Interim Report
H1 2011

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE
PFANDBRIEFBANK

Financial Highlights
Ratings

Financial Highlights		1.1.–30.6.2011	1.1.–30.6.2010
Operating performance according to IFRS			
Pre-tax profit/loss	in € million	120	–352
Net income/loss	in € million	77	–334
Key ratio		**1.1.–30.6.2011**	**1.1.–30.6.2010**
Cost-income ratio[1]	in %	59.4	77.7
Balance sheet figures		**30.6.2011**	**31.12.2010**
Total assets	in € billion	126.0	186.8
Equity (excluding revaluation reserve)	in € billion	3.2	3.1
Equity	in € billion	3.3	3.4
Personnel		**30.6.2011**	**31.12.2010**
Employees		994	919

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

Deutsche Pfandbriefbank AG's bank and covered bond ratings[1]

as of 5 August 2011		Fitch Ratings	Moody's	Standard & Poor's
Deutsche Pfandbriefbank AG	Long-term rating	A–	A3	BBB
	Outlook	Stable	Stable	Stable
	Short-term rating	F1	P–1	A–2
Public sector covered bonds		AAA	Aaa	AA+
Mortgage-covered bonds		AA+	Aa1	AA+

[1] Ratings from 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 Group has successfully continued the development which has been initiated over the last two years, and closed the first half of 2011 with a pre-tax profit of € 120 million. The result has therefore now been positive for a year, following a comprehensive restructuring and realignment process. We will continue this trend.

In addition to this positive development in business, the fact that the state aid measures for HRE Group were approved by the EU Commission on 18 July 2011 was a major milestone for Deutsche Pfandbriefbank AG, the strategic core bank of HRE Group. With this positive decision, the EU Commission simultaneously recognised the viability of Deutsche Pfandbriefbank AG's business model, namely that of a specialist bank for real estate finance and public sector investment finance in Europe. The Bank has thus attained the planning certainty necessary for its operations.

In Real Estate Finance, we continue to target professional real estate investors, and our business model needs only minor adjustments following the decision of the EU Commission. In Public Sector Finance, we will in the future only finance project-related public sector investments: public sector institutions, municipal residential construction, utilities and waste disposal companies, essential infrastructure as well as health and old age facilities. We aim to expand in these two strategic business areas. The volume of new business which we generated in the first half of 2011 (€ 4.1 billion) was in fact the same as that generated in the entire previous year. The current year's new business is to a large extent already in line with the requirements of the EU Commission.

In the field of public budget financing, which is part of the state financing business of Deutsche Pfandbriefbank AG, we are no longer conducting any new business. Nevertheless, the assets remain on the balance sheet and continue to generate interest income.

Following the decision in the EU proceedings, we will now complete the realignment process at Deutsche Pfandbriefbank AG and will concentrate fully on the market and our customers. The situation particularly on the markets for public budget finance, which is reflected in the current debt crisis, and the changing regulatory environment will continue to pose challenges for Deutsche Pfandbriefbank AG in the future.

Kind regards

Manuela Better
CEO

Interim Financial Review

Interim Financial Review
Business and Conditions

Macro-economic Situation

As was the case in the whole of 2010, discussions at the macroeconomic level in the period under review were again dominated by problems of financial policy in numerous countries. In addition to Greece and Ireland, Portugal has now also been taking advantage of aid from this fund. For Greece, a further rescue package was made available in July in order to prevent a default. In addition, private investors are expected to bear some of the costs of restructuring the national budget by way of voluntary rescheduling with lower interest and longer maturities. A new aspect in the period under review is the increasingly critical assessment of fiscal stability in the USA, despite the agreement reached regarding the increase in the US debt ceiling. This is the context in which all major rating agencies are now discussing whether to downgrade the rating even of US bonds.

Contrary to some fears, the (global) economic consequences of the catastrophe of March 2011 in Japan have been very moderate, even if this event interrupted several international delivery and production chains for substantial periods. But even the Nikkei index, which was trading at around 10,500 points before the catastrophe, has to a large extent recovered from the low at 8,605 points, and was again aiming for the level of 10,000 points at the end of the reporting period.

Following the collapse seen in 2009, the real economy continued to recover, although to varying degrees on the international scene. Particularly in the countries with the fiscal problems detailed above, growth is relatively low, or – as is the case in Ireland and Greece – is even negative. In the first half of 2011, Germany saw production return to the level before the crisis. This was accompanied by a further improvement in the situation on the labour market. The number of persons unemployed fell below three million, and the unemployment rate was 7.4 % (EU 9.5 %). On the other hand, the unemployment rate in the USA remained at around 9 %.

The developments in the field of finance policy detailed above as well as these differences between real economies were some of the factors which resulted in a relatively significant strengthening of the euro against the US dollar in the period under review, even if the development in this particular field was also volatile.

Sector-specific Situation

Situation of the Bank Sector

In the countries in which the economy posted a positive performance, the volume of loans which were extended in the first half of 2011 increased for the first time since the outbreak of the financial crisis. Provisions for losses on loans and advances also declined on average for the sector. Nevertheless, the difficult situation in Greece was a problem affecting the entire bank sector. Continuing pressure of the rating agencies on the other European countries which are the focus of attention (Greece, Portugal, Ireland and Spain) again depressed the bond portfolios of many banks. Because the situation of the American national economy is also difficult, many institutional investors have already reduced their holdings of American government bonds. The entire sector is searching for possibilities of obtaining additional capital in order to meet the new Basel III requirements in the future. As a consequence of the financial crisis, American credit institutions in particular are still involved in criminal or composition proceedings with investors of securitised mortgage loans. Considerable damages have already been paid in certain cases.

Public Sector Financing

In view of the government debt crisis and also as a result of the considerable differences at present between the ratings of individual Euro countries, the public sector finance market is undergoing a process of far-reaching structural change.

Overall, the demand for public sector finance is opposed by a stable supply, because leading banks have withdrawn from the market and have been replaced by other players, such as regional banks.

There has been a considerable change in credit check conditions. It is true that public sector finance is still considered to be a low-risk investment class which is in demand. However, as a result of the government debt crisis, the risk assessment of individual borrowers will be much more critical.

Many factors of a public sector finance market which has been very stable for many years are now subject to unusually significant changes. In the strategic core markets of Deutsche Pfandbriefbank AG, local and regional credit institutions have assumed the main role in the public sector finance market. Despite parallel consolidation efforts for public finances, these core markets still report strong demand for financing for public sector products or services such as in the field of health, education and also in culture and sport. In addition, there are also signs of additional prospects resulting from increasing demand for investment in public sector infrastructure (for example, expansion of public sector means of transport and environmental projects).

In Germany, margins have stabilised at a level which is still low. However, a stronger distinction is made between the different ratings. In view of the unsolved problems in connection with the financial situation of German cities and municipalities, this trend will probably continue and result in greater differentiation. Financing of public sector projects before 2010 was characterised particularly by the conditions of the government package designed to stimulate the economy. Investments capable of attracting subsidies were prioritised. On the other hand, public private partnership projects (PPPs), for which the process of awarding public sector contracts proved to be difficult, were postponed. There are now signs of a slight increase in the field of public sector investment finance by way of PPPs.

In France, margins continued to recover in the first half of 2011 due to higher levels of caution of some local investors. In Spain, demand is limited as a result of the ban on Spanish municipalities raising new debt imposed in 2010. Nevertheless, margins in direct business with the Spanish regions with stronger credit standing and other public sector enterprises, measured in terms of their fundamental data, continue to be very high. Because necessary follow-up financing for Spain still has to peak, the level of margins overall is expected to continue to be high compared with the past. In Italy, the adjustment of statutory maximum interest rates for municipalities and regions is also enabling higher margins to be achieved than was the case in 2010. Overall, in the first half, it is apparent that most EU countries are pressing on ahead with their consolidation efforts.

Real Estate Financing

On the real estate markets which are relevant for the Bank, the positive development again continued in the first half of 2011. This is reflected in the speed of economic performance in the individual countries. There are a growing number of indications that most European property markets are increasingly emerging from the financial crisis. This positive development is also benefiting from the general macro-economic upturn. In particular, companies and retailers and wholesalers in Northern and Central Europe are showing signs of stronger demand for purchasing and occupying premises.

However, the risk propensity of investors in relation to the properties and locations is still very limited. Market events in the first half of 2011 were dominated particularly by the market segment of high-quality properties let on long-term leases in very good to good locations (core properties).

The German market for commercial real estate reported a positive performance in the first half of 2011 compared with the corresponding previous year period. Low interest rates, concern about inflation and the sustainable economic upswing mean that German properties are becoming attractive for investors. The percentage of international investors in particular expanded strongly in the first half of 2011. Buyer interest, however, is still focusing on high-quality properties in very good to good locations. On the other hand, sub-prime locations and emerging secondary locations are becoming more important as a result of the shortage of core properties, a problem which is being exacerbated by simultaneous price increases.

Overall, retail properties followed by office premises accounted together for most of the traded volume in the first half of 2011. The growth in employment in Germany had a slight, positive impact on demand for premises in the first half of 2011. On the other hand, the fact that structural vacancies are still high at some locations has had a negative impact on the existing demand for properties.

German housing construction also reported strong growth in the first half of 2011. This growth focused particularly on the metropolitan areas. However, prospects have also improved in some less expensive secondary locations.

Some other European commercial real estate markets also posted a positive performance in the first half of 2011, and reported higher transaction volumes. The development particularly in Great Britain, France and Eastern Europe was particularly positive in the first half of 2011. Spain and Portugal again had to report a decline, and are affected by the weakest user demand of all major European countries.

Overall, the first half of 2011 in Europe was characterised by a gradual improvement in user demand. Several European major cities reported a significant increase in property turnover – mainly thanks to major individual contract completions.

The stronger demand and the decline in completed construction resulted in a gradual decline in vacancy rates on the main European markets towards the end of 2010, although the structural vacancies remains high. This positive trend continued in the first half of 2011, albeit at a somewhat slower rate, because some markets reported either a further increase in completed construction or weaker user demand (for instance in Spain). Prime rents remained essentially stable on the main European markets in the first half of the year.

In recent months, the London office market in particular was able to report a strong upturn. Office rents in the West End of London have increased at a rate which is considerably higher than the European average. The market benefited particularly from the strong demand for mid-price offices. In addition, this development was boosted by some very large contract completions. On the other hand, vacancy rates in Madrid and Barcelona reached an all-time high in the first half of 2011, and are thus failing to match the positive trend in Europe.

Competition for small and mid-size financing arrangements continued to be very fierce in the first half of 2011. There is very strong competition particularly on the market for financing core property. In the case of large financing arrangements in excess of approx. € 50–100 million, investors are still experiencing problems in finding a financing partner. Project developers in particular are required to have a corresponding amount of capital in combination with an adequate level of preletting to tenants with strong ratings. There are also signs of specialisation on certain regions and segments at present for real estate financiers. In addition, it is evident that some players are considerably reducing their real estate financing operations, whereas other credit institutions and insurance companies are generating considerably more new business.

Refinancing Markets

In the first half of 2011, the international refinancing markets were characterised by a strong volume of covered bonds. In January alone, more than € 40 billion of covered bonds were placed, the highest volume ever reported for a single month. Most of the issues were placed very successfully on the market. However, the current very mixed performance reflects the uncertainty of investors due to the state debt crisis.

The trend towards covered issues is being exacerbated by continuing discussions regarding the possible involvement of private investors in the restructuring of state bonds in conjunction with the new regulations (Basel III for banks and the Solvency II for insurers). As a consequence of this development, it was much more difficult for uncovered bonds to be placed on the capital market.

Due to the high level of issuing activity on the international capital market, the private placement market for German banks made a relatively weak start. Investors preferred public placements as a result of liquidity and risk premium, and are also attempting to include regional diversification in their portfolios.

The securitisation market has also not yet fundamentally recovered in the first half of 2011. Investor confidence has still not returned.

Company-specific Conditions

Major Events

Liquidity Situation As a result of an adequate liquidity cushion and the fact that the final decision of the EU was still outstanding as of 30 June 2011, pbb Group did not issue any benchmark issues for financing new business in the first half of 2011, and instead restricted itself to private placements of relatively small volumes. The secondary market prices for the outstanding benchmark issues of Deutsche Pfandbriefbank AG have improved considerably in recent months.

Project Measures In preparation for reprivatising the entities of the HRE Group, a project is currently being carried out to sever the links between the DEPFA sub-group and the Deutsche Pfandbriefbank sub-group. Another project is currently being carried out to further harmonise information technology at Deutsche Pfandbriefbank AG. A further project involves optimising the customer-oriented primary processes of the Bank. The main objectives are to achieve greater customer focus by way of shorter throughput times, higher process reliability as well as achieving a competitive process landscape which focuses on cost efficiency.

Personnel

The regular election of shareholders' representatives in the Supervisory Board was held at the shareholders' meeting on 18 May 2011. The shareholders' meeting elected Dr. Bernd Thiemann, Dagmar Kollmann, Dr. Günther Bräunig and Dr. Hedda von Wedel. Dr. Bernd Thiemann was re-elected as Chairman and Dagmar Kollmann as Deputy Chairman. The employees elected Georg Kordick as their representative. Because a second employees' representative had not been elected by the employees, on 7 July 2011, Heike Theißing was appointed as a member of the Supervisory Board by way of a court judgement in response to an application of the Management Board and the Chairman of the Supervisory Board.

Ratings

The bank ratings of Deutsche Pfandbriefbank AG remained unchanged in the first half of 2011 and until 5 August 2011. However, the following changes regarding covered bond and subordinated debt ratings occurred:

- The rating of the Mortgage Covered Bonds was upgraded by Moody's from Aa3 to Aa1. Fitch Ratings affirmed the rating of the Mortgage Covered Bonds at AA+ and removed it from «Rating Watch Negative».
- Moody's published the results of its review of subordinated debt issued by German banks and DEPFA Bank plc. The rating for subordinated debt issued by Deutsche Pfandbriefbank AG is now B2 with positive outlook.
- Standard & Poor's has downgraded Deutsche Pfandbriefbank AG's Lower Tier 2 issues from BBB– to BB–.

The EU Commission's approval of state aid had no immediate implications for the ratings of Deutsche Pfandbriefbank AG.

Deutsche Pfandbriefbank AG's bank and covered bond ratings[1)]

as of 5 August 2011		Fitch Ratings	Moody's	Standard & Poor's
Deutsche Pfandbriefbank AG	Long-term rating	A–	A3	BBB
	Outlook	Stable	Stable	Stable
	Short-term rating	F1	P–1	A–2
Public sector covered bonds		AAA	Aaa	AA+
Mortgage-covered bonds		AA+	Aa1	AA+

1) Ratings from mandated rating agencies

Development in Earnings

Deutsche Pfandbriefbank Group

In the first half of 2011, the Group recognised a positive pre-tax profit of € 120 million, and was thus profitable for the second half in succession. This underlines the success of the restructuring and refocusing process of Deutsche Pfandbriefbank Group.

In the period from 1 January to 30 June 2010 (previous year period), the pre-tax result was very negative at € – 352 million. However, the income statement of this period included effects from the positions which were transferred in October 2010 to FMS Wertmanagement. In particular, those positions entailed material impairments on loans and advances and deterioration in the market values of trading assets. Furthermore, expenses for liquidity support were necessary in the previous year period but not in the first half of 2011.

The following table sets out in detail the development in earnings in the first half of 2011 compared with the previous year period:

Operating Revenues Operating revenues amounted to € 293 million, and were thus higher than the corresponding previous year figure (1.1.– 30.6.2010: € 220 million). Lower net interest income was offset by improved net commission income, a balanced-out net trading income and positive effects in the balance of other operating income/expenses.

Net interest income of € 192 million was lower than the corresponding previous year figure of € 330 million. The lower net interest income is mainly attributable to the transfer of interest-bearing assets to FMS Wertmanagement. Net interest income was positively affected by one-off income from the repayment of financial liabilities and premature repayment penalties totalling € 20 million (1.1.–30.6.2011: € 11 million).

Net commission income amounted to € 19 million compared with € – 8 million in the previous year period. A material one-off income of € 7 million resulted from a material repayment and the realisation

Key Financials		1.1.–30.6.2011	1.1.–30.6.2010	Change
Operating performance				
Operating revenues	in € million	293	220	73
Net interest income and similar income	in € million	192	330	– 138
Net commission income	in € million	19	– 8	27
Net trading income	in € million	–	– 48	48
Net income from financial investments	in € million	– 1	– 17	16
Net income from hedge relationships	in € million	– 27	– 39	12
Balance of other operating income/expenses	in € million	110	2	108
Provisions for losses on loans and advances	in € million	– 1	401	– 402
General administrative expenses	in € million	174	171	3
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	120	– 352	472
Taxes on income	in € million	43	– 18	61
Net income/loss	in € million	77	– 334	411
Key ratio				
Cost-income ratio	in %	59.4	77.7	

of the financed property. In the previous year period, net commission income was affected by expenses of € –45 million which were incurred in connection with the guarantees of SoFFin.

Net trading income amounted to € 0 million (1.1.–30.6.2010: € –48 million). Deutsche Pfandbriefbank Group does not have any portfolios to generate short-term gains. Net trading income in the previous year period included income from an HRE-internal guarantee (€ 35 million) and an expense from provisions which have to be created to reflect the higher probabilities of default of customer derivatives (€ –73 million). The guarantee and also the provisions were transferred to FMS Wertmanagement in the fourth quarter of 2010.

In the first half of 2011, net income from financial investments improved to € –1 million compared with € –17 million in the previous year period. In the first half of 2011, this item did not include any significant individual items of write-ups or write-downs and sales of financial assets. The improvement compared with the previous year period was mainly attributable to a much lower requirement for additions to the portfolio-based allowances for LaR financial investments of € –1 million (1.1.–30.6.2010: € –15 million).

The net income from hedge relationships amounted to € –27 million, and was thus less negative than was the case in the corresponding previous year period (€ –39 million). A valuation result of € –22 million (1.1.–30.6.2010: € –37 million) was attributable to dFVTPL assets in conjunction with the related hedges. The fair values of the dFVTPL assets changed mainly as a result of credit spread movements of securities from the Republic of Portugal. Hedge inefficiencies within the range of 80 % to 125 % permitted in accordance with IAS 39 resulted in expenses of € –5 million (1.1.–30.6.2010: € –2 million).

The balance of other operating income/expenses amounted to € 110 million (1.1.–30.6.2010: € 2 million). The main net income of € 65 million (1.1.–30.6.2010: € 0 million) was attributable to services of the Group for the ongoing operation of FMS Wertmanagement. The income compensates the additional administrative expenses incurred for rendering these services. In addition, this item also includes income of pbb Services GmbH of € 21 million (1.1.–30.6.2010: € 26 million), which also renders services to the DEPFA Group. Foreign currency translation (in particular US dollar) resulted in income of € 9 million (1.1.–30.6.2010: € –18 million). One-off income of € 3 million resulted from a refund of an invoice for fees.

Provisions for Losses on Loans and Advances In the first half of 2011, in provisions for losses on loans and advances an income of € –1 million (1.1.–30.6.2010: expense € 401 million) resulted due to the partial improvement on some real estate markets. Thereby individual allowances increased by net € 11 million (1.1.–30.6.2010: € 422 million). The additions related to a small number of financings. The portfolio-based allowances also reflected the positive impact of the market improvement on ratings and probabilities of default and consequently net € –11 million had to be reversed from the portfolio-based allowances (1.1.–30.6.2010: € –20 million). An income of € –1 million (1.1.–30.6.2010: € –1 million) resulted from recoveries from written-off loans and advances.

General Administrative Expenses General administrative expenses amounted to € 174 million in the first six months of 2011, and were thus slightly higher than the corresponding previous year period figure (1.1.–30.6.2010: € 171 million). Reduced other administrative expenses compensated the increase in personnel expenses to a large extent. The latter increased from € 57 million in the corresponding previous year period to € 67 million in the current year, amongst others due to a higher average workforce. This increase in the workforce was due to the recruitment of further staff for rendering services for FMS Wertmanagement. The expenses of rendering services are opposed by the servicing income disclosed in the balance of other operating income/expenses. On the other hand, the other administrative expenses in the first half of 2011 of € 107 million were lower than in the corresponding previous year period of € 114 million. This was mainly due to lower consultancy costs. However, the other administrative expenses was affected by the expenses of projects for optimising the processes and the IT infrastructure. The ratio between general administrative expenses and operating revenues (cost-income ratio) decreased to 59.4 % (1.1.–30.6.2010: 77.7 %).

Balance of Other Income/Expenses As was the case in the previous year period, the balance of other income/expenses was balanced out again in the first half of 2011 because there were no material income or expenses. In the previous year period, the additions to and reversals of restructuring provisions virtually balanced each other out.

Pre-tax Profit/Loss Pre-tax profit improved significantly to € 120 million in the first half of 2011 compared with a negative figure of € –352 million in the corresponding previous year period. The very positive pre-tax profit reflects the successful measures for restructuring and refocusing Deutsche Pfandbriefbank Group. However the extent of the profit has benefited from some one-off effects.

Taxes on Income Expenses for current taxes (€ 26 million) and for deferred taxes (€ 17 million) resulted in a total expense for taxes on income of € 43 million (1.1.–30.6.2010: total income from taxes on income of € –18 million).

Net Profit/Loss In the first half of 2011, net profit amounted to € 77 million (1.1.–30.6.2010: € –334 million).

Operating Segment Public Sector Finance (PSF)

Key Financials Public Sector Finance		1.1.–30.6.2011	1.1.–30.6.2010	Change
Operating performance				
Operating revenues	in € million	44	45	–1
Net interest income and similar income	in € million	57	51	6
Net commission income	in € million	–2	–3	1
Net trading income	in € million	3	8	–5
Net income from financial investments	in € million	3	–11	14
Net income from hedge relationships	in € million	–25	–	–25
Balance of other operating income/expenses	in € million	8	–	8
Provisions for losses on loans and advances	in € million	–	5	–5
General administrative expenses	in € million	26	27	–1
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	18	13	5
Key ratio				
Cost-income ratio	in %	59.1	60.0	

The operating segment Public Sector Finance comprises the public sector financing arrangements which are eligible for cover funds under German law.

The pre-tax result in the Public Sector Finance segment increased to € 18 million (1.1.–30.6.2010: € 13 million). The main reasons for the increase were a higher net interest income, a better net income from financial investments and an increased balance of other operating income and expenses. Those positions were materially compensated by a reduced net trading income and a negative net income from hedge relationships.

Operating Revenues Operating revenues of € 44 million (1.1.–30.6.2010: € 45 million) were approximately on the level of the corresponding prior year period. Net interest income increased to € 57 million (1.1.–30.6.2010: € 51 million), which was mainly attributable to higher income from redemption of liabilities and closing of derivatives. Despite a strong increase in new business, the volume of interest-bearing assets declined as a result of higher repayments. The interest margin of new business was considerably higher than the margin of existing business. Net commission income of € –2 million did not include any material individual items, and was at the previous year level (1.1.–30.6.2010: € –3 million). The net trading income of € 3 million (1.1.–30.6.2010: € 8 million) was attributable to the measurement of interest rate derivatives in the bank book. The net income from financial investments of € 3 million (1.1.–30.6.2010: € – 11 million) is almost exclusively attributable to the disposal of LaR financial investments. In the first half of 2011, net income from hedge relationships resulted in € –25 million (1.1.–30.6.2010: € 0 million), which was mainly related to Portuguese securities measured at fair value through profit or loss whose credit spreads have widened significantly. As was the case in the previous year (1.1.–30.6.2010: € 0 million), the balance of other operating income/expenses of € 8 million did not contain any material individual items.

Provisions for Losses on Loans and Advances It was not necessary for any additions to provisions for losses on loans and advances in the reporting period (1.1.–30.6.2010: € 5 million).

General Administrative Expenses General administrative expenses of € 26 million (1.1.–30.6.2010: € 27 million) were approximately on the level of the prior year period. Because operating revenues and general administrative expenses changed immaterially compared to the prior year period, the cost-income ratio was at 59.1% (1.1.–30.6.2010: 60.0%).

Operating Segment Real Estate Finance (REF)

Key Financials Real Estate Finance		1.1.–30.6.2011	1.1.–30.6.2010	Change
Operating performance				
Operating revenues	in € million	146	265	–119
Net interest income and similar income	in € million	123	311	–188
Net commission income	in € million	22	42	–20
Net trading income	in € million	1	–79	80
Net income from financial investments	in € million	–	–5	5
Net income from hedge relationships	in € million	–2	–	–2
Balance of other operating income/expenses	in € million	2	–4	6
Provisions for losses on loans and advances	in € million	11	395	–384
General administrative expenses	in € million	67	87	–20
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	68	–217	285
Key ratio				
Cost-income ratio	in %	45.9	32.8	

The operating segment Real Estate Finance comprises all commercial real estate financing arrangements of the Group.

The pre-tax result in the Real Estate Finance segment was positive at € 68 million, compared with a negative result in the corresponding previous year period (1.1.–30.6.2010: € –217 million). Considerably lower additions to provisions for losses on loans and advances were the main reasons for the improvement in results compared with the previous year period.

Operating Revenues Operating revenues declined in the first two quarters of 2011 to € 146 million (1.1.–30.6.2010: € 265 million). Net interest income declined to € 123 million (1.1.–30.6.2010: € 311 million), due to the transfer of interest-bearing assets to FMS Wertmanagement and also to the reduction of loans. On the other hand, the new business volume (including prolongations with a duration longer than one year) of € 2.9 billion which was in line with overall strategy had a positive impact. New business was written mainly in Germany. The interest margin for the new business in the segment in the first six months of 2011 was slightly higher than the margin for existing business. Net commission income of € 22 million was lower than the corresponding previous year figure (1.1.–30.6.2010: € 42 million). The main reason for the decline was a lower income from lending operations. However, a positive effect in net commission income resulted from a material repayment and the realisation of the financed property (€ 7 million). Net trading income in the first half of 2011 of € 1 million is attributable to changes in the market values of interest rate derivatives which are used as instruments of active interest rate management. The net trading income of the previous year period (€ –73 million) was almost completely attributable to provisions which had to be created in view of higher probabilities of default of customer derivatives. The affected customer derivatives were mostly transferred to FMS Wertmanagement in the fourth quarter of 2010 together with the receivables. In the first half of 2011, there were no effects arising from disposals of financial assets, nor were there any write-downs and write-ups in relation to such investments. Accordingly, the net income from financial investments amounted to € 0 million. In the previous year period, the net income from financial investments was negative at € –5 million, and was mainly attributable to impairments of securities. In the first half of 2011, there were expenses of € –2 million attributable to hedge relationships which were not completely effective within the range permitted in accordance with IAS 39 (1.1.–30.6.2010: € 0 million). The balance of other operating income/expenses amounted to € 2 million (1.1.–30.6.2010: € –4 million).

Provisions for Losses on Loans and Advances The net additions to provisions for losses on loans and advances remained at a moderate level (€ 11 million) in the first six months of 2011 (1.1.–30.6.2010: € 395 million). They are attributable to a small number of individual cases. Overall, net additions to individual allowances amounted to € 16 million (1.1.–30.6.2010: € 422 million), whereas portfolio-based allowances amounting to € –5 million were reversed (1.1.–30.6.2010: € –26 million).

General Administrative Expenses The general administrative expenses of € 67 million (1.1.–30.6.2010: € 87 million) were lower than the corresponding figure for the previous year period. Because operating revenues declined to a larger extent than the general administrative expenses, the cost-income ratio deteriorated to 45.9 % (1.1.–30.6.2010: 32.8 %).

Operating Segment Value Portfolio (VP)

Key Financials Value Portfolio		1.1.–30.6.2011	1.1.–30.6.2010	Change
Operating performance				
Operating revenues	in € million	96	– 20	116
Net interest income and similar income	in € million	4	– 21	25
Net commission income	in € million	– 1	– 47	46
Net trading income	in € million	–	23	– 23
Net income from financial investments	in € million	– 4	– 1	– 3
Net income from hedge relationships	in € million	–	–	–
Balance of other operating income/expenses	in € million	97	26	71
Provisions for losses on loans and advances	in € million	– 12	1	– 13
General administrative expenses	in € million	79	42	37
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	29	– 63	92
Key ratio				
Cost-income ratio	in %	82.3	> 100.0	

Mainly the opposite effects resulting from the transfer of positions to FMS Wertmanagement are disclosed in the operating segment Value Portfolio. In addition, the segment contains some selected structured products as well as the income and expenses attributable to the services for the ongoing operation of FMS Wertmanagement.

The pre-tax result of the Value Portfolio segment in the first half of 2011 was positive at € 29 million compared with a loss of € – 63 million in the corresponding previous year period. This was due mainly to considerable improvements in net interest income and net commission income as well as due to an increased balance of other operating income/expenses.

Operating Revenues The operating revenues in the first six months of 2011 improved from € – 20 million in the corresponding previous year period to € 96 million. The assets remaining in the Value Portfolio segment had virtually balanced interest margin, which meant that the segment did not generate significant net interest income (€ 4 million). In contrast, in the corresponding previous year period, i.e. before the transfer of positions to FMS Wertmanagement, net interest income was negative at € – 21 million. The net commission income of € – 1 million also did not contain any material effects, whereas in the previous year period (1.1.–30.6.2010: € – 47 million) it was affected by the guarantees in connection with the liquidity supports of € – 45 million. The net trading income of the first half of 2011 was balanced at € 0 million. In the corresponding previous year period, the net trading income (1.1.–30.6.2010: € 23 million) benefited from measurment gains of € 35 million relating to an HRE-internal guarantee which was split off in the fourth quarter of 2010. The net income from financial investments of € – 4 million (1.1.– 30.6.2010: € – 1 million) was mainly attributable to income and expenses relating to the disposal of LaR financial investments. The sharp increase in the balance of other operating income/expenses of € 97 million compared with the corresponding previous year period (1.1.– 30.6.2010: € 26 million) was mainly due to a net income from services of Deutsche Pfandbriefbank Group rendered for the ongoing operation of FMS Wertmanagement of € 65 million (1.1.– 30.6.2010: € 0 million). In addition, the balance of other operating income/expenses included an income from services which the Group member pbb Services GmbH also rendered to the DEPFA Group.

Provisions for Losses on Loans and Advances A net figure of € – 12 million (1.1.– 30.6.2010: additions of € 1 million) could be reversed in the position provision for losses on loans and advances due to the takeover of defaults by another credit institution (€ – 5 million). In addition, the model reserve for CDOs also had to be reversed to a large extent (€ – 6 million) because most of the structured products were transferred to FMS Wertmanagement.

General Administrative Expenses General administrative expenses of € 79 million were higher than the figure for the corresponding previous year period (1.1.– 30.6.2010: € 42 million). The considerable increase is mainly attributable to the expenses which incurred due to the rendering of services of Deutsche Pfandbriefbank Group for the ongoing operation of FMS Wertmanagement. Because operating revenues increased more than general administrative expenses, the cost-income ratio improved significantly from > 100 % in the previous year period to 82.3 % in the first half of 2011.

Consolidation & Adjustments

Key Financials Consolidation & Adjustments		**1.1.–30.6.2011**	**1.1.–30.6.2010**	Change
Operating performance				
Operating revenues	in € million	7	–70	77
Net interest income and similar income	in € million	8	–11	19
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	–	–39	39
Balance of other operating income/expenses	in € million	3	–20	23
Provisions for losses on loans and advances	in € million	–	–	–
General administrative expenses	in € million	2	15	–13
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	5	–85	90

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

In the Consolidation & Adjustments column an increased pre-tax result of €5 million was disclosed compared with the corresponding previous year period (1.1.–30.6.2010: €–85 million). This is mainly attributable to a higher net interest income, a now balanced net income from hedge relationships, an increased balance of other operating income/expenses and declined general administrative expenses.

Development in Assets

Assets in € million	30.6.2011	31.12.2010
Cash reserve	131	224
Trading assets	9,239	16,168
Loans and advances to other banks	8,445	12,128
Loans and advances to customers	73,454	118,642
Allowances for losses on loans and advances	–492	–561
Financial investments	29,839	33,605
Property, plant and equipment	4	5
Intangible assets	33	32
Other assets	3,824	5,035
Income tax assets	1,528	1,545
Current tax assets	64	64
Deferred tax assets	1,464	1,481
Total assets	**126,005**	**186,823**

The total assets of the Deutsche Pfandbriefbank Group amounted to € 126.0 billion as of 30 June 2011, and were thus € 60.8 billion (32.6 %) lower than the corresponding figure at the end of the previous year (31 December 2010: € 186.8 billion).

The decline is mainly attributable to a further reduction of the opposite effects which had raised total assets in the course of the transfer of positions to FMS Wertmanagement. These opposite effects, which, for instance, resulted from the handling of refinancing arrangements for FMS Wertmanagement or the transfer of risks by way of back-to-back derivatives, were reduced further in the first half of 2011:

> FMS Wertmanagement refinanced its operations on a stand-alone basis to a much greater extent in the first half. Accordingly, Deutsche Pfandbriefbank Group only has to pass on a minor volume of refinancing to FMS Wertmanagement. Overall, the volume of reverse repos declined from € 59.9 billion at the end of the previous year to € 19.0 billion as of 30 June 2011, resulting in a decline in loans and advances to customers.

> The back-to-back derivatives were to a certain extent replaced by direct business relations between FMS Wertmanagement and the external customers (novation of derivatives). In addition, the market value of the back-to-back derivatives also declined as a result of the higher level of market interest rates. Overall, the market value of back-to-back derivatives amounted to € 7.2 billion as of 30 June 2011, compared with € 13.5 billion as of 31 December 2010. The decline is reflected in trading assets.

> The volume of securities issued by FMS Wertmanagement in the portfolio declined from € 8.8 billion at the end of the previous year to € 5.2 billion as of 30 June 2010, resulting in a decline in financial assets.

The total assets would also have declined even without the decline in the opposite effects resulting from the transfer of positions to FMS Wertmanagement. This was due to repayments, which exceeded the new business. Market-related factors also had the effect of reducing total assets. Accordingly, the fact that the euro strengthened against the US dollar, the Japanese yen and sterling resulted in lower carrying amounts of the foreign currency positions translated into euros. In addition, the higher level of interest rates resulted in a decline of the market value of the derivatives, which was also reflected in a decline in total assets.

Development in the Financial Position

Equity and liabilities in € million	**30.6.2011**	**31.12.2010**
Liabilities to other banks	23,906	62,587
Liabilities to customers	14,554	17,384
Liabilities evidenced by certificates	56,802	63,846
Trading liabilities	9,279	16,294
Provisions	189	176
Other liabilities	13,957	18,883
Income tax liabilities	1,504	1,526
Current tax liabilities	102	83
Deferred tax liabilities	1,402	1,443
Subordinated capital	2,489	2,766
Liabilities	**122,680**	**183,462**
Equity attributable to equity holders	3,325	3,361
Subscribed capital	380	380
Silent participation	999	999
Additional paid-in capital	5,036	5,036
Retained earnings	−3,275	−3,089
Foreign currency reserve	−33	−35
Revaluation reserve	141	255
AfS reserve	−271	−259
Cash flow hedge reserve	412	514
Consolidated loss 1.1.–31.12.	–	−185
Consolidated profit 1.1.–30.6.2011	77	–
Non-controlling interests in equity	–	–
Equity	**3,325**	**3,361**
Total equity and liabilities	**126,005**	**186,823**

Equity has not changed significantly in total in the first half of 2011. It amounted to € 3.3 billion compared with € 3.4 billion as of 31 December 2010. No capital measures have been carried out. The payment condition which can be set as part of the process of transferring positions to FMS Wertmanagement has so far not affected Deutsche Pfandbriefbank Group and will probably have impacts mainly on DEPFA. The cash flow hedge reserve declined to a minor extent as a result of maturities of derivatives and the lower level of market interest rates.

The total consolidated liabilities amounted to € 122.7 billion as of 30 June 2011, compared with € 183.5 billion as of 31 December 2010. 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 which increased the total assets at the point at which positions were transferred to FMS Wertmanagement. Accordingly, trading liabilities declined as a result of the lower market values and the novation of back-to-back derivatives. Liabilities to other banks declined because less funding had to be raised for FMS Wertmanagement.

In addition, the liabilities evidenced by certificates also declined because expiring issues were not replaced to the same extent by new issues. For instance, benchmark placings were not issued as a result of a sufficient liquidity cushion and the EU aid proceedings which have not been completed in the first half of 2011. As was also the case on the assets' side of the balance sheet, market-related factors on the liabilities' side of the balance sheet had the effect of reducing the balance sheet total. Accordingly, the stronger euro was one of the main reasons behind the decline in liabilities to other banks and liabilities to customers. The market values of the derivatives declined as a result of the higher yield curve level.

The contingent liabilities amounted to € 0 billion as of 30 June 2011 (31 December 2010: € 0.1 billion). The other liabilities increased to € 0.9 billion compared with the end of the previous year (€ 0.8 billion). The loans which have not been paid out, or which have not been paid out completely, are reflected in the irrevocable loan commitments, which amounted to € 0.9 billion as of 30 June 2011 (31 December 2010: € 0.8 billion). The other liabilities were unchanged at € 0 billion compared with the end of the previous year.

Regulatory Indicators According to German Solvency Regulation

In accordance with the waiver rule set out in Section 2 a KWG, Deutsche Pfandbriefbank AG is not obliged to determine equity and core capital ratios at the level of the institution.

In September 2010 the Basel Committee on Banking Supervision adopted new recommendations, which are also known as Basel III. These include a tightening-up of the regulations regarding equity backing, a new equity ratio which is not linked to the risk weighting of assets and new standards for the supply of liquidity. Deutsche Pfandbriefbank Group simulated internally the effects of the future requirements based on the data as per 31 December 2010. As a result Deutsche Pfandbriefbank Group and HRE regard themselves as well prepared in large parts for being able to fulfil the requirements of Basle III in the future.

Summary

The pre-tax profit of Deutsche Pfandbriefbank Group was positive in the first half of 2011 (at € 120 million), compared with a loss of € – 352 million in the corresponding previous year period. However, the extent of the profit has benefited from some one-off effects. Deutsche Pfandbriefbank Group has stepped up its active operations on the market, with new business of € 4.1 billion. Total assets have declined appreciably, because the back-to-back derivatives and the handling of refinancing for FMS Wertmanagement have been reduced appreciably. Overall, the figures illustrate the success of Deutsche Pfandbriefbank Group in restructuring and refocusing the Group, and underline the profitability of the current portfolio.

Events after 30 June 2011

On 18 July 2011, the European Commission approved the governmental aid for HRE. With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance.

The decision of the European Commission relates to all aid elements granted to HRE since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of asset items to the deconsolidated environment FMS Wertmanagement, and requires appropriate compensation measures, in particular a reduction of total assets of Deutsche Pfandbriefbank Group. This has been achieved to a large extent.

The compensation measures for Deutsche Pfandbriefbank AG as a specialist bank still active on the market are as follows: Deutsche Pfandbriefbank AG operates new business in real estate finance and public sector investment finance. In public sector finance, activities as pure budget financing Deutsche Pfandbriefbank AG will not operate any new business. Deutsche Pfandbriefbank AG has limited its geographical activities to selected countries in Europe. The growth of Deutsche Pfandbriefbank AG will be limited and the new business must have a determined minimum yield. The requirements will be applicable until Deutsche Pfandbriefbank AG is reprivatised, and will be applicable at least until the end of 2013. The existing contractual links with the deconsolidated environment FMS Wertmanagement (in particular servicing, refinancing and back-to-back derivatives) will be terminated by no later than the end of September 2013.

Deutsche Pfandbriefbank Group may be sold on the medium-term. Measures have already been initiated to sever the links between the entities of the DEPFA Group and the companies of Deutsche Pfandbriefbank Group.

In addition, the European Commission imposed in relation to the aid proceedings the complete fulfilment of the payment condition (stipulated by the FMSA) of € 1.59 billion to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition has resulted in a subsequent purchase price adjustment in the companies of HRE which have transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to DEPFA Group, however depending on the future development, the entities of Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSA of its right to impose a payment condition by the issuance of one or more decrees will result in the payment condition being recognised in equity at that time and consequently has no impact on the income statement.

Furthermore, the European Commission has set conditions for interest and profit participation payments that Deutsche Pfandbriefbank Group makes to third parties outside the Group for certain instruments and until further notice. These conditions apply to a series of profit-related capital instruments, which existed on 30 September 2010 and which were not provided by SoFFin. Profits of Deutsche Pfandbriefbank Group will be used to repay the silent participation of SoFFin.

On 15 July 2011, the European Banking Authority (EBA) published the results of a European stress test. HRE exceeds all requirements stipulated by the EBA for all scenarios. Even when applying tougher stress factors under the so-called adverse scenario, projecting a two-year stress period through the end of 2012, the analysis shows that HRE would still have a core Tier 1 Ratio of 10.0 %, well in excess of the minimum level of 5.0 %. The payment condition of € 1.59 billion was already taken into account for the purposes of the stress test.

With the exception of the above, there have been no reportable events after 30 June 2011.

Risk Report

In the first half of 2011, the situation on the capital markets was again affected by the uncertain development of the debt situation of the European countries which are currently the focus of attention. In particular, the dramatic downgradings of some European countries by the rating agencies as well as the rescue packages which had been adopted were followed with great attention, not only in Europe.

On the real estate market, the first half of 2011 saw stronger demand for retail properties and rented office space particularly in Germany. There are also signs of a positive development on the real estate market throughout Europe. However, there are considerable differences between the strongly expanding market of Eastern Europe and the weaker markets of Southern Europe.

The stronger euro against the US dollar in the first half of 2011 automatically resulted in a slight reduction in the exposure at default (EaD) of Deutsche Pfandbriefbank Group. The currency fluctuation has not had any major impact on the liquidity situation.

Deutsche Pfandbriefbank Group is integrated into the higher-ranking risk management system of HRE Group.

Organisation and Principles of Risk and Capital Management

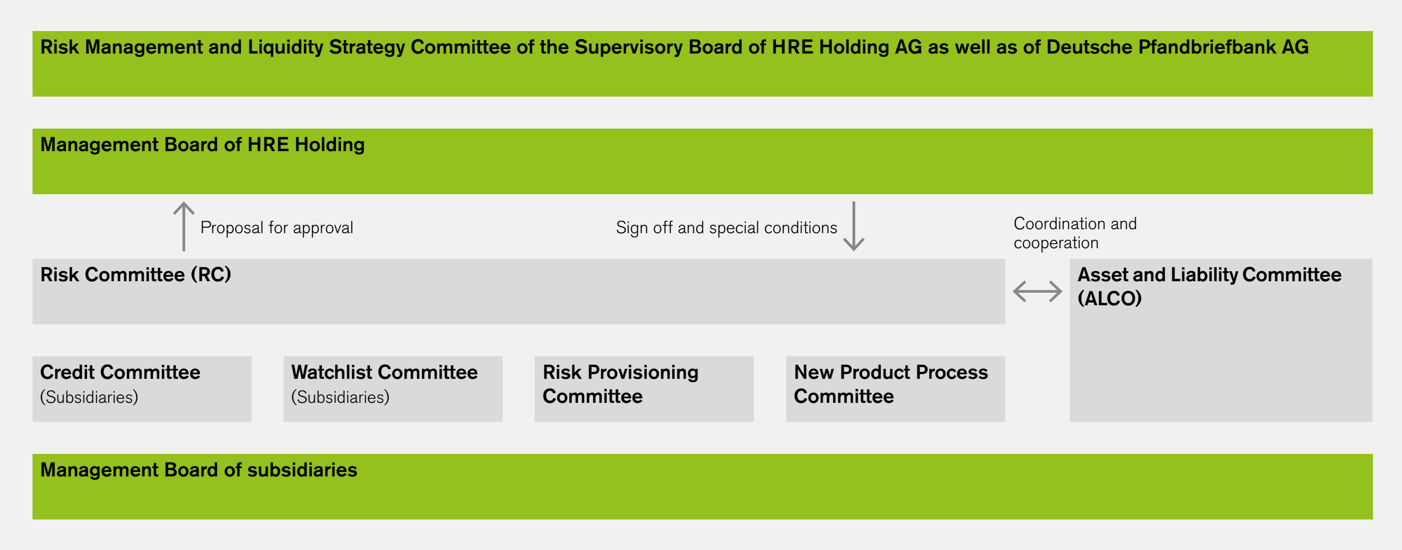
HRE has set up a Group-wide risk management and risk controlling system. This represents as well an important precondition for the application of the so-called waiver. All tasks in accordance with Section 25 a KWG for uniform risk identification, measurement and limiting as well as risk management are defined centrally by HRE Holding. 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. In addition to the Credit Committee, which is responsible for credit decisions 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 the Deutsche Pfandbriefbank Group.

Organisation of risk management of HRE Holding

as of 30 June 2011



The Management Board of HRE Holding is responsible for the Group-wide risk management system, and is responsible for taking decisions relating to all strategies and the main issues of risk management and risk organisation. The risk management system is a system which covers all business activities of the Group, and comprises the plausible and systematic identification, analysis, valuation, management, documentation and communication of all major risks and related monitoring on the basis of a defined risk strategy which is revised annually.

The members of the Management Board of Deutsche Pfandbriefbank Group, who also exercise their respective functions in the HRE Management Board, bear overall responsibility for all strategic and operational decisions of Deutsche Pfandbriefbank Group on the basis of the specifications of HRE.

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

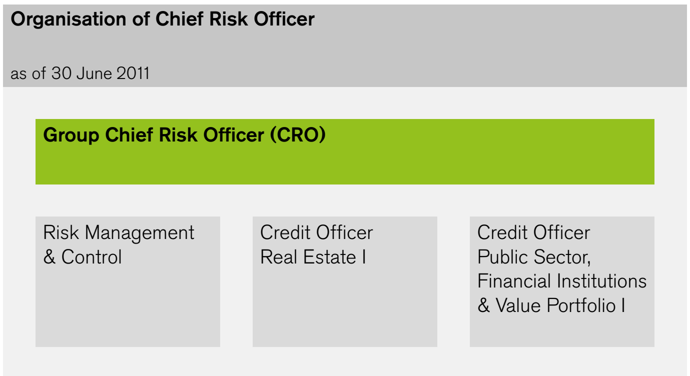
The Management Board of Deutsche Pfandbriefbank AG informs the Supervisory Board of Deutsche Pfandbriefbank AG regularly of any changes in the business and risk strategies as well as the risk profile of Deutsche Pfandbriefbank Group. The Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board of Deutsche Pfandbriefbank AG 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 HRE Group in which Deutsche Pfandbriefbank Group is integrated. 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.

Since the previous reporting date, there have not been any major changes in the composition and duties of the Risk Committee (RC), the Credit Committee, the Watchlist Committee and the Risk Provisioning Committee; composition and duties of those committees are reported in the Risk Report of the Deutsche Pfandbriefbank Group in the Annual Report 2010.

The New Product Process Committee ensures that, before business commences with new products and in new markets, the resultant risks as well as the related impact on processes, controls and the infrastructure are systematically analysed and addressed. Operations with new products or in new markets are only commenced when they have been approved by the New Product Process Committee.

The Asset and Liability Committee (ALCO) of HRE is chaired by the member of the Management Board responsible for Treasury and Asset Management. It comprises the CRO, the Chief Financial Officer (CFO), the head of Treasury, Finance, Risk Management & Control and the member of the Management Board responsible for Treasury at DEPFA. It meets on a monthly basis. Its tasks comprise liquidity management, management of the balance sheet structure, funds transfer pricing as well as market risk management and management of the regulatory capital ratios. This committee is also responsible for preparing draft decisions for liquidity and refinancing strategies of Deutsche Pfandbriefbank Group; following discussions in the Risk Committee, these are decided by the Management Board, as is also the case with acquisitions and disinvestments.

Group Chief Risk Officer (CRO) In addition to the above-mentioned committees, the following organisational entities of the Group CRO who is also the CRO of Deutsche Pfandbriefbank AG are an integral component of the risk management system, where Deutsche Pfandbriefbank Group is integrated:



The organisation of the CRO function comprises the following monitoring and back office entities on HRE Group level:

> The entity Risk Management & Control which is also responsible for monitoring and managing Group-wide market, counterparty, 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 of Deutsche Pfandbriefbank Group and the Credit Officer Public Sector, Financial Institutions & Value Portfolio I, who are each responsible for portfolio management and the analysis of selective new business

> The unit Global Workout Real Estate I, which is responsible for the restructuring and workout of all critical exposures in the Real Estate Finance segment and the Credit Secretary, which is particularly responsible for the organisation of the Credit Committee, were allocated to the Credit Officer Real Estate I unit in the first half of 2011. For the Public Sector Finance and Value Portfolio segments global workout is in the responsibility of the respective Credit Risk Management (CRM) areas. ImmoTrading which – inter alia – is responsible for the management of properties which have been included in the portfolio, was allocated to the Global Workout Real Estate I unit in the period under review.

In the period under review Property Analysis & Validation, which is responsible for the analysis and uniform valuation of the collateral properties using market and LTV methods, reported to the CEO.

In addition to the CRO function, the Compliance/Corporate Governance entity and the Audit entity 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 and significant transactions. Risk management is also supported by Legal. In addition to assessing its own portfolios, Deutsche Pfandbriefbank Group also handles servicer functions for the FMS Wertmanagement, the extent of which is set out in service level agreements and a cooperation agreement. There are only minor decision-taking powers within the predefined framework.

Risk Strategy and Policies

The risk strategy of HRE Group is based on the business strategy and the results of the group-wide financial planning process. It is applicable for the operating segments and legal units of HRE Group, and thus also for Deutsche Pfandbriefbank Group, and also forms the framework for the risk and business strategies of the HRE operating segments as well as for the Group-wide risk manual. The risk strategy was adopted in December 2010 by the Management Board of Deutsche Pfandbriefbank AG; it was updated in June 2011 and will be presented to the Risk Management and Liquidity Strategy Committee of the Supervisory Board of Deutsche Pfandbriefbank AG in order to be noted.

The risk strategy reflects the strategic refocusing of Deutsche Pfandbriefbank Group as a special-purpose bank for real estate finance and public sector investment finance in Germany and selected countries in Europe with Pfandbrief-oriented refinancing. It is integrated in the business planning process and is updated at least annually.

Operational specification 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

The regular reports addressed to the Management Board of Deutsche Pfandbriefbank AG:
> Daily liquidity risk report for the liquidity position and preview
> Weekly summary of the markets, the market risk development as well as relevant management information
> Quarterly Group risk and credit risk report
> Monthly, short Group risk report concerning major parameters relevant for management purposes

The CRO and the member of the Management Board of Deutsche Pfandbriefbank responsible for Treasury and Asset Management also receive market risk reports on a daily basis.

These reports provide the Management Board of Deutsche Pfandbriefbank AG with a comprehensive overview and detailed information concerning the risk situation for each risk type as well as with further information relevant for managing purposes. In addition, special reports are prepared on an ad hoc basis or at the request of the Management Board or Supervisory Board; these special reports consider specific and acute risk aspects, for instance in relation to critical markets, products or counterparties.

In the individual committees described above, the members of the Management Board receive further detailed reports concerning the risk position with specific management information and recommendations.

The Supervisory Board of Deutsche Pfandbriefbank AG or the Risk Management and Liquidity Strategy Committee of the Supervisory Board are informed about the portfolio structure, the risk situation and specific risk-relevant issues at regular intervals, at least quarterly and at short notice, if necessary.

They receive the Group risk and the credit risk report on a quarterly basis.

The Risk Management and Liquidity Strategy Committee of the Supervisory Board of Deutsche Pfandbriefbank AG has been notified of all major exposures at Deutsche Pfandbriefbank Group as well as individual allowances over €5 million.

Risk Quantification and Risk Management

The value at risk (VaR) approach is used for quantifying risk and also for determining the economic capital for the main risk types apart from liquidity risk. The individual calculation methods are described in detail in the section «Result of Risk-bearing Capacity Analysis».

Further risk types considered to be material as a result of the regular internal risk inventory, such as strategic, regulatory and model risk as well as pension, participation and property risk which are considered to be immaterial, are not measured quantitatively. Instead, they are managed and limited by means of regular detailed reports, clear specifications, e.g. 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 comparing economic capital and the available financial resources, also considering stress test results
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 Tier I ratio, according to Basel II, does not fall below 10%
3. Operational risk management via:
   > The use of Basel-II-compliant risk parameters in lending business at Deutsche Pfandbriefbank Group. The Basel-II-compliant management 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

Deutsche Pfandbriefbank Group has established a risk-bearing capacity analysis which is based on the Internal Capital Adequacy Assessment Process (ICAAP). The audit of internal capital adequacy is based on the concept of economic capital. The method for calculating the economic capital takes account of regulatory requirements (Basel II Pillar 2, MaRisk) and also the business activities of the Bank.

Economic capital is defined as «the quantity of capital required by a bank in order to cover the largest potential unexpected total loss with a defined probability over a time horizon of one year». The use of a confidence level of 99.95% is justified in detail in the Risk Report of the Annual Report 2010.

The methods of calculating the individual VaR for the individual risk types and the current figures are described in greater detail in the chapter «Result of Risk-bearing Capacity Analysis». As is normal for the sector, economic capital is not calculated for liquidity risk; however, the risk is taken into consideration in stress scenarios.

In order to evaluate the adequacy of the capital resources of Deutsche Pfandbriefbank Group, the amount of economic capital is compared with the financial resources available to the Bank within one year. The definition of the «available financial resources» for one year comprises customary components such as essentially the shareholders' equity in accordance with IFRS and components similar to shareholders' equity (subordinated and hybrid capital with a holding period of at least one year). These components are suitable for alleviating the impact of potential losses and for maintaining a corresponding risk buffer. The available financial resources must always be greater than the economic capital.

The results of the capital adequacy assessment process and of the stress tests are regularly presented to the central Management Board and the Risk Committee. The results are discussed and if necessary management measures are defined by the central Management Board and the Risk Committee.

Major Projects in Risk Management at Deutsche Pfandbriefbank Group

As a result of the complete integration of risk management of Deutsche Pfandbriefbank Group in risk management of HRE, Deutsche Pfandbriefbank Group also benefits from the following IT-related further developments at the Group level:

Limit System The Group-wide limit system of HRE for credit risks, which covers all borrowers and products of all consolidated legal entities of the Group, was implemented in the first quarter of 2010. Further improvements were implemented in the first half of 2011.

Harmonisation of Market Risk As part of the Group-wide process of harmonising the management of market risk which was implemented in phases, the first half of 2011 focused on the further development of method aspects relating to the central market database. Further project phases (particularly system consolidation of the front office systems) are planned in the following releases under the programme New Evolution – TOPP 2011.

Liquidity Risk Management The fourth quarter of 2010 saw the development of an application which meets the reporting requirements in relation to Group-wide and uniform liquidity risk management. This was implemented in January 2011, and was consistently further developed in the first half of 2011. In 2011, there will be a further stage which adequately takes account of the constantly expanding regulatory aspects.

If the mentioned projects are affected by a major delay or they fail, this might result in inappropriate management signals.

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

Economic capital is calculated for all risk types, apart from liquidity risk. However, liquidity risk scenarios are also taken into account in the course of stress tests in connection with the review of risk-bearing capacity at HRE Group level as well as at Deutsche Pfandbriefbank Group level.

The following are major risk types at 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
> Model risks

Credit Risk

Definition

Credit risk is defined as the risk of the loss of value of a receivable or the partial or complete default of a receivable due to the default or downgrading of the rating of a business partner. The credit risk also comprises the counterparty, issuer and country risk, which are defined in the Risk Report of the Annual Report 2010.

Credit Risk Strategy and Principles

As part of the restructuring process, HRE Group and thus Deutsche Pfandbriefbank Group have broken down the overall credit portfolio of the group into a strategic portfolio (Real Estate Finance and Public Sector Finance) and a Value Portfolio. The new portfolio structure was implemented in credit risk reporting in the first quarter of 2010 and updated in June 2011. The adopted risk strategy of Deutsche Pfandbriefbank Group already reflects the new revised portfolio structure.

The strategic portfolio comprises the following:
> Public Sector Finance (PSF) segment, which comprises the public sector finance operations of Deutsche Pfandbriefbank Group
> The Real Estate Finance (REF) segment which comprises the former commercial real estate finance portfolio

In the Public Sector Finance segment, the new business of Deutsche Pfandbriefbank Group will concentrate on public sector investment finance in selected countries in Europe.

New business in the Real Estate Finance segment focuses on Pfandbrief-eligible financing of commercial real estate with sustainable cash flow within selected countries in Europe. The main target customers of these operations are professional investors, institutional clients, real estate funds and selective developers. The intended range of products comprises less complex loan structures, selectively extended to include derivative hedging products.

New business is to be refinanced largely via Pfandbrief issues with matching maturities.

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. With regard to the non-strategic portfolios, the Value Portfolio comprises in particular 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.

Credit Risk Reports

The following reports are the main pillars of reporting for credit risks, with due consideration being given to the additional requirements under MaRisk:
> 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 group level 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 of Deutsche Pfandbriefbank.
> 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 and is discussed by the Management Board of Deutsche Pfandbriefbank AG; the Risk Management and Liquidity Strategy Committee of the Supervisory Board of Deutsche Pfandbriefbank AG is notified accordingly.
> 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 subportfolio 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 risk 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 methods of the stress tests regarding the economic capital in the counterparty default risk are unchanged compared with the end of 2010, and are described in the Risk Report of the Annual Report 2010.

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 Tier I ratio (currently 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 at 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 the former DEPFA Deutsche Pfandbriefbank AG is expected in the second half of 2011.

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 instance for Deutsche Pfandbriefbank Group:

> 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:

> Determining the credit risk VaR at the portfolio level by way of a credit portfolio model; analysis of concentration risks and various stress tests
> Central Group-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 local 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. A new set of powers for new business, governing the delegation of powers, has been applicable since the beginning of February 2011.

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

Core processes of credit risk management and monitoring as well as the relevant areas of the CRO function which are involved are described in the following:

The credit risk management entities (Credit Officer Real Estate I and Credit Officer Public Sector, Financial Institutions & Value Portfolio I) carry out the initial risk analysis for new business and annual risk analysis for existing business. PD and LGD rating tools, which are developed by Credit Risk for Risk Management and Control (RMC) and annually validated and calibrated, are used for valuation purposes and for preparing the credit decision in new and prolongation business. Property Analysis & Valuation Germany/Property Analysis Europe provides support for analysing and valuing the securities. The application is checked by the relevant credit risk management entity.

The Legal department, where appropriate together with external lawyers/lawyers' offices, is responsible for the contract and collateral organisation.

Defined early warning indicators are constantly analysed by Credit Risk Management (CRM). If any problems are identified, an exceptional test is performed on the credit default risk (including a review of the value of collateral) and appropriate alternative actions are identified. Such cases are also included in a monthly monitoring cycle and presented in the Watchlist Committee.

If there are any objective indications of an impairment, the extent of such an impairment is determined. In the Risk Provisioning Committee (see also overview for organisation and committees), the results are discussed and, where necessary, decisions are taken with regard to creating or reversing impairments.

A restructuring plan or a workout plan for critical and impaired exposures is drawn up. The decision regarding restructuring or workout takes account of scenario analyses for the potential development of the borrower, the collateral or the relevant market. These are presented and approved in the Risk Provisioning Committee.

Critical exposures (watchlist) as well as restructuring and workout cases (non-performing loans) are reported monthly in the Group risk report and in the Risk Committee and also, upon request, in special analyses to the Management Board and Supervisory Board.

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, guarantees, fixed-income securities, etc.) in the Public Sector Finance field.

The credit officers review the value of the collateral 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 has been calculated using a standard method in line with the Basel-II-compliant Exposure at Default (EaD) since 31 December 2009.

The 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 (maximum 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 € 96.3 billion as of 30 June 2011; this is a considerable decline compared with the end of 2010 (EaD: € 117.2 billion). Most of the decline is due to the reduction of € 28.3 billion in the EaD with regard to the counterparty FMS Wertmanagement as of 31 December 2010, namely to € 14.1 billion as of 30 June 2011.

The EaD with regard to FMS Wertmanagement is broken down as follows: for most of the derivatives earmarked to be transferred to FMS Wertmanagement, it was not possible initially to arrange for beneficial ownership to be transferred, which meant that the market price risks of the derivatives were transferred to FMS Wertmanagement by way of concluding derivatives with identical conditions between Deutsche Pfandbriefbank Group and FMS Wertmanagement. These so-called back-to-back transactions account for an EaD of € 5.1 billion (31 December 2010: € 9.6 billion). Because FMS Wertmanagement does not have the status of a bank, Deutsche Pfandbriefbank Group also handles certain refinancing functions for the deconsolidated environment, for instance with the ECB or in bilateral repo transactions, which accounted for an EaD of € 3.8 billion (31 December 2010: € 10.7 billion). And finally, Deutsche Pfandbriefbank Group still holds bonds with an EaD of € 5.2 billion (31 December 2010: € 7.9 billion) issued by FMS Wertmanagement, which were provided by FMS Wertmanagement in connection with the claim for compensation of Deutsche Pfandbriefbank Group for the transferred assets and liabilities.

In addition, the credit portfolio EaD of € 96.3 billion also includes assets with an EaD of € 0.8 billion (31 December 2010: € 1.0 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 risk of these assets was 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 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 HRE Group determined without the above positions amounted to € 81.4 billion.

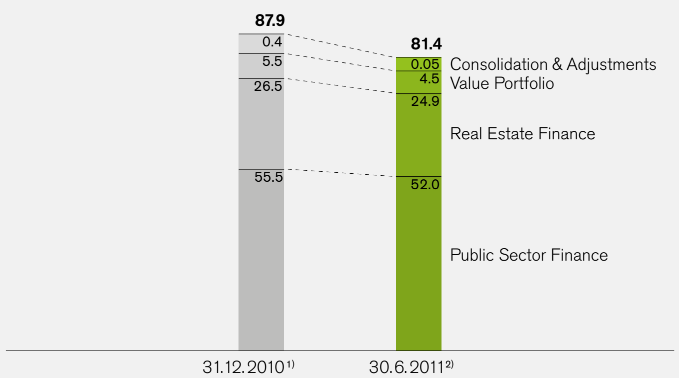
The new business of Deutsche Pfandbriefbank Group comprises commitments totalling € 4.1 billion; of this figure, € 2.9 billion is attributable to the Real Estate Finance segment, and € 1.2 billion is attributable to the Public Sector Finance segment. Of the figure of € 2.9 billion for the Real Estate Finance segment, € 1.3 billion is attributable to the selected prolongations of existing business.

Overview of the Total Exposure of Deutsche Pfandbriefbank Group: € 81.4 Billion EaD The credit portfolio of HRE Group is broken down into the following strategic 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, the category «Consolidation & Adjustments» includes internal reconciliation and consolidation positions as well as a small number of individual positions which cannot be allocated to any other category.

Total exposure: EaD according to business segments

in € billion



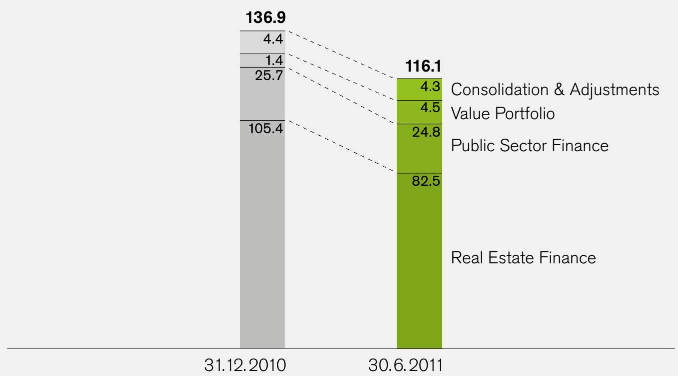
1) In addition, € 29.3 billion EaD to the counterparty FMS Wertmanagement including guaranteed positions of € 1.0 billion (PSF: € 27.7 billion; VP: € 1.6 billion)
2) In addition, € 14.9 billion EaD to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion (PSF: € 10.9 billion; VP: € 4.0 billion)

The total exposure (EaD) of Deutsche Pfandbriefbank Group declined in the first half of 2011 to € 81.4 billion (31 December 2010: € 87.9 billion). Overall, the relative percentages of the individual segments remained essentially stable. The decline in EaD is mainly attributable to regular expiries of financing arrangements in the portfolio of Deutsche Pfandbriefbank Group. The appreciation of approx. 6 % of the euro against the US dollar between the end of 2010 and the end of June 2011 also reduced the EaD to a minor extent.

Risk Parameters Expected Loss The expected loss (EL), which is calculated from the annual probability of default (PD), the loss-given default (LGD) and the exposure at default (EaD), for Deutsche Pfandbriefbank Group amounted to € 116.1 million as of 30 June 2011 using the parameters specified by Basel II. The expected loss for a period of one year is a key management parameter for the portfolio, and is calculated for the entire exposure excluding transactions with other institutions within HRE Group and non-performing loans for which an impairment 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.

The figures for the expected loss for the portfolio of the Public Sector Finance segment are very stable for the first half period. The minor reduction in the expected loss is mainly due to reductions in the exposure.

Using the parameters specified under Basel II, the expected loss (EL) for the Real Estate Finance portfolio amounted to € 82.5 million as of 30 June 2011. It has thus declined appreciably compared with 31 December 2010 (€ 105.4 million), which is mainly due to an improvement in the PD and LGD parameters at some major customers.

Using the parameters specified under Basel II, the expected loss for the Value Portfolio amounted to € 4.5 million as of 30 June 2011. It has thus increased compared with 31 December 2010 (€ 1.4 million), due to a more conservative assessment of the PD and LGD parameters for some counterparties.

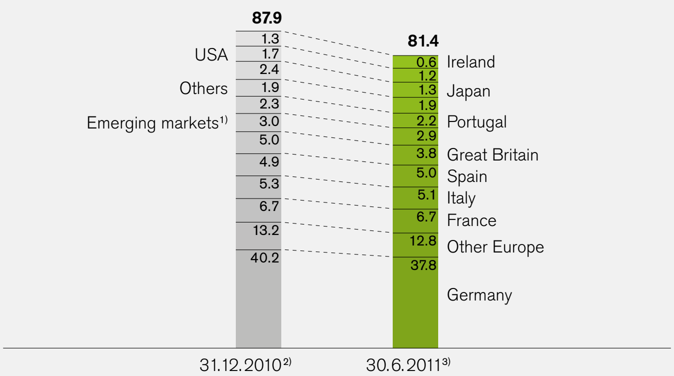
Economic Credit Risk Capital The unexpected loss of the credit portfolio, the credit risk value at risk, is calculated using a credit portfolio model for a period of one year and a confidence level of 99.95 % within the framework of risk-bearing capacity analysis of Deutsche Pfandbriefbank Group, and amounted to € 1.4 billion as of 30 June 2011 (31 December 2010: € 1.3 billion), 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 As was the case in the previous year, the exposure of Deutsche Pfandbriefbank Group focuses mainly on Western Europe. Germany alone accounts for almost half (46.4%) or € 37.8 billion of the total exposure. The exposure in the USA declined by € 0.5 billion compared with the end of 2010, to € 1.2 billion, and relates mainly to financial institutions based in the USA. The reduction in volume in Ireland (30 June 2011: € 0.6 billion; end of 2010: € 1.3 billion) is almost completely due to a decline in the receivables due from the affiliated DEPFA Bank plc.

The percentage of the category «Other Europe» in relation to the total portfolio has increased to 15.7% (from 15.0% at the end of 2010), and features the following main countries: Austria (€ 7.1 billion; 31 December 2010: € 6.9 billion), Sweden (€ 1.3 billion; 31 December 2010: € 1.5 billion), Switzerland (€ 1.0 billion; 31 December 2010: € 1.2 billion) and Belgium (€ 0.8 billion; 31 December 2010: € 0.8 billion). The percentage of the exposure due to emerging markets in accordance with the IMF definition has increased slightly compared with the end of 2010, and mainly comprises Poland (€ 2.0 billion; 31 December 2010: € 1.8 billion) and Hungary (€ 0.7 billion; 31 December 2010: € 0.8 billion). There has been a complete withdrawal from the emerging-market countries of India and Russia.

Total portfolio: EaD according to regions

in € billion



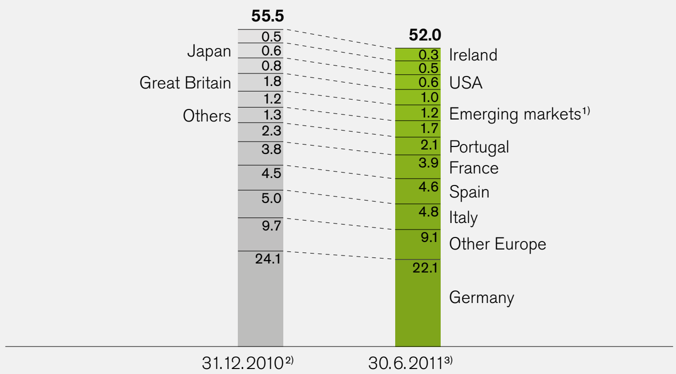
1) Emerging markets in accordance with the IMF definition
2) In addition, € 29.3 billion EaD to the counterparty FMS Wertmanagement including guaranteed positions of € 1.0 billion. The figure without guaranteed positions is fully attributable to Germany (€ 28.3 billion). The guaranteed positions completely relate with 100% to Italy.
3) In addition, € 14.9 billion EaD to the counterparty FMS Wertmanagement including guaranteed positions of € 0.8 billion. The figure without guaranteed positions is fully attributable to Germany (€ 14.1 billion). The guaranteed positions relate mainly to Germany (€ 0.5 billion) as well as Italy (€ 0.3 billion).

Public Sector Finance: € 52.0 Billion EaD Portfolio Development and Structure The portfolio of the strategic Public Sector Finance segment (PSF) reported an EaD of € 52.0 billion as of 30 June 2011 (31 December 2010: € 55.5 billion).

Western Europe accounts for most of the exposure. With minor exceptions such as Great Britain or Germany, the percentages of the various countries in the segment portfolio are to a large extent stable. The main countries under «Other Europe» are Austria (€ 6.8 billion; 31 December 2010: € 6.8 billion) and Switzerland (€ 0.7 billion; 31 December 2010: € 0.9 billion). The exposure in the USA is almost exclusively attributable to financial institutions based in the USA.

Public Sector Finance: EaD according to regions

in € billion

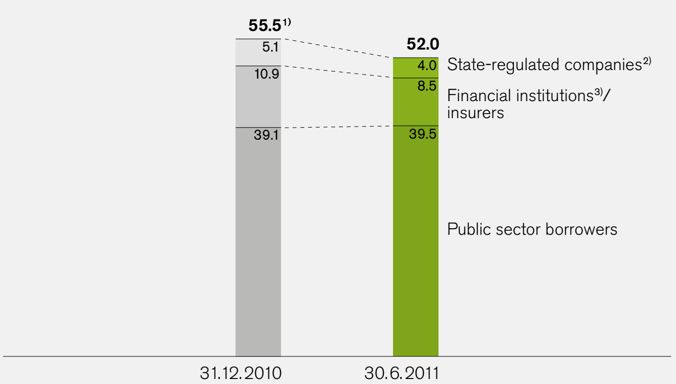


1) Emerging markets in accordance with the IMF definition
2) In addition, € 27.7 billion EaD to the counterparty FMS Wertmanagement, which is fully attributable to Germany; the Public Sector Finance segment does not include any positions guaranteed by FMS Wertmanagement
3) In addition, € 10.9 billion EaD to the counterparty FMS Wertmanagement, including guaranteed positions amounting to € 0.5 billion. These positions (including guarantees) are fully attributable to Germany.

The position «Public sector borrowers» includes receivables due from sovereigns (26 %), public sector enterprises (34 %) and municipalities (40 %).

Public Sector Finance: EaD according to counterparties

in € billion

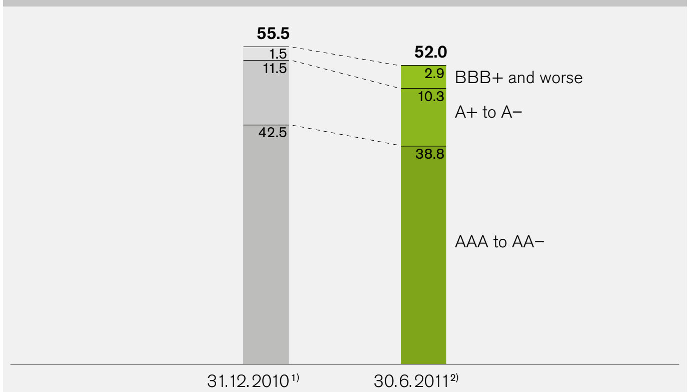


1) The December 2010 figures include an additional amount of € 0.4 billion (0.6 %) attributable to the counterparty category «Others»
2) E.g. water utilities, power supply utilities, etc.
3) Financial institutions with a state background or state guarantee

The still high percentage of public sector borrowers in this segment, which are mostly still classified as «investment grade», is reflected in the rating. The content of positions with a rating of BBB and worse has increased from € 1.5 billion as of 31 December 2010 to € 2.9 billion. The exposure in the non-investment-grade field is € 0.1 billion or 0.1 % (31 December 2010: € 0.1 billion).

Public Sector Finance: EaD according to internal ratings

in € billion

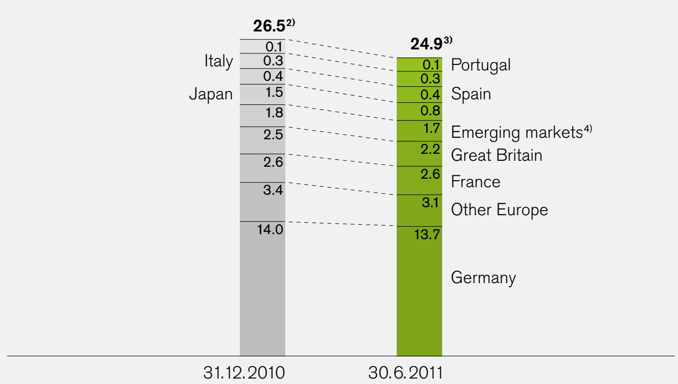


1) In addition, € 27.7 billion EaD to the counterparty FMS Wertmanagement, which is fully attributable to the rating class AAA. The Public Sector Finance segment does not include any positions guaranteed by FMS Wertmanagement
2) In addition, € 10.9 billion EaD (including guaranteed positions) to the counterparty FMS Wertmanagement, which is fully attributable to the rating class AAA to AA–

Real Estate Finance: € 24.9 Billion EaD Portfolio Development and Structure The EaD of the Real Estate Finance portfolio of Deutsche Pfandbriefbank Group has declined by a total of € 1.6 billion compared with 31 December 2010. The customer derivatives included in this figure amounted to € 0.5 billion EaD as of 30 June 2011, compared with € 0.6 billion EaD at the end of 2010. Whereas the relative percentage of Germany in relation to the total portfolio increased slightly, the percentage of Japan declined to approximately half of the exposure as a result of the regular expiry of financing arrangements.

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

in € billion

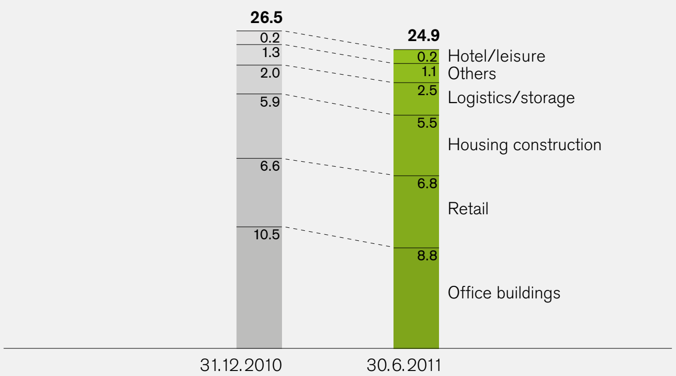


1) In the Real Estate Finance segment, there is no exposure to the counterparty FMS Wertmanagement
2) Breakdown including customer derivatives for approx. € 0.6 billion
3) Breakdown including customer derivatives for approx. € 0.5 billion
4) Emerging markets in accordance with the IMF definition

There has been a slight change in the distribution of the portfolio according to property type as of 30 June 2011 compared with the end of 2010. The reduction of € 1.8 billion in the property type «Office buildings» to € 8.8 billion EaD is worthy of note (35 %; 31 December 2010: 40 %). The percentage of financing for residential properties (mostly portfolio transactions) has remained stable (22 %, 31 December 2010: 22 %). Around 10 % (31 December 2010: 8 %) of the portfolio are attributable to the property type «Logistics/ inventories». Financing for retail properties also account for a major part of the Real Estate Finance segment (27 %; 31 December 2010: 25 %).

Real Estate Finance: EaD according to property types[1)]

in € billion

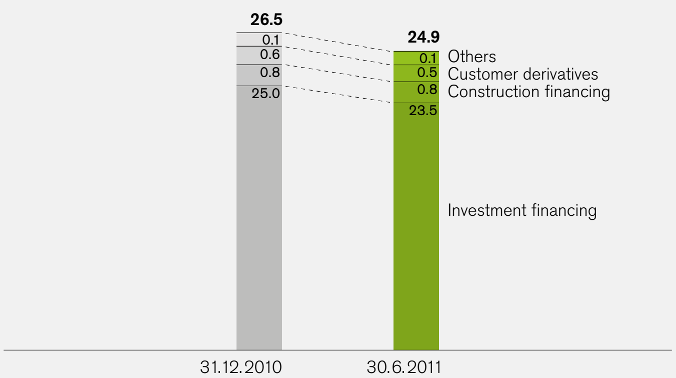


[1)] In the Real Estate Finance segment, there is no exposure to the counterparty FMS Wertmanagement.

At mid-year 2011 the portfolio was again dominated by investment financing to a greater extent (95.4 %; 31 December 2010: 94.2 %); higher risk construction projects in the building phase (building finance) account for only 2.5 % of the EaD (31 December 2010: 3.4 %). 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.

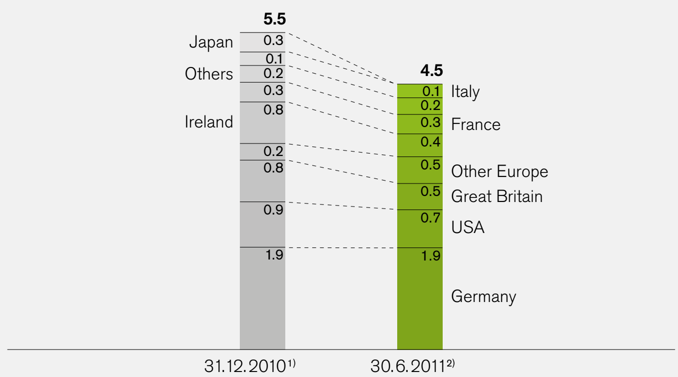
Major Risk Factors The developments on the real estate markets in the first half of 2011 are discussed in detail in the section «Sector-specific Situation» in the chapter «Business and Conditions». Comments concerning possible future developments are set out in the Forecast Report of this Semi-annual Report.

Value Portfolio: € 4.5 Billion EaD Portfolio Development and Structure The Value Portfolio comprises non-strategic portfolios of Deutsche Pfandbriefbank Group as well as (at present) most of the transactions which exist with the counterparty FMS Wertmanagement. With regard to the non-strategic portfolios, the Value Portfolio comprises especially 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 significant decline of € 1.0 billion in the exposure as of 30 June 2011 compared with 31 December 2010 is mainly attributable to the reduction of the exposure in Japan, Great Britain and against the affiliated DEPFA Bank plc. In the remaining portfolio as of 30 June 2011, a regional emphasis is formed particularly by Germany, the USA and Great Britain.

Value Portfolio: EaD according to regions

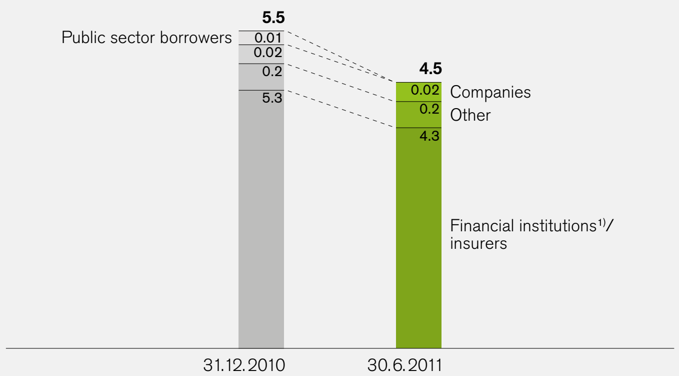
in € billion



[1)] In addition, € 1.6 billion EaD to the counterparty FMS Wertmanagement, including guaranteed positions of € 1.0 billion. The content without guarantees is fully attributable to Germany. The guaranteed positions relate with 100 % to Italy.
[2)] In addition, € 4.0 billion EaD 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.

Value Portfolio: EaD according to counterparties

in € billion



[1] Including exposure to the affiliated institution DEPFA Bank plc of € 0.1 billion (31 December 2010: € 0.6 billion)

Structured Products

Deutsche Pfandbriefbank Group's holdings in fully state-guaranteed collateralised debt obligations with a nominal value of € 0.84 billion (31 December 2010: € 0.85 billion) and an internal fair value of € 0.73 billion (31 December 2010: € 0.74 billion) are almost unchanged.

The nominal holdings of non-state-guaranteed structured securities, 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 narrow sense of the term) and collateralised loan obligations (CLOs) have been largely stable (€ 0.42 billion; 31 December 2010: € 0.46 billion).

The CMBS and RMBS securities are valued on the basis of a recognised discounted cash flow model. By way of contrast with the valuation of relatively simple CDO structures, a separate valuation model is mainly used for complex structures and illiquid underlying securities. In this internal valuation model, the US and EU CDOs are valued with the aid of expected losses with a bottom-up distribution. The valuation of this portfolio is essentially determined by the development of the underlying securities, which consist primarily of ABS, MBS or CDO tranches.

The internal calculated fair value of these securities which evidence credit risks is at 30 June 2011 unchanged compared with 31 December 2010, namely € 11 million.

Special-purpose Vehicles in Deutsche Pfandbriefbank Group

In the past, special-purpose vehicles have generally been used to isolate assets from operating companies in a manner which is (essentially) protected against insolvency and to enable these assets, which are frequently used as collateral, to be sold more easily if necessary.

In the financial year 2010, virtually all special-purpose vehicles were wound up or transferred as part of the process of spinning off assets and liabilities to FMS Wertmanagement.

The remaining special-purpose vehicle is an ABS structure which has been completely written down, which means that it will not pose any further accounting risks to Deutsche Pfandbriefbank Group (30 June 2011: nominal € 0.59 billion; 31 December 2010: nominal € 0.64 billion). The consolidation of the special-purpose vehicle has resulted in a balance sheet extension of € 0.4 billion (31 December 2010: € 0.5 billion). However, from the point of view of risk, there has not been any change in the overall volume exposed to risk. Accordingly, the volume exposed to risk has declined by € 0.4 billion (31 December 2010: € 0.5 billion).

Watchlist and Non-performing Loans: € 1.4 Billion[1]

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 such as LTV, 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 watchlist, restructuring and 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, 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.

[1] Reporting has been changed over to EaD.

Development of Watchlist and Non-performing Loans Breakdown of watchlist and non-performing loans as of 31 December 2010 and 30 June 2011:

Watchlist and non-performing loans of Deutsche Pfandbriefbank Group				30.6.2011				31.12.2010	
EaD in € million	PSF	REF	VP	Total	PSF	REF	VP	Total	Δ in € million
Workout loans	–	15	31	46	–	16	42	58	–12
Restructuring loans	36	1,162	–	1,198	38	1,141	–	1,179	19
Non-performing loans	**36**	**1,177**	**31**	**1,244**	**38**	**1,157**	**42**	**1,237**	7
Watchlist loans	–	141	–	141	–	319	–	319	–178
Total	**36**	**1,318**	**31**	**1,385**	**38**	**1,476**	**42**	**1,556**	–171

The non-performing and watchlist loans have stabilised. They declined by € 0.2 billion to € 1.4 billion.

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 plus AfS reserve, and the present value of the cash flows expected in future. Objective indications of an impairment as well as the measurement of the extent of impairments are described in detail in the Notes to the Consolidated Financial Statements 2010 or in the Risk Report section.

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 Risk Provisioning Committee in which the CROs of all subsidiary institutions and thus also of Deutsche Pfandbriefbank Group 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. The decline of € 44 million reported there (to € 416 million) as of 30 June 2011 is mainly attributable to consumption.

The portfolio-based allowances amounted to € 76 million as of 30 June 2011 (31 December 2010: € 101 million). The main drivers behind the reduction in the portfolio-based allowances are improvements in the PD and LGD parameters at some major clients.

Cover Provided for Non-performing Loans As of 30 June 2011, there was 33.5 % cover for the non-performing loans in Real Estate Finance at Deutsche Pfandbriefbank Group (REF; 31 December 2010: 33.7 %).

The provisions for contingent liabilities and other obligations mainly comprise provisions for guarantee risks, letters of credit and irrevocable loan commitments in lending business. They amounted to € 34 million as of 30 June 2011 (€ 34 million as of 31 December 2010).

Market Risk

Definition, Market Risk Strategy, Structure Organisation and Reporting

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 2010.

Methods and Assumptions of the Market Risk VaR Measurement

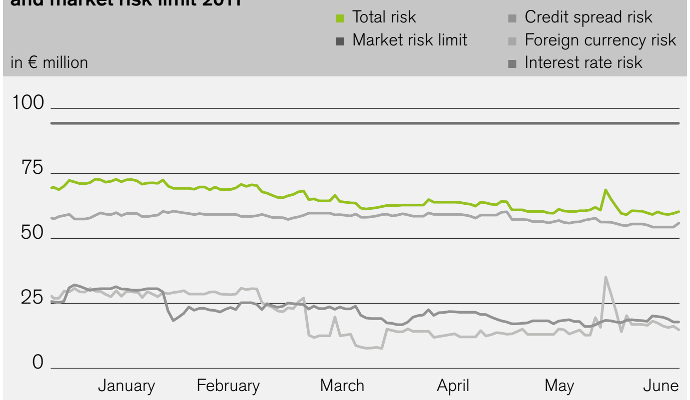
With regard to the points mentioned above, please refer to the details in the market risk part of the Risk Report in the Annual Report 2010.

Development of the Market Risk VaR

On 30 June 2011, the market risk VaR amounted to € 60.1 million. The comparison figure as of 31 December 2010 was € 70.2 million. The market risk limit was constant at € 95 million throughout the entire first half of 2011. 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 in the course of the year:

Market risk VaR (10 days, 99 %) individual risk types and market risk limit 2011



The credit spread risk is the predominant risk type within the market risks. It reflects the potential change in the present value of positions as a result of changes in the respective credit spreads. Most of the credit spread risk is attributable to assets eligible as cover funds for Pfandbriefe. The VaR limit is applicable only for the credit spread risks of the annual financial statements and FVtPL holdings, but not for the LaR positions.

Stress Testing Hypothetical and historical stress scenarios are calculated on a monthly basis for all main risk drivers for all positions. For instance, a parallel shift of 200 basis points in the interest rate curve would result in a change of € 96.9 million in market value. The comparison figure at the end of 2010 was € 52.8 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 is scaled to a period of one year and also to a higher confidence level (from 99 % to 99.95 %). The economic capital for market risk, disregarding diversification effects for other risk types, amounted to € 417 million as of 30 June 2011 (31 December 2010: € 488 million). For further details concerning the calculation, please refer to the chapter «Results of Risk-bearing Capacity Analysis».

Market Risk Management and Monitoring

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 2010.

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 2010 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 2011 amounted to € 7.4 billion for a twelve-month horizon.

The liquidity requirement of Deutsche Pfandbriefbank Group is still affected by market fluctuations. Particular mention has to be made in this respect of interest rate, currency and credit spread fluctuations. However, this exposure has been reduced considerably by the transfer of assets to FMS Wertmanagement. The liquidity ratio in accordance with the Liquidity Ordinance amounted to 1.18 at Deutsche Pfandbriefbank AG as of 30 June 2011; it is thus higher than the statutory minimum of 1.0.

For refinancing, covered and uncovered issues are available as the main financing instruments to Deutsche Pfandbriefbank Group. Pfandbriefe are the main refinancing instrument. 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 2011 were still affected by the crisis affecting European state finance. The German bond market proved to be a «safe haven», and long-term interest rates remained at an all-time low despite rising inflation and subsequent rate hikes of the ECB.

Ahead of the EU decision regarding HRE Group, Deutsche Pfandbriefbank Group had only minor operations on the refinancing market, and placed approx. € 0.5 billion (long-term) on the market in the first half of 2011.

Forecast Liquidity Requirement

From the point of view of Deutsche Pfandbriefbank Group, the current liquidity can be classified as comfortable.

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

- 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 requirements for hedges
- Changed requirements of the rating agencies regarding the necessary surplus cover in the cover funds

Following the transfer of assets to FMS Wertmanagement, the risk for the liquidity of Deutsche Pfandbriefbank Group which might be caused by turmoil on the financial markets has declined appreciably.

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 reputation risks.

Strategy for Operational Risk

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 report to management. Deutsche Pfandbriefbank Group does not attempt to completely preclude the possibility of risk; instead, it aims to minimise potential losses by way of specific early recognition measures. The provision of information is the basis for decisions regarding the limitation of risk.

Organisation of Operational Risk Management

In the field of Risk Management & Control, the Group Operational Risk department is responsible for uniform Group-wide processes, instruments and methods for recording, assessing, monitoring and reporting operational risks in HRE Group. This counts in Deutsche Pfandbriefbank Group.

Risk Reports, Monitoring and Management of Operational Risk

Operational risks are monitored by means of a network of controls, procedures, reports and responsibilities. Within Deutsche Pfandbriefbank Group, each individual unit takes on responsibility for its own operational risks, and provides appropriate resources and processes for limiting such risks. The focus is primarily on the early recognition, reduction and management of risks as well as the measurement and monitoring of risks.

The collected information is used in order to determine the operational risk profile of Deutsche Pfandbriefbank Group and the necessary measures to reduce risks.

Regular reports are prepared for the CRO and the Risk Committee. The monthly Group risk report contains operational claims and losses as well as major risk-relevant issues with an effect on 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 in the specialist units are also reported to the Risk Committee after the assessment process has been completed. When a detailed risk analysis has been completed, the relevant member of the Management Board receives a final report.

Risk Measurement

The economic capital for operational risks is € 135 million as of 30 June 2011 (unchanged against 31 December 2010). 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 of HRE Group and therefore also for 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 attributable in particular to the high number of manually recorded transactions as well as the high number of different processing and monitoring systems. The systems are currently consolidated. Until the current consolidation process has been completed, there will be an increased level of susceptibility to faults with regard to the manual processes and controls which are carried out for ensuring data consistency.

There is also 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 in view of the existing system landscape as well as manual processes and controls.

Deutsche Pfandbriefbank Group suffered losses of € 151,836 in total from operational risks in the first half of 2011. The losses were mainly attributable to the incorrect recognition of interest rate data of loans. 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

Economic capital according to risk types Excluding diversification effects in € million	30.6.2011	31.12.2010	Δ in € million
Credit risk	1,400	1,329	+71
Market risk	417	488	−71
Operational risk	135	135	–
Business risk	34	62	−28
Total before diversification effect	**1,986**	**2,014**	−28
Total after diversification effect	**1,800**	**1,811**	−11
Available financial resources	4,952	5,156	−204
Capital buffer	+3,152	+3,345	−193

Excluding the diversification effects between the individual risk types, the economic capital of Deutsche Pfandbriefbank Group is approx. € 2.0 billion (December 2010: € 2.0 billion). If these effects are taken into consideration, the economic capital falls to around € 1.8 billion (December 2010: € 1.8 billion).

As a result of new regulatory requirements, the available financial resources can no longer be used to show the previously included result forecast for the next twelve months. The resultant decline more than compensates for the increase as a result of the positive interim results, leading overall to a slight decline of € 0.2 billion in the risk cover funds to € 5.0 billion.

According to the ICAAP model which is a regulatory requirement and which determines the economic risk-bearing capacity of the company, there is a economic capital buffer of around € 3.2 billion for a one-year observation period as of 30 June 2011 (31 December 2010: € 3.3 billion).

The main risk type based on the ICAAP (measured in terms of economic capital and without explicitly taking account of the liquidity risk) is the credit risk which accounts for 70 % of the undiversified economic capital.

Measured in terms of economic capital, Deutsche Pfandbriefbank Group was adequately capitalised throughout the entire first half of 2011. The Group accordingly met all the requirements of risk-bearing capacity in full and at all times.

On 5 July 2011, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) published a draft of the regulatory appraisal of internal risk-bearing capacity concepts of the credit institutions. This might result in changes to future calculations of the Bank.

Method Used for the Individual Risk Types

The economic capital of each risk type is determined using a quantitative approach, and aggregated to form the overall bank risk, taking account of specific correlations. In line with the common market standard, the risk types are calculated for a period of one year and a confidence level derived from the target rating (in this case: 99.95 %).

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

Credit Risk For calculating credit risk at the portfolio level, Deutsche Pfandbriefbank Group uses a Group-wide credit portfolio model which follows the approach of a so-called asset-value model. The main underlying idea of this approach is that by repeated simulations of correlated rating migrations and borrower defaults, as well as a calculation of resulting value changes of the portfolio, 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 a value at risk figure. This defines the maximum unexpected loss calculated for a confidence level of 99.95 % 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-adjusted allocation of the credit risk capital measured in this way to the individual borrower units using the so-called expected shortfall principle. This ensures proper allocation to the borrowers, and thus constitutes a major module in the risk-oriented management of the credit portfolio.

For a confidence level of 99.95 % and a time horizon of one year the economic capital for credit risk calculated using the credit portfolio model, disregarding diversification effects to other risk types, is € 1.4 billion (31 December 2010: € 1.3 billion).

Market Risk The calculation of economic capital for market risk comprises the VaR used for market risk management extended by the VaR figures for the capital investment books. The market risk VaR is scaled accordingly in order to take account of the higher confidence level and the one-year period of the capital adequacy assessment process.

The economic capital for market risk over a one-year horizon was € 417 million as of 30 June 2011, excluding diversification effects to other risk types (31 December 2010: € 488 million).

Operational Risk The calculation of economic capital for operational risk includes the result of the calculation using the standard approach in accordance with Basel II. For the purpose of the capital adequacy assessment process, the capital requirement specified by the regulator is scaled to reflect the higher confidence level (from 99.9 % to 99.95 %).

The economic capital for operational risk amounted to € 135 million as of 30 June 2011 (unchanged compared to 31 December 2010).

Business Risk The calculation of the economic capital for the business risk includes an assumed increase in financing costs as a result of an increased financing requirement with a simultaneous increase in the unsecured refinancing rate. As part of the liquidity risk measurement process, the stress scenario «Further decline» simulates every month the increased financing requirement if certain market events were to occur. For the unsecured refinancing rate, an increase is simulated up to the historical maximum of credit spreads of the Bank's own rating which has been observed on the market. For considerations of prudence, it is assumed that both events occur simultaneously.

The economic capital for business risks is thus € 34 million as of 30 June 2011.

The previous year figure of € 62 million consisted exclusively of the scenario of no new business, resulting in no forecast figures for net interest income and net commission income for the next four quarters. Because the available financial resources do not include any forecast profits for regulatory purposes, the inclusion of this component in the business risk has become redundant.

Liquidity Risk Capitalising for liquidity risk in the narrower sense is not standard practise in the sector. Liquidity risk in the broader sense of an increase in funding costs is recognised in the economic capital for the business risk.

Stress Tests

Stress tests in relation to the economic capital are used in order to obtain a better understanding of the sensitivity of the results to changes in the risk parameters underlying the model. Deutsche Pfandbriefbank Group carries out stress tests as an instrument for adequate economic capital management for the relevant individual risk categories.

Further information and specifications regarding the stress tests are set out in the Risk Report of the Annual Report 2010.

Forecast Report

Macro-economic Forecast

When comparing countries internationally, forecasts for growth for the whole of 2011 are more mixed than is normally the case. Accordingly, growth of 3.4 % is predicted for Germany, roughly in line with the figure for 2010. This would mean that the level of value creation seen before the crisis would be exceeded. With the approved raising of the debt ceiling in the USA together with significant reductions in spending, the prospects for growth in the USA are limited and a relapse into recession is considered possible. Growth in economic performance in the European Union is forecast to be 1.8 % (as is the case in the Euro zone). The crisis in Greece will probably again become somewhat more serious, with Greek gross domestic product probably declining by 4.5 % compared with 2010.

As has been the case in the past, caution has to be observed with regard to the risks on the financial markets. This is particularly applicable for the government finance situations in some European countries and the USA described in the macro-economic situation.

The fears of inflation which were still quite pronounced in 2010 should at least not become more serious in the near future. Accordingly, inflation in the Euro zone is currently expected to be 2.6 % for the whole of 2011 (Germany: 2.4 %) – with the trend likely to fall next year. However, it has to be borne in mind that capacities in some sectors and countries are now well utilised, which means that scope might be used for raising prices. At 2.5 %, consumer price inflation in the USA is considered to be at a similar level for the year 2011 – despite the fact that monetary and financial policy are very expansionary.

Sector-specific Situation

Development of the Bank Sector

Despite the existing uncertainty, the economic upturn in many European countries is still intact. Positive mention has to be made of Germany and France in particular in this respect. However, if the current debt crisis were to expand into a currency crisis, this would result in increased market uncertainty. This means that the second half of the year will also be characterised by uncertainty for the bank sector. Accordingly, the sector will place emphasis on higher liquidity and low-risk investments.

Public Sector Financing

Since the beginning of the government debt crisis in 2010, financial markets have become more sensitive with regard to financial policy risks. The financial markets evaluated the specific budget figures of the individual economies, thus focusing on the financial policy risks of the countries. This increased level of attention, particularly in Europe, has meant that all economies – and not only the countries which have attracted attention as a result of a high state deficit – have defined and communicated budget consolidation measures.

Special attention is devoted to Spain because of the size of its economy. The Spanish government has announced additional consolidation measures and has initiated a labour market reform. France and Great Britain have also decided to adopt budget consolidation measures. The British emergency budget was in general welcomed. France has also imposed appropriate measures in order to stop an increase in the debt ratio and accordingly to avoid any risk to its AAA rating. As is the case with Spain, the rating agencies and financial markets view Italy very critically, as a result a significant savings package has been approved for improvement in the budget.

Three of the economies which have been hardest hit in this respect can now only obtain funding at much higher interest rates, and are reliant on multilateral financing (International Monetary Fund, finance commitments of the EU) in order to secure liquidity and creditworthiness. The effects of the additional rescue packages involving private investors for other countries which are the focus of attention cannot be foreseen at present.

The fact that markets continue to be affected by uncertainty has again meant that, in the first half of 2011, customers in countries of strategic core markets of Deutsche Pfandbriefbank AG are already attempting to cover their financing requirement for the full year, and are therefore tapping the market more quickly and with larger amounts. This means that demand for public investment finance and related financing will more than ever be determined by a mixture of financial policy measures and the respective regional economic development. The emphasis will be on stabilising the budget situations by cutting costs and adjusting taxes in order to maintain and expand economic efficiency.

Real Estate Financing

The economic climate in the strategic core markets of Deutsche Pfandbriefbank has improved compared with the years of crisis, and this situation is likely to continue. For this year, the players in Europe expect to see a further increase in real estate investment. A transaction volume of up to € 130 billion in Europe is being forecast. This will entail an appropriate financing requirement. Investment demand for real estate let on a long-term basis will continue to be very high in the second half of the year. The limited supply in prime locations will probably result in a successive increase in the volume of investment in secondary locations.

The main real estate markets from the point of view of investors will again be Germany, Great Britain and France in the second half of 2011. Significant growth in volumes will probably be seen in Scandinavia and in Central and Eastern European countries such as Poland and the Czech Republic.

The vacancy rates affecting commercial real estate in Europe are still at a high level. It will not yet be possible to completely reduce the surplus supply which built up as a result of the new construction boom before the crisis. Because the supply of core properties is limited, investors will look for investment opportunities in sub-prime and secondary locations as the year progresses. The vacancy rates on the office market will probably continue to decline slightly during 2011. Growth in employment as a result of the good economic situation is having a direct impact on demand for premises. However, older office properties in particular outside prime locations will be affected by a high vacancy rate risk. Overall, we are reasonably positive with regard to the development of the commercial real estate market in Germany. For Great Britain and France, we have identified further development opportunities, particularly for the metropolitan regions of London and Paris. In Spain, there are still no signs of any turnaround on the markets, and instead there has been a negative development in the volume of investment. Nor is there likely to be any turnaround in the second half of 2011. For the residential sector, we consider that, particularly in Germany, property prices will continue to rise in the second half of 2011, especially in the major cities.

The second half of 2011 will continue to be characterised by relatively conservative financing structures. Borrowers will have to provide much more capital for properties with an inadequate tenant structure. It will be difficult to obtain finance for speculative properties in the foreseeable future.

Refinancing Markets

In the second half of the year, the refinancing markets will continue to be affected by the government debt crisis, which will lead to continuing investor uncertainty. This means that the trend towards covered bonds will continue. In future, uncovered issues will presumably be viewed in a more critical light as a result of discussions concerning the shared liability of private investors and the new regulations.

Banks which previously have not issued covered bonds will increasingly appear as new issuers. We also see a considerable development for covered bonds at banks which are based in countries without any special legislation (for example Australia, USA).

The Pfandbrief will therefore continue to be the main refinancing instrument of specialist banks in future. The significance of covered financing will continue to be very high.

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 the 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 appreciably from the currently expected results.

Going Concern

On 18 July 2011, the European Commission approved the aid measures granted by Germany to HRE. With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. The decision is not legally binding.

Future Development in Assets, Financial Position and Earnings

Deutsche Pfandbriefbank Group has reported a profit for the first half of 2011. From its current point of view, the Management Board expects to be profitable and that a positive result will be generated for 2011. As a requirement in line with the «burden sharing» specified by the EU, profits will be retained at Deutsche Pfandbriefbank Group until reprivatisation, and will be used for repaying the silent participation of the Federal Republic of Germany.

The volume of new business in the first half of 2011 was in line with expectations. Deutsche Pfandbriefbank Group is assuming that it will be able to write new business of up to €8 billion in 2011 in real estate financing and public sector investment finance.

Total assets in the first half of 2011 declined appreciably due to the diminishing opposite effects of the transfer of positions to FMS Wertmanagement. The volume of opposite effects will in future probably continue to decline. For example, changes of debtor (novations) will be carried out in the case of some instruments. In addition, FMS Wertmanagement will refinance its operations on a stand-alone basis to an even greater extent and will thus no longer require Deutsche Pfandbriefbank Group to pass on funds. However, a further reduction in total assets is uncertain, and is not entirely within the control of Deutsche Pfandbriefbank Group. In addition, market-related factors such as changes in exchange rates and market interest rates can also have an impact on total assets.

Opportunities

The developments in net assets, financial position and earnings which have occurred since the transfer of assets to FMS Wertmanagement, and also the expected developments, illustrate the potential of Deutsche Pfandbriefbank Group. The conclusion of the approval process is a further milestone for the restructuring and refocusing of Deutsche Pfandbriefbank Group. This results in the following opportunities for Deutsche Pfandbriefbank Group:

- The conclusion of the EU aid proceedings will increase the level of reliability for customers and lenders. This means that the Deutsche Pfandbriefbank Group will tend to be able to conclude transactions more easily.
- In addition, Deutsche Pfandbriefbank Group will be able to focus on its core areas of activity and its customers following the extensive completion of refocusing and the completion of projects (in particular EU aid proceedings). The focus will be on sector investment finance and commercial real estate finance in selected target markets.
- Deutsche Pfandbriefbank Group has considerable experience in the Pfandbrief market, which can be used to a greater extent following the completion of the EU aid proceedings. Deutsche Pfandbriefbank Group will be able to take advantage of existing customer relations. Because of their high quality and stable maturity profile, Pfandbriefe are relatively unaffected by market turmoil. Deutsche Pfandbriefbank Group thus uses an instrument which continues to be in demand on the capital market. Because non-matching durations in refinancing have to a large extent been eliminated, liquidity gaps have become much more unlikely.
- The market environment of Deutsche Pfandbriefbank Group improved in the first half of 2011. Although market uncertainty is still high, for instance due to the high level of debt of some countries, the development of the markets is considered to be positive. For instance, it is assumed that the volume of transactions will continue to increase in real estate finance. At the same time, some competitors will be compelled to withdraw from the market or to concentrate on individual regions. In this context and also in view of its considerable knowledge of the market and products as well as its existing customer relations, there will be opportunities for Deutsche Pfandbriefbank Group to write low-risk new business in conjunction with attractive margins.
- At present, a project is being carried out to unbundle Deutsche Pfandbriefbank Group and DEPFA Group. As a result of the unbundling, it will be easier for the two subgroups to be separated, and it will be possible for them to be perceived as more independent entities on the market, thus improving the chances of successful reprivatisation.

Risks

However, it is also possible that the net assets, financial position and results of operations might have to contend with problems. 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 materialise:

> FMSA will reserve the right, due to considerations of competition neutrality, to impose a payment condition for the stabilisation measure; this must not exceed € 1.59 billion. The European Commission imposed in the course of the aid proceedings that the payment condition has to be stipulated in full by the FSMA. The payment condition might have a considerably negative impact on the financial position of the HRE subgroup Deutsche Pfandbriefbank, but will not pose a threat to the continued existence of Deutsche Pfandbriefbank AG as a going concern. In the course of the EU aid proceedings, this compensation measure was stipulated for HRE.

> Although there has been a certain improvement, the situation on some markets continues to be difficult and the macro-economic situation is still uncertain. In consequence, it is possible that significant impairments may have to be recognised in relation to loans. These might affect real estate financing depending on the specific properties. In addition, high fiscal deficits mean that some countries might experience considerable refinancing problems, or might require external aid to obtain refinancing. It is possible that some countries might not be able to service their interest and repayment obligations completely. In such a case, also as a result of the consequent economic turmoil, it may be necessary to recognise considerable impairments in relation to securities or loans.

> Due to the membership to HRE Group, the image of Deutsche Pfandbriefbank Group has suffered in recent years. Even if success has now been achieved in returning to markets, it is still possible that there might be negative consequences for future business and customer relations. This means that Deutsche Pfandbriefbank Group might not meet its new business targets with regard to lending and refinancing, and this in turn would have a negative impact on the development in assets, financial position and earnings.

> 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.

> The further development of national and international regulatory minimum requirements could force Deutsche Pfandbriefbank Group to conduct economically disadvantageous new business.

> Deutsche Pfandbriefbank Group has initiated projects for optimising processes and its IT infrastructure. The corresponding costs will have an impact on general administrative expenses. Despite the projects, Deutsche Pfandbriefbank Group is exposed to operational risks resulting from its restructuring, such as its reliance on key positions, technology risks due to the large number of accounting systems and a higher level of staff fluctuation. The risks might also become relevant for the service obligations assumed by Deutsche Pfandbriefbank Group for the ongoing operation FMS Wertmanagement. These risks may result in considerable losses.

> In order to avoid future financial market crises, legislative authorities have also decided to impose additional charges and taxes. The measures which have already been adopted and any further tightening of such measures might result in problems for development in earnings.

> The further development of national and international regulatory requirements can have an effect on the structure of assets and liabilities and can therefore affect the development of income. For example, arising from the introduction of changed requirements from the Basel Committee on Banking Supervision (Basel III) the profitability could be negatively affected by higher liquidity or capital demands. In addition, regulatory and economic ratios which are already mandatory today can be affected. By this, for example, a higher capitalisation can be necessary.

> According to the EU rating act as per September 2009, external ratings for the purposes of the calculation of capital requirements can only be used in banks in the future if the respective rating agencies are registered in accordance with the EU rating act and are supervised by the responsible supervisors. If agencies prepare ratings outside of the European Union the regulation in the third country must meet European standards. The registration process of the rating agencies Fitch Ratings, Moody's and Standard & Poor's as well as the check of the regulatory standards of several third countries are still ongoing. Negative effects on the financial situation of HRE can arise from a refusal of the registration or the absence of the approval of third-country regulations as a higher regulatory capital requirement could arise on certain positions.

Consolidated Interim Financial Statements

Consolidated Interim Financial Statements
Income Statement

Income/expenses in € million	Note | Page	1.1.–30.6.2011	1.1.–30.6.2010	Δ in € million	Δ in %
Operating revenues		293	220	73	33.2
Net interest income and similar income	8 | 53	192	330	–138	–41.8
Interest income and similar income		1,993	2,521	–528	–20.9
Interest expenses and similar expenses		1,801	2,191	–390	–17.8
Net commission income	9 | 53	19	–8	27	>100.0
Commission income		21	46	–25	–54.3
Commission expenses		2	54	–52	–96.3
Net trading income	10 | 53	–	–48	48	100.0
Net income from financial investments	11 | 54	–1	–17	16	94.1
Net income from hedge relationships	12 | 54	–27	–39	12	30.8
Balance of other operating income/expenses	13 | 54	110	2	108	>100.0
Provisions for losses on loans and advances	14 | 54	–1	401	–402	<–100.0
General administrative expenses	15 | 55	174	171	3	1.8
Balance of other income/expenses	16 | 55	–	–	–	–
Pre-tax profit/loss		**120**	**–352**	**472**	**>100.0**
Taxes on income	17 | 55	43	–18	61	>100.0
Net income/loss		**77**	**–334**	**411**	**>100.0**
attributable to: Equity holders (consolidated profit/loss from the parent company)		77	–334	411	>100.0

Statement of Comprehensive Income

Statement of comprehensive income	1.1.–30.6.2011			1.1.–30.6.2010		
in € million	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Net income/loss	**120**	**43**	**77**	**–352**	**–18**	**–334**
Additional paid-in capital	–	–	–	–	–	–
Retained earnings	–1	–	–1	–	–	–
Foreign currency reserve	2	–	2	20	–	20
AfS reserve	–22	–10	–12	–155	–41	–114
Cash flow hedge reserve	–132	–30	–102	408	109	299
Total other income	–153	–40	–113	273	68	205
Total	**–33**	**3**	**–36**	**–79**	**50**	**–129**
attributable to:						
Equity holders (consolidated profit/loss from the parent company)	–33	3	–36	–79	50	–129
Non-controlling interest	–	–	–	–	–	–

Disclosure of components of comprehensive income		
in € million	1.1.–30.6.2011	1.1.–30.6.2010
Net income/loss	**77**	**–334**
Additional paid-in capital	–	–
Unrealised gains/losses	–	–
Reclassification adjustments for gains/losses included in profit or loss	–	–
Retained earnings	–1	–
Unrealised gains/losses	–1	–
Reclassification adjustments for gains/losses included in profit or loss	–	–
Foreign currency reserve	2	20
Unrealised gains/losses	2	20
Reclassification adjustments for gains/losses included in profit or loss	–	–
AfS reserve	–12	–114
Unrealised gains/losses	–12	–114
Reclassification adjustments for gains/losses included in profit or loss	–	–
Cash flow hedge reserve	–102	299
Unrealised gains/losses	–102	299
Reclassification adjustments for gains/losses included in profit or loss	–	–
Total other income	–113	205
Total	**–36**	**–129**

Statement of Financial Position

Assets in € million	Note | Page	30.6.2011	31.12.2010	Δ in € million	Δ in %	31.12.2009
Cash reserve		131	224	– 93	– 41.5	618
Trading assets	19 | 56	9,239	16,168	– 6,929	– 42.9	1,435
Loans and advances to other banks	20 | 56	8,445	12,128	– 3,683	– 30.4	74,318
Loans and advances to customers	21 | 56	73,454	118,642	– 45,188	– 38.1	82,639
Allowances for losses on loans and advances	23 | 57	– 492	– 561	69	12.3	– 3,326
Financial investments	24 | 58	29,839	33,605	– 3,766	– 11.2	43,329
Property, plant and equipment		4	5	– 1	– 20.0	10
Intangible assets		33	32	1	3.1	28
Other assets	25 | 59	3,824	5,035	– 1,211	– 24.1	11,801
Income tax assets	26 | 59	1,528	1,545	– 17	– 1.1	4,365
Current tax assets		64	64	–	–	131
Deferred tax assets		1,464	1,481	– 17	– 1.1	4,234
Total assets		**126,005**	**186,823**	– 60,818	– 32.6	**215,217**

Equity and liabilities in € million	Note | Page	30.6.2011	31.12.2010	Δ in € million	Δ in %	31.12.2009
Liabilities to other banks	27 | 59	23,906	62,587	– 38,681	– 61.8	67,625
Liabilities to customers	28 | 59	14,554	17,384	– 2,830	– 16.3	12,378
Liabilities evidenced by certificates	29 | 60	56,802	63,846	– 7,044	– 11.0	109,193
Trading liabilities	30 | 60	9,279	16,294	– 7,015	– 43.1	1,872
Provisions	31 | 60	189	176	13	7.4	153
Other liabilities	32 | 61	13,957	18,883	– 4,926	– 26.1	13,635
Income tax liabilities	33 | 61	1,504	1,526	– 22	– 1.4	3,733
Current tax liabilities		102	83	19	22.9	85
Deferred tax liabilities		1,402	1,443	– 41	– 2.8	3,648
Subordinated capital	34 | 61	2,489	2,766	– 277	– 10.0	3,895
Liabilities		**122,680**	**183,462**	– 60,782	– 33.1	**212,484**
Equity attributable to equity holders		3,325	3,361	– 36	– 1.1	2,733
Subscribed capital		380	380	–	–	380
Silent participation		999	999	–	–	999
Additional paid-in capital		5,036	5,036	–	–	5,037
Retained earnings		– 3,275	– 3,089	– 186	– 6.0	– 1,276
Foreign currency reserve		– 33	– 35	2	5.7	– 34
Revaluation reserve		141	255	– 114	– 44.7	– 858
AfS reserve		– 271	– 259	– 12	– 4.6	– 328
Cash flow hedge reserve		412	514	– 102	– 19.8	– 530
Consolidated loss 1.1.–31.12.		–	– 185	185	100.0	– 1,515
Consolidated loss 1.1.–30.6.2011		77	–	77	> 100.0	–
Equity		**3,325**	**3,361**	– 36	– 1.1	**2,733**
Total equity and liabilities		**126,005**	**186,823**	– 60,818	– 32.6	**215,217**

Statement of Changes in Equity (condensed)
Statement of Cash Flows (condensed)

Statement of changes in equity (condensed) in € million	Subscribed capital	Silent participation	Additional paid-in capital	Retained earnings (incl. unappropriated net income)	Foreign currency reserve	Revaluation reserve: AfS reserve	Revaluation reserve: Cash flow hedge reserve	Consolidated profit/loss	Amounts relating to disposal group	Equity
	Equity attributable to equity holders									
Equity at 1.1.2010	**380**	**999**	**5,037**	**–1,282**	**–28**	**–328**	**–530**	**–1,515**	**–**	**2,733**
Capital increase	–	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–	–
Capital decrease/withdrawal	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	20	–114	299	–334	–	–129
Transfer to retained earnings	–	–	–	–1,515	–	–	–	1,515	–	–
Transfer to amounts relating to disposal group	–	–	–	–	–	140	206	–	–346	–
Equity at 30.6.2010	**380**	**999**	**5,037**	**–2,797**	**–8**	**–302**	**–25**	**–334**	**–346**	**2,604**
Equity at 1.1.2011	**380**	**999**	**5,036**	**–3,089**	**–35**	**–259**	**514**	**–185**	**–**	**3,361**
Capital increase	–	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–	–
Capital decrease/withdrawal	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–1	2	–12	–102	77	–	–36
Transfer to retained earnings	–	–	–	–185	–	–	–	185	–	–
Transfer to amounts relating to disposal group	–	–	–	–	–	–	–	–	–	–
Equity at 30.6.2011	**380**	**999**	**5,036**	**–3,275**	**–33**	**–271**	**412**	**77**	**–**	**3,325**

Statement of cash flows (condensed) in € million	2011	2010
Cash and cash equivalents at 1.1.	**224**	**618**
+/– Cash flow from operating activities	–3,201	–2,683
+/– Cash flow from investing activities	3,382	2,568
+/– Cash flow from financing activities	–274	–195
+/– Effects of exchange rate changes and non-cash valuation changes	–	1
Cash and cash equivalents at 30.6.	**131**	**309**

Notes (condensed)

1 Principles

Deutsche Pfandbriefbank Group has prepared its consolidated interim financial statements for the period ended 30 June 2011 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). These 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). Due consideration has in particular been given to the requirements of IAS 34. With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 all mandatory IFRS rules have been completely endorsed by the EU. Deutsche Pfandbriefbank Group does not apply this type of hedge accounting.

The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are 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).

On 18 July 2011, the European Commission approved the governmental aid for HRE. This decision is described in detail in the section Events after 30 June 2011. With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. Hence, Deutsche Pfandbriefbank Group prepared its consolidated interim financial statements under the going concern assumption.

The decision of the European Commission relates to all elements of aid granted to HRE since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of assets to the deconsolidated environment FMS Wertmanagement, and envisages related compensation measures by HRE.

In accordance with IAS 8.14 (b), there has been a change in the way of recognising the bonds which were allocated to the IAS 39 measurement category loans and receivables. In the past, some of these bonds which were recognised as loans and receivables were disclosed as loans and advances to other banks and loans and advances to customers. In future, these holdings will be disclosed completely as financial assets. In accordance with IAS 8.19 (b), the change has been carried out retrospectively, which means that the previous year figures have been adjusted accordingly. Financial assets have increased by € 17.3 billion as of 31 December 2010 (31 December 2009: € 12.4 billion); loans and advances to other banks have declined by € 3.1 billion (31 December 2009: € 3.8 billion) and loans and advances to customers have declined by € 14.2 billion (31 December 2009: € 8.6 billion). With the exception of the above, the accounting policies applied in the first six months of 2011 were the same as those applied in the consolidated financial statements for the period ending 31 December 2010.

Initially Adopted Standards and Interpretations The following standards and interpretations, respectively their amendments, have to be adopted for this interim consolidated interim financial statement:
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IAS 32 Financial Instruments: Presentation on Classification of Rights Issues
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirements
- Annual Improvements to IFRSs 2010

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments clarifies the accounting when an entity issues shares or other equity instruments to extinguish all or parts of a financial liability. There have not been any impacts on Deutsche Pfandbriefbank.

The Amendment to IAS 32 Financial Instruments: Presentation on Classification of Rights Issues addresses the issuer's accounting for rights, options and warrants to acquire a fixed number of own equity instruments that are denominated in a currency other than the functional currency of the issuer. As Deutsche Pfandbriefbank Group has not issued any such rights at present, the amendment will not have any impacts on the Group.

Amendment to IFRS 1 Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters clarifies comparative disclosures relating financial instruments for IFRS first-time adopters. Because Deutsche Pfandbriefbank Group is not a first-time adopter of IFRS there were no impacts.

Amendment to IFRIC 14 Prepayments of Minimum Funding Requirements concerns accounting requirements of pension plans. The amendment is applicable if an entity supplies prepayments to meet the minimum funding requirements regarding its pension plan. Because this is not the case for the pension plans of Deutsche Pfandbriefbank Group, there will not be any impacts on the Group.

In the course of the project Business Combination Phase II the following standards and interpretations were amended and were combined in Annual Improvements to IFRSs 2010:
> IFRS 3 (revised) Business Combinations
> IAS 27 (revised) Consolidated and Separate Financial Statements
> IAS 21 The Effects of Changes in Foreign Exchange Rates
> IAS 28 Investment in Associates
> IAS 31 Interests in Joint Ventures

Additionally, Annual Improvements to IFRSs 2010 comprises the amendments of the following standards and interpretations:
> IFRS 1 First-time Adoption of International Financial Reporting Standards
> IFRS 7 Financial Instruments: Disclosures
> IAS 1 Presentation of Financial Statements
> IAS 34 Interim Financial Reporting
> IFRIC 13 Customer Loyalty Programmes

The majority of the amendments are applicable for financial years beginning on or after 1 January 2011. Annual Improvements to IFRSs 2010 does not have material impacts in Deutsche Pfandbriefbank Group. The amendment to IAS 34 Interim Financial Reporting is an exemption which will result in extended financial instruments disclosures in the consolidated interim financial statements of Deutsche Pfandbriefbank Group.

Published but not mandatory applicable standards and interpretations In May 2011 IASB published the following new standards, which are not mandatory applicable:
> IFRS 10 Consolidated Financial Statements
> IFRS 11 Joint Arrangements
> IFRS 12 Disclosure of Interests in Other Entities,
and amended the following standards:
> IAS 27 Separate Financial Statements
> IAS 28 Investments in Associates

IFRS 10 Consolidated Financial Statements supersedes the guidance regarding control and consolidation including IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 is renamed in Separate Financial Statements and includes solely the guidance regarding separate financial statements. In IFRS 10 the determination of control is enhanced by a broad guidance which demonstrates multiple forms of how a reporting entity can control another entity. The new standard has to be applied for financial years beginning on or after 1 January 2013. Material changes due to applying IFRS 10 are not expected for the accounting of Deutsche Pfandbriefbank Group in its current group structure.

The standard IFRS 11 Joint Arrangement defines joint operations and joint ventures as joint arrangements. The previous option to apply proportional consolidation method for entities under joint control is abolished. A joint venturer has to apply mandatory the equity method in accordance with the amended IAS 28. The new standard has to be applied for financial years beginning on or after 1 January 2013. Currently, Deutsche Pfandbriefbank Group does not have material joint arrangements. Impacts on Deutsche Pfandbriefbank Group will depend on joint arrangements in the future.

IFRS 12 Disclosure of Interests in Other Entities expands the disclosure requirements concerning the nature, risks and financial implications of an entity's investment in subsidiaries, associates, joint arrangements and non-consolidated special purpose entities. The new standard has to be applied for financial years beginning on or after 1 January 2013. Due to the requirements of IFRS 12 Deutsche Pfandbriefbank Group will probably extend disclosures regarding its interests in other entities.

Furthermore, the IASB published in May 2011 IFRS 13 Fair Value Measurement. Material requirements of IFRS 13 concern the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants (exit price). In consequence, the fair value of a liability would represent the default risk, i.e. the own credit risk. For measuring financial instruments applying bid price respectively asking price, if these prices represent the fair value in the best way. IFRS 13 expands the disclosure requirements regarding the fair value hierarchy. These additional disclosures are similar to the disclosures of IFRS 7 Financial Instruments: Disclosures, but they are required not only for financial instruments but also for all assets and liabilities. IFRS 13 is applicable to financial years beginning on or after 1 January 2013. The standard is applicable prospectively. In particular, the amendments of the currently applicable fair value measurement methods, for example considering the bid price, respectively the asking price, and including the own credit risk, may result in material impacts on Deutsche Pfandbriefbank Group.

In June 2011 the IASB published the Amendment to IAS 1 Presentation of Financial Statements and the Amendment to IAS 19 Employee Benefits.

Pursuant to the Amendment to IAS 1, positions of other comprehensive income have to be grouped whether or not they could be recycled into the income statement – including subtotals for both groups. Amendment to IAS 1 is applicable for periods beginning on or after 1 July 2012. Deutsche Pfandbriefbank Group will adjust its disclosures accordingly.

The prohibition of the corridor approach of recognising actuarial gains or losses is a material amendment to IAS 19. Such effects have to be recognised directly in equity. Past service costs have to be recognised in the period of the plan changes instead of allocating the expenses over the period until the benefits become vested.

The interest rate for discounting the defined benefit obligation is also used for the expected return on plan assets. In addition, sensitivity analysis of pension plans and the average duration of the defined benefit obligation have to be disclosed in the notes. Furthermore, the treatment of settlements in connection with post-employment benefits is amended by IAS 19. The amendments to IAS 19 will generally have impacts on employee benefits accounting and disclosure of Deutsche Pfandbriefbank Group. In particular, the cancellation of the corridor approach will increase equity volatility and will change the measurement of plan asset income. Besides, the disclosures in the notes will have to be extended. The amendments to IAS 19 are applicable for periods beginning on or after 1 January 2013.

2 Consolidation

The Annual Report 2010 contains a list of all consolidated and non-consolidated holdings of Deutsche Pfandbriefbank Group disclosed on pages 137 to 138.

There were no changes in the group of consolidated companies compared to the Annual Report 2010.

3 Transfer of Positions to FMS Wertmanagement

With effectiveness as of 1 October 2010, Deutsche Pfandbriefbank Group transferred positions to FMS Wertmanagement AöR 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 regulations 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 and the transferred liabilities.

The transfer has resulted in the derecognition of non-derivative assets with an IFRS 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 30 September 2010, to € 94.0 billion as of 31 December 2010 and to € 41.4 billion as of 30 June 2011. The opposite effects are attributable to synthetically transferred positions, for instance in the form of back-to-back derivatives, or the performance of refinancing functions for FMS Wertmanagement, for instance in the form of reverse repos.

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 as the basis 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 operating segment Public Sector Finance comprises the financing arrangements for the public sector which are eligible as cover funds in accordance with German law. New business will focus on the primary markets, i.e. direct financing of public sector corporations with a conservative refinancing strategy, concentrating on public investment finance. The aim is to concentrate on Pfandbrief-eligible markets. The target group of 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 syndicate financing arrangements.

Value Portfolio (VP) The operating segment Value Portfolio comprises the non-strategic portfolios of Deutsche Pfandbriefbank Group. In addition, the segment mainly comprises positions in connection with the transfer of balance sheet items to FMS Wertmanagement and the income and expenses attributable to the servicing of FMS Wertmanagement.

The **Consolidation & Adjustments** column is used to reconcile the total segment results with the consolidated results. In addition to consolidations, this item comprises certain expenses and income which cannot be allocated to the respective operating segments.

Since the first half of 2011, Deutsche Pfandbriefbank Group discloses income and expenses of pbb Services GmbH in the operating segment Value Portfolio instead of the Consolidation & Adjustments column. The disclosure reflects the incremental unbundling of Deutsche Pfandbriefbank Group and its affiliate entity DEPFA. In the operating segment Value Portfolio the balance of other operating income/expenses and general administrative expenses increased by € 26 million. In the Consolidation & Adjustments column those positions decreased accordingly.

The cost-income ratio is the ratio between general administrative expenses and operating revenues, consisting of net interest income and similar income, net commission income, net trading income, net income from financial investments, net income from hedge relationships and the balance of other operating income/expenses.

5 Balance-Sheet-Related Measures Broken Down by Business Segment

In the first half of 2011 the composition of the segments was adjusted. The adjustment mainly resulted from issues which arose or ceased due to the newly implemented steering after the transfer of positions to FMS Wertmanagement. According to IFRS 8.30 the disclosure is made on the basis of the former and the new segment composition.

Income/expenses

in € million		PSF	REF	VP	Consolidation & Adjustments	**Deutsche Pfandbriefbank**
Operating revenues	1.1.–30.6.2011	44	146	96	7	293
	1.1.–30.6.2011[1]	35	148	95	15	293
	1.1.–30.6.2010	45	265	–20	–70	220
Net interest income and similar income	1.1.–30.6.2011	57	123	4	8	192
	1.1.–30.6.2011[1]	40	129	15	8	192
	1.1.–30.6.2010	51	311	–21	–11	330
Net commission income	1.1.–30.6.2011	–2	22	–1	–	19
	1.1.–30.6.2011[1]	–2	22	–1	–	19
	1.1.–30.6.2010	–3	42	–47	–	–8
Net trading income	1.1.–30.6.2011	3	1	–	–4	–
	1.1.–30.6.2011[1]	–8	–1	9	–	–
	1.1.–30.6.2010	8	–79	23	–	–48
Net income from financial investments	1.1.–30.6.2011	3	–	–4	–	–1
	1.1.–30.6.2011[1]	3	–	–4	–	–1
	1.1.–30.6.2010	–11	–5	–1	–	–17
Net income from hedge relationships	1.1.–30.6.2011	–25	–2	–	–	–27
	1.1.–30.6.2011[1]	–	–	–	–27	–27
	1.1.–30.6.2010	–	–	–	–39	–39
Balance of other operating income/expenses	1.1.–30.6.2011	8	2	97	3	110
	1.1.–30.6.2011[1]	2	–2	76	34	110
	1.1.–30.6.2010	–	–4	26	–20	2
Provisions for losses on loans and advances	1.1.–30.6.2011	–	11	–12	–	–1
	1.1.–30.6.2011[1]	–	11	–12	–	–1
	1.1.–30.6.2010	5	395	1	–	401
General administrative expenses	1.1.–30.6.2011	26	67	79	2	174
	1.1.–30.6.2011[1]	26	67	58	23	174
	1.1.–30.6.2010	27	87	42	15	171
Balance of other income/expenses	1.1.–30.6.2011	–	–	–	–	–
	1.1.–30.6.2011[1]	–	–	–	–	–
	1.1.–30.6.2010	–	–	–	–	–
Pre-tax profit	1.1.–30.6.2011	**18**	**68**	**29**	**5**	**120**
	1.1.–30.6.2011[1]	**9**	**70**	**49**	**–8**	**120**
	1.1.–30.6.2010	**13**	**–217**	**–63**	**–85**	**–352**

[1] Former segment structure

Key ratio

in %		PSF	REF	VP	**Deutsche Pfandbriefbank**
Cost-income ratio	1.1.–30.6.2011	59.1	45.9	82.3	59.4
	1.1.–30.6.2010	60.0	32.8	> 100.0	77.7

The Management Board controls balance-sheet-related measures by operating segments based on 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]	30.6.2011	0.3	1.3	0.2	1.4	3.2
	31.12.2010	0.3	1.4	0.1	1.3	3.1
Risk-weighted assets[2]	30.6.2011	3.5	10.5	0.7	–	14.7
	31.12.2010	2.7	12.3	1.1	–	16.1
Finance volume	30.6.2011	48.2	25.6	2.4	–	76.2
	31.12.2010	52.3	26.7	2.6	–	81.6

[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 Key Regulatory Capital Ratios (Based on German Commercial Code [HGB]), Broken Down by Operating Segment

Deutsche Pfandbriefbank AG is according to the Waiver Rule regulated in section 2 a KWG not obliged to determine the equity capital ratio and the core capital ratio on a sub-group level.

The waiver rule regulated in section 2 a KWG states that a credit institute or financial services institute incorporated in Germany and that is part of a regulated institute group or finance holding group does not have to comply with the following:
> relating to solvency (equity capital in relation to risk-weighted assets)
> relating to large exposure (equity capital in relation to credit to single borrower units)
> for setting up internal control measures according to section 25 a KWG
if these are fulfilled on the level of the superordinated company.

7 Breakdown of Operating Revenues

Operating Revenues by Products

Operating revenues by products

in € million	**1.1.–30.6.2011**	**1.1.–30.6.2010**
Public sector financings	44	45
Real estate financings	146	265
Other products	103	–90
Total	**293**	**220**

Notes to the Income Statement

8 Net Interest Income and Similar Income

Net interest income and similar income, broken down by categories of income/expenses in € million	1.1.–30.6.2011	1.1.–30.6.2010
Interest income and similar income	**1,993**	**2,521**
Lending and money-market business	1,141	1,723
Fixed-income securities and government-inscribed debt	484	491
Current result from swap transactions (balance of interest income and interest expenses)	368	307
Interest expenses and similar expenses	**1,801**	**2,191**
Deposits	583	532
Liabilities evidenced by certificates	1,159	1,589
Subordinated capital	59	70
Total	**192**	**330**

Total interest income for financial assets that are not at fair value through profit or loss, amounted to € 2.0 billion (1.1.–30.6.2010: € 2.5 billion). Total interest expenses for financial liabilities that are not at fair value through profit or loss amounted to € 1.8 billion (1.1.–30.6.2010: € 2.2 billion).

Net interest income and similar income included income of € 6 million (1.1.–30.6.2010: € 44 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.–30.6.2010: € – 8 million) due to the increase in the present value of the adjusted liabilities over a period of time.

Furthermore, the position net interest income and similar income comprised profits of € 20 million (1.1.–30.6.2010: € 11 million) from liabilities which were redeemed before maturity as a result of customer wishes and for market management purposes.

9 Net Commission Income

Net commission income in € million	1.1.–30.6.2011	1.1.–30.6.2010
Securities and custodial services	– 2	– 5
Lending operations and other service operations	21	– 3
thereof: Expenses of the liquidity support	–	– 45
Total	**19**	**– 8**

The net commission income resulted completely from financial assets and financial liabilities which were not measured at fair value through profit or loss.

10 Net Trading Income

Net trading income in € million	1.1.–30.6.2011	1.1.–30.6.2010
From interest rate instruments and related derivatives	–	– 83
From credit risk instruments and related derivatives	–	35
Total	**–**	**– 48**

11 Net Income from Financial Investments

Net income from financial investments in € million	1.1.–30.6.2011	1.1.–30.6.2010
Income from financial investments	3	42
Expenses from financial investments	4	59
Total	**–1**	**–17**

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.–30.6.2011	1.1.–30.6.2010
Available-for-sale financial investments	–	–2
Loans-and-receivables financial investments	–1	–15
Total	**–1**	**–17**

12 Net Income from Hedge Relationships

Net income from hedge relationships in € million	1.1.–30.6.2011	1.1.–30.6.2010
Result from fair value hedge accounting	–6	–
Result from hedged items	241	127
Result from hedging instruments	–247	–127
Result from dFVTPL investments and related derivatives	–22	–37
Result from dFVTPL investments	–31	–24
Result from derivatives related to dFVTPL investments	9	–13
Ineffectiveness from cash flow hedge accounting affecting income	1	–2
Total	**–27**	**–39**

13 Balance of Other Operating Income/Expenses

Balance of other operating income/expenses in € million	1.1.–30.6.2011	1.1.–30.6.2010
Other operating income	166	31
Other operating expenses	56	29
Balance of other operating income/expenses	**110**	**2**

The balance of other operating income/expenses mainly consisted of a service income for the ongoing operations of FMS Wertmanagement of € 107 million (1.1.–30.6.2010: € 0 million) and an income of pbb Services GmbH from services rendered to DEPFA and HRE Holding of € 21 million (1.1.–30.6.2010: € 26 million). Of the figure recognised for service income for the ongoing operations of FMS Wertmanagement, € 42 million (1.1.–30.6.2010: € 0 million) has been forwarded to affiliated companies. The service income compensated the corresponding general administrative expenses. Furthermore, an income of € 9 million (1.1.–30.6.2010: expense of € 18 million) resulted from currency translation effects (in particular US dollar).

14 Provisions for Losses on Loans and Advances

Provisions for losses on loans and advances in € million	1.1.–30.6.2011	1.1.–30.6.2010
Provisions for losses on loans and advances	–	402
Additions	39	475
Releases	–39	–73
Provisions for contingent liabilities and other commitments	–	–
Additions	–	–
Releases	–	–
Recoveries from write-offs of loans and advances	–1	–1
Total	**–1**	**401**

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.

15 General Administrative Expenses

General administrative expenses in € million	1.1.–30.6.2011	1.1.–30.6.2010
Personnel expenses	67	57
Wages and salaries	54	43
Social security costs	8	8
Pension expenses and related employee benefit costs	5	6
Other general administrative expenses	101	106
Consulting expenses	18	23
IT expenses	58	57
Office and operating expenses	7	9
Other administrative expenses	18	17
Depreciation/amortisation	6	8
on software and other intangible assets excluding goodwill	5	6
on property, plant and equipment	1	2
Total	**174**	**171**

Cost-income ratio in %	1.1.–30.6.2011	1.1.–30.6.2010
Cost-income ratio	59.4	77.7

16 Balance of Other Income/Expenses

Balance of other income/expenses in € million	1.1.–30.6.2011	1.1.–30.6.2010
Other income	–	9
thereof: Releases of restructuring provisions	–	9
Other expenses	–	9
thereof: Additions to restructuring provisions	–	9
Balance of other income/expenses	**–**	**–**

17 Taxes on Income

Breakdown in € million	1.1.–30.6.2011	1.1.–30.6.2010
Current taxes	26	6
Deferred taxes	17	–24
thereof: Deferred taxes on capitalised losses carried forward	21	–
Total	**43**	**–18**

18 Net Gains/Net Losses

The income statement comprised the following net gains/net losses according to IFRS 7.20(a):

Net gains/net losses in € million	1.1.–30.6.2011	1.1.–30.6.2010
Loans and receivables	3	–391
Available for sale	–	–2
Held for trading	–	–48
Designated at fair value through P&L	–22	–37
Financial liabilities at amortised cost	17	2

Notes to the Statement of Financial Position

19 Trading Assets

Trading assets in € million	30.6.2011	31.12.2010
Positive fair values from derivative financial instruments	411	764
Stand-alone derivatives (bank book)	8,828	15,504
Total	**9,239**	**16,168**

20 Loans and Advances to Other Banks

Loans and advances to other banks, broken down by type of business in € million	30.6.2011	31.12.2010
Loans and advances	6,990	9,056
Public sector loans	3,142	3,329
Real estate loans	17	28
Other loans and advances	3,831	5,699
Investments	1,455	3,072
Total	**8,445**	**12,128**

Loans and advances to other banks, broken down by maturities in € million	30.6.2011	31.12.2010
Repayable on demand	649	4,365
With agreed maturities	7,796	7,763
Up to 3 months	5,197	4,545
From 3 months to 1 year	505	686
From 1 year to 5 years	1,590	1,126
From 5 years and over	504	1,406
Total	**8,445**	**12,128**

21 Loans and Advances to Customers

Loans and advances to customers, broken down by type of business in € million	30.6.2011	31.12.2010
Loans and advances	54,426	58,702
Public sector loans	21,689	22,658
Real estate loans	32,688	35,941
Other loans and advances	49	103
Investments	19,028	59,940
Total	**73,454**	**118,642**

Loans and advances to customers, broken down by maturities in € million	30.6.2011	31.12.2010
Unspecified terms	–	–
With agreed maturities	73,454	118,642
Up to 3 months	20,401	62,605
From 3 months to 1 year	4,221	5,654
From 1 year to 5 years	23,450	24,132
From 5 years and over	25,382	26,251
Total	**73,454**	**118,642**

22 Volume of Lending

Volume of lending in € million	30.6.2011	31.12.2010
Loans and advances to other banks	6,990	9,056
Loans and advances to customers	54,426	58,702
Contingent liabilities	44	102
Total	**61,460**	**67,860**

23 Allowances for Losses on Loans and Advances

Development in € million	Individual allowances on loans and advances	Portfolio-based allowances	**Total**
Balance at 1.1.2010	**2,776**	**550**	**3,326**
Changes affecting income	464	–110	354
Gross additions	741	1	742
Releases	–207	–110	–317
Increase of the present value due to passage of time (unwinding)	–70	–	–70
Release model reserve	–	–1	–1
Changes not affecting income	–2,780	–339	–3,119
Changes in the group of consolidated companies	5	–	5
Use of existing loan-loss allowances	–704	–1	–705
Other changes	13	–	13
Effects of currency translations and other changes not affecting income	113	–1	112
Change due to transfer to FMS Wertmanagement	–2,207	–337	–2,544
Balance at 31.12.2010	**460**	**101**	**561**
Balance at 1.1.2011	**460**	**101**	**561**
Changes affecting income	5	–11	–6
Gross additions	25	14	39
Releases	–14	–25	–39
Increase of the present value due to passage of time (unwinding)	–6	–	–6
Release model reserve	–	–	–
Changes not affecting income	–49	–14	–63
Changes in the group of consolidated companies	–	–	–
Use of existing loan-loss allowances	–59	–14	–73
Other changes	12	–	12
Effects of currency translations and other changes not affecting income	–2	–	–2
Change due to transfer to FMS Wertmanagement	–	–	–
Balance at 30.6.2011	**416**	**76**	**492**

The allowances for losses on loans and advances were exclusively created for the measurement category loans and receivables.

24 Financial Investments

Breakdown in € million	30.6.2011	31.12.2010
AfS financial investments	2,792	2,293
Shares in non-consolidated subsidiaries	2	2
Participating interests	1	–
Debt securities and other fixed-income securities	2,787	2,289
Equity securities and other variable-yield securities	2	2
dFVTPL financial investments	205	317
Debt securities and other fixed-income securities	205	317
LaR financial investments	26,842	30,995
Debt securities and other fixed-income securities	26,842	30,995
Total	**29,839**	**33,605**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to € 6 million (31 December 2010: € 5 million).

The dFVTPL financial investments comprised securities issued by the Republic of Portugal with a carrying amount of € 69 million and a nominal value of € 105 million.

Financial investments, broken down by maturities in € million	30.6.2011	31.12.2010
Unspecified terms	270	4
With agreed maturities	29,569	33,601
Up to 3 months	652	3,754
From 3 months to 1 year	3,899	3,275
From 1 year to 5 years	10,986	11,509
From 5 years and over	14,032	15,063
Total	**29,839**	**33,605**

Deutsche Pfandbriefbank Group had applied IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified financial assets. The 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 which had met the definition of loans and receivables according to IAS 39 (amongst others not quoted in an active market). The reclassified portfolios are disclosed under financial investments.

Former Hypo Real Estate Bank AG and former DEPFA Deutsche Pfandbriefbank AG reclassified retrospectively as of 1 July 2008 financial investments out of the category available-for-sale of € 20.7 billion respectively € 9.5 billion (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 approximately € 7.4 billion became due.

In the first half of 2011 no securities were sold (2010: € 0.5 billion). The reclassification of AfS assets did not cause a disclosure change of current interest income. Interest income is still shown under net interest income and similar income.

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

Reclassifications 2011					
		into: Financial investment loans and receivables (LaR)		Effect in reporting period if no assets would have been reclassified (1.1.–30.6.2011)	
		30.6.2011			
	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	11.8	11.4	–	597

Reclassifications 2010					
		into: Financial investment loans and receivables (LaR)		Effect in reporting period if no assets would have been reclassified (1.1.–31.12.2010)	
		31.12.2010			
	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	12.7	12.4	–16	–20

25 Other Assets

Other assets in € million	30.6.2011	31.12.2010
Positive fair values from derivative financial instruments	3,415	4,607
Hedging derivatives	3,415	4,607
Micro fair value hedge	2,766	3,630
Cash flow hedge	649	977
Salvage acquisitions	83	86
Other assets	296	313
Deferred charges and prepaid expenses	30	29
Total	**3,824**	**5,035**

26 Income Tax Assets

Income tax assets in € million	30.6.2011	31.12.2010
Current tax assets	64	64
Deferred tax assets	1,464	1,481
Total	**1,528**	**1,545**

27 Liabilities to Other Banks

Liabilities to other banks by maturities in € million	30.6.2011	31.12.2010
Repayable on demand	3	15
With agreed maturities	23,903	62,572
Up to 3 months	20,672	59,499
From 3 months to 1 year	2,364	1,199
From 1 year to 5 years	836	1,465
From 5 years and over	31	409
Total	**23,906**	**62,587**

28 Liabilities to Customers

Liabilities to customers by maturities in € million	30.6.2011	31.12.2010
Repayable on demand	2,532	3,464
With agreed maturities	12,022	13,920
Up to 3 months	561	1,240
From 3 months to 1 year	979	1,529
From 1 year to 5 years	4,480	4,885
From 5 years and over	6,002	6,266
Total	**14,554**	**17,384**

29 Liabilities Evidenced by Certificates

Liabilities evidenced by certificates, broken down by type of business in € million	30.6.2011	31.12.2010
Debt securities in issue	34,244	40,344
Mortgage bonds	6,527	8,494
Public sector bonds	24,841	26,346
Other debt securities	2,751	5,218
Money market securities	125	286
Registered notes in issue	22,558	23,502
Mortgage bonds	6,820	7,144
Public sector bonds	14,714	15,318
Other debt securities	1,024	1,040
Total	**56,802**	**63,846**

Liabilities evidenced by certificates, broken down by maturities in € million	30.6.2011	31.12.2010
With agreed maturities		
Up to 3 months	5,215	2,621
From 3 months to 1 year	5,928	8,959
From 1 year to 5 years	21,167	26,071
From 5 years and over	24,492	26,195
Total	**56,802**	**63,846**

30 Trading Liabilities

Trading liabilities in € million	30.6.2011	31.12.2010
Negative fair values from derivative financial instruments	541	871
Other trading liabilities	2	2
Stand-alone derivatives (bank book)	8,736	15,421
Total	**9,279**	**16,294**

31 Provisions

Breakdown in € million	30.6.2011	31.12.2010
Provisions for pensions and similar obligations	3	5
Restructuring provisions	77	83
Provisions for contingent liabilities and other commitments	34	34
Other provisions	75	54
thereof: Long-term liabilities to employees	3	3
Total	**189**	**176**

As of 1 January 2005, Deutsche Pfandbriefbank AG took out re-insurance 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 long-term risk-free interest rate in accordance with the investment strategy of the plan assets.

Legal and Arbitration Proceedings In March 2009, a credit broker who previously had been acting for Deutsche Pfandbriefbank Group in France initiated legal action against Deutsche Pfandbriefbank at the Landgericht Stuttgart, claiming damages of at least € 20 million due to the suspension of the cooperation contract.

The decision of the Management Board not to pay any discretionary variable compensation for the year 2008 has since resulted in several labour court proceedings with staff in Germany which are either pending or which have been threatened. Legal verdicts of the labour courts and the State Labour Courts in Munich and Baden-Württemberg are not consistent, which means that legal action in relation to bonus payments for 2008 has in certain cases been completely rejected, although in certain cases such action has been partially allowed.

As a result of the nature and global scope of its activities, Deutsche Pfandbriefbank Group is involved in court, arbitration and regulatory proceedings in numerous countries. For the uncertain liabilities arising from these proceedings, Deutsche Pfandbriefbank Group creates provisions if the potential outflow of resources is sufficiently likely and if it is possible for the extent of the obligation to be estimated. The probability of the outflow of resources depends to a considerable extent on the outcome of the proceedings, which, however, normally cannot be estimated with any certainty. The assessment of probability and the quantification of the uncertain liability essentially depend on estimates. The actual liability may differ considerably from this estimate. With regard to the accounting treatment of the individual cases, the Group relies on its own expertise, appraisals prepared by external advisors, in particular legal advisors, developments in the individual proceedings as well as developments in equivalent proceedings, experience within the Group and also the experience of third parties in equivalent cases, depending on the importance and difficulty of the specific case.

32 Other Liabilities

Other liabilities in € million	30.6.2011	31.12.2010
Negative fair values from derivative financial instruments	3,499	4,316
Hedging derivatives	3,490	4,293
Micro fair value hedge	3,001	3,578
Cash flow hedge	489	715
Derivatives hedging dFVTPL financial instruments	9	23
Other liabilities	10,412	14,518
Deferred income	46	49
Total	**13,957**	**18,883**

33 Income Tax Liabilities

Income tax liabilities in € million	30.6.2011	31.12.2010
Current tax liabilities	102	83
Deferred tax liabilities	1,402	1,443
Total	**1,504**	**1,526**

34 Subordinated Capital

Breakdown in € million	30.6.2011	31.12.2010
Subordinated liabilities	2,195	2,480
Participating certificates outstanding	15	15
Hybrid capital instruments	279	271
Total	**2,489**	**2,766**

Subordinated capital, broken down by maturities in € million	30.6.2011	31.12.2010
With agreed maturities		
Up to 3 months	59	215
From 3 months to 1 year	43	113
From 1 year to 5 years	1,354	1,193
From 5 years and over	1,033	1,245
Total	**2,489**	**2,766**

Notes to the Financial Instruments

35 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.

Deutsche Pfandbriefbank Group classifies all assets and liabilities measured at fair value in the three levels of the fair value hierarchy. This three-level hierarchy is based on the observability of the measurement parameters:

> Level 1 – market prices (unadjusted) listed in active markets for identical assets or liabilities
> Level 2 – measurement procedures using directly or indirectly observable market-based parameters which, however, are not considered to be listed prices of level 1
> Level 3 – measurement procedures which are not based on observable market data (non-observable parameters)

In the first half of 2011, no financial instruments were transferred between the levels of the fair value hierarchy. In the previous year financial liabilities amounting to € 180 million were transferred into level 3.

In the first half of 2011, there was an initial increase in the level of medium- to long-term interest rates on the market, but they fell back somewhat in the second quarter of 2011. The performance of credit spreads has been mixed. Whereas the credit spreads for the countries in focus have widened further, the credit spreads of some European core countries have narrowed slightly. These factors have had the following impact on the fair values of the Deutsche Pfandbriefbank Group:

Fair values of financial instruments		30.6.2011		31.12.2010
in € million	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets	**124,031**	**123,119**	**184,813**	**183,907**
Cash reserve	131	131	224	224
Trading assets (HfT)	9,239	9,239	16,168	16,168
Loans and advances to other banks[1]	8,414	8,349	12,092	12,062
Category LaR	8,414	8,349	12,092	12,062
Loans and advances to customers[1]	72,993	73,278	118,117	118,592
Category LaR	72,993	73,278	118,117	118,592
Financial investments	29,839	28,707	33,605	32,254
Category AfS	2,792	2,792	2,293	2,293
Category dFVTPL	205	205	317	317
Category LaR	26,842	25,710	30,995	29,644
Other assets	3,415	3,415	4,607	4,607
thereof: Hedging derivatives	3,415	3,415	4,607	4,607
Liabilities	**120,601**	**120,500**	**181,388**	**181,315**
Liabilities to other banks	23,906	23,921	62,587	62,628
Liabilities to customers	14,554	14,671	17,384	17,490
Liabilities evidenced by certificates	56,802	57,548	63,846	63,603
Trading liabilities (HfT)	9,279	9,279	16,294	16,294
Other liabilities	13,571	13,590	18,511	18,514
thereof: Hedging derivatives	3,490	3,490	4,293	4,293
Derivatives hedging dFVTPL financial instruments	9	9	23	23
Liabilities in relation to cover pool assets which were synthetically transferred to FMS Wertmanagement	9,185	9,204	10,925	10,928
Subordinated capital	2,489	2,491	2,766	2,786
Other items	**917**	**885**	**892**	**863**
Contingent liabilities	44	44	102	102
Irrevocable loan commitments	873	841	790	761

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

In the case of certain positions which had not been physically transferred to FMS Wertmanagement until 30 June 2011 but which had been synthetically transferred to FMS Wertmanagement by way of a financial guarantee as of the balance sheet date, the hidden reserves and hidden charges were as follows:

The above table has taken account of the financial guarantees for calculating the fair values (economic view). If these financial guarantees were to be disregarded, the item loans and advances to customers would show a fair value which was € 19 million lower, and a contingent receivable from the financial guarantee of € 19 million would have to be recognised.

36 Assets and Liabilities According to Measurement Categories and Classes

Asset and liabilities according to measurement categories and classes in € million	30.6.2011	31.12.2010
Assets	**124,031**	**184,813**
Loans-and-receivables (LaR)	108,249	161,204
Available-for-sale (AfS)	2,792	2,293
Held-for-trading (HfT)	9,239	16,168
dFVTPL-assets (dFVTPL)	205	317
Cash reserve	131	224
Positive fair values from hedging derivatives	3,415	4,607
Liabilities	**120,601**	**181,388**
Held-for-trading (HfT)	9,279	16,294
Financial liabilities at amortised cost	107,823	160,778
Negative fair values from hedging derivatives	3,499	4,316

37 Exposure to Selected European Countries

The following table provides an overview of the direct exposure to public counterparties of selected European countries:

Exposure to selected European countries as of 30.6.2011 in € million	Counterparty (direct exposure)	IAS 39 measurement category	Repayable on demand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	**Book value** **Total**	**Notional value**	**Fair value**
Portugal	Sovereign	LaR	–	–	–	43	–	**43**	**34**	**37**
		AfS	–	–	–	–	102	**102**	**165**	**102**
		dFVTPL	–	–	–	18	50	**68**	**105**	**68**
	Sub-sovereign	LaR	–	–	–	100	94	**194**	**194**	**136**
	State guaranteed	LaR	–	–	50	453	726	**1,229**	**1,223**	**902**
Ireland	State guaranteed	LaR	–	–	–	–	83	**83**	**83**	**83**
Italy	Sovereign	LaR	–	–	721	839	150	**1,710**	**1,625**	**1,664**
		AfS	–	–	–	–	1,194	**1,194**	**1,060**	**1,194**
	Sub-sovereign	LaR	–	–	3	58	1,971	**2,032**	**1,958**	**1,842**
	State guaranteed	LaR	–	–	–	–	23	**23**	**23**	**22**
Spain	Sub-sovereign	LaR	–	75	–	924	1,391	**2,390**	**2,320**	**2,130**
	State guaranteed	LaR	–	–	–	252	269	**521**	**523**	**471**

As of 30 June 2011 no direct exposure existed to Greek public counterparties.

For the total portfolio as of 30 June 2011 and as of 31 December 2010 the exposure at default according to regions is disclosed in the Risk Report.

For 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 advances or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. As per 30 June 2011 there is no such objective evidence.

38 Past Due but Not Impaired Assets

LaR assets: past due but not impaired (total investment) in € million	30.6.2011	31.12.2010
Up to 3 months	384	134
From 3 months to 6 months	54	18
From 6 months to 1 year	53	4
From 1 year and over	76	8
Total	**567**	**164**

Carrying amounts LaR assets in € billion	30.6.2011	31.12.2010
Carrying amount of LaR assets that are neither impaired nor past due	107.6	157.8
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.6	0.2
Carrying amount of individually assessed impaired LaR assets (net)	0.4	3.6
Balance of portfolio-based allowances	0.1	0.1
Total	**108.7**	**161.7**
thereof: Loans and advances to other banks (including investments)	8.4	12.1
Loans and advances to customers (including investments)	73.5	118.6
Financial investments (gross)	26.8	31.0

Other Notes

39 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million	30.6.2011	31.12.2010
Contingent liabilities	**44**	**102**
Guarantees and indemnity agreements	44	102
Loan guarantees	12	14
Performance guarantees and indemnities	32	88
Other commitments	**873**	**821**
Irrevocable loan commitments	873	790
Book credits	54	25
Guarantees	52	52
Mortgage and public sector loans	767	713
Other commitments	–	31
Total	**917**	**923**

Positions have been transferred to FMS Wertmanagement primarily by way of the granting of sub-participations, trust agreements or risk transfers (guarantees). The Framework Agreement specifies that FMS Wertmanagement can demand the real transfer if the transferring party does not suffer any economic disadvantage or if it provides compensation for such a disadvantage. The direct costs of the transfer are not considered to be a disadvantage for the purposes of this regulation. If an economic disadvantage were to arise, the Finanzmarktstabilisierungsanstalt would make a binding decision as to whether a transfer is nevertheless to take place. The costs of the transfer are borne by the transferring legal entity.

The above passages therefore comprise the following possible cost components:
1. Costs of the audit
2. Costs of the transfer
3. Compensation for economic disadvantages

In addition, the European Union imposed in relation to the aid proceedings the complete fulfilment of the payment condition (stipulated by the FMSA) of € 1.59 billion to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition has resulted in a subsequent purchase price adjustment in the companies of HRE which have transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to DEPFA Group, however depending on the future development, the entities of Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSA of its right to impose a payment condition by the issuance of one or more decrees will in the payment condition being recognised in equity at that time and consequently has no impact on the income statement. The European Commission imposed in the course of the aid proceedings that profits of Deutsche Pfandbriefbank Group have to be used to repay the silent participation of SoFFin.

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.

The Restructuring Fund Act, which envisages the imposition of a bank tax in Germany, came into force in Germany in December 2010. At HRE, this obligation affects Deutsche Pfandbriefbank AG. Details concerning the bank tax are set out in an ordinance regarding the imposition of contributions to the restructuring fund for credit institutions (Restructuring Fund Ordinance). On 20 July 2011, the Federal Cabinet adopted the Restructuring Fund Ordinance with the modifications adopted by the Bundesrat (Upper House). The ordinance came into force on 26 July. The relevant liabilities and derivatives shown in the separate financial statements of 2010 constitute the basis for calculating the bank tax to be paid in 2011. On this basis, a figure of € 41 million has been calculated for 2011. However, because Deutsche Pfandbriefbank AG reported a loss in its separate financial statements for 2010, only a minimum payment of € 2 million will be imposed in 2011; a provision of € 1 million was set aside for this purpose in the first half of 2011. The Restructuring Fund Ordinance specifies a subsequent payment for years in which the most recently adopted annual financial statements report a net loss for the year or in which the limits of reasonableness are exceeded. Because of the link to future annual payments, there is a possibility of avoidance in accordance with IAS 37.19, which means that a provision does not have to be created for the subsequent payment. The amount which has not been paid and which can be subsequently imposed in the years 2012 and 2013 is € 39 million.

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

According to the waiver rule regulated in Section 2a KWG, Deutsche Pfandbriefbank AG is not obliged to determine the equity capital ratio and the core capital ratio on a sub-group level.

41 Relationship with Related Parties

Because HRE Holding and thus Deutsche Pfandbriefbank AG are controlled by SoFFin, a special fund of the federal government in accordance with Section 2 (2) FMStFG, Deutsche Pfandbriefbank AG is a government-controlled entity and a related party of other companies which are subject to the control, joint management or significant influence of the Federal Republic of Germany (so-called government-related entities). FMS Wertmanagement is also subject to the control of the Federal Republic of Germany and is thus a related party of Deutsche Pfandbriefbank Group. Business relations with government-related entities are conducted on an arm's-length basis. Major income and expenses in accordance with IAS 24 are attributable to services of Deutsche Pfandbriefbank Group provided to FMS Wertmanagement for the latter's ongoing operation. The net income of € 65 million from servicing FMS Wertmanagement (1.1.–30.6.2010: € 0 million) compensate for the costs of Deutsche Pfandbriefbank Group incurred in connection with servicing.

42 Employees

Average number of employees	1.1.–30.6.2011	2010
Employees (excluding apprentices)	970	923
Apprentices	–	2
Total	**970**	**925**

43 Summary of Quarterly Financial Data

Deutsche Pfandbriefbank Group			2010		2011
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	99	241	191	131	162
Net interest income and similar income	164	161	109	97	95
Net commission income	–1	–12	10	14	5
Net trading income	–36	110	15	–8	8
Net income from financial investments	–4	–1	1	–1	–
Net income from hedge relationships	–22	–2	–4	–15	–12
Balance of other operating income/expenses	–2	–15	60	44	66
Provisions for losses on loans and advances	175	17	25	–2	1
General administrative expenses	98	105	76	81	93
Balance of other income/expenses	–1	–	8	–	–
Pre-tax profit	–175	119	98	52	68

Public Sector Finance			2010		2011
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	27	3	25	17	27
Net interest income and similar income	30	15	22	27	30
Net commission income	–1	–1	–1	–1	–1
Net trading income	5	–3	–4	–2	5
Net income from financial investments	–7	–5	7	3	–
Net income from hedge relationships	–	–	–	–11	–14
Balance of other operating income/expenses	–	–3	1	1	7
Provisions for losses on loans and advances	5	–3	–2	–	–
General administrative expenses	14	11	8	12	14
Balance of other income/expenses	–	–	–	–	–
Pre-tax profit	8	–5	19	5	13

Real Estate Finance					
			2010		**2011**
in € million	**2nd quarter**	**3rd quarter**	**4th quarter**	**1st quarter**	**2nd quarter**
Operating performance					
Operating revenues	132	198	108	74	72
Net interest income and similar income	155	156	84	65	58
Net commission income	23	17	12	15	7
Net trading income	−43	47	29	−1	2
Net income from financial investments	–	1	2	–	–
Net income from hedge relationships	–	–	–	−4	2
Balance of other operating income/expenses	−3	−23	−19	−1	3
Provisions for losses on loans and advances	173	−6	33	9	2
General administrative expenses	43	38	26	30	37
Balance of other income/expenses	–	–	–	–	–
Pre-tax profit	−84	166	49	35	33

Value Portfolio					
			2010		**2011**
in € million	**2nd quarter**	**3rd quarter**	**4th quarter**	**1st quarter**	**2nd quarter**
Operating performance					
Operating revenues	−12	34	59	37	59
Net interest income and similar income	−14	−20	14	2	2
Net commission income	−23	−29	–	–	−1
Net trading income	2	65	−9	−1	1
Net income from financial investments	5	3	−8	−4	–
Net income from hedge relationships	–	–	–	–	–
Balance of other operating income/expenses	18	15	62	40	57
Provisions for losses on loans and advances	–	26	−6	−11	−1
General administrative expenses	26	21	57	38	41
Balance of other income/expenses	–	–	–	–	–
Pre-tax profit	−38	−13	8	10	19

Consolidation & Adjustments					
			2010		2011
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	–48	6	–1	3	4
Net interest income and similar income	–7	10	–11	3	5
Net commission income	–	1	–1	–	–
Net trading income	–	1	–1	–4	–
Net income from financial investments	–2	–	–	–	–
Net income from hedge relationships	–22	–2	–4	–	–
Balance of other operating income/expenses	–17	–4	16	4	–1
Provisions for losses on loans and advances	–3	–	–	–	–
General administrative expenses	15	35	–15	1	1
Balance of other income/expenses	–1	–	8	–	–
Pre-tax profit	–61	–29	22	2	3

Munich, 5 August 2011

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, 5 August 2011

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 statement of cash flows and condensed notes together with the interim group management report of Deutsche Pfandbriefbank AG, Munich, for the period from 1 January to 30 June 2011 that are part of the semi annual financial report according to § 37 w 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 perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated 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 cause us to presume that the condensed interim consolidated financial statements have not been prepared, in 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, 10 August 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Wiechens	Muschick
Wirtschaftsprüfer	Wirtschaftsprüfer

Service Chapter

Service Chapter
Financial Calendar
Future-oriented Statements
Internet Service

Financial Calendar	
11 August 2011	Publication of the results for the second quarter of 2011
15 November 2011	Publication of the results for the third quarter of 2011

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

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