Pursuant to article 16 para. 3 of the German Securities Prospectus Act investors who have already agreed to purchase or subscribe for Notes issued under the Programme (as defined herein) before this Supplement (as defined herein) has been published shall have the right, exercisable within a time limit which shall not be shorter than two working days after the publication of this Supplement, to withdraw their purchase orders provided that the relevant purchase order has not yet been settled. In this case the withdrawal has to be addressed to the Issuer (as defined below).

Supplement pursuant to article 16 para. 1 of the German Securities Prospectus Act
dated 2 September 2011

to the base prospectus dated
5 May 2011 and lastly supplemented on 5 August 2011
relating to

Deutsche Pfandbriefbank AG

Munich, Federal Republic of Germany

as Issuer

Euro 50,000,000,000
Debt Issuance Programme (the "Programme")

This supplement (the "Second Supplement" or the "Supplement") to the base prospectus dated 5 May 2011 is prepared in connection with the Euro 50,000,000,000 Debt Issuance Programme (the "Programme") of Deutsche Pfandbriefbank AG (the "Issuer") and is supplemental to, and should be read in conjunction with, the base prospectus dated 5 May 2011 as lastly supplemented on 5 August 2011 (the "First Supplement") (the "Original Base Prospectus") in respect of the Programme. Unless otherwise stated or the context otherwise requires, terms defined in the Original Base Prospectus shall have the same meaning when used in the Second Supplement. As used herein, the term "Base Prospectus" means the Original Base Prospectus and the Second Supplement.

The Issuer accepts responsibility for the information contained in, or incorporated into this Base Prospectus. The Issuer hereby declares that all information contained in this Base Prospectus is true and accurate to the knowledge of the Issuer and that no material circumstances have been omitted.

The Second Supplement has been approved by the *Bundesanstalt für Finanzdienstleistungsaufsicht* of the Federal Republic of Germany in its capacity as competent authority (the "Competent Authority") under the German Securities Act (*Wertpapierprospektgesetz*) which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003. Please note that the approval of the Base Prospectus by the Competent Authority is based on the scrutiny of the completeness of the Base Prospectus including the consistency and the comprehensibility only. Application has been made to the Competent Authority to provide the *Commission de Surveillance du Secteur Financier* (the "CSSF") of the Grand Duchy of Luxembourg, the *Autoriteit Financiële Markten* of the Netherlandes, the *Financial Services Authority* of the United Kingdom, the *Irish Financial Services Regulatory Authority* of Ireland, the *Finanzmarktaufsicht* of Austria and the *Kredittilsynet / Oslo Børs* of Norway with a certificate of approval attesting that the Second Supplement has been drawn up in accordance with the German Securities Prospectus Act and with a copy of the Second Supplement.

This Second Supplement has been filed with the Competent Authority and has been published together with the Original Base Prospectus on the website of the Issuer (www.pfandbriefbank.com). Upon request (to be addressed to Deutsche Pfandbriefbank AG, Freisinger Straße 5, 85716 Unterschleißheim, Germany), the Issuer will provide, free of charge, a copy of this Second Supplement and of the Original Base Prospectus.

The Issuer announces the following new factors relating to the information included in the Original Base Prospectus.

OVERALL AMENDMENTS

If reference is made in the Original Base Prospectus to "Base Prospectus", then the respective reference includes all changes made by the First Supplement and the Second Supplement.

I. SUPPLEMENTAL INFORMATION RELATING TO THE TABLE OF CONTENTS

On page 4 of the Original Base Prospectus, the following information shall be added after the information relating to Appendix IV:

II. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "I. SUMMARY"

1. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "1. SUMMARY OF RISK FACTORS – SUMMARY OF RISKS RELATING TO THE ISSUER AND HYPO REAL ESTATE GROUP"

On pages 6 et seq. of the Original Base Prospectus, the fourth paragraph contained in the Subsection "Risks relating to the Current Crisis of Hypo Real Estate Group" shall be deleted and replaced as follows:

"Despite the transfer of assets and liabilities and non-strategic business lines to FMS Wertmanagement the balance sheet total as at 31 December 2010 of the Hypo Real Estate Group was not significantly lower than was the case at the end of the previous year, because the reducing effects were largely offset by opposite effects in connection with FMS Wertmanagement such as back-to-back derivatives entered into with FMS Wertmanagement or the refinancing of FMS Wertmanagement via reverse-repo-contracts, which both expand the balance sheet. Such effects have significantly diminished in the first half of 2011 and are supposed to end by the end of September 2013 at the latest as part of the conditions imposed by the European Commission. Nevertheless, the expected reduction of the Hypo Real Estate Group's and the Issuer's balance sheet may be negatively affected. The intended reduction of the balance sheet of Hypo Real Estate Group and the Issuer depends also on factors that may not be influenced by Hypo Real Estate Group or the Issuer. No assurance can be given on whether and to which extent such reduction of the balance sheet may occur."

2. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. SUMMARY OF THE DESCRIPTION OF THE ISSUER AND OF HYPO REAL ESTATE GROUP – SUMMARY OF THE DESCRIPTION OF THE ISSUER"

On page 15 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Issuer's Financial Position" shall be deleted and replaced as follows:

"In August 2011, the FMSA issued a decree with regard to the payment condition of EUR 1.59 billion, pursuant to which an amount of EUR 800 million will be due for payment beginning of September 2011. The remainder of EUR 790 million shall be payable shortly thereafter. These payment obligations reduce Hypo Real Estate Group's capital and also affect the capital ratios. It cannot be excluded that the Issuer might have to pay a share of the payment obligation and, thus, also the Issuer's capital and capital ratios might be affected."

3. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. SUMMARY OF THE DESCRIPTION OF THE ISSUER AND OF HYPO REAL ESTATE GROUP – SUMMARY OF THE DESCRIPTION OF HYPO REAL ESTATE GROUP"

On pages 16 et seq. of the Original Base Prospectus, after the eighth paragraph of the Subsection "Measures for Stabilising Hypo Real Estate Group" the following paragraph shall be newly inserted:

"Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group which has been granted on 18 July 2011, the further capital contribution in the amount of EUR 450 million to which the SoFFin has committed itself remains subject to certain conditions defined in the European Commission's decision. As at the date of the Second Supplement, the fulfilment of those conditions is unlikely."

On page 20 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Hypo Real Estate Group's Financial and Trading Position" shall be deleted and replaced as follows:

"In August 2011, the FMSA issued a decree with regard to the payment condition of EUR 1.59 billion, pursuant to which an amount of EUR 800 million will be due for payment beginning of September 2011. This payment will already be reflected in the accounts of the relevant DEPFA Group entities in August 2011. The remainder of EUR 790 million shall be payable shortly thereafter. These payment obligations reduce Hypo Real Estate Group's capital and also affect the capital ratios."

III. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "II. DEUTSCHE ÜBERSETZUNG DER ZUSAMMENFASSUNG"

1. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "1. ZUSAMMENFASSUNG DER RISIKOFAKTOREN – ZUSAMMENFASSUNG DER EMITTENTENBEZOGENEN RISIKOFAKTOREN UND DER RISIKEN IN BEZUG AUF DIE HYPO REAL ESTATE GROUP"

On pages 27 et seq. of the Original Base Prospectus, the fourth paragraph contained in the Subsection "Risiken in Bezug auf die derzeitige Krise der Hypo Real Estate Group" shall be deleted and replaced as follows:

"Trotz der Übertragung von Vermögenswerten und Verbindlichkeiten und nichtstrategischer Geschäftsfelder auf die FMS Wertmanagement war die Bilanzsumme der Hypo Real Estate Group am 31. Dezember 2010 nicht wesentlich niedriger als am Vorjahresende, da die reduzierenden Effekte im hohen Maße durch gegenteilige Effekte im Zusammenhang mit der FMS Wertmanagement ausgeglichen wurden, wie back-to-back Derivate, die mit der FMS Wertmanagement abgeschlossen wurden, und der Refinanzierung der FMS Wertmanagement durch Reverse-Repo-Geschäfte, welche beide die Bilanzsumme erhöhen. Diese Effekte haben sich im ersten Halbjahr 2011 deutlich reduziert und sollen bis spätestens Ende September 2013 als Teil der Auflagen der Europäischen Kommission ganz wegfallen. Dennoch könnte die erwartete Reduzierung der Bilanzsumme der Hypo Real Estate Group und der Emittentin negativ beeinflusst werden. Die beabsichtigte Reduzierung der Bilanzsumme der Hypo Real Estate Group und der Emittentin hängt jedoch auch von Faktoren ab, die nicht im Einflussbereich der Hypo Real Estate Group oder der Emittentin liegen. Es kann keine Zusicherung darüber abgegeben werden, ob und in welchem Maß eine solche Reduzierung der Bilanzsumme eintreten kann."

2. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. ZUSAMMENFASSUNG DER BESCHREIBUNG DER EMITTENTIN UND DER HYPO REAL ESTATE GROUP – ZUSAMMENFASSUNG DER BESCHREIBUNG DER EMITTENTIN"

On page 37 of the Original Base Prospectus, the information contained in the Subsection "Wesentliche Änderung der Finanzlage der Emittentin" shall be deleted and replaced as follows:

"Im August 2011 erließ die FMSA einen Bescheid zur Zahlungsauflage in Höhe von EUR 1,59 Milliarden, wonach ein Betrag in Höhe von EUR 800 Millionen Anfang September 2011 zur Zahlung fällig wird. Der Restbetrag in Höhe von EUR 790 Millionen soll kurz darauf zahlbar sein. Diese Zahlungsauflagen reduzieren das Kapital der Hypo Real Estate Group und haben Auswirkungen auf die Kapitalquoten. Es kann nicht ausgeschlossen werden, dass die Emittentin einen Teil der Zahlungsauflage leisten muss, sodass auch das Kapital und die Kapitalquoten der Emittentin betroffen werden könnte."

3. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. ZUSAMMENFASSUNG DER BESCHREIBUNG DER EMITTENTIN UND DER HYPO REAL ESTATE GROUP – ZUSAMMENFASSUNG DER BESCHREIBUNG DER HYPO REAL ESTATE GROUP"

On pages 37 et seq. of the Original Base Prospectus, after the eighth paragraph of the Subsection "Maßnahmen zur Stabilisierung der Hypo Real Estate Group" the following paragraph shall be newly inserted:

"Nach der Genehmigung der an die Hypo Real Estate Group gewährten staatlichen Beihilfen durch die Europäische Kommission, welche am 18. Juli 2011 erfolgt ist, steht die weitere Kapitalzuführung in Höhe von EUR 450 Millionen, zu der sich der SoFFin verpflichtet hat, weiterhin unter dem Vorbehalt bestimmter Bedingungen, die in der Entscheidung der Europäischen Kommission enthalten sind. Zum Datum des Zweiten Nachtrags ist die Erfüllung dieser Bedingungen unwahrscheinlich."

On page 42 of the Original Base Prospectus, the information contained in the Subsection "Wesentliche Änderung der Finanzlage oder Handelsposition der Hypo Real Estate Group" shall be deleted and replaced as follows:

"Im August 2011 erließ die FMSA einen Bescheid zur Zahlungsauflage in Höhe von EUR 1,59 Milliarden, wonach ein Betrag in Höhe von EUR 800 Millionen Anfang September 2011 zur Zahlung fällig wird. Diese Zahlung wird bereits im August 2011 in der Rechnungslegung der betroffenen Einheiten der DEPFA Gruppe berücksichtigt. Der Restbetrag in Höhe von EUR 790 Millionen soll kurz darauf zahlbar sein. Diese Zahlungsauflagen reduzieren das Kapital der Hypo Real Estate Group und haben Auswirkungen auf die Kapitalquoten."

IV. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "III. RISK FACTORS"

SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "RISKS RELATING TO THE CURRENT CRISIS OF HYPO REAL ESTATE GROUP"

On page 51 of the Original Base Prospectus the first paragraph contained in the subsection "Risks relating to the Transfer of Assets and Liabilities to FMS Wertmanagement" shall be deleted and replaced as follows:

"Despite the transfer of assets and liabilities and non-strategic business lines to FMS Wertmanagement the balance sheet total as at 31 December 2010 of the Hypo Real Estate Group was not significantly lower than was the case at the end of the previous year, because the reducing effects were largely offset by opposite effects in connection with FMS Wertmanagement such as back-to-back derivatives entered into with FMS Wertmanagement or the refinancing of FMS Wertmanagement via reverse-repo-contracts, which both expand the balance sheet. Such effects have significantly diminished in the first half of 2011, in particular by terminating the back-to-back derivatives as well as the underlying derivative with the external counterparty and replacing them with a derivative entered into between FMS Wertmanagement and the external counterparty, and are supposed to end by the end of September 2013 at the latest as part of the conditions imposed by the European Commission. Nevertheless, the expected reduction of the Hypo Real Estate Group's and the Issuer's balance sheet may be negatively affected, for example if FMS Wertmanagement is not able to refinance itself and continues to be dependent on funds transmitted by the Hypo Real Estate Group. The intended reduction of the balance sheet of Hypo Real Estate Group and the Issuer depends on such and other factors that may not be influenced by Hypo Real Estate Group or the Issuer. No assurance can be given on whether and to which extent such reduction of the balance sheet may occur."

V. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "IV. DEUTSCHE PFANDBRIEFBANK AG"

SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "8. HISTORICAL FINANCIAL INFORMATION"

On page 68 et seq. of the Original Base Prospectus, the following paragraph shall be added at the end of the Subsection "Historical Financial Information relating to the Issuer":

"For the first six months ended 30 June 2011, the Issuer has published consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity (condensed), the statement of cash flows (condensed), the notes (condensed) and the auditor's report (the "Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2011"). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2011 are included in Appendix V to the Base Prospectus (pages J-1 to J-27)."

On page 69 of the Original Base Prospectus, the information contained in the Subsection "Applicable Accounting Standards" shall be deleted and replaced as follows:

"The Deutsche Pfandbriefbank unconsolidated financial statements for the year 2010 have been prepared on the basis of the German generally accepted accounting principles ("German GAAP"). The Deutsche Pfandbriefbank consolidated interim financial statements for the period ended 30 June 2011, the Deutsche Pfandbriefbank consolidated financial statements for the year 2010 and the Deutsche Pfandbriefbank consolidated financial statements for the year 2009 have been prepared on the basis of International Financial Reporting Standards ("IFRS")."

On page 69 of the Original Base Prospectus, the following paragraph shall be added at the end of the Subsection "Auditing of Historical Financial Information":

"The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2011 are unaudited and have been subject to a review by the auditors (*prüferische Durchsicht*) only. The statutory auditors of the Issuer have issued a review report (*Bescheinigung nach prüferischer Durchsicht*)."

On page 69 of the Original Base Prospectus, the information contained in the Subsection "Interim and other Financial Information" shall be deleted and replaced as follows:

"The Issuer has published reviewed consolidated interim financial information for the period ended 30 June 2011."

On page 70 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Issuer's Financial Position" shall be deleted and replaced as follows:

"Save as disclosed or referred to in this section "Significant Change in Issuer's Financial Position", there has been no significant change in the financial position of the Issuer since the end of the last financial period for which interim financial information has been published (30 June 2011).

In August 2011, the FMSA issued a decree with regard to the payment condition of EUR 1.59 billion, pursuant to which an amount of EUR 800 million will be due for payment beginning of September 2011. The remainder of EUR 790 million shall be payable shortly thereafter. These payment obligations reduce Hypo Real Estate Group's capital and also affect the capital ratios. According to the decree, all such payments are to be made by entities of the DEPFA Group. However, FMSA has reserved the right to change the decree until full payment of the EUR 1.59 billion, so it cannot yet be excluded that the Issuer might have to pay a share of this amount and, thus, also the Issuer's capital and capital ratios might be affected (for details see Section III.1 "Risks relating to the Current Crisis of Hypo Real Estate Group - Risks relating to Future Developments")."

VI. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "V. HYPO REAL ESTATE GROUP"

SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. INFORMATION ABOUT HYPO REAL ESTATE GROUP"

On page 73 et seq. of the Original Base Prospectus, the following paragraph shall be added at the end of the Subsection "Further Capitalisation of Hypo Real Estate Group":

"Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group which has been granted on 18 July 2011, the further capital contribution in the amount of EUR 450 million to which the SoFFin has committed itself remains subject to certain conditions defined in the European Commission's decision. As at the date of the Second Supplement, the fulfilment of those conditions is unlikely."

SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "7. HISTORICAL FINANCIAL INFORMATION OF HYPO REAL ESTATE GROUP"

On page 79 et seq. of the Original Base Prospectus, the following paragraph shall be added at the end of the Subsection "Historical Financial Information":

"For the first six months ended 30 June 2011, the Hypo Real Estate Group has published consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity (condensed), the statement of cash flows (condensed) and the notes (condensed) (the "Hypo Real Estate Group Interim Financial Information First Half 2011"). The Hypo Real Estate Group Consolidated Interim Financial Information First Half 2011 are included in Appendix VI to the Base Prospectus (pages K-1 to K-29). The Hypo Real Estate Group interim financial statements for the period ended 30 June 2011 have been prepared on the basis of IFRS."

On page 80 of the Original Base Prospectus, the information contained in the Subsection "Interim and other Financial Information" shall be deleted and replaced as follows:

"Hypo Real Estate Group has published unaudited and unreviewed interim financial information for the period ended 30 June 2011."

On page 81 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Hypo Real Estate Group's financial and trading position" shall be deleted and replaced as follows:

"Save as disclosed or referred to in this section "Significant Change in Hypo Real Estate Group's financial and trading position", there has been no significant change in the financial or trading position of Hypo Real Estate Group since the end of the last financial period for which interim financial information has been published (30 June 2011).

In August 2011, the FMSA issued a decree with regard to the payment condition of EUR 1.59 billion, pursuant to which an amount of EUR 800 million will be due for payment beginning of September 2011. This payment will already be reflected in the accounts of the relevant DEPFA Group entities in August 2011. The remainder of EUR 790 million shall be payable shortly thereafter. These payment obligations reduce Hypo Real Estate Group's capital and also affect the capital ratios. According to the decree, all such payments are to be made by entities of the DEPFA Group. However, FMSA has reserved the right to change the decree until full payment of the EUR 1.59 billion, so it cannot yet be excluded that the Issuer might have to pay a share of this amount and, thus, also the Issuer's capital and capital ratios might be affected (for details see Section III.1 "Risks relating to the Current Crisis of Hypo Real Estate Group - Risks relating to Future Developments")."

VII. SUPPLEMENTAL INFORMATION
RELATING TO THE APPENDICES

After I-24 of the Original Base Prospectus the Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2011 and the Hypo Real Estate Group Interim Financial Information First Half 2011, each as laid out on the following pages J-1 to J-27 and K-1 to K-29, respectively, are newly inserted as J-pages and K-pages into the Original Base Prospectus.

Appendix V

Deutsche Pfandbriefbank
Consolidated Interim Financial Statements First Half 2011

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 in € million		**1.1.–30.6.2011**			**1.1.–30.6.2010**	
	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	Equity attributable to equity holders: 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 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**

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) 30.6.2011		Effect in reporting period if no assets would have been reclassified (1.1.–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) 31.12.2010		Effect in reporting period if no assets would have been reclassified (1.1.–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

in € million	30.6.2011 Carrying amounts	30.6.2011 Fair value	31.12.2010 Carrying amounts	31.12.2010 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

in € million	2010 2nd quarter	2010 3rd quarter	2010 4th quarter	2011 1st quarter	2011 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

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

Appendix VI

Hypo Real Estate Group
Interim Financial Statements First Half 2011

Income Statement

Income/expenses

in € million	Note · Page	**1.1.–30.6.2011**	**1.1.–30.6.2010**	Change in € million	Change in %
Operating revenues		437	−15	452	> 100.0
Net interest income and similar income	7 · 72	359	478	−119	−24.9
Interest income and similar income		2,816	4,672	−1,856	−39.7
Interest expenses and similar expenses		2,457	4,194	−1,737	−41.4
Net commission income	8 · 72	8	−198	206	> 100.0
Commission income		23	56	−33	−58.9
Commission expenses		15	254	−239	−94.1
Net trading income	9 · 72	5	−278	283	> 100.0
Net income from financial investments	10 · 72	−35	59	−94	<−100.0
Net income from hedge relationships	11 · 73	−21	−64	43	67.2
Balance of other operating income/expenses	12 · 73	121	−12	133	> 100.0
Provisions for losses on loans and advances	13 · 73	−20	454	−474	<−100.0
General administrative expenses	14 · 73	242	252	−10	−4.0
Balance of other income/expenses	15 · 74	1	2	−1	−50.0
Pre-tax profit/loss		**216**	**−719**	935	> 100.0
Taxes on income	16 · 74	53	−19	72	> 100.0
Net income/loss		**163**	**−700**	863	> 100.0

Statement of comprehensive income

in € million	Before tax 1.1.–30.6.2011	Tax 1.1.–30.6.2011	Net of tax 1.1.–30.6.2011	Before tax 1.1.–30.6.2010	Tax 1.1.–30.6.2010	Net of tax 1.1.–30.6.2010
Net income/loss	**216**	**53**	**163**	**−719**	**−19**	**−700**
Additional paid-in capital	—	—	—	—	—	—
Retained earnings	2	—	2	8	—	8
Foreign currency reserve	−2	—	−2	2	—	2
AfS reserve	−16	−10	−6	−2,278	141	−2,419
Cash flow hedge reserve	−124	−28	−96	416	112	304
Total other income	−140	−38	−102	−1,852	253	−2,105
Total	**76**	**15**	**61**	**−2,571**	**234**	**−2,805**
attributable to:						
Equity holders (consolidated profit/loss from the parent company)	76	15	61	−2,571	234	−2,805
Non-controlling interest	—	—	—	—	—	—

Disclosure of components of comprehensive income

in € million	1.1.–30.6.2011	1.1.–30.6.2010
Net income/loss	**163**	**−700**
Additional paid-in capital	—	—
Unrealised gains/losses	—	—
Reclassification adjustments for gains/losses included in profit or loss	—	—
Retained earnings	2	8
Unrealised gains/losses	2	8
Reclassification adjustments for gains/losses included in profit or loss	—	—
Foreign currency reserve	−2	2
Unrealised gains/losses	−2	2
Reclassification adjustments for gains/losses included in profit or loss	—	—
AfS reserve	−6	−2,419
Unrealised gains/losses	−6	−2,420
Reclassification adjustments for gains/losses included in profit or loss	—	1
Cash flow hedge reserve	−96	304
Unrealised gains/losses	−96	304
Reclassification adjustments for gains/losses included in profit or loss	—	—
Total other income	−102	−2,105
Total	**61**	**−2,805**

Statement of Financial Position

Assets

in € million	Note · Page	30.6.2011	31.12.2010	Change in € million	Change in %	31.12.2009
Cash reserve		537	2,507	−1,970	−78.6	1,824
Trading assets	18 · 75	22,504	39,114	−16,610	−42.5	10,749
Loans and advances to other banks	19 · 75	20,435	32,614	−12,179	−37.3	23,731
Loans and advances to customers	20 · 75	121,273	175,724	−54,451	−31.0	127,354
Allowances for losses on loans and advances	22 · 76	−573	−661	88	13.3	−3,898
Financial investments	23 · 76	60,692	66,819	−6,127	−9.2	179,588
Property, plant and equipment		5	6	−1	−16.7	15
Intangible assets		45	49	−4	−8.2	44
Other assets	24 · 78	7,253	10,244	−2,991	−29.2	15,399
Income tax assets	25 · 78	1,662	1,703	−41	−2.4	4,870
Current tax assets		72	76	−4	−5.3	146
Deferred tax assets		1,590	1,627	−37	−2.3	4,724
Total assets		**233,833**	**328,119**	−94,286	−28.7	**359,676**

Equity and liabilities

in € million	Note · Page	30.6.2011	31.12.2010	Change in € million	Change in %	31.12.2009
Liabilities to other banks	26 · 79	55,404	101,382	−45,978	−45.4	137,349
Liabilities to customers	27 · 79	31,241	43,216	−11,975	−27.7	13,259
Liabilities evidenced by certificates	28 · 79	94,350	107,898	−13,548	−12.6	156,376
Trading liabilities	29 · 79	21,789	39,109	−17,320	−44.3	11,391
Provisions	30 · 79	313	313	—	—	249
Other liabilities	31 · 81	18,010	23,226	−5,216	−22.5	29,250
Income tax liabilities	32 · 81	1,673	1,714	−41	−2.4	3,976
Current tax liabilities		153	129	24	18.6	113
Deferred tax liabilities		1,520	1,585	−65	−4.1	3,863
Subordinated capital	33 · 81	3,239	3,508	−269	−7.7	3,217
Liabilities		**266,019**	**320,366**	−94,347	−29.4	**355,067**
Equity attributable to equity holders		5,678	5,617	61	1.1	2,567
Subscribed capital		2,668	2,668	—	—	3,649
Additional paid-in capital		8,091	8,091	—	—	8,351
Retained earnings		−5,168	−4,260	−908	−21.3	−4,339
Foreign currency reserve		−46	−44	−2	−4.5	−29
Revaluation reserve		−30	72	−102	<−100.0	−2,829
AfS reserve		−427	−421	−6	−1.4	−2,267
Cash flow hedge reserve		397	493	−96	−19.5	−562
Consolidated loss 1.1.–31.12.		—	−910	910	100.0	−2,236
Consolidated profit 1.1.–30.6.2011		163	—	163	> 100.0	—
Non-controlling interest in equity		2,136	2,136	—	—	2,042
Hybrid capital instruments		1,137	1,137	—	—	1,043
Silent participation		999	999	—	—	999
Equity		**7,814**	**7,753**	61	0.8	**4,609**
Total equity and liabilities		**233,833**	**328,119**	−94,286	−28.7	**359,676**

Statement of Changes in Equity (condensed)	Equity attributable to equity holders							Non-controlling interest			
					Revaluation reserve						
in € million	Subscribed capital	Additional paid-in capital	Retained earnings (incl. unappropriated net income)	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Hybrid capital instruments	Silent participation	Amounts relating to disposal group	**Equity**
Equity at 1.1.2010	**3,649**	**8,351**	**−4,339**	**−29**	**−2,267**	**−562**	**−2,236**	**1,043**	**999**	**—**	**4,609**
Capital increase	—	1,400	—	—	—	—	—	—	—	—	1,400
Transaction costs of capital measures	—	—	—	—	—	—	—	—	—	—	—
Capital decrease/ withdrawal	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	—	—	—	—	—	—	—	—	—	—	—
Distribution	—	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	8	2	−2,419	304	−700	—	—	—	−2,805
Transfer to retained earnings	—	—	−2,236	—	—	—	2,236	—	—	—	—
Reclassification of hybrid capital instruments	—	—	—	—	3,874	206	—	—	—	−4,080	—
Equity at 30.6.2010	**3,649**	**9,751**	**−6,567**	**−27**	**−812**	**−52**	**−700**	**1,043**	**999**	**−4,080**	**3,204**
Equity at 1.1.2011	**2,668**	**8,091**	**−4,260**	**−44**	**−421**	**493**	**−910**	**1,137**	**999**	**—**	**7,753**
Capital increase	—	—	—	—	—	—	—	—	—	—	—
Transaction costs of capital measures	—	—	—	—	—	—	—	—	—	—	—
Capital decrease/ withdrawal	—	—	—	—	—	—	—	—	—	—	—
Treasury shares	—	—	—	—	—	—	—	—	—	—	—
Distribution	—	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	2	−2	−6	−96	163	—	—	—	61
Transfert to retained earnings	—	—	−910	—	—	—	910	—	—	—	—
Equity at 30.6.2011	**2,668**	**8,091**	**−5,168**	**−46**	**−427**	**397**	**163**	**1,137**	**999**	**—**	**7,814**

Statement of Cash Flows (condensed)

Statement of cash flows (condensed)

in € million	2011	2010
Cash and Cash equivalents at 1.1.	**2.507**	**1,824**
+/– Cash flow from operating activities	−7.605	−6,521
+/– Cash flow from investing activities	5.925	4,052
+/– Cash flow from financing activities	−273	1,206
+/– Effects of exchange rate changes and non-cash valuation changes	−17	−26
Cash and cash equivalents at 30.6.	**537**	**535**

1 Principles

HRE Holding 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 European 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. HRE 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 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, HRE is still preparing its consolidated financial statements under the going concern assumption.

The companies of the DEPFA sub-group will not conduct any new business until they are reprivatised. This is not applicable for measures carried out as part of bank, risk and refinancing management which is necessary for regulatory purposes and which has the aim of maintaining value and also within the framework of managing the cover funds. The complete reprivatisation of the DEPFA sub-group is a medium-term objective. Measures have already been initiated to sever the links between the entities of the DEPFA sub-group and the other companies of HRE.

Apart from the change explained in the following, the accounting policies applied in the first half of 2011 were the same as those applied in the consolidated financial statements for the period ending 31 December 2010. 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 (LaR) 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 € 37.7 billion as of 31 December 2010 (31 December 2009: € 84.8 billion); loans and advances to other banks have declined by € 5.8 billion (31 December 2009: € 13.8 billion) and loans and advances to customers have declined by € 31.9 billion (31 December 2009: € 71.0 billion).

HRE shows profits or losses from the sale of receivables in net interest income. On the other hand, effects from the sale of financial assets are shown in the net income from financial investments. As a result of the LaR bonds being reclassified under financial assets (whereas they had previously been shown under receivables), it is also necessary to adjust the way in profits and losses from the sale of such positions are reported. These effects are therefore no longer shown in net interest income, and have to be shown in net income from financial investments.

The sale of LaR bonds in 2010 resulted in net income of € 75 million shown in net interest income; of this figure, € 61 million was generated in the first half of 2010. The net income from financial investments for 2010 has thus improved by € 61 million to the detriment of net interest income. HRE has retrospectively adjusted the figures in accordance with IAS 8.14 (b).

IFRS and interpretations applied for the first time 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 HRE from this.

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 HRE has not issued any such rights, at the moment, 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 HRE 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 HRE, 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 do not have material impacts in HRE. The amendment to IAS 34 Interim Financial Reporting is an exemption what will result in extended financial instruments disclosures in the consolidated interim financial statements of HRE.

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 included 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 what demonstrates multiple forms 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 HRE 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 of a joint venture 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, HRE does not have material joint arrangements. Impacts on HRE will depend on joint arrangements in the future.

IFRS 12 Disclosure of Interest 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 HRE 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 HRE.

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. HRE 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 pensions plans and the average duration of the defined benefit obligation have to be disclosed in the notes. Furthermore, the treatment of settlements in the 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 HRE. 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 the 1 January 2013.

2 Consolidation

The Annual Report 2010 contains a list of all consolidated and non-consolidated holdings of HRE disclosed on pages 162 to 164.

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

3 Transfer of Positions to FMS Wertmanagement

With economically effect at 1 October 2010, HRE transferred positions to FMS Wertmanagement 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 HRE 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 €173.2 billion, provisions for losses on loans and advances of €3.0 billion, derivatives of €11.6 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 €217.5 billion as of 30 September 2010, €173.9 billion as of 31 December 2010 and €93.1 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 performing of refinancing functions for FMS Wertmanagement, for instance in the form of reverse repos.

4 Notes to Segment Reporting by Operating Segment

HRE 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 HRE 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 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 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 for 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 segment comprises non-strategic portfolios of HRE. It comprises all assets and liabilities of the DEPFA sub-group. In addition, the segment mainly comprises positions in connection with the transfer of positions 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.

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 Income Statement and Balance-sheet-related Measures, Broken Down by Operating 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	**HRE**
Operating revenues	1.1.–30.6.2011	44	144	254	–5	437
	1.1.–30.6.2011 1)	35	146	274	–18	437
	1.1.–30.6.2010	44	258	–257	–60	–15
Net interest income and similar income	1.1.–30.6.2011	57	121	155	26	359
	1.1.–30.6.2011 1)	40	127	166	26	359
	1.1.–30.6.2010	50	303	133	–8	478
Net commission income	1.1.–30.6.2011	–2	22	–12	—	8
	1.1.–30.6.2011 1)	–2	22	–12	—	8
	1.1.–30.6.2010	–3	42	–237	—	–198
Net trading income	1.1.–30.6.2011	3	1	10	–9	5
	1.1.–30.6.2011 1)	–8	–1	19	–5	5
	1.1.–30.6.2010	8	–79	–207	—	–278
Net income from financial investments	1.1.–30.6.2011	3	—	–38	—	–35
	1.1.–30.6.2011 1)	3	—	–38	—	–35
	1.1.–30.6.2010	–11	–4	74	—	59
Net income from hedge relationships	1.1.–30.6.2011	–25	–2	7	–1	–21
	1.1.–30.6.2011 1)	—	—	7	–28	–21
	1.1.–30.6.2010	—	—	–29	–35	–64
Balance of other operating income/expenses	1.1.–30.6.2011	8	2	132	–21	121
	1.1.–30.6.2011 1)	2	–2	132	–11	121
	1.1.–30.6.2010	—	–4	9	–17	–12
Provisions for losses on loans and advances	1.1.–30.6.2011	—	11	–31	—	–20
	1.1.–30.6.2011 1)	—	11	–31	—	–20
	1.1.–30.6.2010	5	395	54	—	454
General administrative expenses	1.1.–30.6.2011	33	72	128	9	242
	1.1.–30.6.2011 1)	39	73	121	9	242
	1.1.–30.6.2010	29	94	82	47	252
Balance of other income/expenses	1.1.–30.6.2011	—	—	1	—	1
	1.1.–30.6.2011 1)	—	—	1	—	1
	1.1.–30.6.2010	—	—	1	1	2
Pre-tax profit	1.1.–30.6.2011	**11**	**61**	**158**	**–14**	**216**
	1.1.–30.6.2011 1)	**–4**	**62**	**185**	**–27**	**216**
	1.1.–30.6.2010	**10**	**–231**	**–392**	**–106**	**–719**

1) Former segment structure

Key ratio

in %		PSF	REF	VP	**HRE**
Cost-income ratio	1.1.–30.6.2011	75.0	50.0	50.4	55.3
	1.1.–30.6.2010	65.9	36.4	> 100.0	> 100.0

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	**HRE**
Equity[1]	30.6.2011	0.3	1.2	0.7	5.6	7.8
	31.12.2010	0.3	1.3	0.8	5.3	7.7
Risk-weighted assets[2]	30.6.2011	3.1	9.9	5.1	—	18.1
	31.12.2010	2.6	11.9	5.9	—	20.4
Finance volume	30.6.2011	48.2	25.6	52.5	—	126.3
	31.12.2010	52.3	26.7	57.5	—	136.5

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

6 Breakdown of Operating Revenues

Operating revenues by products

in € million	**1.1.–30.6.2011**	**1.1.–30.6.2010**
Public sector financings	44	−83
Real estate financings	144	258
Other products	249	−190
Total	**437**	**−15**

Notes to the Income Statement

7 Net Interest Income and Similar Income

Net interest income and similar income broken down by categories of income/expenses in € million	1.1.–30.6.2011	1.1.–30.6.2010
Interest income and similar income	**2,816**	**4,672**
Lending and money-market business	2,208	3,242
Fixed-income securities and govern-ment-inscribed debt	608	1,430
Interest expenses and similar expenses	**2,457**	**4,194**
Deposits	998	1,105
Liabilities evidenced by certificates	1,761	2,423
Subordinated capital	70	75
Current result from swap transactions (balance of interest income and interest expenses)	−372	591
Total	**359**	**478**

Total interest income for financial assets that are not at fair value through profit or loss, amount to €2.8 billion (1.1.–30.6.2010: €4.7 billion). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to €2.8 billion (1.1.–30.6.2010: €3.6 billion).

Net interest income and similar income includes income of €6 million (1.1.–30.6.2010: €54 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 contains a positive effect was attributable to profits of €158 million from liabilities which were redeemed before maturity as a result of customer wishes and for market management purposes (1.1.–30.6.2010: €2 million).

8 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	10	−193
thereof: Expenses of the liquidity support	—	−239
Total	**8**	**−198**

Net commission income is attributable exclusively to financial assets and financial liabilities which are not designated at fair value through profit or loss.

9 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	8	−178
From credit risk instruments and related derivatives	−5	−82
From foreign exchange trading interest	2	−18
Total	**5**	**−278**

10 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	29	118
Expenses from financial investments	64	59
Total	**−35**	**59**

Based on valuation 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
Held-to-maturity financial investments	—	—
Available-for-sale financial investments	−34	−1
Loans-and-receivables financial investments	−1	60
Total	**−35**	**59**

11 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	—	–10
Result from hedged items	573	5,810
Result from hedging instruments	–573	–5,820
Result from dFVTPL investments and related derivatives	–21	–52
Result from dFVTPL investments	–95	105
Result from derivatives related to dFVTPL investments	74	–157
Ineffectiveness from cash flow hedge accounting affecting income	—	–2
Total	**–21**	**–64**

12 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	150	9
Other operating expenses	29	21
Balance of other operating income/expenses	**121**	**–12**

Other operating income comprises mainly an income from services for the ongoing operations of FMS Wertmanagement of €107 million (1.1.–30.6.2010: €0 million). This income has compensated the correspond increase in general administrative expenses. Currency translation (in particular US Dollar) also resulted in income of €18 million (1.1.–30.6.2010: €–11 million). The largest individual amounts of other operating expenses are expenses for compensation of claims regarding derivatives with FMS Wertmanagement amounting to €–6 million (1.1.–30.6.2010: €0 million).

13 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	–19	455
Additions	40	568
Releases	–59	–113
Provisions for contingent liabilities and other commitments	—	—
Additions	—	—
Releases	—	—
Recoveries from write-offs loans and advances	–1	–1
Total	**20**	**454**

The development of individual allowances on loans and advances as well as portfolio-based allowances is shown in the note allowances for losses on loans and advances.

14 General Administrative Expenses

General administrative expenses in € million	**1.1.–30.6.2011**	**1.1.–30.6.2010**
Personnel expenses	98	81
Wages and salaries	78	57
Social security costs	12	15
Pension expenses and related employee benefit costs	8	9
Other general administrative expenses	135	160
Consulting expenses	29	48
IT expenses	60	72
Office and operating expenses	11	14
Other administrative expenses	35	26
Depreciation/amortisation	9	11
on software and other intangible assets excluding goodwill	8	8
on property, plant and equipment	1	3
Total	**242**	**252**

Cost-income ratio in %	**1.1.–30.6.2011**	**1.1.–30.6.2010**
Cost-income ratio	55.3	>100.0

15 Balance of Other Income/Expenses

Balance of other income/expenses in € million	1.1.–30.6.2011	1.1.–30.6.2010
Other income	2	13
thereof: Releases of restructuring provisions	2	13
Other expenses	1	11
thereof: Additions to restructuring provisions	1	11
Balance of other income/expenses	**1**	**2**

16 Taxes on Income

Breakdown in € million	1.1.–30.6.2011	1.1.–30.6.2010
Current taxes	46	7
Deferred taxes	7	−26
thereof: Deferred taxes on capitalised losses carried forward	−21	—
Total	**53**	**−19**

17 Net Gains/Net Losses

The income statement contains the following income-statement-related 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	21	−389
Held to Maturity	—	—
Available for Sale	−34	−1
Held for Trading	5	−278
Designated at Fair Value through P&L	−21	−52
Financial liabilities at amortised cost	158	2

Notes to the Balance Sheet (Assets)

18 Trading Assets

Trading assets in € million	**30.6.2011**	**31.12.2010**
Debt securities and other fixed-income securities	33	40
Positive fair values from derivative financial instruments	425	772
Stand-alone derivatives (bank book)	22,046	38,302
Total	**22,504**	**39,114**

19 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	18,728	29,499
Public sector loans	6,560	9,550
Real estate loans	17	29
Other loans and advances	12,151	19,920
Investments	1,707	3,115
Total	**20,435**	**32,614**

Loans and advances to other banks, broken down by maturities in € million	**30.6.2011**	**31.12.2010**
Repayable on demand	8,499	17,408
With agreed maturities	11,936	15,206
Up to 3 months	6,185	3,821
From 3 months to 1 year	652	963
From 1 year to 5 years	3,265	4,074
From 5 years and over	1,834	6,348
Total	**20,435**	**32,614**

20 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	72,743	78,322
Public sector loans	37,981	40,107
Real estate loans	32,688	35,942
Other loans and advances	2,074	2,273
Investments	48,530	97,402
Total	**121,273**	**175,724**

Loans and advances to customers, broken down by maturities in € million	**30.6.2011**	**31.12.2010**
Unspecified terms	21	—
With agreed maturities	121,252	175,724
Up to 3 months	49,260	98,577
From 3 months to 1 year	6,218	5,052
From 1 year to 5 years	29,151	33,528
From 5 years and over	36,623	38,567
Total	**121,273**	**175,724**

21 Volume of Lending

Volume of lending in € million	**30.6.2011**	**31.12.2010**
Loans and advances to other banks	18,728	29,499
Loans and advances to customers	72,743	78,322
Contingent liabilities	124	196
Total	**91,595**	**108,017**

22 Allowances for Losses on Loans and Advances

Development in € million	Individual allowances on loans and advances	Portfolio-based allowances	**Total**
Balance at 1.1.2010	**3,072**	**826**	**3,898**
Changes affecting income	420	−73	347
Gross additions	762	79	841
Releases	−263	−151	−414
Increase of the present value due to passage of time (unwinding)	−79	—	−79
Release model reserve	—	−1	−1
Changes not affecting income	−3,015	−569	−3,584
Use of existing loan-loss allowances	−705	−1	−706
Effects of currency translations and other changes not affecting income	123	−2	121
Change due to transfer to FMS Wertmanagement	−2,433	−566	−2,999
Balance at 31.12.2010	**477**	**184**	**661**
Balance at 1.1.2011	**477**	**184**	**661**
Changes affecting income	−9	−16	−25
Gross additions	25	15	40
Releases	−28	−31	−59
Increase of the present value due to passage of time (unwinding)	−6	—	−6
Release model reserve	—	—	—
Changes not affecting income	−50	−13	−63
Use of existing loan-loss allowances	−59	−13	−72
Effects of currency translations and other changes not affecting income	9	—	9
Change due to transfer to FMS-Wertmanagement	—	—	—
Balance at 30.6.2011	**418**	**155**	**573**

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

23 Financial Investments

Breakdown in € million	**30.6.2011**	**31.12.2010**
AfS financial investments	2,932	2,403
Shares in non-consolidated subsidiaries	2	2
Participating interests	1	1
Debt securities and other fixed-income securities	2,926	2,397
Equity securities and other variable-yield securities	3	3
dFVTPL financial investments	3,478	3,722
Debt securities and other fixed-income securities	3,478	3,722
LaR financial investments	54,282	60,694
Debt securities and other fixed-income securities	54,282	60,694
Total	**60,692**	**66,819**

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 comprise 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	1,425	6
With agreed maturities	59,267	66,813
Up to 3 months	1,889	5,944
From 3 months to 1 year	4,289	6,963
From 1 year to 5 years	18,939	16,007
From 5 years and over	34,150	37,899
Total	**60,692**	**66,819**

HRE has made use of the 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.

On 30 September 2008, HRE reclassified retrospectively as of 1 July 2008 trading assets out of the category held-for-trading amounting to €3.5 billion and financial investments out of the category available-for-sale of €76.1 billion. In addition, trading assets of €0.7 billion were reclassified prospectively into financial investments of the category loans and receivables on 1 October 2008.

At the date of reclassification the effective interest rate for the trading assets was between 1.3 % and 21.9 %. For AfS assets the interest rate was between 0.25 % and 34.4 %.

Since the date of reclassification, financial assets with a (reclassified) carrying amount of around €14.5 billion became due. Thereof €12.7 billion are reclassified AfS financial investments and €1.7 billion are reclassified trading assets.

In the first half of 2011 securities with a reclassified carrying amount of €0.5 billion (2010: €1.0 billion) were sold due to the decided reduction of portfolios. Thereby a net gain of €5 million (2010: net gain of €2 million) was realised.

Interest income for reclassified trading instruments is now shown under net interest income; before reclassification interest income was shown in net trading income. In the first half of 2011, net interest income contains €7 million (2010: €87 million) of interest income for reclassified trading instruments. The reclassification of AfS assets did not cause a disclosure change of current interest income as it is still shown under net interest income.

The following table summarises 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:	1.7.2008	—	—	—	
Trading assets held for trading (HfT)	1.10.2008	0.2	0.2	−3	
out of: Financial investments available for sale (AfS)	1.7.2008	20.7	20.0	—	658
Total		**20.9**	**20.2**		

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:	1.7.2008	—	—	—	
Trading assets held for trading (HfT)	1.10.2008	0.3	0.3	−6	
out of: Financial investments available for sale (AfS)	1.7.2008	22.0	21.3	−16	−26
Total		**22.3**	**21.6**		

24 Other Assets

Other assets in € million	30.6.2011	31.12.2010
Positive fair values from derivative financial instruments	6,837	8,904
Hedging derivatives	6,612	8,633
Micro fair value hedge	5,963	7,656
Cash flow hedge	649	977
Derivatives hedging dFVTPL financial instruments	225	271
Salvage acquisitions	83	85
Other assets	278	1,203
Deferred charges and prepaid expenses	55	52
Total	**7,253**	**10,244**

25 Income Tax Assets

Income tax assets in € million	30.6.2011	31.12.2010
Current tax assets	72	76
Deferred tax assets	1,590	1,627
Total	**1,662**	**1,703**

Notes to the Balance Sheet (Equity and Liabilities)

26 Liabilities to Other Banks

Liabilities to other banks by maturities

in € million	30.6.2011	31.12.2010
Repayable on demand	631	377
With agreed maturities	54,773	101,005
Up to 3 months	49,998	95,240
From 3 months to 1 year	2,631	1,400
From 1 year to 5 years	1,215	2,916
From 5 years and over	929	1,449
Total	**55,404**	**101,382**

27 Liabilities to Customers

Liabilities to customers by maturities

in € million	30.6.2011	31.12.2010
Repayable on demand	9,923	3,464
With agreed maturities	21,318	39,752
Up to 3 months	582	1,525
From 3 months to 1 year	979	1,594
From 1 year to 5 years	4,515	4,914
From 5 years and over	15,242	31,719
Total	**31,241**	**43,216**

28 Liabilities Evidenced by Certificates

Liabilities evidenced by certificates, broken down by maturities

in € million	30.6.2011	31.12.2010
With agreed maturities		
Up to 3 months	5,315	5,188
From 3 months to 1 year	10,612	11,954
From 1 year to 5 years	34,181	42,608
From 5 years and over	44,242	48,148
Total	**94,350**	**107,898**

29 Trading Liabilities

Trading liabilities

in € million	30.6.2011	31.12.2010
Negative fair values from derivative financial instruments	398	763
Interest-based and foreign-currency-based transactions	352	634
Credit-related transactions	46	129
Other trading liabilities	124	230
Stand-alone derivatives (bank book)	21,267	38,116
Total	**21,789**	**39,109**

30 Provisions

Breakdown

in € million	30.6.2011	31.12.2010
Provisions for pensions and similar obligations	3	3
Restructuring provisions	150	161
Provisions for contingent liabilities and other commitments	34	34
Other provisions	126	115
thereof: Long-term liabilities to employees	3	3
Total	**313**	**313**

As of 1 January 2005, HRE took out reinsurance which is classified as a “qualifying insurance policy” under IAS 19 to protect itself against parts of the risks arising from the defined-benefit pension commitments. The expected return of the plan assets has been calculated by employing the longterm risk-free interest rate in accordance with the investment strategy of the plan assets.

Legal and Arbitration Proceedings As a result of the nature and global scope of its activities, HRE is involved in court, arbitration and regulatory proceedings in numerous countries. For the uncertain liabilities arising from these proceedings, HRE 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.

The investigations of the public prosecutor against former members of the Management Board have not yet been completed. It is possible that fines will be imposed against HRE Holding in this respect.

Claims are being enforced on the grounds of alleged misinformation particularly in connection with the CDO impairment requirement and the ad hoc release of 15 January 2008 on the one hand as well as the liquidity situation of DEPFA Bank plc on the other. Overall, 231 legal actions with a total value in dispute of around €945 million are pending against HRE Holding as of the reporting date. The 105 conciliation proceedings which have so far been initiated, with a total value in dispute of around €29 million, will probably also be converted into legal proceedings. Overall, this results in a value in dispute of around €974 million as of the reporting date. So far, there has been a judgement of the first instance only in one case, in which the plaintiff was awarded around 40 % of the original claim. An appeal has been lodged against this verdict. The Landgericht München I has since issued a court order to the OLG München for initiating an investor test case.

Three legal actions are currently pending in connection with the termination of the service agreements of former members of the Management Board. Frank Lamby and Dr. Markus Fell have taken legal action with regard to their compensation for January 2009, and Georg Funke has taken legal action for his compensation for the months of January and February 2009. Georg Funke and Dr. Markus Fell have each taken legal action to establish that the immediate termination of their employment agreement was ineffective. Georg Funke has also taken legal action to establish that the revocation of his retirement pension commitment is ineffective. By way of a reserved judgement, the Landgericht München I ordered the Company to pay the compensation for January and February 2009 (Georg Funke) or January 2009 (Dr. Markus Fell). With its adjudication of 27 January 2011, the court ordered the preparation of an expert appraisal in order to determine whether any obligations had been violated.

Six actions for annulment have been initiated against the resolutions adopted at the extraordinary general meeting of 2 June 2009. Based on the progress of the process so far, the Company is assuming that the legal action will be rejected in the first instance.

Thirty-nine former minority shareholders originally initiated legal action against the squeeze-out of minority shareholders adopted at the extraordinary general meeting of 5 October 2009. With its judgement of 20 January 2011, the court rejected the actions of all plaintiffs as unfounded. Appeals were lodged by 6 plaintiffs. The Court of Appeal will probably reject the appeals.

In March 2009, a credit broker who previously had been acting for Deutsche Pfandbriefbank 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.

On 26 February 2010, Kommunale Wasserwerke Leipzig GmbH (KWL) initiated legal action against DEPFA Bank plc at the Landgericht Leipzig. The legal action aims to establish that credit-default-swap transactions with KWL from 2007 are null and void. It is alleged that the former managing directors of KWL exceeded their powers in concluding the transactions. The alleged damages are specified as approx. €116 million in the legal action

HRE Holding as the legal successor of DIA GmbH following the merger of DIA GmbH (transferring entity) into HRE Holding (absorbing entity) on 10 March 2004, is the defendant in judicial appraisal proceedings (Spruchverfahren) filed regarding the squeeze-out of minority shareholders of Hypo Real Estate Bank AG, which was entered into the commercial register in Munich on 3 September 2003. A new assessment ordered by the court leads to an increase of the cash compensation of €4.41 per share.

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.

31 Other Liabilities

Other liabilities

in € million	30.6.2011	31.12.2010
Negative fair values from derivative financial instruments	7,375	8,504
Hedging derivatives	7,279	8,444
Micro fair value hedge	6,790	7,729
Cash flow hedge	489	715
Derivatives hedging dFVTPL financial instruments	96	60
Other liabilities	10,584	14,668
Deferred income	51	54
Total	**18,010**	**23,226**

32 Income Tax Liabilities

Income tax liabilities

in € million	30.6.2011	31.12.2010
Current tax liabilities	153	129
Deferred tax liabilities	1,520	1,585
Total	**1,673**	**1,714**

33 Subordinated Capital

Breakdown

in € million	30.6.2011	31.12.2010
Subordinated liabilities	2,945	3,222
Participating certificates outstanding	16	15
Hybrid capital instruments	278	271
Total	**3,239**	**3,508**

Subordinated capital, broken down by maturities

in € million	30.6.2011	31.12.2010
With agreed maturities		
Up to 3 months	53	204
From 3 months to 1 year	43	113
From 1 year to 5 years	2,174	1,701
From 5 years and over	969	1,490
Total	**3,239**	**3,508**

34 Fair Values of Financial Instruments

The recognised fair values of financial instruments according to IFRS 7 correspond to the amounts at which, in the opinion of HRE, 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.

HRE 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, a minor volume of financial instruments has been reclassified between the levels of the fair value hierarchy. Major reclassifications of financial instruments (€47 million) took place in the previous year from level 1 to level 2. In addition, financial assets of €2,576 million and financial liabilities of €253 million were reclassified from other levels to level 3. The previous year only saw major reclassifications from level 3 in the case of financial liabilities of €28 million.

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. Credit spreads have been mixed. Whereas credit spreads for countries which are the focus of attention have widened further, the credit spreads of some European core countries have narrowed slightly. These factors have had the following impact on the fair market values of HRE:

Fair values of financial instruments		**30.6.2011**		**31.12.2010**
in € million	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets	**231,705**	**227,773**	**325,021**	**320,639**
Cash reserve	537	537	2,507	2,507
Trading assets (HfT)	22,504	22,504	39,114	39,114
Loans and advances to other banks[1]	20,404	20,329	32,578	32,504
Category LaR	20,404	20,329	32,578	32,504
Loans and advances to customers[1]	120,731	119,421	175,099	173,880
Category LaR	120,731	119,421	175,099	173,880
Financial investments	60,692	58,145	66,819	63,730
Category AfS	2,932	2,932	2,403	2,403
Category dFVTPL	3,478	3,478	3,722	3,722
Category LaR	54,282	51,735	60,694	57,605
Other assets	6,837	6,837	8,904	8,904
thereof: Hedging derivatives	6,612	6,612	8,633	8,633
Derivatives hedging dFVTPL financial instruments	225	225	271	271
Liabilities	**223,573**	**218,171**	**317,922**	**312,036**
Liabilities to other banks	55,404	55,350	101,382	101,341
Liabilities to customers	31,241	31,378	43,216	43,316
Liabilities evidenced by certificates	94,350	89,227	107,898	102,386
Trading liabilities (HfT)	21,789	21,789	39,109	39,109
Other liabilities	17,550	17,569	22,809	22,812
thereof: Hedging derivatives	7,279	7,279	8,444	8,444
Derivatives hedging dFVTPL financial instruments	96	96	60	60
Liabilities in relation to coverpool assets which were synthetically transferred to FMS Wertmanagement	9,185	9,204	10,925	10,928
Subordinated capital	3,239	2,858	3,508	3,072
Other items	**1,255**	**1,194**	**1,310**	**1,255**
Contingent liabilities	124	124	196	196
Irrevocable loan commitments	1,131	1,070	1,114	1,059
Liquidity facility	—	—	—	—

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

In the case of certain positions which, as of the balance sheet date, had not been transferred physically and instead had been synthetically by means of financial guarantees to FMS Wertmanagement, the hidden reserves or hidden charges are as follows:

The above table takes account of the financial guarantees for calculating the fair values (economic view). If these were not taken into consideration, the fair value of loans and advances to customers would have been €842 million lower; on the other hand, it would have been necessary to show a contingent receivable from the financial guarantee from €842 million. This is also applicable for the position “Irrevocable loan commitments”, the value of which would decline by €29 million if a financial guarantee is not taken into consideration.

35 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	**231,705**	**325,021**
Loans-and-receivables (LaR)	195,417	268,371
Held-to-maturity (HtM)	—	—
Available-for-sale (AfS)	2,932	2,403
Held-for-trading (HfT)	22,504	39,114
dFVTPL-assets (dFVTPL)	3,478	3,722
Cash reserve	537	2,507
Positive fair values from hedging derivatives	6,837	8,904
Liabilities	**223,573**	**317,922**
Held-for-trading (HfT)	21,789	39,109
Financial liabilities at amortised cost	194,409	270,309
Negative fair values from hedging derivatives	7,375	8,504

36 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	Sovereign	LaR	—	327	25	—	—	**352**	**352**	**352**
	Sub sovereign	LaR	—	105	108	15	—	**228**	**226**	**175**
	State guaranteed	LaR	—	—	—	—	83	**83**	**83**	**83**
Italy	Sovereign	LaR	—	—	721	2,709	349	**3,778**	**3,347**	**3,644**
		AfS	—	—	—	—	1,194	**1,194**	**1,060**	**1,194**
	Sub sovereign	LaR	—	—	43	300	2,526	**2,869**	**2,751**	**2,606**
	State guaranteed	LaR	—	—	—	67	23	**90**	**87**	**88**
Spain	Sovereign	LaR	—	—	—	—	356	**356**	**360**	**289**
	Sub sovereign	LaR	—	75	39	1,613	4,279	**6,006**	**5,802**	**5,099**
	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. HRE 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.

37 Past Due but not Impaired Assets

LaR Asset

LaR assets: past due but not impaired (total investment) in € million	**30.6.2011**	**30.12.2010**
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	7
Total	**567**	**163**

Carrying amounts LaR assets in € billion	**30.6.2011**	**30.12.2010**
Carrying amount of LaR assets that are neither impaired nor past due	194.8	268.2
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	0.4
Balance of portfolio-based allowances	0.2	0.2
Total	**196.0**	**269.0**
thereof: Loans and advances to other banks (including investments)	20.4	32.6
Loans and advances to customers (including investments)	121.3	175.7
Financial investments (gross)	54.3	60.7

38 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million	30.6.2011	31.12.2010
Contingent liabilities	**124**	**196**
Guarantees and indemnity agreements	124	196
Loan guarantees	12	14
Performance guarantees and indemnities	112	182
Other commitments	**1,131**	**1,145**
Irrevocable loan commitments	1,131	1,114
Book credits	95	84
Guarantees	56	57
Mortgage and public sector loans	980	973
Liquidity facilities	–	–
Other commitments	–	31
Total	**1,255**	**1,341**

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 a review of the complete real transfer. Specifically, FMS Wertmanagement can demand the 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 Commission has imposed a payment condition in relation to the aid proceedings, namely the complete fulfilment of the payment 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. The payment condition will probably mainly affect the DEPFA sub-group. The payment condition is recognised in equity, and has accordingly no impact on the income statement.

Deutsche Pfandbriefbank AG also has to retain its profits in order to be able to repay the silent participation of the federal government. The entities of DEPFA sub-group will pay a fee to the federal government which is not related to profit or loss of these entities. The exact form still will have to be regulated by contract.

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 8 a of the Financial Market Stabilisation Act, HRE 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 Fonds Act, which envisages the imposition of a bank levy in Germany, came into force in Germany in December 2010. Within the HRE this obligation affects Deutsche Pfandbriefbank AG. Details concerning the bank levy are disclosed in the Ordinance of Raising 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 disclosed in the separate financial statements of 2010 constitute the basis for calculating the bank levy 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 omitted levy that could be payable in the year 2012 and 2013 amounts to €39 million.

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

The Management Board of HRE Holding manages regulatory capital on the basis of the German Solvency Regulation (SolvV) in connection with Section 10 German Banking Act (KWG). According to these standards the total equity capital ratio (equity capital/risk-weighted assets) may not go below 8.0 %. In addition, the core capital (Tier I) must consist of at least 50 % of equity capital (core capital and supplementary capital), so that the core capital ratio may not be lower than 4.0 %. At the same time, the own funds ratio, which is calculated by dividing the own funds by the total risk-weighted assets, must be not lower than 8.0 %. The total risk-weighted assets are determined by multiplying the capital requirements for market risk positions and operational risks by 12.5 and adding the resulting figures to the sum of risk-weighted assets for credit risk.

For HRE the capital for regulatory purposes (according to German Solvency Regulation [SolvV]) is as follows:

Own funds[1)] in € million	30.6.2011	31.12.2010
Core capital (Tier I)	7,041	7,074
Supplementary capital (Tier II)	2,513	2,647
Equity capital	**9,554**	**9,721**
Tier III capital	—	—
Total	**9,554**	**9,721**

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

The risk-weighted assets, the operational risks and market risk positions were as follows:

Risk-weighted assets[1)] in € billion	30.6.2011	31.12.2010
Risk-weighted assets	18.1	20.4

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

Operational risks in € million	30.6.2011	31.12.2010
Total	**31**	**104**

Market risk positions in € million	30.6.2011	31.12.2010
Currency risks	7	25
Interest rate risks	20	22
Total	**27**	**47**

The regulatory capital ratios were calculated on the basis of the definition for regulatory capital according to SolvV and risk-weighted assets according to Basel II. The resulting capital ratios as of 30 June 2011 and as of 31 December 2010 were thus as follows:

Key capital ratios[1)] in %	30.6.2011	31.12.2010
Core capital ratio[2)]	38.9	34.7
Equity capital ratio[3)]	53.8	49.1
Own funds ratio (overall indicator)[2)]	52.8	47.7

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

40 Relationship with Related Parties

Because HRE is controlled by the SoFFin, a special fund of the Federal Government in accordance with Section 2 (2) FMStFG, HRE 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 HRE. 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 HRE provided to FMS Wertmanagement for the latter's ongoing operation. The income of €107 million from servicing FMS Wertmanagement (1.1.–30.6.2010: €0 million) compensate for the costs of HRE incurred in connection with servicing.

41 Employees

Average number of employees	1.1.–30.6.2011	2010
Employees (excluding apprentices)	1,377	1,385
Apprentices	—	2
Total	**1,377**	**1,387**

42 Summary of Quarterly Financial Data

HRE		2010			2011	
		2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance						
Operating revenues	in € million	−66	−244	348	260	177
Net interest income and similar income	in € million	235	197	90	218	141
Net commission income	in € million	−98	−125	4	8	—
Net trading income	in € million	−173	−153	67	−7	12
Net income from financial investments	in € million	22	18	12	−20	−15
Net income from hedge relationships	in € million	−44	1	7	−4	−17
Balance of other operating income/expenses	in € million	−8	−182	168	65	56
Provisions for losses on loans and advances	in € million	194	−2	−7	−9	−11
General administrative expenses	in € million	137	167	97	106	136
Balance of other income/expenses	in € million	2	1	10	—	1
Pre-tax profit	in € million	−395	−408	268	163	53
Net income/loss	in € million	−413	−445	235	136	27
Key indicators						
Total volume of lending	in € billion	248.7	237.1	145.7	96.6	91.6
Employees		1,374	1,392	1,366	1,375	1,396

Public Sector Finance	2010			2011	
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	25	4	23	17	27
Net interest income and similar income	29	16	20	27	30
Net commission income	−1	−1	−1	−1	−1
Net trading income	5	−3	−4	−2	5
Net income from financial investments	−8	−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	19	13	3	13	20
Balance of other income/expenses	—	—	—	—	—
Pre-tax profit	1	−6	22	4	7

Real Estate Finance	2010			2011	
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	125	209	94	73	71
Net interest income and similar income	147	168	69	64	57
Net commission income	23	17	13	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	55	47	6	30	42
Balance of other income/expenses	—	—	—	—	—
Pre-tax profit	−103	168	55	34	27

Value Portfolio			**2010**		**2011**
in € million	**2nd quarter**	**3rd quarter**	**4th quarter**	**1st quarter**	**2nd quarter**
Operating performance					
Operating revenues	−187	−335	125	174	80
Net interest income and similar income	64	29	−8	120	35
Net commission income	−120	−141	−8	−6	−6
Net trading income	−142	−213	45	1	9
Net income from financial investments	29	23	3	−23	−15
Net income from hedge relationships	−28	10	8	13	−6
Balance of other operating income/expenses	10	−43	85	69	63
Provisions for losses on loans and advances	19	7	−38	−18	−13
General administrative expenses	31	57	69	62	66
Balance of other income/expenses	1	—	3	—	1
Pre-tax profit	−236	−399	97	130	28

Consolidation & Adjustments			**2010**		**2011**
in € million	**2nd quarter**	**3rd quarter**	**4th quarter**	**1st quarter**	**2nd quarter**
Operating performance					
Operating revenues	−29	−122	106	−4	−1
Net interest income and similar income	−5	−16	9	7	19
Net commission income	—	—	—	—	—
Net trading income	7	16	−3	−5	−4
Net income from financial investments	—	—	—	—	—
Net income from hedge relationships	−16	−9	−1	−2	1
Balance of other operating income/expenses	−15	−113	101	−4	−17
Provisions for losses on loans and advances	−3	—	—	—	—
General administrative expenses	32	50	19	1	8
Balance of other income/expenses	1	1	7	—	—
Pre-tax profit	−57	−171	94	−5	−9

Munich, 5 August 2011

Hypo Real Estate Holding Aktiengesellschaft
The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

Signatories on behalf of Deutsche Pfandbriefbank AG

Munich, as of 2 September 2011

gez. Dr. Gottfried von Aulock Legal Counsel	gez. Martina Horn Legal Counsel