fair value. This approach takes account of the above-mentioned major risks in the instantaneous liquidation perspective and also credit spread risks arising from securities in the investment book for calculating the economic capital, and deducts simultaneously the hidden losses attributable to these securities for determining the available financial resources. The following table sets out the values of this calculation as of 30 June 2012. The comparison values as of 31 December 2011 have been established on the basis of the former Gone-Concern approach.

Gone-Concern (instantaneous liquidation perspective) in € million	**30.6.2012**	**31.12.2011[1]**	△ in € million
Credit risk	1,907	1,685	222
Market risk	1,444	619	825
Operational risk	89	103	–14
Business risk	37	41	–4
Real estate risk	15	–	15
Total before diversification effects	**3,492**	**2,448**	1,044
Total after diversification effects	**3,110**	**2,247**	863
Available Financial Resources	4,175	4,173	2
Hidden losses	–1,956	n/a	n/a
Excess capital/capital shortfall	–891	n/a	n/a

[1] Positions in accordance with the risk-bearing capacity concept valid as of 31 December 2011.
Differences are explained in the chapter «Method of Individual Risk Types».

In the instantaneous liquidation perspective, the economic capital without diversification effects amounted to € 3.5 billion as of 30 June 2012 (31 December 2011: € 2.4 billion); if these effects are taken into consideration, it amounted to € 3.1 billion (31 December 2011: € 2.2 billion). The main drivers in this respect are the credit risk (€ 1.9 billion) and the market risk (€ 1.4 billion). The credit spread risk attributable to securities in the investment book is already included in the reported market risk; it amounts to € 1.1 billion. Most of the market risk is attributable to the sub-portfolio of budget financing which is no longer of a strategic nature and which is earmarked for being streamlined or by the Value Portfolio due to the fact that the volatility of credit spreads is extremely high at present in certain areas of the European Economic Area. The increase in credit risk is mainly attributable to the updating of the correlation model and also the rating downgrade of various countries. The real estate risk was classified as material in the first half of 2012 as part of the risk inventory process, and was thus quantified for the first time as of 30 June 2012.

The available financial resources in the instantaneous liquidation perspective initially amount to € 4.2 billion (31 December 2011: € 4.2 billion); this figure is reduced to € 2.2 billion after the hidden losses attributable to the securities in the investment portfolio are deducted. Hidden losses have been recognised in the available financial resources for the first time with the introduction of the new risk-bearing capacity concept.

On the basis of the assumptions which have been made, there is initially a capital shortfall of the potential unexpected loss due to the available financial resources of € 891 million in the instantaneous liquidation perspective. This is mainly attributable to the fact that the hidden losses and credit spread risks of the non-strategic portfolios are also completely taken into consideration. The hidden losses and credit spread risks are mainly due to the holdings of securities of states, central, regional and local authorities in the eurozone.

In view of the conservative assumptions of the instantaneous liquidation perspective, the fact of not fully completed enhancements, the existing subsidiary waiver in accordance with Section 2 a KWG within the HRE Group and also the fact that considerable amounts of the risk respectively the hidden losses are attributable to the non-strategic portfolio earmarked for streamlining, the potential unexpected losses are adequately backed by the available financial resources.

In addition to the instantaneous liquidation perspective described above, Deutsche Pfandbriefbank Group has also developed a strategic Gone-Concern perspective. In this perspective, the risk calculation is adjusted by the budget finance portfolio which has been earmarked for streamlining and the Value Portfolio in order to focus on management of the strategic core business of real estate finance and public investment finance. All risk types which have been defined as major, including the credit spread risk for securities in the investment book, with the exception of the portfolios earmarked for streamlining, are taken into consideration, aggregated to form an economic capital and are then limited. All hidden losses with the exception of the same portfolios are also taken into consideration. In the strategic Gone-Concern perspective, the economic capital after diversification effects amounts to € 1.6 billion. The economic capital before diversification effects amounts to € 1.8 billion, and results from the sum of the individual risk types, credit risk (€ 1,179 million), market risk (€ 489 million), operational risk (€ 97 million) as well as real estate risk (€ 15 million). The hidden losses of the strategic portfolio amounts to around € 901 million. Because this perspective has been introduced for the first time, no comparison figures as of 31 December 2011 are available.

Summary

When the available financial resources are compared with economic capital, there is excess capital of € 911 million in the Going-Concern approach and a capital shortfall of € 891 million in the instantaneous liquidation perspective. In the current market climate with significantly fluctuating credit spreads, the risk-bearing capacity analysis very much reflects reference date factors. From the instantaneous liquidation perspective, the Gone-Concern approach is greatly affected by the non-strategic business of budget finance and the Value Portfolio, which has already been earmarked for streamlining. Accordingly, we are assuming from this perspective that the risk-bearing capacity will gradually improve with the portfolio's streamlining. In addition, the conservative assumptions which are used to a great extent in this approach are currently being analysed and fine-tuned. In view of the above aspects and the existing subsidiary waiver in accordance with Section 2 a KWG within HRE Group, the available financial resources also provide adequate backing for the potential unexpected losses in the instantaneous liquidation perspective of Deutsche Pfandbriefbank Group.

In the second half of 2012, Deutsche Pfandbriefbank Group will further develop its risk-bearing capacity concepts. The planned further developments comprise in particular a more detailed combination of market risk and credit risk methods.

Method Used for the Individual Risk Types

The economic capital for credit, market, business, real estate and operational risk is determined using a quantitative approach and is aggregated to form an overall bank risk with due consideration being given to specific correlations. In line with the common market standard, the risk types are calculated for a period of one year and in relation to a defined confidence level (99.91% in the Gone-Concern, 95% in the Going-Concern). For the Gone-Concern confidence level, the Bank uses the average figure for long-term default rates of companies with very good external ratings (A– at S&P and Fitch Ratings, A3 at Moody's). This confidence level is slightly lower than was the case at the end of 2011 (99.95%).

The method of calculating the economic capital for the individual material risk types for 2012 is explained in the following.

Credit Risk For calculating the credit risk at the portfolio level, Deutsche Pfandbriefbank Group uses a credit portfolio model which follows the approach of a so-called asset value model. The fundamental idea of this approach is that the repeated simulation of correlated rating migrations, borrower defaults as well as a calculation of resultant value changes via a corresponding revaluation of the portfolio mean that probability statements can be made with regard to potential losses from lending business. The loss distribution calculated in this way can then be used to calculate the economic credit risk capital as an unexpected loss. This defines the maximum unexpected loss calculated for a defined confidence level which will result within one year due to rating migrations and defaults in lending business. In addition to the loss distribution of the credit portfolio, a significant result is the risk-commensurate allocation of the credit risk capital allocated in this way to the individual borrower units using the so-called expected shortfall principle. This ensures fair causation-based allocation to the borrowers, and thus constitutes a major module in the risk-oriented management of the credit portfolio.

The correlation model in the credit portfolio model was also updated in the first half of 2012.

Market Risk The purpose of calculating the economic capital for the market risk is to identify potential financial losses resulting from changes in the prices of items in the investment book and trading book. In this process, the potential non-systematic losses are derived from an analysis of historical time series of specific factors of influence (risk factors), e.g. interest rates, exchange rates and credit spreads over the previous seven years. The relatively long period of seven years ensures that economic phases which are not favourable for the Bank are also taken into account in the model. The annual loss distribution of the portfolio market value is then determined by means of a simulation procedure and using the linear sensitivities of the financial instruments; this can then be used to determine the economic capital in relation to a confidence level of 95% and 99.91%.

Operational Risk The calculation of economic capital for operational risks includes the result of the calculation using the standard approach in accordance with Basel II. For the purposes of the capital adequacy procedure, the regulatory capital requirement is adjusted to the corresponding confidence level in accordance with the respective approach (95% in the Going-Concern approach and 99.91% in the Gone-Concern approach).

Business Risk The calculation of economic capital for the business risk comprises an assumed increase in financing costs as a result of an increase in financing requirement in conjunction with a simultaneous increase in the uncovered refinancing rate. As part of the liquidity risk measurement process, the increased financing requirement which would occur in conjunction with certain market events is simulated every month in the stress scenario. An increase in the Bank's own rating to the historical maximum of credit spreads observed on the market is simulated for the uncovered refinancing rate. It is conservatively assumed that both events will occur simultaneously. Because Deutsche Pfandbriefbank Group is fully refinanced for a period of one year in the 95% scenario, this risk is equal to zero. A further element of business risk in the Going-Concern approach is the risk that planned income from new business is not completely realised.

Real Estate Risk The risk inventory carried out in the second quarter of 2012 has demonstrated that the real estate risk has become more relevant. This is the reason why it is quantified in the ICAAP. It is defined as the risk of a decline in the valuation of the real estate portfolio of Deutsche Pfandbriefbank Group. The economic capital is established on the basis of historical time series of real estate price indices and own holdings of real estate on the assumption of a given distribution.

Liquidity Risk It is not possible for liquidity risks in the narrower sense of the term to be capitalised. Liquidity risks in the sense of higher refinancing costs for potential financing shortages are recognised in the economic capital for the business risk.

Stress Tests

Stress tests have recently also become more and more significant for regulatory purposes. In 2011, this development resulted in a project for determining positions of the stress testing framework of the Group in the context of the international regulations and recommendations regarding stress testing. The project results culminated in the further development in the risk governance of the Bank, explicitly in the form of the introduction of a Group Stress Test Committee. This has also started the development of macro-economic scenarios which might potentially affect the Group in the context of the current sovereign debt crisis. The impact analysis of these scenarios is carried out in the third quarter in an integrated approach, i.e. all risk types and the risk cover potential are taken into consideration.

Stress tests in relation to the economic capital are used in order to obtain a better understanding of the sensitivity of risk-bearing capacity to the risk parameters.

There are also inverse stress tests which describe specific constellations of parameters in which the capital backing requirements are satisfied in existing models.

In addition to institutionalised stress tests, ad hoc queries regarding potential rating changes and loss ratios have played an important role in the first half. Attention focused particularly on the crisis situations in the Southern European countries.

Forecast Report

Macro-economic Forecast

The imponderable factors are considerable in view of the still uncertain course of the government debt crisis in the eurozone. No forecast model can seriously simulate the economic consequences of a potential change in the currency architecture in Europe.

For the whole of 2012, considerably lower growth or even a slight recession is expected in Europe compared with 2011. In the eurozone, economic output is forecasted to decline by 0.6%, although growth of 1.0% is expected for Germany for the whole of 2012. Particularly severe recessions are expected for Greece, Portugal, Italy and Spain. The situation is better in the United States, where growth this year is likely to increase by half a percentage point compared with 2011, namely to 2.2%.

Neither monetary policy nor fiscal policy is expected to provide any significant impetus for economic growth.

In view of the development in the real economy described above, inflation risks are considered to be very minor. For the eurozone, consumer price inflation of 2.4% is expected for the full year, and a figure of 2.0% is expected for Germany. The rate of inflation in the USA will also be moderate, namely 2.2%.

Sector-specific Situation

Development of the Bank Sector

After banks in Spain and Cyprus had to be supported by EU funds within the framework of the government debt crisis, the European banks in particular are viewed especially critically as a result of the risk of possible domino effects. Further rating downgrades are likely. Unsuccessful speculation and allegations of manipulation against some investors will probably involve litigation. The banking sector worldwide will continue to exercise great caution, focus on strong liquidity, protect equity and reduce risk assets, and in particular focus on low-risk business. The overall difficult market conditions will probably result in further consolidation of the banking landscape.

Public Sector Financing

There will be considerable changes in state finance in general and public sector finance in particular. In addition to more stringent transparency requirements for public sector borrowers, the individual limits per borrower will probably decline. Banks will spread risks to a greater extent in their financing operations, also at municipal levels, and will use a higher number of criteria for preparing credit scores and conditions.

Under these conditions, further investors will either withdraw entirely from public sector finance or will at least considerably restrict their levels of new business in the segment. The traditional instruments for financing local authorities and regions will continue to dominate in future: traditional loans, refinanced by way of deposits or Pfandbriefe, as well as public-private partnerships. In addition to the banks, other investors such as insurers and pension funds will also become active and increasingly play a direct role in public sector finance.

The individual markets in which Deutsche Pfandbriefbank AG operates will report a wide range of performances. In Germany, the withdrawal of competitors from the market will to a large extent be compensated for by public sector banks and development banks, so that margins will remain at a low level. On the other hand, it might be possible for transactions with attractive risk/reward profiles to be concluded in future in France as a result of the withdrawal of previously very strong competitors. In Italy and Spain, it is likely that the amount of debt made available by banks will remain at a low level.

Real Estate Financing

It is likely that the real estate markets in Europe will continue to report an extremely wide range of performances in 2012. As has been the case so far this year, most growth is likely to be reported in Germany, Great Britain and France. Further growth is likely to be reported from individual Eastern European countries such as Poland. The real estate markets of Southern Europe will contract for the foreseeable future. For the full 12-month period, the volume of transactions on the European market is expected to be up to 10% lower compared with the previous year.

The development of the situation regarding competition is still uncertain: on the one hand, the competitive situation will weaken as a result of rising capital ratios and the withdrawal of competitors. At the same time, capital shortages of some lenders are limiting the possibilities of providing debt. Accordingly, high-risk projects in particular and major investment projects will be very difficult to finance for the foreseeable future. On the other hand, it is likely that new players will enter the market and will issue loans on an opportunistic basis. The trend towards financing transactions as part of syndicates or in club deals will continue; this is applicable particularly for the high-volume residential portfolios in Germany which are about to be refinanced.

Refinancing Markets

The uncovered refinancing of banks might continue to be limited. Pfandbriefe will probably continue to be in demand as a result of the very strong rating of Germany and the simultaneous yield premium compared with federal bonds.

The short end of the interest rate curve will continue to be determined by the ECB, which is using low money market rates to combat the weak economic developments in wide areas of the eurozone. On the other hand, it is much more difficult to assess the development of capital market rates. Most investors will continue to look for investment opportunities which are as secure and liquid as possible; this means that the level of interest rates at the medium to long end of the rate curve will probably remain low. On the other hand, there might be a change in direction towards higher capital market rates if the market gains confidence in the solution to the government debt crisis.

Company-specific Conditions

The forecasts regarding the future development of Deutsche Pfandbriefbank Group constitute estimates which have been taken on the basis of the information available at present. If the assumptions underlying these forecasts fail to materialise, or if risks (such as those addressed in the risk report) occur to an extent which has not been calculated, the actual results may differ considerably from the results which are currently expected.

Future Development in Assets, Financial Position and Earnings

In the first half of the year, the pre-tax profit of € 51 million was within the expectations of the Management Board. This development has strengthened the Management Board in its planning for the year 2012, which envisages a positive pre-tax profit before exceptional factors of between € 100 million and € 140 million. As expected at the beginning of the year, the pre-tax profit will be generated mainly in the Real Estate Finance segment.

On the assumption that markets will be virtually trouble-free, Deutsche Pfandbriefbank Group has expected a new business volume of € 8 billion (including prolongations of more than one year) for the year 2012. In view of the uncertain refinancing climate at the beginning of 2012, new business in the first half of 2012 was concluded only on a selective basis. However, the new business was generated in conjunction with high margins and taking into account an appropriate return/risk proportion. A central measure was the ratio between the credit amounts and the market value of the financed assets (loan to value). In the second half of 2012, Deutsche Pfandbriefbank Group will continue to observe the market climate in commercial real estate finance, in public sector investment finance and also in refinancing in order to take advantage of attractive opportunities. Assuming that the markets are not affected by negative developments, Deutsche Pfandbriefbank Group continues to assume that a new business volume of € 8 billion will be generated. However, a balanced ratio between risk and return including a reasonable relationship between new business on the one hand and liquidity on the other will always be more important than the absolute extent of new business.

Total assets in the first half of 2012 declined to € 104.5 billion mainly due to the diminishing opposite effects of the transfer of positions to FMS Wertmanagement. These opposite effects – and therewith the amount of total assets – will probably continue to decline in the second half of 2012. However, the decline in total assets may be more than offset by the very volatile extent of transmitted surplus liquidity from third parties to the ECB. The volume of non-derivative portfolios of Deutsche Pfandbriefbank Group will probably continue to decline. This will be mainly due to budget financing where Deutsche Pfandbriefbank Group is no longer conducting any new business. In addition, effects which cannot be influenced by Deutsche Pfandbriefbank Group, such as changes in exchange rates and market interest rates, might also have an impact on total assets.

Due to a requirement in line with the principle of burden sharing required by the EU Commission, profits will be retained at Deutsche Pfandbriefbank Group until reprivatisation, and will be used for repaying the dormant contribution of the Federal Republic of Germany.

Opportunities

Deutsche Pfandbriefbank Group has reported positive pre-tax profit for the last eight quarters. This development illustrates the positive performance of Deutsche Pfandbriefbank Group. This position also results in the following opportunities:

> Following the completion of the restructuring process and strategic refocussing, Deutsche Pfandbriefbank Group has again been able to concentrate on its customers and its core areas of business. New business has been generated in conjunction with attractive margins. The conclusion of the EU aid proceedings in 2011 has further increased planning reliability for customers. For Deutsche Pfandbriefbank Group, this starting position represents an opportunity to take advantage of market opportunities in the core areas of business and also to boost its profitability.

> On the refinancing side of the equation, Deutsche Pfandbriefbank Group has considerable experience in the Pfandbrief market, which was underlined by the successful issues in the first half of 2012. The Group is able to benefit from existing customer relations in this respect. Because of their high quality and stable maturity profile, Pfandbriefe are less affected by market turmoil. Deutsche Pfandbriefbank Group thus uses an instrument which continues to be in demand on the capital market.

> There is strong demand for financing on the markets which are relevant for Deutsche Pfandbriefbank Group. At the same time, some competitors will be compelled to withdraw from the markets or to concentrate on individual regions. In this context, Deutsche Pfandbriefbank Group has identified an attractive long-term market in the form of public investment finance and commercial real estate finance.

> Deutsche Pfandbriefbank Group has become much more attractive on the labour market, supported by new personnel development measures which have been introduced. These encourage the loyalty of efficient and highly qualified staff and senior executives who are able to support Deutsche Pfandbriefbank Group in its aim of meeting its ambitious targets.

> A further opportunity is provided by the strict cost focus of Deutsche Pfandbriefbank Group. The reduced general administrative expenses in the first half of 2012 demonstrate the success which has already been achieved in terms of cost discipline. The respective status of processes will be continuously questioned and analysed in future in order to enable appropriate improvement measures to be identified. This also involves a project for defining the target model of Deutsche Pfandbriefbank Group after the disposal of Servicing of FMS Wertmanagement and the intended sale of the affiliate DEPFA Bank plc by HRE Holding. Following these transactions, Deutsche Pfandbriefbank Group will considerably reduce its cost base and will become more lean and more efficient.

> In addition, Deutsche Pfandbriefbank Group has already achieved significant success in harmonising its IT systems. Further projects for harmonising and further developing its IT landscape have already been initiated. This will result in additional efficiency gains.

Risks

However, it is also not impossible that there might be future challenges facing the net assets, financial position and results of operations. The extent of these potential problems is influenced particularly by the occurrence or non-occurrence of the following risks, or the extent to which such risks might occur:

- Some European countries in the first half of 2012 might only be able to refinance their operations with the support of international aid programmes. Holders of Greek government bonds have had to waive their entitlement to some of their claims, although Deutsche Pfandbriefbank Group was not directly affected. If the debt crisis facing some countries becomes more serious and if it becomes necessary to waive claims to the bonds of other countries, or if public sector issuers become insolvent, Deutsche Pfandbriefbank Group would also be facing considerable impairments in relation to receivables and securities. These impairments might increase if, due to the interconnected nature of markets or turmoil affecting markets, the crisis affecting some countries spreads to other issuers which are currently considered to be solvent.
- It is true that the situation on the real estate markets improved fundamentally in 2011 and in the first half of 2012. Nevertheless, it is still possible that significant write-downs will have to be recognised in relation to receivables. The impairment requirement depends primarily on the economic situation of the financed properties. However, a further factor can also be a general crisis affecting individual real estate markets.
- The situation on the refinancing markets improved somewhat in the first half of 2012, and this was utilised by Deutsche Pfandbriefbank Group by way of increasing issuing activities. Nevertheless, the refinancing markets are still vulnerable to disturbances. The debt crisis facing some European countries may for instance result in a major loss of confidence and significantly lower sales on the issuing markets or the interbank market. If the refinancing markets are affected by such problems, there might be a negative impact on the liquidity situation of Deutsche Pfandbriefbank Group despite the existence of a cushion.
- In the first half of 2012, Deutsche Pfandbriefbank Group only concluded new business on a very selective basis as a result of the uncertain market situation, but still expects to meet its new business targets for the year 2012. However, Deutsche Pfandbriefbank Group will neither depart from its fundamentally conservative strategy nor will conclude new business in conjunction with unreasonable risks. For instance, Deutsche Pfandbriefbank Group will only take on default risks to a limited extent in the case of financing arrangements, and will continue to maintain an adequate liquidity reserve.
- Within the framework of the approval decision in the aid proceedings, the EU Commission specified that Deutsche Pfandbriefbank AG would have to be reprivatised as quickly as possible, but by no later than 31 December 2015. If the reprivatisation process has not been completed by 31 December 2015, an appointed disposal trustee will sell Deutsche Pfandbriefbank AG to a purchaser, without a minimum price being specified, if the Commission has approved the purchaser and the final binding purchase agreement. The disposal or alternative considerations of the shareholder in agreement with the EU Commission can have positive, but also negative impacts on the development in earnings, assets and financial position.
- The rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment and the potential impact of the European sovereign debt crisis. These measures, alongside the specific rating drivers for Deutsche Pfandbriefbank AG and its Covered Bonds, could lead to rating changes. Downgrades to Deutsche Pfandbriefbank AG and/or Covered Bond ratings could have a negative impact particularly on the bank's refinancing capacity and hence on its development in earnings and in its financial position.
- The risk-bearing capacity concept is being continuously further developed. This further development might have a considerable impact on the risk-bearing capacity analysis.
- Membership of the HRE Group has had a negative impact on the image of Deutsche Pfandbriefbank Group in recent years. Even if success has already been achieved in terms of re-entering markets, it is not impossible that there may be negative consequences for achieving the objectives of Deutsche Pfandbriefbank Group.

- > Litigation which is currently pending and litigation which might become pending in future might have a considerably negative impact on the results of Deutsche Pfandbriefbank Group.
- > Deutsche Pfandbriefbank Group is exposed to operational risks, resulting for instance from its reliance on key positions or resulting from technology risks due to the large number of accounting systems. Although Deutsche Pfandbriefbank Group has in certain cases already successfully completed projects for optimising processes and the IT infrastructure, and although it has become much more attractive as an employer, the operational risks may result in considerable losses. The risks might also become relevant for the service obligations assumed by Deutsche Pfandbriefbank Group for the ongoing operation of FMS Wertmanagement.
- > The ongoing development of national and international regulatory requirements may have an impact on the structure of assets and liabilities, and may thus also affect the results of operations. For instance, the modified obligations presented by the Basel Committee on Banking Supervision (Basel III) regarding more stringent liquidity requirements might have a negative impact on profitability, or profitability might be reduced by more stringent capital requirements. In addition, there might also be an impact on existing regulatory and economic parameters, requiring for instance a change in capital backing.
- > The possibility of introducing a tax on financial-market transactions is being discussed in most of the countries in the European Union. The aim is to introduce a tax on purchases and sales of transferrable securities or options and other financial instruments. Such a tax might have a negative impact on the result of Deutsche Pfandbriefbank Group and might mean that some transactions might become unprofitable.

Consolidated Interim Financial Statements

Consolidated Interim Financial Statements

Income Statement

Income/expenses in € million	Note | Page	1.1.– 30.6.2012	1.1.– 30.6.2011	Δ in € million	Δ in %
Operating revenues		223	293	–70	–23.9
Net interest income and similar income	7 | 68	150	192	–42	–21.9
Interest income and similar income		1,494	1,993	–499	–25.0
Interest expenses and similar expenses		1,344	1,801	–457	–25.4
Net commission income	8 | 68	6	19	–13	–68.4
Commission income		8	21	–13	–61.9
Commission expenses		2	2	–	–
Net trading income	9 | 69	–2	–	–2	<–100.0
Net income from financial investments	10 | 69	5	–1	6	>100.0
Net income from hedge relationships	11 | 70	–3	–27	24	88.9
Balance of other operating income/expenses	12 | 70	67	110	–43	–39.1
Provisions for losses on loans and advances	13 | 71	9	–1	10	>100.0
General administrative expenses	14 | 71	164	174	–10	–5.7
Balance of other income/expenses	15 | 72	1	–	1	>100.0
Pre-tax profit/loss		**51**	**120**	–69	–57.5
Taxes on income	16 | 72	16	43	–27	–62.8
Net income/loss		**35**	**77**	–42	–54.5
attributable to: Equity holders (consolidated profit/loss from the parent company)		35	77	–42	–54.5

Statement of Comprehensive Income

Statement of comprehensive income in € million	1.1.–30.6.2012 Before tax	Tax	Net of tax	1.1.–30.6.2011 Before tax	Tax	Net of tax
Net income/loss	**51**	**16**	**35**	**120**	**43**	**77**
Additional paid-in capital	–	–	–	–	–	–
Retained earnings	–	–	–	–1	–	–1
Foreign currency reserve	–1	–	–1	2	–	2
AfS reserve	76	21	55	–22	–10	–12
Cash flow hedge reserve	–21	–5	–16	–132	–30	–102
Total other income of the period	54	16	38	–153	–40	–113
Total comprehensive income of the period	**105**	**32**	**73**	**–33**	**3**	**–36**
attributable to: Equity holders (consolidated profit/loss from the parent company)	105	32	73	–33	3	–36

Disclosure of components of comprehensive income in € million	1.1.–30.6.2012	1.1.–30.6.2011
Net income/loss	**35**	**77**
Additional paid-in capital	–	–
Unrealised gains/losses	–	–
Retained earnings	–	–1
Unrealised gains/losses	–	–1
Foreign currency reserve	–1	2
Unrealised gains/losses	–1	2
AfS reserve	55	–12
Unrealised gains/losses	55	–12
Cash flow hedge reserve	–16	–102
Unrealised gains/losses	–16	–102
Total other income of the period	**38**	**–113**
Total unrealised gains/losses	**38**	**–113**
Total comprehensive income of the period	**73**	**–36**

Statement of Financial Position

Assets in € million	Note | Page	30.6.2012	31.12.2011	Δ in € million	Δ in %	1.1.2011
Cash reserve		52	323	–271	–83.9	224
Trading assets	18 | 73	5,300	9,818	–4,518	–46.0	16,168
Loans and advances to other banks	19 | 73	11,876	7,632	4,244	55.6	12,128
Loans and advances to customers	20 | 74	52,302	55,236	–2,934	–5.3	118,642
Allowances for losses on loans and advances	22 | 75	–483	–477	–6	–1.3	–561
Financial investments	23 | 76	26,856	28,677	–1,821	–6.4	33,605
Property, plant and equipment		3	3	–	–	5
Intangible assets		34	35	–1	–2.9	32
Other assets	24 | 77	6,674	6,058	616	10.2	5,035
Income tax assets	25 | 78	1,896	1,474	422	28.6	1,545
Current tax assets		63	55	8	14.5	64
Deferred tax assets		1,833	1,419	414	29.2	1,481
Total assets		**104,510**	**108,779**	–4,269	–3.9	**186,823**

Equity and liabilities in € million	Note | Page	30.6.2012	31.12.2011	Δ in € million	Δ in %	1.1.2011
Liabilities to other banks	26 | 78	8,607	8,223	384	4.7	62,587
Liabilities to customers	27 | 78	14,805	12,363	2,442	19.8	17,384
Liabilities evidenced by certificates	28 | 79	53,088	55,038	–1,950	–3.5	63,846
Trading liabilities	29 | 79	5,252	9,903	–4,651	–47.0	16,294
Provisions	30 | 80	172	163	9	5.5	176
Other liabilities	31 | 80	15,189	16,123	–934	–5.8	18,883
Income tax liabilities	32 | 81	1,811	1,373	438	31.9	1,526
Current tax liabilities		67	82	–15	–18.3	83
Deferred tax liabilities		1,744	1,291	453	35.1	1,443
Subordinated capital	33 | 81	2,421	2,501	–80	–3.2	2,766
Liabilities		**101,345**	**105,687**	–4,342	–4.1	**183,462**
Equity attributable to equity holders		3,165	3,092	73	2.4	3,361
Subscribed capital		380	380	–	–	380
Silent participation		999	999	–	–	999
Additional paid-in capital		5,036	5,036	–	–	5,036
Retained earnings		–3,160	–3,277	117	3.6	–3,089
Foreign currency reserve		–35	–34	–1	–2.9	–35
Revaluation reserve		–90	–129	39	30.2	255
AfS reserve		–494	–549	55	10.0	–259
Cash flow hedge reserve		404	420	–16	–3.8	514
Consolidated profit/loss 1.1.–31.12.		–	117	–117	–100.0	–185
Consolidated profit/loss 1.1.–30.6.2012		35	–	35	>100.0	–
Equity		**3,165**	**3,092**	73	2.4	**3,361**
Total equity and liabilities		**104,510**	**108,779**	–4,269	–3.9	**186,823**

Statement of Changes in Equity
(condensed)

Statement of Cash Flows
(condensed)

Statement of changes in equity (condensed)									
	Equity attributable to equity holders								
						Revaluation reserve			
in € million	Subscribed capital	Silent participation	Additional paid-in capital	Retained earnings	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Equity
Equity at 1.1.2011	**380**	**999**	**5,036**	**–3,089**	**–35**	**–259**	**514**	**–185**	**3,361**
Capital increase	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–1	2	–12	–102	77	–36
Transfer to retained earnings	–	–	–	–185	–	–	–	185	–
Changes in the group of consolidated companies	–	–	–	–	–	–	–	–	–
Equity at 30.6.2011	**380**	**999**	**5,036**	**–3,275**	**–33**	**–271**	**412**	**77**	**3,325**
Equity at 1.1.2012	**380**	**999**	**5,036**	**–3,277**	**–34**	**–549**	**420**	**117**	**3,092**
Capital increase	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–1	55	–16	35	73
Transfer to retained earnings	–	–	–	117	–	–	–	–117	–
Changes in the group of consolidated companies	–	–	–	–	–	–	–	–	–
Equity at 30.6.2012	**380**	**999**	**5,036**	**–3,160**	**–35**	**–494**	**404**	**35**	**3,165**

Statement of cash flows (condensed)		
in € million	2012	2011
Cash and cash equivalents at 1.1.	**323**	**224**
+/– Cash flow from operating activities	–2,358	–3,201
+/– Cash flow from investing activities	2,179	3,382
+/– Cash flow from financing activities	–92	–274
+/– Effects of exchange rate changes and non-cash valuation changes	–	–
Cash and cash equivalents at 30.6.	**52**	**131**

Notes (condensed)

1 Principles

Deutsche Pfandbriefbank Group has prepared the condensed consolidated interim financial statements for the period ended 30 June 2012 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The condensed consolidated interim financial statements are based on the IFRS rules, which have been adopted in European Law by the EU commission as part of the endorsement process; it is also based on the regulations of commercial law which are applicable in accordance with section 315 a (1) HGB (German Commercial Code). In particular, requirements of IAS 34 were considered. On 30 June 2012, the European Union has not endorsed Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters, Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets as well as specific regulations relating to a portfolio hedge of interest risks in IAS 39 Financial Instruments: Recognition and Measurement. The amendments to IFRS 1 and IAS 12 are not relevant for Deutsche Pfandbriefbank Group. Moreover, the Group does not apply this specific type of portfolio hedge accounting. In consequence, these condensed consolidated interim financial reports are in accordance with the entire IFRS as well as the IFRS applicable in the EU.

The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are, in particular, the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) or the former Standing Interpretations Committee (SIC). If they are not inconsistent with the IFRS, the German Accounting Standards (GAS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have also been taken into account.

On 7 August 2012, the Management Board of Deutsche Pfandbriefbank AG prepared these condensed consolidated interim financial statements under the going-concern assumption.

Initially Adopted Standards and Interpretations In the first half of the financial year 2012 Deutsche Pfandbriefbank Group initially adopted the following standards:
> Amendments to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets
> Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
> Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

Amendments to IFRS 7 require disclosures which enable the estimation of the relationships between derecognised financial assets and the corresponding liabilities as well as the nature and the risks of the continuing involvement in derecognised financial assets. This will result in material impacts on the disclosures in the consolidated financial statements of Deutsche Pfandbriefbank AG. In the current condensed consolidated interim financial statements these disclosures are not required according to IAS 34.15 B.

Amendments to IFRS 1 solely concern IFRS first-time adopters. The announcement is applicable for financial years beginning on or after 1 July 2011. The endorsement on behalf of the European Union has not yet been done. There are no impacts on the current condensed consolidated interim financial statements because Deutsche Pfandbriefbank Group is not an IFRS first-time adopter.

Amendments to IAS 12 regulate the nature of realisation of specific assets in conjunction with deferred tax measurement. The announcement is applicable for investment properties, property, plant and equipment as well as intangible assets which are measured at fair value. Furthermore, the announcement supersedes SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets. Amendments to IAS 12 are applicable for financial years beginning on or after 1 January 2012. The endorsement on behalf of the European Union has yet not been done. There have been no impacts on the current condensed consolidated interim financial statements because Deutsche Pfandbriefbank Group has no investment properties, property, plant and equipment, and intangible assets measured at fair value.

2 Consolidation

On pages 120 and 121, the Annual Report 2011 of Deutsche Pfandbriefbank Group contains a list of all consolidated and non-consolidated investments of Deutsche Pfandbriefbank AG. Compared to the group of consolidated companies described in the Annual Report 2011 the changes were as follows:

The company Hypo Real Estate Capital Singapore Corporation Private Ltd. (in liquidation), Singapore, a previously consolidated 100% subsidiary of Deutsche Pfandbriefbank AG, was liquidated effective 2 March 2011. The liquidation did not result in any impacts on the development in earnings, assets and financial position of Deutsche Pfandbriefbank Group because the subsidiary had no assets or liabilities on the date of liquidation.

3 Transfer of Positions to FMS Wertmanagement

With economic effect from 1 October 2010, Deutsche Pfandbriefbank Group transferred positions to FMS Wertmanagement, a public law institution with partial legal capacities of Bundesanstalt für Finanzmarktstabilisierung (FMSA), which was established on 8 July 2010. The positions had been transferred at the respective carrying amount of the transferred company in line with the accounting principles which were applicable for the separate financial statements of the respective company. The amount of the compensation claims which Deutsche Pfandbriefbank Group received from FMS Wertmanagement was calculated as the difference between the carrying amount of the assets transferred by the respective companies less the transferred equity and liabilities.

The transfer has resulted in the derecognition of non-derivative assets with an IFRS balance sheet value of € 41.3 billion, provisions for losses on loans and advances of € –2.5 billion, derivatives of € 9.8 billion and (previously HRE-internal) refinancing of € 76.1 billion. The effects which reduced total assets were partially compensated for by opposite effects. These amounted to € 113.4 billion as of 1 October 2010, € 20.2 billion as of 31 December 2011 and € 14.2 billion as of 30 June 2012.

4 Notes to Segment Reporting by Operating Segment

Deutsche Pfandbriefbank Group operates in the three operating segments Public Sector Finance, Real Estate Finance and Value Portfolio, which are used for managing the Group.

The presentation of the segments of Deutsche Pfandbriefbank Group is based on internal reporting which is prepared in accordance with IFRS. Income and expenses are allocated to the segments in line with the principle of causation. The external net interest income of the Group is calculatively allocated to the segments.

Public Sector Finance (PSF) The Public Sector Finance segment comprises the financing arrangements of the public sector. Holdings in the PSF segment are based on eligibility to be used as cover funds in accordance with German law. The segment comprises public sector investment finance arrangements, in which Deutsche Pfandbriefbank Group operates new business, as well as expired budget financing. Concentrating on public investment finance is the aim. The target group for these activities are profitable customer segments with a commensurate risk level: regions, cities and municipalities as well as state-guaranteed public corporations and guaranteed public-private partnerships.

Real Estate Finance (REF) The operating segment Real Estate Finance comprises all commercial real estate financing arrangements of the Group. New business focuses on financing existing properties with a conservative refinancing strategy. The customers are professional investors. Adequate batch sizes and loan-to-values commensurate for the level of risk involved are essential for independent operations. Strategic partnerships are agreed with other institutions with the aim of permitting higher loan-to-values and larger volumes for customers by means of syndications and consortium financing arrangements.

Value Portfolio (VP) The Value Portfolio segment mainly comprises the income and expenses attributable to the services of Deutsche Pfandbriefbank Group for the ongoing operation of FMS Wertmanagement as well as IT services provided to the affiliated company DEPFA. The segment also comprises the income and expenses of selected structured products.

The **Consolidation & Adjustments** column is used for reconciling the sum of operating segments results with the consolidated result. The column includes equity which is not allocated to the operating segments.

5 Income Statement and Balance-Sheet-Related Measures, Broken Down by Operating Segment

Income/expenses in € million		PSF	REF	VP	Consolidation & Adjustments	Deutsche Pfandbriefbank
Operating revenues	1.1.–30.6.2012	19	120	79	5	223
	1.1.–30.6.2011	44	146	96	7	293
Net interest income and similar income	1.1.–30.6.2012	31	109	5	5	150
	1.1.–30.6.2011	57	123	4	8	192
Net commission income	1.1.–30.6.2012	–1	7	–	–	6
	1.1.–30.6.2011	–2	22	–1	–	19
Net trading income	1.1.–30.6.2012	–1	–1	–	–	–2
	1.1.–30.6.2011	3	1	–	–4	–
Net income from financial investments	1.1.–30.6.2012	–3	8	–	–	5
	1.1.–30.6.2011	3	–	–4	–	–1
Net income from hedge relationships	1.1.–30.6.2012	–1	–2	–	–	–3
	1.1.–30.6.2011	–25	–2	–	–	–27
Balance of other operating income/expenses	1.1.–30.6.2012	–6	–1	74	–	67
	1.1.–30.6.2011	8	2	97	3	110
Provisions for losses on loans and advances	1.1.–30.6.2012	1	8	–	–	9
	1.1.–30.6.2011	–	11	–12	–	–1
General administrative expenses	1.1.–30.6.2012	26	69	69	–	164
	1.1.–30.6.2011	26	67	79	2	174
Balance of other income/expenses	1.1.–30.6.2012	–	1	–	–	1
	1.1.–30.6.2011	–	–	–	–	–
Pre-tax result	1.1.–30.6.2012	**–8**	**44**	**10**	**5**	**51**
	1.1.–30.6.2011	**18**	**68**	**29**	**5**	**120**

Key ratio in %		PSF	REF	VP	Deutsche Pfandbriefbank
Cost-income ratio[1]	1.1.–30.6.2012	> 100.0	57.5	87.3	73.5
	1.1.–30.6.2011	59.1	45.9	82.3	59.4

[1] The cost-income ratio is the ratio between general administrative expenses and operating revenues.

The Management Board controls balance-sheet related-measures by operating segments based on equity, risk-weighted assets and on financing volumes. Financing volumes are the notional amounts of the drawn parts of granted loans and parts of the securities portfolio.

Balance-sheet-related measures, broken down by operating segments in € billion		PSF	REF	VP	Consolidation & Adjustments	**Deutsche Pfandbriefbank**
Equity[1]	30.6.2012	1.2	1.1	0.1	0.9	3.3
	31.12.2011	1.0	1.2	0.1	0.9	3.2
Risk-weighted assets[2]	30.6.2012	5.1	9.8	0.3	0.8	16.0
	31.12.2011	4.3	12.1	0.6	–	17.0
Finance volume[2]	30.6.2012	38.3	23.2	1.1	–	62.5
	31.12.2011	44.0	23.5	1.1	–	68.6

[1] Excluding revaluation reserve
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5; according to Basle II advanced IRB approach for authorised portfolios, otherwise Basle II standardised approach; pro forma as per prepared annual financial statements and after result distribution

6 Breakdown of Operating Revenues

Operating Revenues by Products Operating revenues from other products mainly resulted from net income for the servicing for the ongoing operation of FMS Wertmanagement as well as for IT services to the affiliate DEPFA totalling €70 million (1.1.–30.6.2011: €86 million).

Operating revenues by products in € million		Public sector financings	Real estate financings	Other products	**Deutsche Pfandbriefbank**
Operating revenues	1.1.–30.6.2012	19	120	84	223
	1.1.–30.6.2011	44	146	103	293

Operating Revenues by Customers Net income of €53 million (1.1.–30.6.2011: €65 million) recognised in the Value Portfolio segment resulted from services for the ongoing operation of FMS Wertmanagement. Because the net income accounts for more than 10% of all operating revenues of Deutsche Pfandbriefbank Group, FMS Wertmanagement is a major customer in accordance with IFRS 8.34. The net income compensates for the expenses of Deutsche Pfandbriefbank Group incurred in connection with servicing.

Notes to the Income Statement

7 Net Interest Income and Similar Income

Net interest income and similar income, broken down by categories of income/expenses in € million	1.1.– 30.6.2012	1.1.– 30.6.2011
Interest income and similar income	**1,494**	**1,993**
Lending and money-market business	832	1,141
Fixed-income securities and government-inscribed debt	463	484
Current result from swap transactions (balance of interest income and interest expenses)	199	368
Interest expenses and similar expenses	**1,344**	**1,801**
Deposits	321	583
Liabilities evidenced by certificates	967	1,159
Subordinated capital	56	59
Total	**150**	**192**

Total interest income for financial assets that are not measured at fair value through profit or loss, amounted to € 1.5 billion (1.1.–30.6.2011: € 2.0 billion). Total interest expenses for financial liabilities that are not measured at fair value through profit or loss amounted to € 1.3 billion (1.1.–30.6.2011: € 1.8 billion).

Net interest income and similar income includes income of € 4 million (1.1.–30.6.2011: € 6 million) due to the increase in the present value of the adjusted allowances resulting over a period of time and an expense of € –8 million (1.1.–30.6.2011: € –8 million) due to the increase in the present value of the adjusted liabilities over a period of time.

8 Net Commission Income

Net commission income in € million	1.1.– 30.6.2012	1.1.– 30.6.2011
Securities and custodial services	– 1	– 2
Lending operations and other service operations	7	21
Total	**6**	**19**

Net commission income is attributable exclusively to financial assets and financial liabilities which are not designated at fair value through profit or loss. Commission income from trust activities amount to € 0 million (1.1.–30.6.2011: € 0 million), with commission expenses at € 0 million (1.1.–30.6.2011: € 0 million).

9 Net Trading Income

Net trading income in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
From interest rate instruments and related derivatives	–4	–
From foreign currency instruments and related derivatives	2	–
Total	**–2**	**–**

10 Net Income from Financial Investments

Net income from financial investments in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Income from financial investments	11	3
Expenses from financial investments	6	4
Total	**5**	**–1**

Based on measurement categories, net income from financial investments is broken down as follows:

Net income from financial investments by IAS 39 categories in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Available-for-sale financial investments	5	–
Loans-and-receivables financial investments	–	–1
Total	**5**	**–1**

11 Net Income from Hedge Relationships

Net income from hedge relationships in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Result from fair value hedge accounting	– 5	– 6
Result from hedged items	– 127	241
Result from hedging instruments	122	– 247
Result from dFVTPL investments and related derivatives	2	– 22
Result from dFVTPL investments	2	– 31
Result from derivatives related to dFVTPL investments	–	9
Ineffectiveness from cash flow hedge accounting affecting income	–	1
Total	**– 3**	**– 27**

12 Balance of Other Operating Income/Expenses

Balance of other operating income/expenses in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Other operating income	135	166
Other operating expenses	68	56
Balance of other operating income/expenses	**67**	**110**

Balance of other operating income/expenses included net income from services for the ongoing operations of FMS Wertmanagement amounting to € 53 million (1.1.–30.6.2011: € 65 million) and net income from IT services to the affiliate DEPFA of € 17 million (1.1.–30.6.2011: € 21 million). A net income of € 1 million (1.1.–30.6.2011: € 9 million) resulted from foreign currency translation. The bank levy expenses amounted to € 12 million (1.1.–30.6.2011: € 1 million). In the first half of 2012 the position includes both the calculative annual amount 2012 and the subsequent amount.

13 Provisions for Losses on Loans and Advances

Provisions for losses on loans and advances in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Provisions for losses on loans and advances	10	–
Additions	25	39
Releases	–15	–39
Provisions for contingent liabilities and other commitments	–1	–
Additions	1	–
Releases	–2	–
Recoveries from write-offs of loans and advances	–	–1
Total	**9**	**–1**

The development of individual allowances on loans and advances as well as portfolio-based allowances is disclosed in the note Allowances for Losses on Loans and Advances.

14 General Administrative Expenses

General administrative expenses in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Personnel expenses	66	67
Wages and salaries	53	54
Social security costs	9	8
Pension expenses and related employee benefit costs	4	5
Other general administrative expenses	92	101
Consulting expenses	25	18
IT expenses	48	58
Office and operating expenses	6	7
Other administrative expenses	13	18
Depreciation/amortisation	6	6
on software and other intangible assets excluding goodwill	5	5
on property, plant and equipment	1	1
Total	**164**	**174**

Cost-income ratio in %	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Cost-income ratio	73.5	59.4

15 Balance of Other Income/Expenses

Balance of other income/expenses in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Other income	3	–
thereof: Releases of restructuring provisions	3	–
Other expenses	2	–
thereof: Additions to restructuring provisions	2	–
Balance of other income/expenses	**1**	**–**

16 Taxes on Income

Breakdown in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Current taxes	–7	26
Deferred taxes	23	17
thereof: Deferred taxes on capitalised losses carried forward	19	21
Total	**16**	**43**

17 Net Gains/Net Losses

The following net gains or net losses were recognised in profit or loss according to IFRS 7.20(a):

Net gains/net losses in € million	**1.1.–30.6.2012**	**1.1.–30.6.2011**
Loans and receivables	–7	3
Available for sale	5	–
Held for trading	–2	–
Designated at fair value through P&L	2	–22
Financial liabilities at amortised cost	3	17

Notes to the Statement of Financial Position

18 Trading Assets

Trading assets in € million	30.6.2012	31.12.2011
Positive fair values from derivative financial instruments	266	248
Stand-alone derivatives (bank book)	5,034	9,570
Total	**5,300**	**9,818**

19 Loans and Advances to Other Banks

Loans and advances to other banks, broken down by type of business in € million	30.6.2012	31.12.2011
Loans and advances	6,636	6,886
Public sector loans	2,367	2,602
Real estate loans	–	–
Other loans and advances	4,269	4,284
Investments	5,240	746
Total	**11,876**	**7,632**

Loans and advances to other banks, broken down by maturities in € million	30.6.2012	31.12.2011
Repayable on demand	3,481	293
With agreed maturities	8,395	7,339
Up to 3 months	6,014	4,890
From 3 months to 1 year	300	150
From 1 year to 5 years	884	1,032
From 5 years and over	1,197	1,267
Total	**11,876**	**7,632**

20 Loans and Advances to Customers

Loans and advances to customers, broken down by type of business in € million	30.6.2012	31.12.2011
Loans and advances	52,302	54,736
Public sector loans	20,220	21,725
Real estate loans	32,054	32,984
Other loans and advances	28	27
Investments	–	500
Total	**52,302**	**55,236**

Loans and advances to customers, broken down by maturities in € million	30.6.2012	31.12.2011
Unspecified terms	–	–
With agreed maturities	52,302	55,236
Up to 3 months	2,297	3,608
From 3 months to 1 year	4,653	5,286
From 1 year to 5 years	19,660	20,326
From 5 years and over	25,692	26,016
Total	**52,302**	**55,236**

21 Volume of Lending

Volume of lending in € million	30.6.2012	31.12.2011
Loans and advances to other banks	6,636	6,886
Loans and advances to customers	52,302	54,736
Contingent liabilities	51	38
Total	**58,989**	**61,660**

22 Allowances for Losses on Loans and Advances

Development in € million	Individual allowances on loans and advances	Portfolio-based allowances	**Total**
Balance at 1.1.2011	**460**	**101**	**561**
Changes affecting income	12	–23	–11
Gross additions	54	14	68
Releases	–33	–37	–70
Increase of the present value due to passage of time (unwinding)	–9	–	–9
Changes not affecting income	–59	–14	–73
Changes in the group of consolidated companies	–	–	–
Use of existing loan-loss allowances	–87	–14	–101
Other changes	7	–	7
Effects of currency translations and other changes not affecting income	21	–	21
Balance at 31.12.2011	**413**	**64**	**477**
Balance at 1.1.2012	**413**	**64**	**477**
Changes affecting income	–8	14	6
Gross additions	11	14	25
Releases	–15	–	–15
Increase of the present value due to passage of time (unwinding)	–4	–	–4
Changes not affecting income	–	–	–
Changes in the group of consolidated companies	–	–	–
Use of existing loan-loss allowances	–2	–	–2
Other changes	–3	–	–3
Effects of currency translations and other changes not affecting income	5	–	5
Balance at 30.6.2012	**405**	**78**	**483**

The allowances for losses on loans and advances were exclusively recognised for assets of the measurement category Loans and Receivables.

23 Financial Investments

Breakdown in € million	**30.6.2012**	**31.12.2011**
AfS financial investments	4,270	3,916
Shares in non-consolidated subsidiaries	1	1
Debt securities and other fixed-income securities	4,267	3,913
Equity securities and other variable-yield securities	2	2
dFVTPL financial investments	83	148
Debt securities and other fixed-income securities	83	148
LaR financial investments	22,503	24,613
Debt securities and other fixed-income securities	22,503	24,613
Total	**26,856**	**28,677**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €11 million (31.12.2011: €6 million).

Financial investments, broken down by maturities in € million	**30.6.2012**	**31.12.2011**
Unspecified terms	3	3
With agreed maturities	26,853	28,674
Up to 3 months	892	1,654
From 3 months to 1 year	3,388	1,500
From 1 year to 5 years	8,537	10,987
From 5 years and over	14,036	14,533
Total	**26,856**	**28,677**

Deutsche Pfandbriefbank Group has made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified financial assets. Deutsche Pfandbriefbank Group identified assets, eligible under the amendments, for which at the reclassification date it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term and fulfil the requirements of the measurement category loans and receivables according to IAS 39 (amongst others not quoted in an active market). The reclassified portfolios are disclosed under financial investments.

Deutsche Pfandbriefbank Group reclassified retrospectively as of 1 July 2008 financial investments out of the measurement category available-for-sale of total €30.2 billion. At the date of reclassification the effective interest rate for the AfS assets was between 0.25% and 34.4%. Since the date of reclassification, financial assets with a (reclassified) carrying amount of around €9.5 billion became due. In the first half of 2012 securities with a reclassified carrying amount of €0.1 billion (2011: €0.1 billion) were sold due to the decided reduction of portfolios. Thereby a net income of €6 million (2011: €6 million) was realised. The reclassification of AfS assets did not cause a disclosure change of current interest income. Interest income is still disclosed in net interest income.

The following tables summarise the carrying amounts and fair values as of 30 June 2012 and 31 December 2011 as well as fair value gains and losses that would have been recognised in the first half of 2012 and in 2011 if the financial assets had not been reclassified.

Reclassifications 2012	into: Financial investment loans and receivables (LaR)			Effect in reporting period if no assets would have been reclassified (1.1.–30.6.2012)	
			30.6.2012		
	Date	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of:					
Financial investments available for sale (AfS)	1.7.2008	11.2	10.4	1	–57

Reclassifications 2011	into: Financial investment loans and receivables (LaR)			Effect in reporting period if no assets would have been reclassified (1.1.–31.12.2011)	
			31.12.2011		
	Date	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of:					
Financial investments available for sale (AfS)	1.7.2008	12.1	11.3	8	–309

24 Other Assets

Other assets in € million	**30.6.2012**	**31.12.2011**
Positive fair values from derivative financial instruments	6,283	5,714
Hedging derivatives	6,283	5,714
Micro fair value hedge	5,253	4,800
Cash flow hedge	1,030	914
Salvage acquisitions	95	90
Other assets	268	240
Deferred charges and prepaid expenses	28	14
Total	**6,674**	**6,058**

25 Income Tax Assets

Income tax assets in € million	**30.6.2012**	**31.12.2011**
Current tax assets	63	55
Deferred tax assets	1,833	1,419
Total	**1,896**	**1,474**

26 Liabilities to Other Banks

Liabilities to other banks by maturities in € million	**30.6.2012**	**31.12.2011**
Repayable on demand	2,490	2,007
With agreed maturities	6,117	6,216
Up to 3 months	683	2,435
From 3 months to 1 year	294	786
From 1 year to 5 years	4,641	2,750
From 5 years and over	499	245
Total	**8,607**	**8,223**

27 Liabilities to Customers

Liabilities to customers by maturities in € million	**30.6.2012**	**31.12.2011**
Repayable on demand	3,262	841
With agreed maturities	11,543	11,522
Up to 3 months	895	675
From 3 months to 1 year	1,661	1,003
From 1 year to 5 years	5,672	5,526
From 5 years and over	3,315	4,318
Total	**14,805**	**12,363**

28 Liabilities Evidenced by Certificates

Liabilities evidenced by certificates, broken down by type of business in € million	30.6.2012	31.12.2011
Debt securities issued	29,532	31,634
Mortgage bonds	6,890	6,984
Public sector bonds	19,343	21,290
Other debt securities	2,949	3,246
Money market securities	350	114
Registered notes issued	23,556	23,404
Mortgage bonds	6,829	6,768
Public sector bonds	15,610	15,527
Other debt securities	1,117	1,109
Total	**53,088**	**55,038**

Liabilities evidenced by certificates, broken down by maturities in € million	30.6.2012	31.12.2011
With agreed maturities		
Up to 3 months	1,853	4,266
From 3 months to 1 year	8,862	4,767
From 1 year to 5 years	17,692	20,980
From 5 years and over	24,681	25,025
Total	**53,088**	**55,038**

29 Trading Liabilities

Trading liabilities in € million	30.6.2012	31.12.2011
Negative fair values from derivative financial instruments	257	367
Other trading liabilities	2	2
Stand-alone derivatives (bank book)	4,993	9,534
Total	**5,252**	**9,903**

30 Provisions

Breakdown in € million	30.6.2012	31.12.2011
Provisions for pensions and similar obligations	1	2
Restructuring provisions	66	68
Provisions for contingent liabilities and other commitments	13	20
Other provisions	92	73
thereof: Long-term liabilities to employees	3	3
Total	**172**	**163**

As of 1 January 2005, Deutsche Pfandbriefbank AG took out reinsurance which is classified as a qualifying insurance policy under IAS 19 to protect itself against parts of the risks arising from the defined-benefit pension commitments. The expected return of the plan assets has been calculated by employing the return of comparable pension insurance products in accordance with the investment strategy of the plan assets.

Legal and Arbitration Proceedings In March 2009, a credit broker who formerly acted for Deutsche Pfandbriefbank in France submitted a lawsuit against Deutsche Pfandbriefbank to the Landgericht (regional court) Stuttgart, claiming damages of at least € 20 million due to the suspension of the cooperation agreement. The lawsuit was withdrawn in July 2012.

Legal verdicts of the labour courts and also the regional labour courts in Munich and Baden-Württemberg are not consistent, which means that legal actions in relation to bonus payments for 2008 and 2009 have in certain cases been completely rejected, although in certain cases such actions have been partially allowed. At present, an appeal has been submitted by the Company (Deutsche Pfandbriefbank AG or pbb Services) to the federal labour court in three cases, and the plaintiff has submitted an appeal in one case (against Deutsche Pfandbriefbank AG). It is assumed that, as a result of various measures taken by Deutsche Pfandbriefbank Group, the risk of legal action taken by employees in relation to bonus payments has been considerably reduced.

31 Other Liabilities

Other liabilities in € million	30.6.2012	31.12.2011
Negative fair values from derivative financial instruments	6,239	5,829
Hedging derivatives	6,236	5,812
Micro fair value hedge	5,490	5,046
Cash flow hedge	746	766
Derivatives hedging dFVTPL financial instruments	3	17
Other liabilities	8,890	10,238
Deferred income	60	56
Total	**15,189**	**16,123**

32 Income Tax Liabilities

Income tax liabilities in € million	30.6.2012	31.12.2011
Current tax liabilities	67	82
Deferred tax liabilities	1,744	1,291
Total	**1,811**	**1,373**

33 Subordinated Capital

Breakdown in € million	30.6.2012	31.12.2011
Subordinated liabilities	2,120	2,208
Participating certificates outstanding	6	6
Hybrid capital instruments	295	287
Total	**2,421**	**2,501**

Subordinated capital, broken down by maturities in € million	30.6.2012	31.12.2011
With agreed maturities		
Up to 3 months	476	99
From 3 months to 1 year	45	416
From 1 year to 5 years	938	947
From 5 years and over	962	1,039
Total	**2,421**	**2,501**

Notes to the Financial Instruments

34 Fair Values of Financial Instruments

The recognised fair values of financial instruments according to IFRS 7 correspond to the amounts at which, in the opinion of Deutsche Pfandbriefbank Group, an asset could be exchanged on the balance sheet date between willing, competent business partners or the amount at which a liability could be settled between such business partners.

Fair values of financial instruments

in € million	30.6.2012 Carrying amounts	30.6.2012 Fair value	31.12.2011 Carrying amounts	31.12.2011 Fair value
Assets	**102,186**	**100,087**	**106,923**	**105,244**
Cash reserve	52	52	323	323
Trading assets (HfT)	5,300	5,300	9,818	9,818
Loans and advances to other banks[1]	11,859	11,654	7,615	7,386
Category LaR	11,859	11,654	7,615	7,386
Loans and advances to customers[1]	51,836	51,899	54,776	55,158
Category LaR	51,836	51,899	54,776	55,158
Financial investments	26,856	24,899	28,677	26,845
Category AfS	4,270	4,270	3,916	3,916
Category dFVTPL	83	83	148	148
Category LaR	22,503	20,546	24,613	22,781
Other assets	6,283	6,283	5,714	5,714
thereof: Hedging derivatives	6,283	6,283	5,714	5,714
Liabilities	**99,047**	**98,789**	**103,758**	**103,183**
Liabilities to other banks	8,607	8,574	8,223	8,224
Liabilities to customers	14,805	15,010	12,363	12,504
Liabilities evidenced by certificates	53,088	52,561	55,038	54,159
Trading liabilities (HfT)	5,252	5,252	9,903	9,903
Other liabilities	14,874	14,903	15,730	15,794
thereof: Hedging derivatives	6,236	6,236	5,812	5,812
Derivatives hedging dFVTPL financial instruments	3	3	17	17
Subordinated capital	2,421	2,489	2,501	2,599
Other items	**789**	**712**	**1,175**	**1,094**
Contingent liabilities	51	51	38	38
Irrevocable loan commitments	738	661	1,137	1,056

[1] Reduced by allowances for losses on loans and advances

The fair values of the liabilities in relation to cover pool assets which were synthetically transferred to FMS Wertmanagement were € 29 million (31.12.2011: € 64 million) higher than the carrying amounts.

35 Assets and Liabilities According to Measurement Categories and Classes

Assets and liabilities according to measurement categories and classes in € million	30.6.2012	31.12.2011
Assets	**102,186**	**106,923**
Loans and receivables (LaR)	86,198	87,004
Held to maturity (HtM)	–	–
Available for sale (AfS)	4,270	3,916
Held for trading (HfT)	5,300	9,818
dFVTPL assets (dFVTPL)	83	148
Cash reserve	52	323
Positive fair values from hedging derivatives	6,283	5,714
Liabilities	**99,047**	**103,758**
Held for trading (HfT)	5,252	9,903
Financial liabilities at amortised cost	87,556	88,026
Negative fair values from hedging derivatives	6,239	5,829

36 Exposure to Selected European Countries

Exposure to selected European countries as of 30.6.2012

in € million	Counterparty (direct exposure)	IAS 39 measurement category	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	**Carrying amount**	Notional value	Fair value
Italy	Sovereign	LaR	–	818	100	149	**1,067**	1,037	994
		AfS	–	–	–	1,093	**1,093**	1,060	1,093
	Sub-sovereign	LaR	–	–	36	1,905	**1,941**	1,781	1,494
	State guaranteed	LaR	–	–	16	5	**21**	20	19
Portugal	Sovereign	LaR	–	–	48	45	**93**	82	51
		AfS	–	–	21	94	**115**	165	115
		dFVTPL	–	–	–	–	**–**	–	–
	Sub-sovereign	LaR	–	101	50	44	**195**	194	157
	State guaranteed	LaR	–	–	122	528	**650**	620	288
Spain	Sub-sovereign	LaR	210	144	665	1,326	**2,345**	2,132	1,757
		HfT	–	–	–	4	**4**	35	4
	State guaranteed	LaR	–	142	104	178	**424**	406	371
Hungary	Sovereign	LaR	–	–	263	125	**388**	341	305

Exposure to selected European countries as of 31.12.2011									
in € million	Counterparty (direct exposure)	IAS 39 measurement category	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	**Carrying amount**	Notional value	Fair value
Italy	Sovereign	LaR	798	817	101	146	**1,862**	1,788	1,754
		AfS	–	–	–	1,021	**1,021**	1,060	1,021
	Sub-sovereign	LaR	11	–	47	1,958	**2,016**	1,867	1,702
	State guaranteed	LaR	–	–	–	23	**23**	22	20
Portugal	Sovereign	LaR	50	–	47	45	**142**	131	127
		AfS	–	–	16	79	**95**	165	95
		dFVTPL	–	–	17	45	**62**	105	62
	Sub-sovereign	LaR	–	–	151	44	**195**	194	131
	State guaranteed	LaR	–	–	325	577	**902**	878	482
Spain	Sub-sovereign	LaR	–	345	683	1,318	**2,346**	2,155	2,011
		HfT	–	–	–	2	**2**	35	2
	State guaranteed	LaR	–	–	260	180	**440**	422	411
Hungary	Sovereign	LaR	–	–	117	266	**383**	334	287

As of 30 June 2012 and as of 31 December 2011 Deutsche Pfandbriefbank Group did not have any exposure to sovereign, sub-sovereign, and state-guaranteed counterparties of Greece and Ireland.

The exposure to selected European countries shown in the tables contain loans and advances and securities. In addition, it shows interest rate derivatives to sovereign and sub-sovereign counterparties. The interest rate derivatives are netted with collaterals. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed exposure contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 30 June 2012 and as of 31 December 2011 Deutsche Pfandbriefbank Group did not have any credit default swaps whose underlyings are linked to sovereigns, sub-sovereigns and state-guaranteed exposures of the disclosed countries.

Financial assets which are measured at fair value affecting income changes in value are directly included in the book value. Deutsche Pfandbriefbank Group tests financial assets which are not measured at fair value affecting income for impairments. Allowances for loans and advance or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due according with the original contractual conditions to be recovered. As of 30 June 2012 and as of 31 December 2011 there was no such objective evidence.

37 Past Due but Not Impaired Assets

LaR assets: past due but not impaired (total investment) in € million	30.6.2012	31.12.2011
Up to 3 months	333	331
From 3 months to 6 months	38	25
From 6 months to 1 year	9	61
From 1 year and over	20	18
Total	**400**	**435**

Carrying amounts LaR assets in € billion	30.6.2012	31.12.2011
Carrying amount of LaR assets that are neither impaired nor past due	85.5	86.3
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.4	0.4
Carrying amount of individually assessed impaired LaR assets (net)	0.7	0.7
Balance of portfolio-based allowances	0.1	0.1
Total	**86.7**	**87.5**
thereof: Loans and advances to other banks (including investments)	11.9	7.7
Loans and advances to customers (including investments)	52.3	55.2
Financial investments (gross)	22.5	24.6

Other Notes

38 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million	30.6.2012	31.12.2011
Contingent liabilities	**51**	**38**
Guarantees and indemnity agreements	51	38
Loan guarantees	5	6
Performance guarantees and indemnities	46	32
Other commitments	**738**	**1,137**
Irrevocable loan commitments	738	1,137
Book credits	54	73
Guarantees	31	51
Mortgage and public sector loans	653	1,013
Other commitments	–	–
Total	**789**	**1,175**

Deutsche Pfandbriefbank AG, as a predecessor institute of Hypo Real Estate Bank International AG, has overtaken with the announcement as of 2 January 2006 irrevocable and unconditional guarantees to fulfil all liabilities of Hypo Public Finance Bank puc, Dublin. By the fact that all shares of Hypo Public Finance Bank puc, Dublin, were sold, the commitment was limited according the guarantee contract to all liabilities, which existed until the date of sale. Due to the current development in earnings, assets and financial position as well as the expected future development, Deutsche Pfandbriefbank AG does not rule out the default of Hypo Public Finance Bank puc, Dublin, but a default should be rather unlikely.

In accordance with the framework agreement for transferring risk positions and non-strategic operations to a deconsolidated environment constituted under federal law in accordance with Section 8a of the Financial Market Stabilisation Act, Deutsche Pfandbriefbank AG assumes joint and several liability for all payment obligations of its subsidiaries resulting from the transaction agreements which have been transferred as part of the process of transferring assets to FMS Wertmanagement.

For Deutsche Pfandbriefbank Group irrevocable loan commitments were the largest part of other commitments. Irrevocable loan commitments comprise all commitments of a creditor which can grant a loan and advance at a later date and which can cause a credit risk. These are mainly credit commitments which are not fully drawn by the customer.

The Restructuring Fund Ordinance specifies an additional charge for the so-called bank levy. The difference between the actually determined bank levy and the calculated standard amount for the years 2011 to 2019 can be subsequently charged in the following two years in each case. However, the obligation to pay the additional amount arises only if corresponding profits are generated in subsequent financial years; the amount of this payment is capped by the feasibility or charge specified in the ordinance. Whether the additional payment becomes due, and also the extent of such an additional payment, accordingly depend on profits being generated in subsequent years. The additional payment of Deutsche Pfandbriefbank AG which can be charged in 2013, is € 32 million. As far as can be seen at present, it is not assumed that the additional amount will be fixed in full.

Due to a requirement in line with the principle of burden sharing required by the EU Commission, profits will be retained at Deutsche Pfandbriefbank Group until reprivatisation, and will be used for repaying the dormant contribution of the Federal Republic of Germany.

39 Key Regulatory Capital Ratios (Based on German Commercial Code)

In accordance with the waiver regulation set out in Section 2 a KWG, Deutsche Pfandbriefbank AG is exempted from the requirement to establish the equity and core capital ratios at the level of the institution.

The waiver regulation set out in Section 2 a KWG states that a credit institution or financial services institution which has its registered offices within Germany and which is part of a regulated group of institutions or financial holding group does not have to comply with the following regulations if these regulations are complied with at the level of the ultimate parent company:
> Regulations regarding solvency (equity in relation to risk-weighted assets)
> Regulations regarding large loans (equity in relation to loans extended to individual borrower units)
> Regulations set out in Section 25 a (1) Clause 3 No. 1 KWG for establishing and assuring risk-bearing capacity, defining strategies, setting up processes for identifying, assessing, managing, monitoring and communicating risks.

Deutsche Pfandbriefbank Group voluntarily discloses these figures on a pro forma basis.

The regulatory capital of Deutsche Pfandbriefbank Group in accordance with the Solvency Regulation (SolvV) on a pro forma basis is as follows:

Own funds[1] in € million	30.6.2012	31.12.2011
Core capital (Tier I)	2,729	2,762
Supplementary capital (Tier II)	1,334	1,383
Equity capital	**4,063**	**4,145**
Tier III capital	–	–
Total	**4,063**	**4,145**

[1] Consolidated pursuant to Section 10 a German Banking Act (KWG); pro forma as per prepared annual financial statements and after result distribution

The risk-weighted assets, the operational risks and the market risk positions on a pro-forma basis are as follows:

Risk-weighted assets[1) in € billion	30.6.2012	31.12.2011
Risk-weighted assets	16.0	17.0

[1) Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5; according to Basel II advanced IRB approach for authorised portfolios, otherwise Basel II standardised approach

Operational risks[1) in € million	30.6.2012	31.12.2011
Total	**1,074**	**997**

[1) Scaled with the factor 12.5

Market risk positions[1) in € million	30.6.2012	31.12.2011
Currency risks	63	75
Interest rate risks	–	–
Total	**63**	**75**

[1) Scaled with the factor 12.5

The capital ratios have been determined on the basis of the definition of shareholders' equity in accordance with SolvV and also using risk-weighted assets in accordance with Basel II. On a pro forma basis, the capital ratios are as follows:

Key capital ratios[1) in %	30.6.2012	31.12.2011
Core capital ratio[2)	17.1	16.3
Equity capital ratio[3)	25.5	24.5
Own funds ratio (overall indicator)[2)	25.4	24.4

[1) Pro forma as per prepared annual financial statements and after result distribution
[2) Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5
[3) Including risk-weighted credit risk positions as well as the capital requirements for operational risks scaled with the factor 12.5

40 Relationship with Related Parties

SoFFin, a special fund of the Federal Government in accordance with Section 2 (2) FMStFG, represents the ultimate parent entity of HRE Holding and thus also of Deutsche Pfandbriefbank AG. Accordingly, Deutsche Pfandbriefbank AG is a government-related entity and a related party to other companies which are controlled, jointly controlled or significantly influenced by the Federal Republic of Germany. FMS Wertmanagement is also controlled by the Federal Republic of Germany and is thus a related party of Deutsche Pfandbriefbank Group.

Total assets of Deutsche Pfandbriefbank Group have been affected by the following major transactions with FMS Wertmanagement:

> Deutsche Pfandbriefbank Group has transferred market risks to FMS Wertmanagement by means of back-to-back derivatives. The positive market values of the back-to-back derivatives and the related external derivatives amounted to € 2.8 billion as of 30 June 2012 (31.12.2011: € 7.4 billion), and were disclosed as trading assets.
> The carrying amount of securities which were issued by FMS Wertmanagement declined from € 3.0 billion as of 31 December 2011 to € 2.2 billion as of 30 June 2012. These securities are disclosed as financial investments.
> The deposition of unneeded liquidity of FMS Wertmanagement in the central bank amounting to € 2.8 billion (31.12.2011: € 0.7 billion) in loans and advances to other banks resulted in increased total assets.

The financial position of Deutsche Pfandbriefbank Group was impacted by negative market values of back-to-back derivatives and the related external derivatives, which amounted to € 2.8 billion as of 30 June 2011 (31.12.2011: € 7.4 billion) and were disclosed as trading liabilities.

The development in assets and in the financial position resulted in profit or loss effects. However, because these effects were almost completely cancelled out by the corresponding market transactions, they had only an immaterial impact on the development in earnings. The only material effect in profit or loss resulted from servicing for the ongoing operations of FMS Wertmanagement. The net income of € 53 million (1.1.–30.6.2011: € 65 million) compensated for the expenses which were incurred by Deutsche Pfandbriefbank Group for servicing.

All further transactions carried out in the first half 2012 and in the previous period with companies, which were controlled, jointly controlled or significantly influenced by the Federal Republic of Germany, mainly related to operational business, and overall were immaterial for Deutsche Pfandbriefbank Group.

41 Employees

Average number of employees	1.1.–30.6.2012	1.1.–31.12.2011
Employees (excluding apprentices)	1,037	993
Total	**1,037**	**993**

42 Summary of Quarterly Financial Data

Deutsche Pfandbriefbank Group			2011		2012
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	162	129	104	103	120
Net interest income and similar income	95	101	78	76	74
Net commission income	5	6	7	3	3
Net trading income	8	4	–12	–	–2
Net income from financial investments	–	–	4	–4	9
Net income from hedge relationships	–12	–7	–22	–2	–1
Balance of other operating income/expenses	66	25	49	30	37
Provisions for losses on loans and advances	1	–1	–10	4	5
General administrative expenses	93	87	96	78	86
Balance of other income/expenses	–	–	7	–	1
Pre-tax profit	68	43	25	21	30

Public Sector Finance			2011		2012
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	27	27	–8	7	12
Net interest income and similar income	30	32	20	17	14
Net commission income	–1	–	–1	–1	–
Net trading income	5	–	–6	–	–1
Net income from financial investments	–	–1	3	–4	1
Net income from hedge relationships	–14	–7	–16	–	–1
Balance of other operating income/expenses	7	3	–8	–5	–1
Provisions for losses on loans and advances	–	–	–	1	–
General administrative expenses	14	13	15	12	14
Balance of other income/expenses	–	–	2	–	–
Pre-tax profit	13	14	–21	–6	–2

Real Estate Finance					
			2011		**2012**
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	72	70	58	55	65
Net interest income and similar income	58	62	60	54	55
Net commission income	7	8	7	4	3
Net trading income	2	–	−12	–	−1
Net income from financial investments	–	–	1	–	8
Net income from hedge relationships	2	–	−5	−2	–
Balance of other operating income/expenses	3	–	7	−1	–
Provisions for losses on loans and advances	2	−2	−10	3	5
General administrative expenses	37	34	37	32	37
Balance of other income/expenses	–	–	3	–	1
Pre-tax profit	33	38	34	20	24

Value Portfolio					
			2011		**2012**
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	59	28	44	38	41
Net interest income and similar income	2	1	−5	2	3
Net commission income	−1	−2	1	–	–
Net trading income	1	5	1	–	–
Net income from financial investments	–	1	–	–	–
Net income from hedge relationships	–	–	−1	–	–
Balance of other operating income/expenses	57	23	48	36	38
Provisions for losses on loans and advances	−1	1	–	–	–
General administrative expenses	41	39	41	33	36
Balance of other income/expenses	–	–	2	–	–
Pre-tax profit	19	−12	5	5	5

Consolidation & Adjustments					
			2011		2012
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	4	4	10	3	2
Net interest income and similar income	5	6	3	3	2
Net commission income	–	–	–	–	–
Net trading income	–	– 1	5	–	–
Net income from financial investments	–	–	–	–	–
Net income from hedge relationships	–	–	–	–	–
Balance of other operating income/expenses	– 1	– 1	2	–	–
Provisions for losses on loans and advances	–	–	–	–	–
General administrative expenses	1	1	3	1	– 1
Balance of other income/expenses	–	–	–	–	–
Pre-tax profit	3	3	7	2	3

Munich, 7 August 2012

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the development in assets, financial position and earnings of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Munich, 7 August 2012

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

Auditor's Report

We have reviewed the condensed interim financial statements of Deutsche Pfandbriefbank AG, Munich, comprising balance sheet, income statement, statement of comprehensive income, condensed statement of changes in equity, condensed cash flow statement and condensed notes together with the interim group management report of Deutsche Pfandbriefbank AG, Munich, for the period from 1 January to 30 June 2012 that are part of the semi-annual financial report according to § 37w WpHG [«Wertpapierhandelsgesetz»: «German Securities Trading Act»]. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group 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 conduct the review so that we can preclude through critical evaluation, with a certain level of assurance, that the interim financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group 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 causes us to presume that the condensed interim consolidated financial statements have not been prepared in all material respects in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, 8 August 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

Wiechens	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Service Chapter

Service Chapter
Financial Calendar
Future-oriented Statements
Internet Service

Financial calendar	
14 August 2012	Publication of the results for the second quarter of 2012
13 November 2012	Publication of the results for the third quarter of 2012

Future-oriented Statements

This report contains future-oriented statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management of Deutsche Pfandbriefbank AG. Future-oriented statements therefore only apply on the day on which they are made. We do not undertake any obligation to update such statements in light of new information or future events. By their nature, future-oriented statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-oriented statements. Such factors include the condition of the financial markets in Germany, Europe and the USA, the possible default of borrowers or counterparties of trading companies, the reliability of our principles, procedures and methods for risk management as well as other risks associated with our business activity.

Internet Service

Visit us at the World Wide Web:
www.pfandbriefbank.com

Go to «Investor Relations» and find information on external ratings of our Group companies, facts and figures. You can also find our Annual and Interim Reports on our website, you can download them, use them interactively or order a print version online.

Publisher
Deutsche Pfandbriefbank AG, Munich, Germany

Concept, Design and Realisation
KMS TEAM GmbH, www.kms-team.com

Deutsche Pfandbriefbank AG
Freisinger Straße 5
85716 Unterschleißheim
Germany
T +49 (0)89 2880-0
F +49 (0)89 2880-12100
info@pfandbriefbank.com
www.pfandbriefbank.com