

Interim Report
as of 30 June 2009

Interim Financial Review

Business and Conditions

Macro-economic Conditions

It is clear that the economic crisis became even more serious in the second quarter of 2009 even if single sectors are affected differently. The figures available for the months of April and May 2009 indicate that manufacturing output in Germany was around 20% down compared with the corresponding prior year figure. This huge collapse again resulted in further downgrading of estimates for economic growth in the second quarter. Whereas it became clear in the first quarter of 2009 that the year 2009 would probably see not only a slowdown in growth but also a worldwide recession, it became increasingly clear last quarter that the recession will be of a very severe nature. Virtually all major economic regions – the only exception in the current analyses is China – will report a considerable contraction in real terms in 2009.

International trade in particular has been hit by an unexpectedly severe downturn. In May 2009, German exports fell by 24.5 % compared with May 2008. A further crisis indicator is the number of corporate insolvencies, which amounted to 2,979 in Germany in April 2009 alone, equivalent to an increase of 7.1 % compared with April 2008.

Despite the fact that monetary policy worldwide is very expansionary, inflation in all major economic regions is hovering around zero – in certain cases and depending on the particular index, it is even slightly lower than zero. By providing liquidity for the banking system, the volume of which is categorically limited only by the availability of collateral, the European Central Bank recently massively used the instrument of quantitative easing for one year with a rate of 1 %. Apart from providing direct finance from the central banks to the real economy – which indeed has already been considered –, this means that the ECB has used the entire range of monetary policy instruments for supporting the economy.

Sector-specific Conditions

Financing markets

The financing markets continued to be very volatile in the first half of 2009. However, an increasing volume of successful capital market issues was reported in June and July of this year. The covered bond market has been positive in this respect – in particular the Pfandbrief market. In addition to Jumbo Pfandbriefe, securities have also been placed by way of private placings. The ECB's purchase programme announced for covered bonds of the ECB has also contributed towards stabilising this market. Other markets have not yet followed the positive development in spreads on the covered bond market, for instance senior unsecured bonds of banks

Real estate financing

The second quarter showed initial weak signs of a slowdown in the rate of the rapid downswing. Nevertheless, investors still only have limited access to funding and liquidity. It is true that the central banks are making large amounts of money available; however, only some of these funds are being passed on to the market. Lenders have set new targets for new business for 2009, and are focusing on existing portfolios and the credit demand of existing customers. Debt ratios for new business, which in previous years had been approx. 80 %, have declined to 50 to 60 %. Most investors are continuing to act in a riskaverse manner. Credit margins are still relatively high, and particularly attractive for lenders who are prepared for new business. Many lenders are restricting their activities to their domestic markets and are concentrating on their core business.

Direct investments in European real estates declined by 42 % in the first half-year 2009 compared with the corresponding figures seen in the second half-year in 2008. In the second quarter 2009 there was an investment volume in the European real estate market of € 13 billion. Estimates of Jones Lang LaSalle

assume that the investment volume for German real estate added up to € 1.9 billion whereas only a few high investments were transacted. The size of the transactions averaged out at € 13 million. But not only in Europe also in the United States the demand for real estates declined heavily during the first half-year.

Property values are generally declining, vacancy rates are rising, and the number of enforced sales is increasing. The European real estate index is reporting a decline of 15 % for property values. Experts are assuming that property values in the USA have declined by up to 50 % compared with the corresponding figures seen in 2007. Property demand is declining in the European primary markets, the vacancy rates have risen to 7 % on average; in London, they have risen to 7.7 %, and the corresponding figure in the USA is 17 %. Office rents in Germany in the first half of 2009 are for instance 30% lower than in the corresponding prior year period. Price concessions have been made in order to retain existing tenants. This is probably one of the reasons why the index for European office rents fell by 3 % in the second quarter. Because of this weak demand, project developers are experiencing problems in obtaining the advance tenancy agreements or advance sales necessary for financing new projects. Some existing customers require follow-up financing for extending existing projects. If the economic situation or the value of a property investment has deteriorated, the conditions for follow-up financing are frequently not satisfied, which means that defaults are possible. All these negative market factors are exacerbating the economic problems of many investors, involving insolvency in certain cases, and are thus increasing the problems in the loan portfolio of banks.

The transaction volume in Europe has declined by 84 % compared with the peaks seen in 2007, because liquid investors such as real estate funds have adopted a wait-and-see attitude with regard to the future development of the market. Estimates of Jones Lang Lasalle are assuming that investors have retained a further € 300 billion of equity as reserves. The remaining investors still active on the market are focusing particularly on core markets in Great Britain in the hope of being able to enter the market at the bottom of the cycle.

Public sector finance

The demand for public sector finance was shaped by the difficult market conditions. Nevertheless there is a high demand for follow-up financing of existing projects. Credit risk premiums for most countries increased significantly in the first quarter of 2009. In the second quarter, the trend declined slightly, for sovereign as well as subsovereign issuers. The following factors are the main reasons for the situation returning to normal in this way: The various countries and the ECB have taken measures which are intended to facilitate refinancing for banks (for instance by way of state-guaranteed issues or simplified access to ECB funds), and support measures for the market for covered bonds have also been introduced. Nevertheless, credit risk premiums on average have remained at a high level – compared with the period before September 2008, they are currently between 60 and 100 basis points higher. The available maturities have shortened, and are generally max. 10 years, with the exception of France. Some countries have been affected by numerous downgrades by at least one of the leading international rating agencies. For instance, Ireland and Hungary as well as other countries of central Europe were downgraded in the second quarter of 2009. Some competitors among lenders have currently withdrawn from the market.

Major legal factors for business

On 4 April 2009 the financial market stabilisation supplementary act became effective. It provided the legal basis for the takeover bid and the recapitalisation which took place at the Extraordinary General Meeting on 2 June 2009 in favour of SoFFin.

The Bundestag adopted the “Law for continuing financial market stabilisation” on 3 July 2009. After the agreement of the Bundesrats on 10 July 2009 the act became operative on 23 July 2009. The aim of this law is to extend the framework of support for the German credit industry. The main intention is to ensure that credit institutions can remove non-strategic portfolios from their balance sheets. This is intended to stabilise the financial sector. A further intention is that the financial institutions should be able to achieve sustainably positive results of operations in future. HRE, together with SoFFin, is currently assessing ways of using the possibilities provided by this law for HRE.

Company-specific conditions

Major events

Measures designed to assure liquidity

In the first half of 2009, the Deutsche Pfandbriefbank Group continued to access liquidity aid provided by a syndicate from the financial sector as well as the SoFFin. This liquidity aid totalled € 98.9 billion as of 30 June 2009. A figure of € 3.1 billion was as contractual agreed repaid by 30 June 2009 in relation to the liquidity aid which was made available by the financial syndicate until the end of the year. Approximately 80% of the liquidity support which has been drawn down has been passed on to the affiliated company DEPFA BANK plc.

On 9 April 2009, the SoFFin extended the entire guarantee framework of € 52 billion for the Hypo Real Estate Group (HRE) to a single maturity date on 19 August 2009. This extension was necessary because some of the previous guarantees (€ 30 billion) expired as of 15 April 2009. The SoFFin has extended the entire guarantee framework to a single maturity date due to considerations of uniform handling. On 20 July 2009, HRE submitted an application to the SoFFin for the guarantee framework of € 52 billion to be extended beyond 19 August 2009.

Deutsche Pfandbriefbank AG, which belongs to HRE, can continue to use the SoFFin guarantees in order to secure bonds which are to be issued. These bonds are due to be repaid by no later than 19 August 2009. The conditions of the guarantee are unchanged: Accordingly, Deutsche Pfandbriefbank AG will pay to the SoFFin a pro-rata commitment commission of 0.1% in relation to the unutilised part of the guarantee framework. A commission of 0.5% p.a. is payable for guarantees which are issued.

Liquidity support measures for HRE in € billion

Type of support	Date of initial granting	Maturity taking account of prolongations	Original amount in € billion	Nominal amount as of 30.6.2009
Issue of state-guaranteed ECB-eligible bearer bonds (= to replace the liquidity line of the Deutsche Bundesbank from 13.11.2008 to 26.3.2009)	26.03.2009	31.12.2009	20.0	20.0
Issue of state-guaranteed ECB-eligible bearer bonds	13.11.2008	31.12.2009	15.0	15.0
Issue of secured bonds	13.11.2008	31.12.2009	15.0	11.9
Replacement of previous guarantee framework	19.04.2009	19.08.2009	52.0	52.0
Total liquidity support			102.0	98.9

Capital measures

In the first half of 2009, Deutsche Pfandbriefbank AG did not receive any capital increases, which means that subscribed capital and additional paid-in capital were unchanged. The parent company of Deutsche Pfandbriefbank AG, namely Hypo Real Estate Holding AG (HRE Holding), received capital totalling around € 3.02 billion from the SoFFin in two stages in the first half of 2009. As a result of the two capital increases and a take-over offer submitted to the external shareholders of HRE Holding, the SoFFin now holds 90% of the shares in HRE Holding.

Proceedings at the European Commission

With its judgement of 2 October 2008, the European Commission approved the measures for covering the liquidity requirement of HRE. In this judgement, the Federal Republic of Germany was obliged to submit a restructuring plan for HRE by no later than 1 April 2009. HRE has prepared such a restructuring plan and submitted it on time to the European Commission via the Federal Ministry for Economics. The restructuring plan is currently being reviewed by the European Commission. With its judgement of 8 May 2009, the European Commission initiated the so-called "formal review procedure". Initiation of the formal review procedure is the normal procedure in complex proceedings involving subsidy law; it is carried out by the European Commission without any preconceived result in mind, and does not anticipate any judgement relating to the contents. The Management Board of HRE Holding currently does not expect to see a definitive decision of the European Commission before the autumn of 2009.

Restructuring and strategic refocusing of HRE

The merger between the former DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG was agreed and adopted in the second quarter of 2009 and was entered in the commercial register on 10 and 29 June 2009 by the local courts (Amtsgerichte) Frankfurt and Munich. The new entity now trades as Deutsche Pfandbriefbank AG with registered offices in Munich. The former DEPFA Pfandbriefbank AG focussed on public sector activities.

Deutsche Pfandbriefbank AG is the strategic core bank of the HRE. It combines the strategic assets and new business in the two operating segments of Real Estate Finance and Public Sector Finance. The name of the new bank underlines the importance of the Pfandbrief as a central refinancing instrument.

On the basis of the "Law for continuing the financial market stabilisation", HRE together with the SoFFin is considering a process of contributing non-strategic parts of the business and assets of HRE to a new public institution to be set up with partial legal capacity - a separate legal entity below the Financial Market Stabilisation Fund (SoFFin). A project group commenced its work in mid-June, and has prepared further initial analyses. These will be used as the basis for discussions with the government and the SoFFin.

The intended strategy of concentrating on new business eligible for Pfandbrief refinancing in selected core markets of the Commercial Real Estate and Public Sector Finance segments is being consistently implemented. The process of reducing the number of locations is also making good progress as planned. Since January, five locations have been closed worldwide.

As part of the restructuring process and also in order to reduce its cost base, HRE plans to cut around 1,000 jobs worldwide in two stages. The reconciliation of interest agreements for 2009, which are necessary in Germany, has been signed in May 2009 by the subsidiary banks with the corresponding works council committees. The also necessary social plans, which cover the entire period of the job-shedding process until to the end of 2013, have been agreed by the subsidiary banks and the corresponding works council committees also in May respectively in June 2009.

Ratings

The following major rating actions occurred in the second quarter of 2009 and up to 15 July 2009:

At the beginning of April, **Standard & Poor's** placed the short- and long term bank ratings to "Credit Watch Positive" in view of the expected state support.

After the extraordinary general meeting of HRE Holding on 2 June 2009, **Fitch** upgraded the short-term rating from F1 to F1+.

As expected, the merger between DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG which took place as of 29 June 2009 did not have any further impact on the Pfandbrief ratings.

Overview of ratings of Deutsche Pfandbriefbank AG and Pfandbriefe as of 15 July 2009:

	Standard & Poor's	Moody's	Fitch
Long-term rating	BBB	A3	A-
Outlook	Credit Watch Positive	Negative	Stable
Short-term rating	A-2	P-1	F1+
Public Pfandbriefe	AAA ¹	Aaa	AAA ¹
Mortgage Pfandbriefe	AAA ¹	Aa3	AA+ ¹

¹⁾ On review for downgrade

Personnel changes in the first half of 2009

Mrs. Manuela Better was appointed as a member of the Management Board as of 1 February 2009. At the request of the Supervisory Board, and following mutual agreement, Mr. Charles Balch, Mr. Reinhold Güntner and Mr. Frank Hellwig laid down their mandates on the Management Board in January 2009, and Dr. Robert Grassinger laid down his mandate on the Management Board at the end of March 2009.

Financial Report

Development in Earnings

Deutsche Pfandbriefbank Group

The Deutsche Pfandbriefbank Group combines the German and international commercial real estate financing business of the Hypo Real Estate Group (HRE) and the activities of the former DEPFA Deutsche Pfandbriefbank AG. The ultimate parent company of the Group is Deutsche Pfandbriefbank AG, which in turn is a wholly owned subsidiary of Hypo Real Estate Holding AG (HRE Holding).

The merger between the former DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG was agreed and concluded by the annual general meeting in the second quarter of 2009 and was registered in the commercial register on 10 and 29 June 2009 by the local courts (Amtsgerichte) Frankfurt and Munich. The new entity now trades under the name of Deutsche Pfandbriefbank AG. The registered office of the company is located in Munich. The merger took place by way of absorption by an existing company by transferring the assets of DEPFA Deutsche Pfandbriefbank AG in accordance with sections 2, 60 et seq. UmwG. Because Hypo Real Estate Bank AG as well as the former DEPFA Deutsche Pfandbriefbank AG were subsidiaries of HRE Holding, the transaction is a business combination involving companies subject to joint control. The assets and liabilities transferred within the framework of the merger were valued with the consolidated carrying amounts of the subsidiary as of 30 June 2009 (so-called predecessor accounting).

In addition, HRE Holding sold its subsidiary Hypo Real Estate Systems GmbH to Deutsche Pfandbriefbank AG on 30 June 2009. This is also a business combination involving companies subject to joint control. The assets and liabilities transferred within the framework of the merger were valued with the consolidated carrying amounts of the subsidiary as of 30 June 2009 (so-called predecessor accounting).

The former DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Systems GmbH are not included in the prior year comparison information 2008 in accordance with IAS 1.36 and the income statement for the first half of 2009. However, in order to present the merger and the purchase as part of a meaningful comparison which makes sense from the accounting point of view, the results of operations of the Deutsche Pfandbriefbank Group have been shown in the form of combined figures in the financial report in the income statement for the first six months of 2008 and 2009. For preparing the combined income statements, it has been assumed that the merger took place as of 1 January 2008. The recognition, accounting and valuation aspects of the combined financial information have been prepared in accordance with IFRS. The recognition, accounting and valuation principles used for the comparison information are the same as those used in the audited and published consolidated financial statements of the former Hypo Real Estate Bank AG for the period ending 31 December 2008. There are no differences between these principles and the principles of the current interim consolidated financial statements of Deutsche Pfandbriefbank AG for the period ending 30 June 2009.

The combined figures can be reconciled with the figures shown in the income statement and in the notes to the financial statements as follows:

Key Financials in € million

	Combined	HRE Bank	DEPFA PfandbB	Systems	Consolidation
Operating performance 1.1.-30.6.2009	1.1.-30.6.2009	1.1.-30.6.2009	1.1.-30.6.2009	1.1.-30.6.2009	1.1.-30.6.2009
Operating revenues	105	34	59	35	-23
Net interest income and similar income	329	251	80	-	-2
Net commission income	-12	-6	-6	-	-
Net trading income	-108	-109	1	-	-
Net income from financial investments	-28	-28	-	-	-
Net income from hedge relationships	-33	-16	-17	-	-
Balance of other operating income/expenses	-43	-58	1	35	-21
Provisions for losses on loans and advances	1,049	1,048	1	-	-
General administrative expenses	132	107	12	34	-21
Balance of other income/expenses	15	13	-	2	-
Pre-tax profit	-1,061	-1,108	46	3	-2
Cost-income ratio ¹⁾	> 100.0%	> 100.0%	20.3%	97.1%	91.3%

	Combined	HRE Bank	DEPFA PfandbB	Systems	Consolidation
Operating performance 1.1.-30.6.2008	1.1.-30.6.2008	1.1.-30.6.2008	1.1.-30.6.2008	1.1.-30.6.2008	1.1.-30.6.2008
Operating revenues	204	163	34	7	-
Net interest income and similar income	416	360	56	-	-
Net commission income	39	40	-1	-	-
Net trading income	-126	-107	-19	-	-
Net income from financial investments	-128	-128	-	-	-
Net income from hedge relationships	-10	-4	-6	-	-
Balance of other operating income/expenses	13	2	4	7	-
Provisions for losses on loans and advances	70	69	1	-	-
General administrative expenses	146	127	16	3	-
Balance of other income/expenses	-	1	-	-1	-
Pre-tax profit	-12	-32	17	3	-
Cost-income ratio ¹⁾	71.6%	77.9%	47.1%	42.9%	-

1) The cost-income-ratio is the ratio of 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, the result of hedging relationships and the balance of other operating income/expenses

Operating revenues Operating revenues at € 105 million were lower than in the corresponding prior year period (€ 204 million), because net interest income in particular declined.

Net interest income declined to € 329 million, compared with € 416 million in the first six months of 2008. This decline is mainly attributable to the one-off income from sales of receivables, premature repayment penalties as well as repayments and redemptions of financial liabilities, which declined from € 66 million in the prior year to € 7 million. Net interest income was also affected by the decline in the total volume of loans. In addition, net interest income was affected by the default of debtors and the accompanied deficits in interest payments. This effect was partly compensated by the so-called unwinding, i.e. the increase in the present value of the future expected cash flows. On the other hand, updated forecasts for results in accordance with IAS 39 resulted in a further reduction in the value of certain instruments of subordinate capital. This resulted in a valuation effect of € 4 million, recognised in the income statement.

Net commission income amounted to € -12 million compared with € 39 million in the corresponding prior year period. The decline is primarily attributable to costs of € -57 million for the guarantees in connection with the liquidity support provided by the SoFFin and the Federal Government. A further factor was the very low level of new business.

As was the case in the prior year, net trading income was very much affected by the difficult situation on the financial markets, and amounted to € -108 million compared with € -126 million in the first half of 2008. Synthetic collateralised debt obligations (CDOs) accounted for a negative valuation result of € -25 million (H1 2008: € -106 million). An internal HRE guarantee for the failure of a credit insurer for CMBS resulted in expenses of € -37 million. Net trading income was also affected by adjustments to the market value of derivatives as a result of counterparty risks.

Of the figure shown for net income from financial investments, impairments recognised in relation to securities accounted for € -28 million. Of this figure, € -13 million was attributable to cash CDOs (H1 2008: € -214 million) and € -7 million was attributable to mortgage-backed securities (H1 2008: € -3 million).

The net income from hedge relationships amounted to € -33 million, and was thus lower than the corresponding prior year figure of € -10 million. Two factors are reflected in the net income from hedge relationships. Firstly, hedge inefficiencies within the range of 80 % to 125 % permitted under IAS 39 resulted in expenses of € -25 million (H1 2008: € -5 million). This expense is primarily an opposite effect resulting from the corresponding revenues in the fourth quarter of 2008. Secondly, a negative valuation result of € -8 million (H1 2008: € -5 million) resulted from designated at Fair Value through Profit or Loss (dFVTPL) assets

and related derivatives. The fair values of these positions hedged against interest rate risks have deteriorated as a result of credit spread changes.

The balance of other operating income/expenses amounted to € -43 million (H1 2008: € 13 million), and was mainly attributable to currency translation effects (mainly USD) of € -57 million (H1 2008: € 3 million). This expense was partially offset by the income of Hypo Real Estate Systems GmbH from services provided for affiliated companies or HRE Holding.

Provisions for losses on loans and advances Additions to provisions for losses on loans and advances increased to € 1,049 million as a result of the considerable downturn in the global economy and the deterioration in the situation on the commercial real estate markets (H1 2008: € 70 million). These impairments related solely to real estate loans.

The significant increase in provisions for losses on loans and advances for real estate financing was due to the further deterioration in regional economic conditions, particularly in the markets of North America, Southern Europe and Great Britain, as well as Germany, which have been considered to be critical for quite some time. The value of properties which had been provided as collateral for numerous financing arrangements and so represent an essential parameter declined as a result of falling revenues (lower rents, higher vacancy rates and lower utilisation as well as regional surplus of certain types of property) and an absence of real estate transactions combined with a corresponding absence of valid market parameters. This is tending to result in a risk premium with regard to the valuation of real estate. The lower values of real estate have had on the one hand a particular effect in the case of financing arrangements in which there is no direct possibility of recourse against the superordinated debtor, which constitute most of the financing arrangements of the group, as well as junior financing tranches on the other hand.

Additions to portfolio-based allowances amounted to € 8 million (H1 2008: an allocation of € 9 million), because the expected losses of the portfolio have deteriorated. In accordance with IAS 39, portfolio-based allowances are created only for loans and advances for which there are no indications of an individual impairment. Because the volume of loans and advances with indications of an impairment increased in the first half of 2009, there was a corresponding decrease in the volume of loans and advances for which it was necessary to create portfolio-based allowances.

General administrative expenses General administrative expenses declined to € 132 million compared with € 146 million in the first half of 2008. The decline in personnel expenses reflects the downsizing process which is accompanying the process of restructuring the group. Overall, the workforce has declined to 894 employees, compared with 953 employees as of 31 December 2008. In addition, personnel expenses contained accruals for variable compensation in the first half of 2008 which were released in the second half of 2008. Because operating revenues were lower than general administrative expenses, the cost-income ratio (i.e. the ratio between general administrative expenses and operating revenues) was more than 100 % (H1 2008: 71.6 %).

Balance of other income/expenses A restructuring provision was created in the fourth quarter of 2008 in connection with the strategic refocusing and restructuring of the HRE. The calculation of the restructuring provision was revised in the second quarter of 2009, reflecting the fact that it was possible for some locations to be closed sooner than originally planned. Overall, there was a release of € 13 million. Moreover Hypo Real Estate Systems GmbH has received profit subsidy from HRE Holding.

Pre-tax profit The pre-tax profit was negative at € -1,061 million in the first half of 2009, compared with € -12 million in the first half of 2008.

Business segment Commercial Real Estate

The business segment Commercial Real Estate comprises German and international business in commercial real estate financing and mainly comprises the commercial real estate financing activities of Deutsche Pfandbriefbank AG.

In the first half of 2009, pre-tax profit amounted to € -783 million, and was accordingly considerably lower than the corresponding prior year figure of € 294 million. This decline is mainly attributable to much higher provisions for losses on loans and advances. In addition, operating revenues declined to € 326 million, compared with € 431 million in the prior year.

In the first half of 2009, HRE concluded new business only on a very selective basis and almost exclusively with existing customers. It amounted to € 1.0 billion, compared with € 5.7 billion in the first half of 2008. The portfolio volume has been reduced by scheduled and premature repayments of € 3.5 billion (H1 2008: € 62 billion).

Key Financials in Mio. €

Operating performance	Combined	Combined
	1.1.-30.6.2009	1.1.-30.6.2008
Operating revenues	326	431
Net interest income and similar income	323	382
Net commission income	48	41
Net trading income	-48	-19
Net income from financial investments	1	23
Net income from hedge relationships	-	-
Balance of other operating income/expenses	2	4
Provisions for losses on loans and advances	1,034	48
General administrative expenses	74	89
Balance of other income/expenses	-1	-
Pre-tax profit	-783	294
Cost-income ratio	22.7%	20.6%

Net interest income declined to € 323 million, compared with € 382 million in the prior year. The figure reported for the prior year included profits attributable to the disposal of borrowers' note loans (€ 10 million) and a higher return on allocated own funds due to former interest rate levels. Net interest income was also affected by the decline in the overall volume of loans. In addition, net interest income was affected by the default of debtors and the accompanied deficits in interest payments. This effect was partly compensated by the so-called unwinding, i.e. the increase in the present value of the future expected cash flows. Net commission income increased as a non-recurring result of € 8 million of commissions for receivables which were not syndicated as originally planned. Net trading income (€ -48 million) resulted from market value adjustments attributable to counterparty risks in relation to customer derivatives. In the first half of the prior year, net trading income of € -19 million was attributable to interest positionings. Net income from financial investments in the prior year (€ 23 million) was attributable to profits generated by the disposal of securities. In the first half of 2009, such disposal profits were only realised to a very limited extent. Because the changes in the value of the underlyings were completely offset by the hedging instruments, there was no income from hedge relationships (as was the case in the prior year). The balance of other operating income/expenses amounted to € 2 million (H1 2008: € 4 million).

The situation on the commercial real estate markets has deteriorated dramatically in 2009. There has been a significant deterioration in certain cases in the solvency of customers as well as in property values and thus the value of collateral. This has mainly affected real estate financing in North America, Southern Europe and Great Britain as well as Germany. In consequence, provisions for losses on loans and advances have had to be increased appreciably. They have risen to € 1,034 million, whereby € 1,018 million is attributable to individual allowances and € 16 million is attributable to portfolio-based allowances. In the corresponding prior year period, additions to provisions for losses on loans and advances amounted to € 48 million.

As a result of the decreased workforce and lower planned variable compensation, general administrative expenses of € 74 million were lower than the corresponding figure of € 89 million for the prior year. In the first half of 2008 variable components were accrued. These accruals were released in the second half of 2008. However, as operating revenues declined to a greater extent than general administrative expenses, the cost-income ratio deteriorated to 22.7% (H1 2008: 20.6%).

Business Segment Public sector

The business segment Public Sector mainly comprises public sector financing activities.

The pre-tax profit in the segment increased in the first half of 2009 to € 42 million compared with the prior year (H1 2008: € 31 million). The increase is mainly attributable to higher net interest income.

In the first half of 2009, selective new business of only € 0.2 billion was closed in the public sector segment (H1 2008: € 1.3 billion). Due to repayments and redemptions the portfolio volume could be reduced.

Key Financials in Mio. €		
	Combined 1.1.-30.6.2009	Combined 1.1.-30.6.2008
Operating performance		
Operating revenues	55	47
Net interest income and similar income	78	50
Net commission income	-6	-1
Net trading income	-1	-
Net income from financial investments	-	-
Net income from hedge relationships	-17	-6
Balance of other operating income/expenses	1	4
Provisions for losses on loans and advances	1	1
General administrative expenses	12	15
Balance of other income/expenses	-	-
Pre-tax profit	42	31
Cost-income ratio	21.8%	31.9%

Net interest income increased from € 50 million in the first half of 2008 to € 78 million in the first half of 2009. The rate cuts at the beginning of 2009 meant that it was possible to take advantage of lower refinancing costs in conjunction with constant revenues on the assets side of the balance sheet. Net commission income was burdened by the costs of the guarantees in connection with the liquidity support provided by the SoFFin and the Federal Government. It amounted to € -6 million compared with € -1 million in the corresponding prior year period. Hedge inefficiencies within the range permitted under IAS 39 and also further widening of credit spreads in relation to dFVTPL assets resulted in negative net income from hedge relationships of € -17 million (H1 2008: € -6 million). The cost is an inverse effect of the corresponding income seen in the fourth quarter of 2008.

As was the case last year, additions to provisions for losses on loans and advances amounted to € 1 million, and resulted from portfolio-based allowances. It was not necessary for any additions to individual allowances to be recognised. As a result of the contraction of the workforce and lower planned variable compensation, general administrative expenses declined from € 15 million in the corresponding prior year period to € 12 million. In the first half of 2008 variable components were accrued. These accruals were released in the second half of 2008. Because operating revenues increased and general administrative expenses declined, the cost-income ratio improved to 21.8 % compared with 31.9 % last year.

Corporate Center

Key Financials in Mio. €

	Comined 1.1.-30.6.2009	Comined 1.1.-30.6.2008
Operating performance		
Operating revenues	-276	-274
Net interest income and similar income	-72	-16
Net commission income	-54	-1
Net trading income	-59	-107
Net income from financial investments	-29	-151
Net income from hedge relationships	-16	-4
Balance of other operating income/expenses	-46	5
Provisions for losses on loans and advances	14	21
General administrative expenses	46	42
Balance of other income/expenses	16	-
Pre-tax profit	-320	-337
Cost-income ratio	> 100.0%	> 100.0%

Contributions to earnings made by the non-strategic portfolios such as the CDO portfolio and an internal HRE guarantee as well as the costs for essential corporate functions are some of the items shown in the Corporate Center. In addition, the Corporate Center also includes the costs of the liquidity support and certain administrative expenses of backoffice operations.

As was the case last year, the considerable burden of the financial market crisis and the changed situation of the Deutsche Pfandbriefbank Group had a considerable effect. In consequence, pre-tax profit of € -320 million was at a similarly low level as last year (€ -337 million).

The costs of the liquidity support meant that net interest income was considerably negative (€ -72 million; H1 2008: € -16 million). In addition, net interest income included fewer one-off effects attributable to sales of receivables and redemptions of liabilities than was the case last year. Net commission income was affected by the costs of the guarantees in connection with the liquidity support provided by the SoFFin and the Federal Government and amounted to € -54 million (H1 2008: € -1 million). The net trading income of € -59 million (H1 2008: € -107 million) was affected, as was the case in the prior year, by the valuation changes of the synthetic CDOs recognised in the income statement (€ -25 million; H1 2008: € -106 million). An internal HRE guarantee for the failure of a guarantee for CMBS resulted in expenses of € -37 million. Of the figure shown for net income from financial investments, impairments recognised in relation to securities accounted for € -29 million. Of this figure, € -13 million was attributable to cash CDOs (H1 2008: € -214 million) and € -7 million was attributable to Mortgage-Backed Securities (H1 2008: € -3 million). The net income from hedge relationships of € -16 million (H1 2008: € -4 million) was attributable to widening credit spreads of dFVTPL assets of € -8 million (H1 2008: € -29 million) and hedge inefficiencies within the range of 80% to 125% permitted in accordance with IAS 39 (€ -8 million; H1 2008: € 25 million). The balance of other operating income/expenses mainly comprised negative effects attributable to currency translation.

Provisions for losses on loans and advances amounted to € 14 million compared with € 21 million in the prior year. General administrative expenses of € 46 million were higher than the corresponding prior year figure (€ 42 million) due to various factors, including consultancy fees. The balance of other income/expenses was attributable to allocations to restructuring provisions.

Development in assets

Assets in € million						
	30.6.2009	Combined 31.12.2008	HRE Bank 31.12.2008	DEPFA PfandbB 31.12.2008	Systems 31.12.2008	Consolidation 31.12.2008
Cash reserve	194	702	546	156	-	-
Trading assets	1,310	1,646	131	1,515	-	-
Loans and advances to other banks	82,303	81,392	72,126	11,879	10	-2,623
Loans and advances to customers	95,011	103,310	69,938	33,377	-	-5
Allowances for losses on loans and advances	-2,838	-1,841	-1,841	-	-	-
Financial investments	36,004	39,387	28,934	10,453	-	-
Property, plant and equipment	14	18	12	4	2	-
Intangible assets	32	30	23	-	7	-
Other assets	12,781	12,656	10,204	2,449	6	-3
Income tax assets	4,397	4,519	4,423	95	1	-
Current tax assets	104	114	82	32	-	-
Deferred tax assets	4,293	4,405	4,341	63	1	-
Total assets	229,208	241,819	184,496	59,928	26	-2,631

The former DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Systems GmbH are not included in the prior year comparison information 2008 in accordance with IAS 1.36. The total assets of Deutsche Pfandbriefbank Group have increased strongly as a result of the merger between DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG and also as a result of the purchase of Hypo Real Estate Systems GmbH. In order to present net assets position in a comparison which is meaningful and which also makes economic sense, the balance sheet of the Deutsche Pfandbriefbank Group is compared with the balance sheet of the previous year in a combined presentation.

The total assets of the Deutsche Pfandbriefbank Group declined to € 229.2 billion as of 30 June 2009, compared with € 241.8 billion as of 31 December 2008. The decline is attributable to two factors. Firstly, portfolios declined because repayments exceeded new business and the drawings of old commitments. This was reflected mainly in the positions loans and advances to customers and financial investments. In loans and advances to customers, the main decline was reported for the volume of municipal loans. In financial assets, holdings of debt securities and bonds declined. In addition, balance sheet holdings also declined as a result of exchange rate factors and the impact of the lower level of interest rates on the market values of the derivatives, which have a fixed interest rate (Receiver-Swaps).

Development in the financial position

Equity and liabilities in € million						
	30.6.2009	Combined 31.12.2008	HRE Bank 31.12.2008	DEPFA PfandbB 31.12.2008	Systems 31.12.2008	Consolidation 31.12.2008
Liabilities to other banks	72,410	60,191	56,464	5,448	5	-1,726
Liabilities to customers	11,770	14,384	13,985	399	-	-
Liabilities evidenced by certificates	119,567	140,189	95,461	45,630	-	-902
Trading liabilities	2,227	2,202	1,033	1,169	-	-
Provisions	213	247	168	75	4	-
Other liabilities	14,506	15,014	11,118	3,887	9	-
Income tax liabilities	3,725	3,761	3,576	185	-	-
Current tax liabilities	82	89	31	58	-	-
Deferred tax liabilities	3,643	3,672	3,545	127	-	-
Subordinated capital	4,091	4,419	2,237	2,182	-	-
Liabilities	228,509	240,407	184,042	58,975	18	-2,628
Equity attributable to equity holders	699	1,412	454	953	8	-3
Subscribed capital	380	380	380	108	3	-111
Additional paid-in capital	3,739	3,739	2,988	416	-	335
Retained earnings	-1,309	1,043	688	582	-	-227
Revaluation reserve	-1,079	-1,388	-1,239	-149	-	-
AfS reserve	-416	-424	-275	-149	-	-
Cash flow hedge reserve	-663	-964	-964	-	-	-
Consolidated loss 1.1.-31.12.2008	-	-2,362	-2,363	-4	5	-
Consolidated loss 1.1.-30.6.2009	-1,032	-	-	-	-	-
Minority interest in equity	-	-	-	-	-	-
Equity	699	1,412	454	953	8	-3
Total equity and liabilities	229,208	241,819	184,496	59,928	26	-2,631

In order to present financial position in a comparison which is meaningful and which also makes economic sense, the balance sheet of the Deutsche Pfandbriefbank Group is compared with the balance sheet of the previous year in a combined presentation.

Equity (excluding revaluation reserve) amounted to € 1.8 billion as of 30 June 2009, compared with € 28 billion as of 31 December 2008. The decline is attributable to the consolidated loss reported in the first half of 2009. The revaluation reserve amounted to € -1.1 billion (31 December 2008: € -1.4 billion). Including the revaluation reserve, equity amounted to € 0.7 billion as of 30 June 2009 (31 December 2008: € 1.4 billion). The AfS reserve was virtually constant at € 0.4 billion. The cash flow hedge reserve amounted to € -0.7 billion, compared with € -1.0 billion at the end of last year. The change was mainly attributable to the lower level of interest rates in the first half of 2009.

Total group liabilities amounted to € 228.5 billion as of 30 June 2009, compared with € 240.4 billion as of 31 December 2008. The liabilities declined compared with the end of 2008 mainly because the Deutsche Pfandbriefbank Group succeeded only to a very limited extent in placing refinancing arrangements on the market. In consequence, the Deutsche Pfandbriefbank Group had to take advantage of support provided by the SoFFin. These supports, mainly paid out by the German Bundesbank, are shown mainly under the item liabilities to other banks. The subordinated capital declined as a result of maturities. In addition, as a result of the merger of the former DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG, the instruments of participation certificates outstanding of the former Deutsche Pfandbriefbank AG became subordinate liabilities because the holders of the instruments were granted co-equal rights. These rights encompass modifications in relation to distribution and loss participation. The instruments were reclassified on the basis of these modifications as this reflects better the economic content of the contracts.

The contingent liabilities could be reduced to € 1.6 billion as of 30 June 2009 (31 December 2008: € 1.9 billion), mainly due to the cancellation of performance guarantees. The other commitments declined to € 3.4 billion compared with € 5.5 billion at the end of last year. The loans which were not paid out or which were not completely paid out are reflected in the irrevocable loan commitments, and amounted to € 3.3 billion as of 30 June 2009 compared with € 5.4 billion as of 31 December 2008. The decline in irrevocable loan commitments is attributable to the higher drawing rate and the reduced commitments of real estate and public sector financing.

Regulatory indicators according to German Solvency Regulation

The Deutsche Pfandbriefbank AG is, in accordance with the "Waiver-Rule" of section 2a KWG, not obliged to calculate on a group-level the own funds ratio and the core capital ratio. The key capital ratios of HRE are after approved annual financial statements 2008 and after result distribution 2008 6.9 % for the core capital ratio and 9.5 % for the own funds ratio. Both ratios are above the regulatory requirements.

Refinancing

Refinancing in the first half of 2009 was affected by the difficult and, in certain cases, illiquid financing and capital markets as well as the specific, extremely difficult situation of HRE and the Deutsche Pfandbriefbank Group. In this context, the Deutsche Pfandbriefbank Group was only able to obtain very low volumes of liquidity on the market on an independent basis. The Deutsche Pfandbriefbank Group was therefore reliant on support measures of a syndicate from the German financial sector and the Bundesbank with the involvement of the Federal Government as well as the SoFFin. Without these measures, which are described in detail in the section Major events, the solvency of HRE and the Deutsche Pfandbriefbank Group would not have been assured in the first half of 2009.

Summary

The income statement for the first half of 2009 very much reflected the general crisis on the international capital, financial and real estate markets as well as the specific, extremely difficult situation of the Deutsche Pfandbriefbank Group. It was necessary for significant impairments to be recognised primarily in relation to real estate financing, and also in relation to other receivables and securities. In addition, results of operations were depressed by the expenses of the support measures provided by a German finance syndicate and the Deutsche Bundesbank with the involvement of the Federal Government and the SoFFin. Overall, pre-tax profit was negative at € -1,061 million.

Events after 30 June 2009

As a result of the restructuring of a US credit insurer (a so-called "monoline insurer"), which begins to show to be successful and took place in July 2009, we expect to see an individual rating improvement and thus a lower probability of default. In consequence, we will revalue the collateral for the insured assets in our portfolio which is attributable to the sub-group DEPFA Bank plc and will probably recognise a positive market value adjustment of the insurance (hedging derivative) in the second half of 2009. The guarantee in favour of DEPFA Bank plc, could also result in effects on Deutsche Pfandbriefbank Group

Apart from the above, there have been no notable events after 30 June 2009.

Risk Report

The situation on the international real estate markets as well as the situation of HRE, and thus also of the Group Deutsche Pfandbriefbank, have become even more serious in the first half of 2009. In consequence, we have undertaken a revaluation of the default risks. The resultant additional provisions in relation to receivables and securities were reflected in a significant charge on results in the second quarter of 2009, especially for the Group Deutsche Pfandbriefbank.

The protection against possible defaults relates mainly to real estate loans. This reflects the further deterioration in the regional economic conditions, particularly in the markets of North America, Southern Europe and Great Britain, which have been identified as critical for quite some time, as well as in Germany.

At HRE, the current long-term liquidity and capital support provided by the Financial Market Stabilization Fund which was announced at the end of March is contributing to the stabilization of HRE and thus also of the Deutsche Pfandbriefbank Group.

Because the Deutsche Pfandbriefbank Group, which has been created out of the Hypo Real Estate Bank Group and DEPFA Deutsche Pfandbriefbank AG, was only established as of 29 June 2009, the organization, the principles of risk management, the committees and responsibilities of the predecessor institutions were essentially unchanged in the first half of 2009 compared with the structures reported in the corresponding risk reports of the annual reports 2008.

This risk report focuses on major changes in the risk management system of the Hypo Real Estate Bank Group and the former DEPFA Deutsche Pfandbriefbank AG and in the enterprise-wide risk management system of Hypo Real Estate Holding AG, and reports holdings and risk parameters as of 30 June 2009 for the Deutsche Pfandbriefbank Group and also on a proforma basis for 31 December 2008 (to the extent that the figures can be determined retroactively).

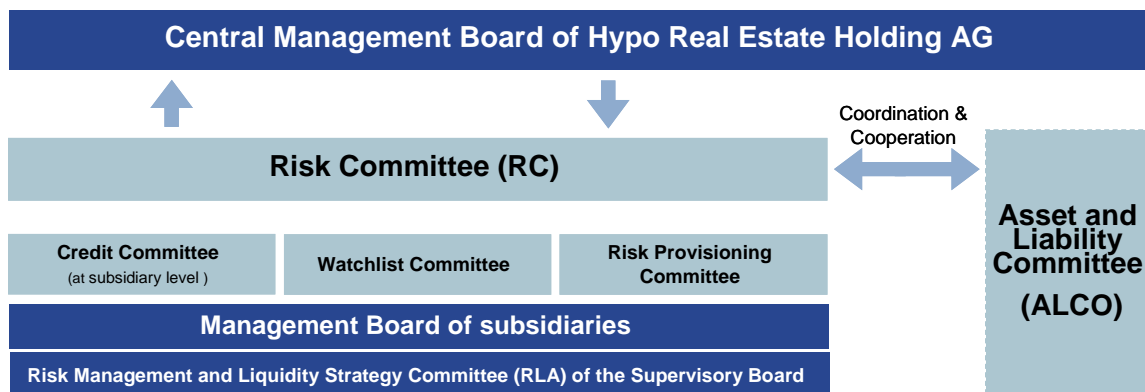
Risk and capital management

On the basis of the waiver ruling which was applicable for the Group of the former Hypo Real Estate Bank and which will in future also be applied for the Deutsche Pfandbriefbank Group, HRE Holding AG has established a group-wide risk management and risk controlling system. Throughout the entire first half of 2009, DEPFA Deutsche Pfandbriefbank AG also had its own risk management and controlling system which is aligned with the group-wide system and which is described extensively in the risk report of the annual report 2008 of DEPFA Deutsche Pfandbriefbank AG.

All tasks in accordance with Section 25a KWG in the field of uniform risk identification, measurement and limitation as well as risk management are defined centrally by HRE Holding AG. Operational implementation is the responsibility of the various subsidiary institutions or sub-groups, and thus also the Deutsche Pfandbriefbank Group, which in the first half of 2009 was included via the predecessor institutions in the risk management and risk controlling system of HRE.

Organisation and committees

The principles, methods and processes of the risk management system of HRE are defined centrally by risk management and controlling of HRE Holding, and are applied in the subsidiaryies, i.e. also in the Deutsche Pfandbriefbank Group. With the exception of the Credit Committee, which is responsible for credit decisions at the subsidiary level, the committees detailed in the following have been set up at the HRE group level with the involvement of the relevant persons responsible at the subsidiary institutions.



The Management Board of HRE Holding AG is responsible for the HRE risk management system, and is responsible for taking decisions relating to all strategies and the main issues of risk management and organization. The members of the Management Board of Deutsche Pfandbriefbank AG, who each also exercise the same function on the Management Board of HRE, bear joint responsibility for all strategic and operational decisions of the Deutsche Pfandbriefbank Group on the basis of the specifications of HRE.

The Supervisory Board of Deutsche Pfandbriefbank AG is regularly informed of business and risk strategies, and monitors the risk profile of the Deutsche Pfandbriefbank Group with regard to the risk strategy at regular intervals.

Since the beginning of 2009, the Supervisory Board of HRE is notified in weekly meetings of major and higher-risk exposures of HRE and thus also of the Deutsche Pfandbriefbank Group as well as of all increases and new individual allowances created in excess of € 5 million.

The Group Risk Committee (RC) is responsible for various aspects, including monitoring the development of the economic capital and the risk cover funds and limiting the credit, market and liquidity risk. In addition to monitoring market risk, the Group Asset Liability Committee (ALCO) is mainly responsible for monitoring liquidity management.

At the level of the individual subsidiary banks, the Credit Committee of the Group Deutsche Pfandbriefbank is responsible for taking credit decisions in line with the competence rules for new business, prolongations and material changes in the credit relationship. The Credit Committee ensures that the credit decisions are consistent with the prevailing business and risk strategy.

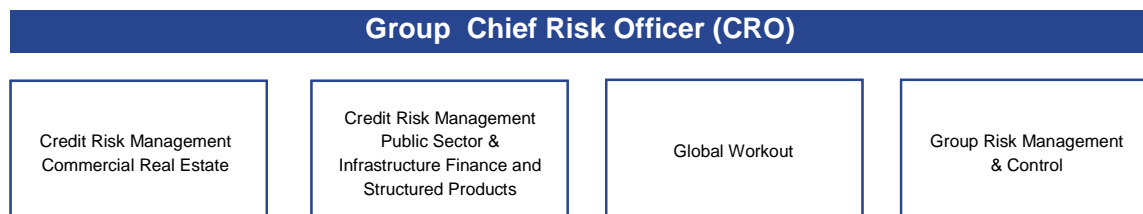
All exposures identified by the early warning system of HRE and thus also of the Group Deutsche Pfandbriefbank are discussed and further individual measures are adopted in the Watchlist Committee of HRE, which meets every month; these measures are subsequently implemented by the relevant departments. This committee is also responsible for taking any decisions for forwarding an exposure of the portfolio of Group Deutsche Pfandbriefbank to Global Workout, which is in the HRE group-wide responsible for taking the necessary restructuring and workout steps.

If impairment tests carried out for exposures of HRE and also the Deutsche Pfandbriefbank Group result in a requirement for individual allowances, these are presented and adopted in the Risk Provisioning Committee of HRE.

The Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board of the HRE is mainly responsible for controlling the risk situation and for monitoring, establishing and improving an efficient risk management system, and is also responsible for the liquidity management and assurance of HRE which also comprises the Group Deutsche Pfandbriefbank.

Group Chief Risk Officer (CRO)

Apart from the committees mentioned above, the following organization entities of the Group Chief Risk Officer (CRO), who is simultaneously also the CRO of the Deutsche Pfandbriefbank Group, form an integral part of the risk management system in which the Deutsche Pfandbriefbank Group is integrated:



The organisation of the group CRO function comprises the following back office units

- Credit Risk Management (CRM) Commercial Real Estate, Credit Risk Management Public Sector & Infrastructure Finance and Structured Products, each of which are responsible for portfolio management and analysing selective new business
- The Global Workout unit, which is responsible for the group-wide restructuring and workout of all critical exposures, was created at the beginning of 2009 out of the "Intensive Care" unit, which was responsible only for critical exposures from commercial real estate business. The staff resources of this entity will be further expanded as a result of the current market developments in 2009.
- The units Group Risk Management & Control which are also responsible for monitoring and managing groupwide market, operative and liquidity risks and which are also responsible for group-wide uniform risk measuring and credit processes.

At the beginning of the third quarter of 2009, the group CRO was given responsibility for the additional functions "Credit Quality Control" and "Property Analysis & Mortgage Value Germany and Europe" as part of the process of restructuring the organisation.

In addition to the Group CRO function, the risk management system of the Deutsche Pfandbriefbank Group also comprises Group Compliance and Group Internal Audit, it constantly monitors MaRisk compliance by way of regular audits of processes and systems. Risk management is also supported by Group Legal.

Risk strategy and policies

The risk strategy is normally based on the risk bearing capacity analysis and the business strategy. It comprises the definition of the risk appetite of the HRE including the Group Deutsche Pfandbriefbank on the basis of the economic capital, with due consideration being given to risk cushions and an intended rating.

The business strategy was adjusted in the fourth quarter of 2008. The intended aim of the strategic refocusing is to position the HRE and thus also the Group Deutsche Pfandbriefbank as a specialist real estate and public sector financier in Germany and Europe with Pfandbriefbased refinancing.

The risk strategy for 2009 will be revised in the third quarter of 2009 so as to reflect changes in both HRE's and Deutsche Pfandbriefbank Group's business strategy and also the long-term shareholding and liquidity support by the German Federal Government via the financial market stabilisation fund (SoFFin), as currently being implemented,

In HRE, risk policies describe risk measurement, monitoring, management, the limiting process as well as the escalation process in the event of a limit being exceeded for all major risk types (credit risk, market risk, liquidity risk and operational risk). Policies will be updated periodically.

Risk management and reporting

In the group (HRE as well as Deutsche Pfandbriefbank Group) , risk management is based on two pillars:

- Monitoring of the risk-bearing capacity on the basis of a comparison between the economic capital and the risk cover funds of the group
- Operational risk management through
 - The expected-loss approach. This approach is consistent with Basel II and shows the average expected loss at the borrower level. This was rolled out in the first half of 2009 as part of the introduction of the Advanced IRB approach to include the former DEPFA Deutsche Pfandbriefbank AG, and is expected to be reviewed by Bundesbank during the first quarter of 2010.
 - A limit system based on value-at-risk which is currently being rolled out across HRE
 - Management of the individual counterparty risk

The group will steadily expand business management and planning to include the expected loss and, increasingly, the economic capital. For this purpose, it will integrate the economic capital as a key component in the business planning process once coverage of the limit system has been implemented to include Deutsche Pfandbriefbank Group.

Periodical risk reports to the Management Board of HRE Holding and the Management Boards of Deutsche Pfandbriefbank Group include the following:

- Daily market and liquidity risk reports
- Periodical, mostly monthly, reports of the RC
- Quarterly group risk reports

The cash flow estimates and uniform nature of the assumptions have been considerably improved in the liquidity risk reports in the period under review at the HRE level.

The reports contain detailed information concerning the risk situation for each risk type for the Deutsche Pfandbriefbank Group. Risk reporting is complemented by ad-hoc reports relating to special subjects.

The Supervisory Board of the Deutsche Pfandbriefbank Group is informed at regular intervals, at least quarterly and at short notice if necessary, of the portfolio structure, the risk situation and special risk-relevant issues.

Integration of risk management at HRE Level

More great progress has been made in integrating the risk management system as part of the Basel II implementation. This covers Hypo Real Estate Group (before the merger with DEPFA BANK plc) and those entities of DEPFA Bank plc. which includes the former DEPFA Deutsche Pfandbriefbank AG. HRE Holding AG is currently holding discussions with the regulators with regard to a corresponding regulatory review.

Progress was also achieved in the first half of 2009 in integrating IT systems. For instance, the initial aspects of the group-wide credit risk limit system have been implemented as planned. In doing so, the initial focus has been on managing country risks in the commercial real estate business of Deutsche Pfandbriefbank Group. From 2010, group-wide implementation of this application, including Deutsche Pfandbriefbank Group should enable limits to be set in an improved and uniform manner throughout the group at the counterparty and portfolio level, and further fine tuning of the system is expected to take place into the first quarter of 2010.

As part of the IT harmonisation activities mentioned above, we have also succeeded in implementing an initial version of a management information system (MIS); in future, this system will considerably speed up

and simplify the group-wide process of evaluating portfolio data, thus also that of Deutsche Pfandbriefbank Group. Further releases, which are planned until mid-2011, will further increase the volume of data available for evaluation and also the achievable level of detail of such evaluation. This measure will result in a further noticeable expansion of the scope of risk analysis and also the timeliness of individual risk reports.

In addition, liquidity risk management and measurement has also seen an improvement in integration. The consolidated reporting and planning process introduced in 2008 has been further optimised and expanded to include group-wide stress tests and scenario analyses.

Main types of risk

The Deutsche Pfandbriefbank Group distinguishes the following major risk types for its business activity:

- Credit risk
- Market risk
- Liquidity risk
- Operational risks

Other risk types entering into the calculation of economic capital include:

- Business risk
- Risks attributable to the bank's own equity participation and real estate holdings

Economic capital is calculated, within the framework of riskbearing capacity analysis for all risk types except liquidity risk. Scenarios for liquidity risk will be considered in stress tests regarding risk-bearing capacity.

Credit Risk

Overview

Credit risk is defined as the risk of the loss of value of a receivable or the partial or complete default of a receivable due to the default or downgrading of the rating of a business partner. It also includes the counterparty, issuer and country risk, which are continue to be defined as follows:

In future, in the Commercial Real Estate segment, Deutsche Pfandbriefbank Group will concentrate on business eligible for Pfandbrief refinancing with an average LTV of less than 70 %. In addition, the portfolio structure will be adjusted to the target portfolio by concentrating new business on the German and European market and also by strategically winding down existing financial arrangements (e. g. reduction at prolongation dates) and the management of non-performing loans.

In the Public Sector segment, Deutsche Pfandbriefbank Group will concentrate on Pfandbrief-eligible public sector finance in Germany and in Europe.

In the first half of 2009, the credit risk strategy, the credit principles as well as the process of credit risk management and credit management were unchanged compared with the end of 2008. They are described in detail in the risk reports inside the annual reports 2008 of the two predecessor institutions of Deutsche Pfandbriefbank Group.

Basel II: Advanced IRBA

As described in the risk report inside the annual report 2008 of the Hypo Real Estate Group, all subsidiary institutions of the Group (apart from DEPFA Bank plc.) and of the former DEPFA Deutsche Pfandbriefbank AG which receive regulatory approval are to apply the so-called advanced internal rating based approach (Advanced-IRBA) for determining the regulatory capital backing. At the end of June 2009, HRE Holding AG, in the name of DEPFA Deutsche Pfandbriefbank, submitted the formal application to the bank regulator - including all necessary documents – for introducing Advanced-IRBA. The related future audit by Bundesbank will cover only the former DEPFA Deutsche Pfandbriefbank.

Credit portfolio

The exposure of the credit portfolio of the Deutsche Pfandbriefbank Group amounted to around € 212 billion as of 30 June 2009, and declined by approx. € 11 billion compared with December 2008 (€ 223 billion).

The term “exposure” comprises the current utilisation, committed credit lines, derivatives (current market value plus regulatory add-on) and guarantees less instruments used for hedging credit risk.

The Basel II compliant term “Exposure at Default (EaD)” includes current utilisation as well as pro-rata credit interest in relation to which a borrower may fall behind before an exposure is defined as having defaulted (max. arrears of 90 days), as well as those credit commitments which a borrower will still be able to utilise in future despite a major deterioration in creditworthiness. In the case of derivatives, the EaD – as with exposure – is defined as the sum of the current market value and the regulatory add-on which constitutes a cushion for future potential increases in market value.

Since most of the overall portfolio of Deutsche Pfandbriefbank Group is determined as exposure, only the term “exposure” will be used hereinafter, an exception being Commercial Real Estate, which is almost totally accounted for in the Advanced-IRBA certified entities of Deutsche Pfandbriefbank Group. .

Overview of Group’s total exposure: € 212 billion

The credit portfolio is mainly broken down into the following operating segments:

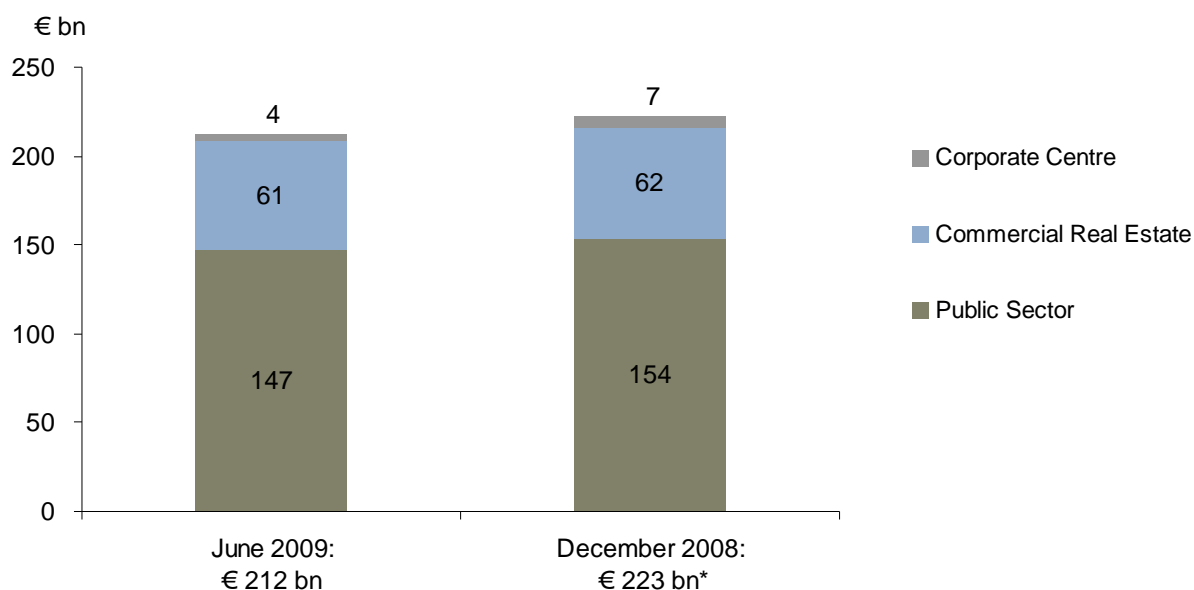
- Public Sector (PS) and
- Commercial Real Estate (CRE)

The Public Sector segment comprises an exposure of € 147 billion (unchanged at 69%) (December 2008: € 154 billion) and includes a figure of € 65 billion for receivables due from the affiliated institution, DEPFA Bank plc., as a result of forwarding on liquidity support; the exposure at default (EaD) of the Commercial Real Estate segment is almost unchanged at € 61 billion (29%; December 2008: 28%).

Business with financial institutions (incl. the receivables due from the affiliated institution DEPFA Bank plc.) account for most of the Public Sector segment, namely € 89.8 billion (61%), followed by sub-sovereigns at € 22.9 billion (16%).

In addition to the operating segments, the Corporate Center comprises non-strategic positions totalling € 4 billion. The positions mainly comprise structured products in the banking book and consolidated special purpose vehicles.

Overall exposure: Breakdown according to operating segments in € billion



* Proforma presentation for the Deutsche Pfandbriefbank Group

Risk parameters

Using the parameters defined under Basel II, the expected loss (EL) which consists of the annual probability of default (PD), the loss-given default (LGD) and the exposure at default (EaD), amounted to € 433 million as of 30 June 2009 for the Deutsche Pfandbriefbank Group. The expected loss for a period of one year is a key management parameter for the portfolio, and is calculated for the entire exposure with the exception of transactions with other institutions within HRE and non-performing exposures for which an impairment has already been recognized.

Breakdown of the exposure (excl. receivables of € 65 billion due from other institutions within HRE) and the expected loss:

	PS	CRE	CC	Total
Exposure	€ 81 billion	€ 61 billion	€ 4 billion	€ 146 billion
Expected loss* (calculation basis)	€ 13 million	€ 420 million	€ 11 million**	€ 444milbn

* The expected loss has not been calculated for non-performing loans for which an impairment has already been recognized.

** The expected loss in the Corporate Center does not include the synthetic CDOs and the cash CDOs which have already been impaired.

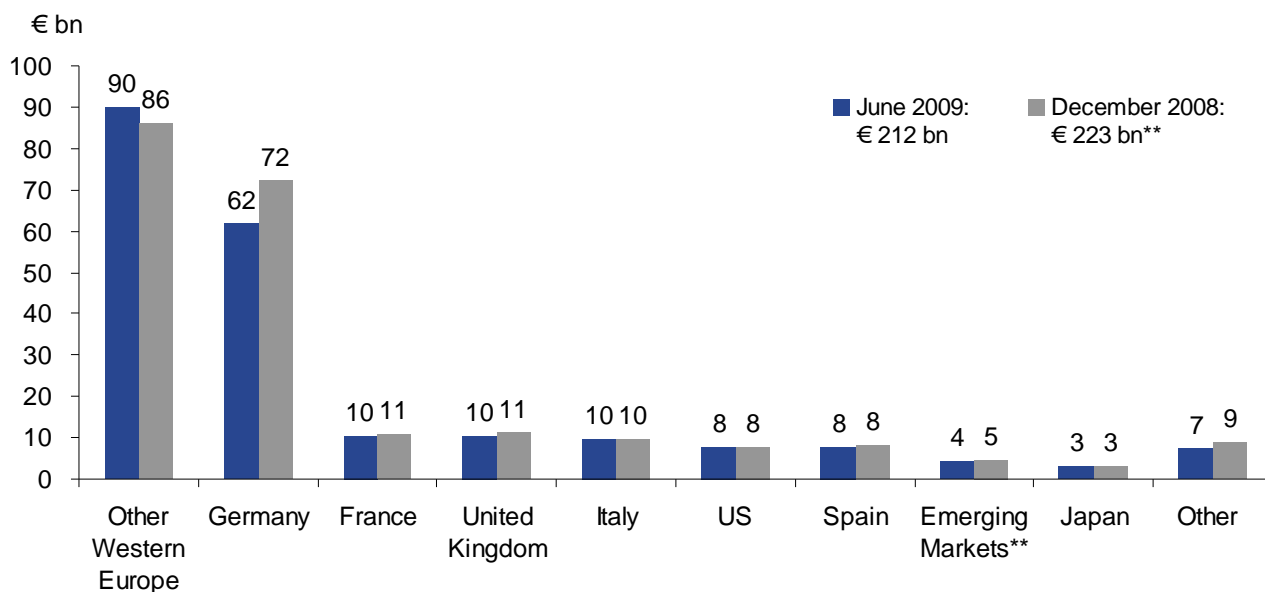
The unexpected loss of the exposure, namely the credit risk value-at-risk, is calculated using a credit risk portfolio model (for the method of operation, please refer to the chapter "Credit risk portfolio model" in the risk report of the annual report 2008 of the former Hypo Real Estate Bank Group) for a period of one year and a level of confidence of 99.95% for the Deutsche Pfandbriefbank Group as part of the risk-bearing capacity analysis of HRE.

The economic credit risk capital for the Deutsche Pfandbriefbank Group amounted to € 2.0 billion as of 30 June 2009, excluding diversification effects.

Country risk

More than 89% of the exposure is concentrated in Western Europe. Germany is the main country in this respect (€ 62 billion, 29%). The UK, USA and Spain currently account for € 26 billion (12%) of the exposure of Deutsche Pfandbriefbank – and the trend is declining. The category “Rest of Western Europe” comprises an Ireland exposure of € 66 billion, whereby € 65 billion of this exposure comprises receivables due from the affiliated institution DEPFA Bank plc. This exposure is followed by Austria (€ 8 billion) and Greece (€ 4 billion). The exposure for “Emerging markets” - in accordance with the IMF definition – is € 4 billion (2%). Poland (€ 2.1 billion; prior year: 2.4 billion) and Hungary (€ 1.2 billion; prior year: € 1.1 billion) are the main countries in this respect, and account for a total of 75% of all “Emerging markets”.

Overall exposure: Break-down of the country risk according to regions:



* Emerging markets in accordance with the IMF definition

** Proforma presentation for the Deutsche Pfandbriefbank Group

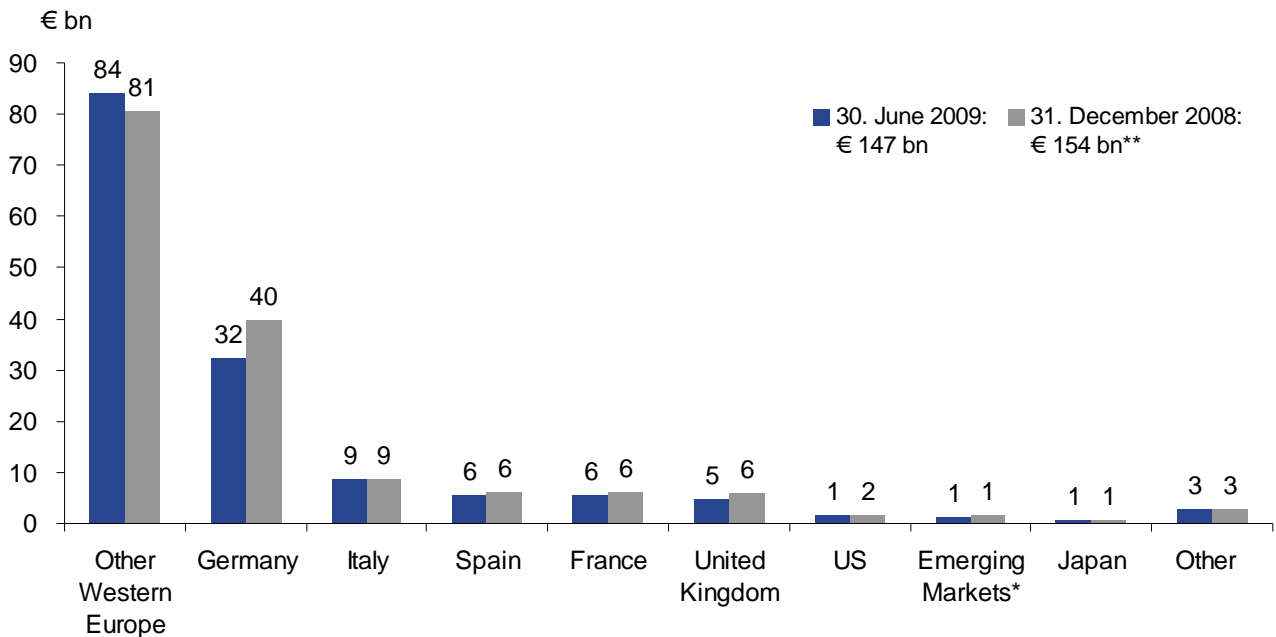
Public Sector: Exposure € 147 billion

Portfolio development and structure

The exposure of the Public Sector segment amounted to € 147 billion as of 30 June 2009 (December 2008: € 154 billion). Receivables due from the affiliated companies DEPFA Bank plc of € 65 billion still account for a considerable percentage of this figure.

The portfolio is regionally diversified in more than 32 countries. With an exposure of € 141 billion (96%), the main emphasis is in Europe; of this figure, Germany accounts for € 32 billion. The percentage attributable to “Emerging markets” (as per the IMF definition) is 0.8% (€ 1.2 billion).

The main representatives in the “Emerging markets” category are Poland (€ 0.7 billion; December 2008: € 0.8 billion) and Hungary (€ 0.5 billion; December 2008: € 0.4 billion). The category “Rest of Western Europe” comprises Ireland (€ 66 billion; December 2008: € 61 billion), mainly receivables due from DEPFA Bank plc., Austria (€ 7.6 billion; December 2008: € 8.0 billion) as well as Greece (€ 3.8 billion; December 2008: € 4.5 billion) and Portugal (€ 2.6 billion; December 2008: € 2.9 billion).



* Emerging markets in accordance with the IMF definition

** Proforma presentation for the Deutsche Pfandbriefbank Group

Commercial Real Estate: Exposure at default € 61 billion

Portfolio development and structure

The EaD (exposure at default) of the Commercial Real Estate portfolio, which corresponds to the portfolio of the former Hypo Real Estate Bank Group, has been reduced further compared with with December 2008. The commitments amount to € 60 billion, and are thus 6% lower than the corresponding previous year figure (€ 64 billion). Receivables still amount to € 57 billion; the credit lines which have not yet been paid out accordingly amount to approx. € 3 billion, compared with approx. € 7 billion at the end of 2008.

Only a very low volume of new business has been written. This mainly comprises prolongations of arrangements with existing customers.

The regional structure of the Commercial Real Estate portfolio is virtually unchanged compared with the end of the year, and is spread over 35 countries with the main emphasis in Western Europe (76%); the USA accounts for 10%.

The distribution of the portfolio according to property types also remained stable in the first quarter compared with the end of the previous year. Residential properties (mainly portfolio transactions) still account for approximately one quarter of the portfolio.

The portfolio is still dominated by investment financing (84%; December 2008: 87%); higher-risk building financing arrangements account for 13% of the EaD (prior year: 12%). Investment financing comprises the financing of real estate for which the cash flow is generated by means of rental.

The negative development on the real estate markets in Great Britain, Spain and the USA continued in the first half of 2009. The sub-portfolios are currently on the watch list, and are to be reduced further in 2009. Prospects for the above-mentioned markets are relatively negative in view of the serious recessionary trends in all countries. The Group regularly evaluates various economic indices (on a monthly basis in the above-mentioned critical countries) in order to identify negative developments at an earlier stage than has previously been the case. However, in view of the fact that the secondary market for credit risks no longer

exists, the long-term loan agreements mean that any response is limited to loans for which the conditions have to be adjusted, new business and, to a limited extent, credit lines which have not yet been drawn.

The expected loss (EL) for the Commercial Real Estate portfolio amounted to € 420 million as of 30 June 2009 using the parameters defined by Basel II. It has accordingly deteriorated appreciably compared with December 2008 (€ 365 million). This reflects the negative development on the real estate markets described above, leading to the increase in the watchlist and non-performing exposures and thus the higher expected loss which are described subsequently.

Corporate Center: Exposure € 4 billion

The Corporate Center comprises an exposure of non-strategic positions of € 3.7 billion (nominal value: € 4.9 billion; fair value: € 1.9 billion; December 2008: nominal value: € 5.1 billion; fair value: € 2.3 billion) structured securities in the banking book and consolidated special purpose vehicles.

Portfolio development and structure of the structured products

The holdings of structured securities are broken down into real estate linked investments such as Commercial Mortgage Backed Securities (CMBS), Residential Mortgage Backed Securities (RMBS) and credit linked investments, e.g. Collateralised Debt Obligation (CDO) (in the narrower sense of the term) and Collateralised Loan Obligations (CLO). All credit-linked investments are described as "CDO" in the following.

The current fair value of the securities which evidence credit risks amounted to € 1.9 billion as of 30 June 2009 (December 2008: € 2.3 billion).

All nominal holdings declined in the first half of 2009, essentially as a result of repayments. The impairments recognized in relation to the nominal value in the period under review have not had to be recognized to the same extent as was necessary in 2008 and – with the exception of the US CDOs which have now been almost completely written off – the values which are shown are now only slightly lower than the figures shown at the end of 2008.

Structured securities € billion		31. December 2008		30. June 2009		
		Nominal value	Fair value	Nominal value	Fair value	Decline in value against nominal
Real-estate linked investments						
CMBS		1.97	1.19	1.81	0.93	49%
	Europe	1.51	0.88	1.46	0.68	53%
	US	0.46	0.31	0.35	0.25	29%
RMBS	Europe	0.78	0.55	0.74	0.50	29%
Credit-linked investments						
CDO		2.32	0.56	2.30	0.49	79%
	Europe	0.88	0.38	0.88	0.40	48%
	US	1.44	0.18	1.42	0.09	94%
ABS (other)		0.01	0.01	0.01	0.00	0%

The calculation of the fair value of the individual security categories is essentially unchanged compared with the end of 2008, and is described in the risk report of the annual report 2008 of the Hypo Real Estate Bank Group.

The following overview shows the impact of the structured securities on the income statement.

Table: Impact of structured securities on the income statement

€ million	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
	-178	-145	-308	-1,056	-33	-12

Most of the value adjustments in 2009 (€ 38 million) was attributable to the credit-linked investments. Of this figure, € 25 million is due to market value factors (synthetic CDOs) and € 13 million is attributable to depreciation (cash CDOs). Impairments of € 7 million were recognized in 2008 in relation to the real estate linked investments.

Special purpose vehicles in Deutsche Pfandbriefbank Group

Special-purpose vehicles (SPVs) are generally used for ring-fencing assets from operating companies so as to protect them from insolvency and also to dispose of these assets more easily if necessary, as they are frequently used as collateral. Deutsche Pfandbriefbank Group mainly uses SPVs for reducing risk. SPVs established or sponsored by the former HRE Group or SPVs having contractual relations with the Group may need to be consolidated in accordance with IFRS as described in the Risk Report inside the 2008 Annual Report of the former HRE Bank.

The following table summarises the special purpose vehicles which included in the Annual Financial Statements of HRE as of 30 June 2009 or as of 31 December 2008 in accordance with IFRS. The assets underlying the consolidation have been classified exclusively as loans and receivables (LaR).

Category	Nominal Value of the Special Purpose Vehicle in € million	
	30.June 2009	31.December 2008
Refinancing of the Group	143	136
Outplacement of credit risk	461	548
Capital backed investments	1.472	1.473
Investments in ABS-structures	2.944	3.039
Total	5.020	5.196

In particular, consolidation has resulted in extending the balance sheet by approx. € 2.9 billion (31 December 2008: € 3.0 billion) due to securitisation of special purpose vehicles relating to investments in ABS structures in which Deutsche Pfandbriefbank Group holds fully written-off first loss tranches. From the point of view of risk, this means that the volume exposed to risk has declined by € 2.4 billion (31 December 2008: € 25 billion).

Watch list and non-performing loans: 9,0 Mrd. €

Early warning system

Deutsche Pfandbriefbank Group's early warning system guarantees that loans and borrowers which might be affected by a deterioration in rating or the value of collateral are identified promptly and closely monitored or transferred to the watch list.

Particularly in the event of payment problems and payment arrears of more than 90 days, such cases are forwarded to non-performing loan processing. Non-performing loan processing includes impairment tests in line with the Group's accounting regulations.

Non-performing loans will be classified as "Restructuring loans" or "Workout". The definition criteria are described in the Risk Report inside the 2008 Annual Report of the former Hypo Real Estate Bank Group.

Global Workout comprises all loans which are exposed to an acute default risk and for which it was necessary to create a risk provision (individual allowance).

The following reporting comprises loans which are reported under the Commercial Real Estate (CRE) segment. Outside this segment, the Deutsche Pfandbriefbank Group mainly has non-performing structured securities in the Corporate Center segment, which are reported extensively in the chapter entitled "Structured securities in the Corporate Center".

Development of the watch list and non-performing loans

The portfolio of non-performing loans and watch list loans at the end of the year is set out in the following:

€ million	30. June 2009	31. December 2008
Workout loans	5,545	3,723
Restructuring loans	1,032	495
Non-performing loans	6,577	4,218
Watch list loans	2,394	785
Total	8,971	5,003

The increase of € 4.0 billion in non-performing loans and watch list loans to € 9.0 billion mainly reflects a considerable deterioration in the real estate markets and the macro-economic climate. Some countries, such as Great Britain, USA and Spain, have been affected to a greater extent.

Impairments and provisions

Individual allowances

All loans to customers are regularly subjected to an impairment test. A test is performed to determine whether there is an objective indication for an impairment, and a calculation is carried out to determine the extent of the sustainably recoverable amount or the impairment. The objective indications of an impairment are detailed in the risk reports of the annual report 2008 of the Hypo Real Estate Bank Group and DEPFA Deutsche Pfandbriefbank.

Portfolio-based allowances

An impairment in the form of a portfolio-based allowance has to be created in relation to all loans for which no individual allowances have been created. The portfolio-based allowances take account of reductions in value which have occurred but which have not yet been identified. The parameters which are used for calculating the portfolio-based allowances are regularly reviewed and adjusted where appropriate. The factors which are relevant for determining the portfolio-based allowances are detailed in the risk report of the annual report 2008 of the Hypo Real Estate Bank Group.

Impairment process

The Risk Provision Committee is responsible for approving the impairment in relation to all credit risks.

The multi-stage process which precedes this approval and which is applicable uniformly throughout the Group is described extensively in the risk report of the annual report 2008 of the Hypo Real Estate Bank Group.

Overview of the development of provisions for losses on loans and advances and provisions

Provisions for losses on loans and advances in the fiscal years 2008 and 2009:

€ million	Individual allowances for receivables	Portfolio-based allowances 1)	Total
As of 1 January 2008	635	144	779
Changes recognized in the income statement	816	184	1,000
Changes recognized directly in equity	-49	91	42
As of 31 December 2008	1,402	419	1,821

As of 1 January 2009	1,402	419	1,821
Changes recognized in the income statement	985	6	991
Changes recognized directly in equity	5	1	6
As of 30 June 2009	2,392	426	2,818

1) Excl. model reserve for CDO

The increase in individual allowances reflects the general development on the real estate markets as well as the considerable world-wide economic downturn.

The portfolio-based allowances increased only slightly in the first half of 2009, despite the rating migration which has occurred. The slight increase is mainly attributable to the reduction in the portfolio used for determining a portfolio-based allowance caused by the increase in the loans for which individual allowances have been created.

Provisions for contingent liabilities and other obligations in lending business

The provisions for contingent liabilities and other obligations mainly comprise provisions for guarantee risks, letters of credit and irrevocable loan commitments in lending business. They were unchanged compared with the prior year, namely € 11 million as of 30 June 2009.

Direct impairments and portfolio-based allowances for financial assets

€ million	30 June 2009	31 December 2008
Individual allowances	1,375	1,342
Portfolio-based allowances	25	24
Total:	1,400	1,366

Most of this risk provisioning of € 1,311 million (December 2008: € 1,278 million) relates to our structured security portfolio (as mentioned above), which is reported separately in the chapter "Structured securities in the Corporate Center".

Market Risk

Overview

Market risk is defined as the risk of a loss of value arising from fluctuations in the market prices of financial instruments. Deutsche Pfandbriefbank Group is mainly exposed to the following risk types:

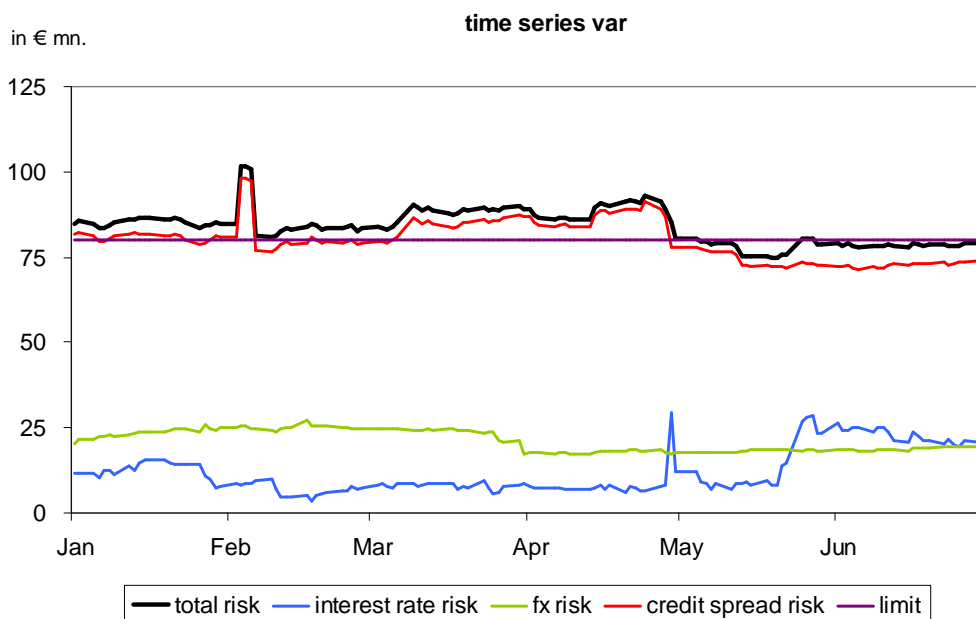
- Credit spread risk
- General interest rate risk and
- Foreign exchange risk

The Group Deutsche Pfandbriefbank controls and monitors market risk by means of a three-pillar approach: risk management in the front office, risk measurement and monitoring of limits by risk control as well as escalation processes across all decision-making bodies including the Management Board. Market risk is monitored for all positions via a combination of value-at-risk limits and monitoring of sensitivities as well as economic capital

The total VaR limit was exceeded in 2008 as a result of the sharp increase in credit spread volatilities in 2008. In the first half of 2009, the total VaR was always close to the limit of € 80 million. After the merger, the limit increased to € 95 million. This corresponds to the sum of the limits of each of the merged banks. Since that time, the total VaR has been considerably lower than the limit. As of 30 June 2009, the total VaR was € 80 million (December 2008: € 85 million).

The total VaR limit of the Group Deutsche Pfandbriefbank – based on the new business model of the HRE – was exceeded as a result of the sharp increase in credit spread volatilities, and this situation continued throughout the whole of the first half of 2009. This was mainly due to the fact that the market is still not fully capable of functioning as a result of the financial market crisis and the restricted possibilities of reducing risks by way of selling security positions or taking out hedges in order to cover credit spread risks. A similar concept is planned for the Group Deutsche Pfandbriefbank.

The following diagram illustrates the development of total VaR (holding period of 10 days, 99% confidence interval) as well as the VaRs for the individual risk types compared with the market risk limit in the first half of 2009:



Following full recapitalisation of HRE, based on its new business model featuring a reduced risk appetite, the necessary risk coverage and the corresponding limits to economic capital will be recalculated. In addition, triggers for credit-spread sensitivities will be implemented mirroring the VaR limit concept for all group positions. An analogous concept will be introduced in Deutsche Pfandbriefbank Group.

Development of the relevant market risk types

General interest rate risk

On average, the general interest rate risk of the Deutsche Pfandbriefbank Group of approx. € 12.1 million for the first half of 2009 (max. € 29.3 million; min. € 3.5 million) was still at a low level (average VaR for 2008 € 8.5 million; max. € 23.9 million; min. € 2.8 million).

Non-linear interest risks are insignificant.

Credit spread risk

The credit spread risk reflects the potential change in the present value of securities and derivatives caused by changes in credit spreads. Risk measuring systems for determining credit spread risks exist for all relevant positions of the HRE as well as the Deutsche Pfandbriefbank Group. Most of the credit spread risk in the Deutsche Pfandbriefbank Group is attributable to assets eligible as cover for Pfandbriefe. The limit is applicable only to the credit spread risks of the AfS holdings, and is not applicable for the LaR positions. However, sensitivities are calculated for all holdings, i.e. also for LaR positions.

The securities held in the cover funds for Pfandbriefe account for by far the majority of the positions of HRE and the Deutsche Pfandbriefbank Group which are sensitive to credit spread changes – due to the business model of Deutsche Pfandbriefbank AG. Accordingly, the credit spread sensitivity of the overall portfolio (incl. the security holdings classified as LaR in accordance with IFRS) was € 44 million at the end of June 2009 compared in relation to a simultaneous increase of one basis point in all credit spreads (end of 2008: € 16 million).

Foreign currency risk and other market risks

The foreign currency risk of the Deutsche Pfandbriefbank Group continued to be low. It amounted to approx. € 19 million as of 30 June 2009. The corresponding figure at the end of 2008 was approx. € 20 million. The general strategy of the HRE Group is to hedge foreign currency risks as far as possible.

The Group Deutsche Pfandbriefbank is not exposed to equity price, commodity and inflation risks, or, where it is, such risks have essentially been hedged. Financial derivatives are used mainly for hedging purposes.

Back- and stress testing

The quality of the risk measuring methods being used is constantly monitored through daily comparison of VaR figures and actual changes in the present value of the portfolio, and optimized where necessary. For the quantitative assessment of the risk model, the Group Deutsche Pfandbriefbank has used the traffic signal system of the Basel Capital Accord of 1996.

While the VaR measurement simulates market risk under “normal” market conditions, and does not indicate a potential maximum loss, stress scenarios show market risk under extreme conditions. In HRE, uniform stress scenarios throughout the Deutsche Pfandbriefbank Group are calculated on a monthly basis for all key risk drivers (credit spreads, interest rates, foreign currency rates) including all trading and banking books. A simulated parallel shift of 200 basis points in the interest rate curve would result in a change of approx. € 299 million in the market value for all trading and banking books of the group. The comparison figure at the end of 2008 was approx. € 279 million. The Management Board and the relevant committees are periodically informed of the results of the scenario analyses.

Outlook

The market risks are also expected to be hedged to a large extent in the second half of 2009. Processes and risk methods are constantly adapted and further developed to bring them into line with the prevailing circumstances.

Liquidity risk

Overview and current risk situation

Liquidity risk is defined as the risk of not being able to meet existing or future payment obligations (in relation to the extent and time structure) without restriction or on time. This would for instance be the case if – as indeed happened at HRE – there were no longer sufficient external refinancing sources available. Liquidity risk is currently one of the crucial risks for the continued existence of Deutsche Pfandbriefbank Group as a going concern.

Liquidity risk management and controlling is responsible for identifying, measuring, reporting, monitoring and managing this risk. Management and controlling are independent of each other, with HRE's Treasury responsible for managing the liquidity of both HRE and Deutsche Pfandbriefbank Group. Processes and methods used are periodically reviewed and approved by the Risk Committee and Asset Liability Committee. Strengthening liquidity risk management has the highest priority for the Management Board of Deutsche Pfandbriefbank Group. Measures described in the following have been implemented.

HRE introduced its improved consolidated reporting and planning process to Deutsche Pfandbriefbank Group in October 2008, and further developed this process in the first half of 2009. Liquidity management reports are now prepared daily on a group-wide basis and reported to the entire Management Board. The reports comprise the daily liquidity situation as well as forecasts on the basis of contractual cash flows and assumptions which are made with regard to future events which are foreseen to have an impact on liquidity development.

This improved process combines the different data sources from all subsidiary units and locations. Data is collected and aggregated from different systems with support from Treasury, Risk Controlling and Finance departments. Assumptions made regarding likely liquidity development are subject to an ongoing analysis

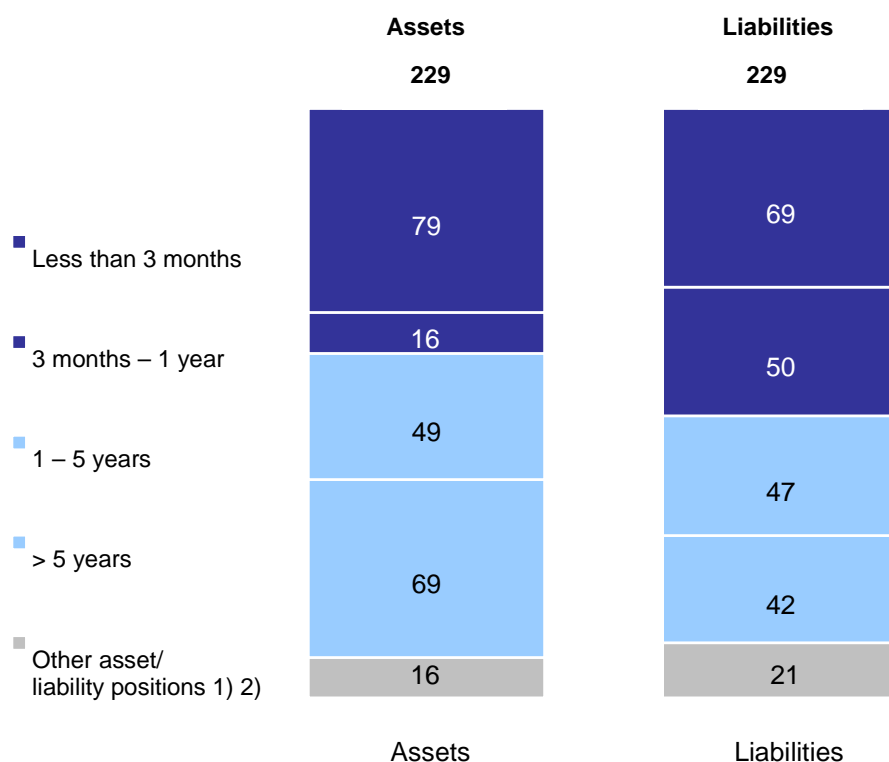
process and are adjusted where appropriate. The liquidity forecast is reported daily to the Management Board of HRE, and decisions relating to the necessary measures are taken in the ALCO.

The organisation structure in Treasury is currently being revised. The Refinancing and Treasury departments' former multicentric organisation has been replaced by a central group-wide structure. In order to support the new liquidity measuring model, the team in Risk Controlling which is responsible for liquidity controlling was strengthened in quantity and quality at the beginning of 2009.

To complement our reporting, we perform additional periodical stress tests and scenario analyses for quality assurance of the measurement results and for investigating the effect of additional stress events on the liquidity position. The scenarios are also reported to the Management Board and external bodies, e. g. Bundesbank and the financial market stabilisation fund (SoFFin) and are jointly analysed.

Developments in the second quarter of 2009

Maturity structure of the Deutsche Pfandbriefbank balance sheet in € billion, IRFS (30 June 2009)



1 Trading assets, deferred tax assets, impairments, other assets

2 Shareholders' equity, liabilities held for trading, provisions, deferred tax liabilities, other liabilities

The development of the liquidity situation very much reflected the turmoil on the markets, which led to an increase in the liquidity requirement. The main reason was additional collateral obligations as well as higher surplus cover demanded by rating agencies for cover funds.

As Deutsche Pfandbriefbank Group had only limited access to money and capital markets in the first half of 2009, the group is still very much reliant on external support measures as described extensively in the chapter "Major events" in this Management Report.

The capital injection by SoFFin, which provided the group with liquidity of around € 3 billion, has had a positive impact.

As a result of the support measures described in the chapter specified above, the liquidity ratio in accordance with the liquidity ordinance as of 30 June 2009 amounted to 2.39 at Hypo Real Estate Bank and to 1.3 at DEPFA Deutsche Pfandbriefbank; they were thus above the statutory minimum of 1.0.

Deutsche Pfandbriefbank Group relies mainly on covered and uncovered issues for refinancing. Pfandbriefe and other covered bonds are a key component of the refinancing sources. As a result of their high quality and stable maturity profile, existing covered bonds have been only affected comparatively lightly by market turmoil. Market climate settled down somewhat in the second quarter, and the Pfandbrief market has now seen numerous new issues. This was supported by the ECB's program for the buy-back of covered bonds. In response to this development, we are realigning our business model to focus on new business eligible for inclusion in cover funds takes account of this development.

In addition, covered repo transactions on the market and vis-à-vis central banks are still essential for refinancing Deutsche Pfandbriefbank Group.

Outlook for potential risk development

The extent of the liquidity requirement for 2009 depends on numerous factors. Most short-term refinancing instruments have expired and have been replaced by the liquidity support of the SoFFin and the banking syndicate. As performance 30 June 2009, Deutsche Pfandbriefbank had utilized a figure of € 15.3 billion out of the entire support package.

In sketching in the expected future development, scenarios need to be defined for numerous factors:

- The future development of haircuts in repo refinancing
- Possible additional collateral demands as a result of changing market parameters (such as interest rates and foreign currency rates)
- Changed requirements of the rating agencies regarding the necessary surplus cover in the cover funds

However, unrestricted access to central banks (in particular the ECB and Fed) and the continuation of facilities for € 98.9 billion (made available by German banks and insurers, Bundesbank and the German Federal Government) continue to be crucial in securing liquidity.

Operational risk

Operational risks are unavoidably associated with all business activities and have to be monitored particularly intensively in the case of mergers as between DEPFA Deutsche Pfandbriefbank AG and the Hypo Real Estate Bank Group.

Overview

The group defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". The definition includes legal risks, but excludes strategic and reputation risks.

Group Operational Risk (GOR) is responsible for the entire Group and thus also for the merged Deutsche Pfandbriefbank Group. Following the organizational restructuring of the Hypo Real Estate Group, the entity reports as an independent risk management function to Group Risk Management & Control.

The entire risk management system, consisting of risk strategy, identification, management and risk reports, is extensively described in the risk reports of the annual reports 2008 of the two subsidiary entities of the Hypo Real Estate Group which were independent until 29 June 2009. However, because all procedures and processes had been defined centrally via Group Operational Risk before the merger, hardly any changes are to be expected.

Risk quantification as part of capital backing under Basel II is performed annually only at the Hypo Real Estate Group level.

New product process

The new product process (NPP), which comprises all risks and processes which may be associated with the start of business in new products or markets, is coordinated by the Group Operational Risk department. In 2009, a groupwide NPP policy was implemented to provide a harmonised process. Hitherto, individual subsidiaries applied their own NPP policies. Regular reports concerning the new-product process are sent to the CRO as well as the Risk Committee.

Major operational risks

In the first half of 2009, there were no major losses attributable to operational risks in the two predecessor institutions of the Deutsche Pfandbriefbank Group. However, GOR will intensively monitor the merger process, which mainly comprises personnel risks (e.g. reliance on key personnel) and technology risks (e.g. the process of merging the accounting systems), for instance by way of key risk indicators.

Legal risks

The following section reports major official and legal proceedings and litigation in which the Deutsche Pfandbriefbank Group is currently involved or which might result in future and which might be relevant in terms of risk for the Group:

- In May 2008, two customers initiated a lawsuit before a court in Rome against the Milan branch of Deutsche Pfandbriefbank AG for payment of an amount running to eight figures in connection with the failure to extend a loan.
- In connection with the repurchase of Quadra Realty Trust, Inc., collective action was initiated in 2008 against various parties, including Hypo Real Estate Capital Corporation. No figure was specified in relation to the claim.
- On 29 April 2008, the Landgericht Munich I ruled that Bayerische Hypo- und Vereinsbank must pay € 105 million (main claim plus accrued interest) to Deutsche Pfandbriefbank AG. Bayerische Hypo- und Vereinsbank AG has appealed against the judgement to the Oberlandesgericht (higher regional court).
- In March 2009, a loan broker for Deutsche Pfandbriefbank in France filed a lawsuit against Deutsche Pfandbriefbank AG in Landgericht (regional court) Stuttgart for payment of damages amounting to at least € 20 million in connection with the suspension of the brokerage contract.
- In May 2009, Glitnir Bank Luxemburg S.A. (in liquidation) initiated a lawsuit against Deutsche Pfandbriefbank AG with a value in dispute of SEK 125 million (approx. € 12 million). Deutsche Pfandbriefbank AG has netted claims for payment due from a bond of Glitnir banki hf in Iceland against claims of Glitnir banki hf arising from a sub-participation agreement. Glitnir Bank Luxemburg S.A. alleges that the claims arising from the sub-participation had been assigned to itself (we are not in possession of any assignation notification).

Risk-bearing capacity analysis

The formal nature of the process of risk-bearing capacity analysis (ICAAP: Internal Capital Adequacy Assessment Process) is defined centrally, and is extensively described in the risk reports of the two predecessor institutions of the Deutsche Pfandbriefbank Group as of the end of 2008.

The economic capital is the internal quantification of risks which are associated with the business activities of HRE and also of the Deutsche Pfandbriefbank Group. The economic capital is the capital which is necessary in order to be solvent for a period of one year in conjunction with a target rating – at the end of 2008, this was A (99.95%) based on the S&P senior unsecured long-term ratings. It is used as the basis for the internal risk-bearing capacity analysis. For calculating the economic capital, consideration is given to risk types in addition to those which are necessary for calculating regulatory capital backing in accordance with Basel II.

As the second component of the risk-bearing capacity analysis, the risk cover funds comprise components of shareholders' equity, instruments which are similar to equity as well as certain subordinate capital components which are suitable for cushioning potential losses. The aim is to maintain a comfortable risk cushion between economic capital and risk cover funds.

As was the case for the predecessor institutions, the main risk on the basis of the ICAAP (excl. explicit recognition of the liquidity risk) for Deutsche Pfandbriefbank is still the credit risk.

Excl. the diversification effect between the risk types, the economic capital of the Deutsche Pfandbriefbank Group is approx. € 2.9 billion. If these effects are taken into consideration, this figure would decline to approx. € 2.8 billion.

The economic capital of each risk type is determined using a quantitative approach, which is described in detail in the risk report of the annual report 2008 of the two predecessor institutions.

Liquidity risk

As explained extensively in the risk reports at the end of 2008, the liquidity risk is not backed with economic capital; however, it is recognized by additional meaningful stress tests.

The potential increase in the refinancing costs for the planned unsecured short- and medium-term refinancing requirement if the ratings were to be downgraded by one notch has been used for the purpose of the risk-bearing capacity analysis.

Stress tests

The general weakness of models is that they are based on historical data. If an event, such as the current financial market crisis, has not occurred in the past, the models are not able to provide an adequate reflection of the corresponding effects. For this reason, HRE has developed suitable stress tests which complement the value-at-risk calculation and which are described extensively in the risk reports at the end of the year.

Results of risk-bearing capacity

Due to the comfortable economic capitalization of the former DEPFA Deutsche Pfandbriefbank AG, the Deutsche Pfandbriefbank Group is adequately capitalized as of 30 June 2009.

The risk cover funds amount to around € 4.9 billion; after deducting the economic capital of € 2.8 billion (after taking account of diversification effects), this results in surplus cover of € 2.1 billion.

Outlook

The merger between DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG and the subsequent change of name to Deutsche Pfandbriefbank AG is a major step in the direction of streamlining and reorganizing HRE. The merger means that the risk management and control processes of the Deutsche Pfandbriefbank Group will become simpler and more efficient.

The process of expanding the Global Workout function, which is currently only relevant for the Commercial Real Estate segment of the former Hypo Real Estate Bank Group, has already made further progress, and will be further expanded in the second half of 2009 so that non-performing exposures can be identified even more quickly and so that restructuring strategies can be successfully implemented in an even more structured manner.

It is still not possible to assess either the extent or the duration of the crisis on the real estate markets. The Group is assuming that the situation will also deteriorate further in Germany.

Overall, it is expected that risk parameters will deteriorate further in 2009 and that there will be a further increase in real estate lending exposed to risk.

Forecast Report

Macro-economic Situation

At present, forecasts of future developments are still very cautious even if there has been a slight recovery in expectations compared with previous months. By far the majority of players is very sceptical with regard to the future. Most institutions are not expecting to see a return to positive (albeit very moderate) growth rates before 2010. Much will depend on the impact of the economic programmes, some of which are only at the implementation stage, or the extent of the impact of any expiry of support programmes.

In the second quarter of 2009, the economy stabilised as a result of further cuts of leading interest rates implemented by the European Central Bank – in May from 1.5 % to 1.25 %, and in mid-June to the current level of 1 %. However, it is also necessary to mention the huge increase of liquidity supply provided by banks beyond interest rate policy. This is the reason for the speculation regarding imminent inflation risks which has been seen for quite some time. And indeed, in this connection, very much will depend on the willingness of central banks to cut back the liquidity expansion seen in recent months if there is an actual turnaround in economic activity.

As is the case with monetary policy, fiscal policy in all major countries is also very expansionary. Accordingly, in June, the Federal Cabinet adopted a budget plan for 2010 involving record new government debt of € 86 billion.

The massive collapse in added value will also result in further problems on the labour market. It is true that temporary measures are currently still having an impact in many areas, in particular short-time working, which in Germany has been expanded in the crisis by the legislative authorities. However, there are fears that this will be followed in the near future by massive redundancies if this short-term flexibility instrument is no longer sufficient. In the USA, the unemployment rate has already risen appreciably, and the unemployment figures for Germany are also expected to rise appreciably for the winter of 2009/10. Indeed, the OECD pessimistic forecast is assuming that the figure will rise to 5 million – compared with 3.41 million in June 2009.

Sector-specific Situation

Financing markets

The financing markets are still characterised by a considerable amount of uncertainty, and the future development depends on a very large number of factors. Selected individual markets will probably continue to stabilise. Particularly if the state support programmes start to take effect. On the basis of all predictions, the Pfandbrief market may be reckoned to be one of the more stable markets, not least as a result of the ECB purchase programme. Overall, however, it is possible that further volatility might occur.

Real estate financing

The demand of borrowers for real estate financing in markets such as Germany, Great Britain, the USA, France and Japan and on the secondary markets will continue to be moderate in the third quarter of 2009. Estimates of Jones Lang Lasalle are assuming that the weak demand for property in Germany will mean that vacancy rates in 2009 will on average be 10 % in the major cities. This negative trend will also continue throughout Europe in the second half of 2009, so that office rents are expected to decline on average by approx. 7 % for the whole of 2009. This trend will continue until 2010 according to CB Richard Ellis.

Some investors are assuming that the real estate cycle has bottomed out on some markets. Investors are focusing on Great Britain in this respect. Compared with the peak of property prices seen in 2007, there has been a decline of almost 40 %.

Credit institutions for real estate financing are having to cope with the challenge of servicing follow-up financing for their existing customers as well as their new financing enquiries and also simultaneously streamlining their property portfolio. According to various estimates, real estate financing worth approx. USD 400 billion worldwide is about to be prolonged. In Great Britain alone, the total is approx. 76 billion. If the

recession continues for the remainder of 2009, property prices and yields will continue to be under pressure as it will have to be assumed that there will be an increase in the number of enforced sales and higher vacancy rates. This will result in a further increase in the number of insolvencies in the real estate sector and will further increase pressure on the credit portfolios of banks.

Public sector finance

Experience has shown that the third quarter is relatively quiet in the public sector finance market. The restructuring efforts for the bank sector, for instance by way of outsourcing non-performing assets to bad banks or easier access to long-term refinancing funds for the market for covered bonds, will probably enable the markets to continue to return to normal. This assistance on the assets as well on the liabilities side of the balance sheet should help some players to provide more active support to their public finance customers. Altogether, stronger demand for finance from central, regional and local governments for supporting the economic revival as well as procyclical demand patterns in the public finance markets of many countries in the fourth quarter might result in stronger demand for long-term financing. This might lead to a further increase in risk premiums towards the end of the year.

Company-specific conditions

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

The existence of most companies in the Deutsche Pfandbriefbank Group continued to be threatened in the first half of 2009.

The Deutsche Pfandbriefbank Group assumes unchanged that it is a going concern and will continue in operation under the following described conditions (external factors / internal factors). Based on present information, the Management Board of Deutsche Pfandbriefbank AG considers it currently as predominantly probable that these conditions are in existence or will occur.

External factors:

- The Deutsche Pfandbriefbank Group will receive further essential liquidity support from the SoFFin in respect of terms and total volume. Moreover the Deutsche Pfandbriefbank Group will receive necessary capital support from SoFFin to strengthen its capital base. These supports will be granted under reasonable conditions.
- The capital markets environment will begin to stabilise from 2010 to 2012, particularly if there is no further serious deterioration of the financial market crisis from unforeseeable consequences, for instance triggered by external shocks such as the collapse of numerous major states or major banks, and the crisis of the real estate markets does not result in defaults of loans and securities to an extent which would pose a threat to existence of the group.
- The interbank market and other short-term unsecured refinancing markets as well as the long-term secured and unsecured refinancing markets will start to recover from 2010. The ratings of the companies in the Deutsche Pfandbriefbank Group will stabilise or slightly increase. The support can be covered by own funding in the following years.

Internal factors:

- The Deutsche Pfandbriefbank Group succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no significant delays or obstructions of the implementation of the restructuring which was initiated by HRE that aims to improve efficiency, profitability and streamlining of business processes.
- Work-out or restructuring of non-performing loans throughout the Deutsche Pfandbriefbank Group can be implemented as currently scheduled.

On 28 March 2009, the German Finanzmarktstabilisierungsfonds confirmed in written form to HRE Holding and to Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) that it intends to stabilise HRE Holding in a sustainable manner by way of adequate recapitalisation and Deutsche Pfandbriefbank AG by further sufficient extensions of guarantees.

The precondition for the intended recapitalisation of the HRE by the German Finanzmarktstabilisierungsfonds is the acquisition of complete control over HRE Holding and thus also over its wholly owned subsidiary Deutsche Pfandbriefbank AG by the German Finanzmarktstabilisierungsfonds or the German Federal Government.

As the first step towards recapitalising the HRE, the German Finanzmarktstabilisierungsfonds took up 20 million HRE Holding shares on 28 March 2009 for a legal minimum price of € 3.00 per share, whereby shareholders' subscription rights were excluded. As the second step of recapitalisation of HRE, the shareholders adopted a resolution regarding a capital increase of around € 2.96 billion in return for a cash contribution at the extraordinary general meeting held on 2 June 2009. The around 986.5 million shares were issued at the nominal value and legal minimum price of € 3.00 specified in the articles of incorporation. Only the German Finanzmarktstabilisierungsfonds was permitted to take up the new shares out of the capital increase, and the statutory shareholders' subscription rights were excluded. After the registration of the capital increase on 8 June 2009, the German Finanzmarktstabilisierungsfonds holds round 90% of the company's share capital, and has initiated a squeeze-out procedure under the German Law on Stock Companies (Aktienrecht). The resources have been used to reduce group integrations between HRE Holding and Deutsche Pfandbriefbank AG.

The Management Board of HRE Holding has provided a commitment to the German Finanzmarktstabilisierungsfonds that it will take the steps necessary for implementing the recapitalisation process. The Deutsche Pfandbriefbank Group is also assessing whether to transfer loans from its real estate business, which are either non-performing or no longer consistent with overall strategy, as well as significant parts of its asset portfolio and the structured security portfolio to a work-out entity.

Risks threatening the existence

The future existence of the Deutsche Pfandbriefbank AG as a going concern is dependent on the assumption that sufficient equity will be provided to the Deutsche Pfandbriefbank AG to avoid a situation of sustained over-indebtedness and, respectively, that sufficient equity will be provided to the HRE Holding being the superordinated institute of the group of companies to fulfil regulatory capital requirements. External liquidity support is necessary to avert insolvency due to illiquidity of the Deutsche Pfandbriefbank AG and its significant subsidiaries. These liquidity supports must be available until the Deutsche Pfandbriefbank AG is capable to raise sufficient liquidity on the money and capital market by itself, and until the agreed restructuring arrangements are implemented and the equity capital increase is performed as scheduled.

To ensure the future existence of the Deutsche Pfandbriefbank AG and its significant subsidiaries as a going concern it is thus particularly necessary that

- the German Finanzmarktstabilisierungsfonds provides sufficient support in form of equity capital to both the Deutsche Pfandbriefbank AG and the HRE Holding
- the German Finanzmarktstabilisierungsfonds and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance
- refinancing with sustainable conditions on the money and capital market occurs
- the restructuring arrangements will be implemented as scheduled
- the appropriate authorities do not take regulatory actions and
- no legal reservations (especially EU legal actions) will be successfully enforced.

The Deutsche Pfandbriefbank Group has reported a negative pre-tax profit for the first half of 2009; this was mainly attributable to significant impairments recognised in relation to real estate loans and other assets. The Deutsche Pfandbriefbank Group expects that it will continue to have to recognise significant impairments and accordingly a negative result during the remainder of the year. In particular, the difficult situation on the commercial real estate markets might result in further payment shortfalls, so that considerable additions to

provisions for losses on loans and advances will probably again be necessary in the second half of 2009. These will probably be due to higher vacancy rates, an increasing number of enforced sales as well as a deterioration in the market values of the properties. In view of the global recession, it is also likely that there will be significant delays and possible deficits in payments of municipalities not only in emerging markets, but also in the USA and Spain. In addition, further problems are expected to occur as a result of the specific extremely severe situation of the group. Net interest income will probably also not benefit to the same extent as in the first half of 2009 from the effects in the money market field. Overall, a substantial negative pre-tax profit is expected for 2009. Presumably in the second half of 2009 Deutsche Pfandbriefbank AG will therefore be reliant on additional capital increases.

The risks and chances of the Deutsche Pfandbriefbank Group with regard to the net assets, financial position and results of operations are described in detail in the Forecast Report of the annual report 2008. In the first half of 2009 and until preparation of the interim financial review and the interim consolidated financial statements no material changes of the risk and chances which are not described in this interim report arose.

Consolidated Interim Financial Statements

Income Statement for the Period from 1 January to 30 June 2009

Income/expenses in € million					
	Notes	1.1.-30.06.2009	1.1.-30.06.2008	Change	
				in € million	in %
Operating revenues		34	-104	138	>100.0
Net interest income and similar income	9	251	157	94	59.9
Interest income and similar income		2,373	1,813	560	30.9
Interest expenses and similar expenses		2,122	1,656	466	28.1
Net commission income	10	-6	4	-10	<-100.0
Commission income		53	26	27	>100.0
Commission expenses		59	22	37	>100.0
Net trading income	11	-109	-91	-18	-19.8
Net income from financial investments	12	-28	-169	141	83.4
Net income from hedge relationships	13	-16	-4	-12	<-100.0
Balance of other operating income/expenses	14	-58	-1	-57	<-100.0
Provisions for losses on loans and advances	15	1,048	37	1,011	>100.0
General administrative expenses	16	107	43	64	>100.0
Balance of other income/expenses	17	13	-	13	>100.0
thereof:					
Impairments on goodwill		-	-	-	-
Additions to restructuring provisions		8	-	8	>100.0
Pre-tax profit		-1,108	-184	-924	<-100.0
Taxes on income	18	-21	-35	14	40.0
Net income/loss		-1,087	-149	-938	<-100.0
attributable to:					
Equity holders (consolidated profit from the parent company)		-1,087	-149	-938	<-100.0
		-1,087	-149	-938	<-100.0

Statement of comprehensive Income the Period from 1 January to 30 June 2009

Statement of comprehensive income in € million

	1.1.-30.6.2009			1.1.-30.6.2008		
	before tax	tax	net-of-tax	before tax	tax	net-of-tax
Net income/loss	-1,108	-21	-1,087	-184	-35	-149
AfS reserve	6	2	4	-166	-55	-111
Cashflow hedge reserve	415	114	301	61	20	41
Exchange differences	10	-	10	-	-	-
Total	-677	95	-772	-289	-70	-219
attributable to:						
Equity holders (consolidated profit/loss from the parent company)	-677	95	-772	-289	-70	-219

Disclosure of components of comprehensive income in € million

	1.1.-30.6.2009	1.1.-30.6.2008
Net income/loss	-1,087	-149
AfS reserve	4	-111
Gains arising during the year	4	-111
Reclassification adjustments for gains/losses included in profit or loss	-	-
Cashflow hedge reserve	301	41
Gains/losses arising during the year	301	41
Exchange differences	10	-
Total	-772	-219

Balance Sheet as of 30 June 2009

Assets in € million						
	Notes	30.6.2009	31.12.2008	Change		31.12.2007
				in € million	in %	
Cash reserve		194	546	-352	-64.5	971
Trading assets	20	1,310	131	1,179	>100.0	40
Loans and advances to other banks	21	82,303	72,126	10,177	14.1	13,722
Loans and advances to customers	22	95,011	69,938	25,073	35.9	38,169
Allowances for losses on loans and advances	24	-2,838	-1,841	-997	-54.2	-799
Financial investments	25	36,004	28,934	7,070	24.4	21,167
Property, plant and equipment		14	12	2	16.7	30
Intangible assets		32	23	9	39.1	23
Other assets	26	12,781	10,204	2,577	25.3	2,351
Income tax assets	27	4,397	4,423	-26	-0.6	2,212
Current tax assets		104	82	22	26.8	57
Deferred tax assets		4,293	4,341	-48	-1.1	2,155
Total assets		229,208	184,496	44,712	24.2	77,886

Equity and liabilities in € million						
	Notes	30.6.2009	31.12.2008	Change		31.12.2007
				in € million	in %	
Liabilities to other banks	28	72,410	56,464	15,946	28.2	15,332
Liabilities to customers	29	11,770	13,985	-2,215	-15.8	10,267
Liabilities evidenced by certificates	30	119,567	95,461	24,106	25.3	44,862
Trading liabilities	31	2,227	1,033	1,194	>100.0	226
Provisions	32	213	168	45	26.8	22
Other liabilities	33	14,506	11,118	3,388	30.5	4,062
Income tax liabilities	34	3,725	3,576	149	4.2	1,312
Current tax liabilities		82	31	51	>100.0	19
Deferred tax liabilities		3,643	3,545	98	2.8	1,293
Subordinated capital	35	4,091	2,237	1,854	82.9	905
Liabilities		228,509	184,042	44,467	24.2	76,988
Equity attributable to equity holders		699	454	245	54.0	898
Subscribed capital		380	380	-	-	133
Additional paid-in capital		3,739	2,988	751	25.1	1,442
Retained earnings		-1,309	688	-1,997	<-100.0	252
Revaluation reserve		-1,079	-1,239	160	12.9	-1,121
Afs reserve		-416	-275	-141	-51.3	-102
Cash flow hedge reserve		-663	-964	301	31.2	-1,019
Consolidated profit/loss 1.1.-31.12.		-	-2,363	2,363	100.0	192
Consolidated loss 1.1.-30.6.2009		-1,032	-	-1,032	<-100.0	-
Minority interest in equity		-	-	-	-	-
Equity		699	454	245	54.0	898
Total equity and liabilities		229,208	184,496	44,712	24.2	77,886

Statement of Changes in Equity (condensed)

Statement of Changes in Equity in € million

	Equity attributable to equity holders							Minority interest in equity	Equity
	Subscribed capital	Additional paid-in capital	Retained earnings	Revaluation reserve		Consolidated profit/loss	Profit carried forward from prior year		
				AfS reserve	Cash flow hedge reserve				
Equity at 1.1.2008	133	1,442	252	-102	-1,019	-	192	-	898
Capital increase	-	-	-	-	-	-	-	-	-
Distribution	-	-	-	-	-	-	-40	-	-40
Total comprehensive income for the year	-	-	-	-111	41	-149	-	-	-219
Transfer to retained earnings	-	-	152	-	-	-	-152	-	-
Equity at 30.6.2008	133	1,442	404	-213	-978	-149	-	-	639
Equity at 1.1.2009	380	2,988	688	-275	-964	-	-2,363	-	454
Capital increase	-	-	-	-	-	-	-	-	-
Distribution	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	10	4	301	-1,087	-	-	-772
Transfer to retained earnings	-	-	-2,363	-	-	-	2,363	-	-
Changes in the group of consolidated companies	-	751	356	-145	-	55	-	-	1,017
Equity at 30.6.2009	380	3,739	-1,309	-416	-663	-1,032	-	-	699

Cash Flow Statement (condensed)

Cash Flow Statement (condensed) in € million

	2009	2008
Cash and cash equivalents at 1.1.	546	971
+/- Cash flow from operating activities	-2,587	-2,016
+/- Cash flow from investing activities	2,290	987
+/- Cash flow from financing activities	-55	158
+/- Effects of exchange rate changes and non-cash valuation changes	-	-
Cash and cash equivalents at 30.6.	194	100

Notes (condensed)

1 General information

The Deutsche Pfandbriefbank Group combines the strategic assets and new business in its real estate finance and public finance segment. Deutsche Pfandbriefbank AG is incorporated in the commercial register of the Amtsgericht (local court) Munich (HRB 41054) and is a 100 % subsidiary of Hypo Real Estate Holding AG (HRE Holding). With the incorporation in the commercial register by the Amtsgericht Munich as of 29 June 2009, the merger of the former DEPFA Deutsche Pfandbriefbank AG with the former Hypo Real Estate Bank AG is from the economical view retrospectively effective as of 1 January 2009. The new entity will trade under the name of "Deutsche Pfandbriefbank AG", and will have its registered office in Munich.

Accounting policies

2 Principles

Deutsche Pfandbriefbank AG has prepared its group interim financial statements for the period ended 30 June 2009 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 group 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 315a (1) HGB (German Commercial Code). In particular, the interim report complies with the IAS 34 requirements for interim financial reporting. With the exception of specific regulations relating to fair value hedge accounting for a portfolio of interest risks in IAS 39, IFRS 7 (Improving Disclosures about Financial Instruments) and IFRIC 15 (Agreements for the Construction of Real Estate) all mandatory IFRS rules have been completely endorsed by the EU. The IFRS and IFRICs which have not been endorsed had no effect on the group interim financial statements of Deutsche Pfandbriefbank Group. Therefore, the group interim financial statements are accordingly consistent with the entire IFRS and also with the IFRS as applicable in the EU.

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 International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The accounting and valuation methods as of 30 June 2009 are the same as those applied in the consolidated financial statements for 2008. The following standards and interpretations were applied initially:

- IFRS 1 and IAS 27 (Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate)
- IFRS 2 (Share-based Payment: Vesting Conditions and Cancellations)
- IFRS 8 (Operating Segments)
- IAS 1 (Presentation of Financial Statements: A revised Presentation, revised 2007)
- IAS 23 (Borrowing Costs, revised 2007)
- IAS 32 and IAS 1 (Puttable Financial Instruments and Obligations Arising on Liquidation)
- IFRIC 13 (Customer Loyalty Programmes)
- IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)

Only the new or revised standards IAS 1 (Presentation of Financial Statements: A revised Presentation, revised 2007) and IFRS 8 (Operating Segments) had an effect on the recognition, measurement or disclosure of Deutsche Pfandbriefbank Group.

As per the revision of IAS 1 the income and expense components of the period are disclosed in two statements, the income statement and a reconciliation from the net income or net loss to the comprehensive income including a disclosure of the components of other comprehensive income (statement of comprehensive income). The balance sheet is disclosed with two comparative periods. Apart from the transactions with owners in their capacity as owners the statement of changes in equity contains the comprehensive income in one position.

The standard IFRS 8 supersedes the former standard IAS 14. IFRS 8 deals with the disclosure of operating segment of a company. Currently, the Management Board reviews two segments which fulfil the requirements of IFRS 8 for operating segments. Therefore, there were no changes from the revised segment definition of IFRS 8 relating to the segment report of Deutsche Pfandbriefbank Group. In addition, the standard contains some additional disclosures, for example the reporting about products and services.

If they are not inconsistent with the IFRS, the German Accounting Standards (Deutsche Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have been taken into account.

The Management Board of Deutsche Pfandbriefbank AG has prepared the group interim financial statements on 6 August 2009 under the going-concern assumption. In preparing the consolidated group interim financial statements, the Management Board is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the HRE Holding and its significant subsidiaries, under which the Deutsche Pfandbriefbank Group belongs to, ability to continue as a going concern. The future existence of the Deutsche Pfandbriefbank AG as a going concern is dependent on the assumption that sufficient equity will be provided to the Deutsche Pfandbriefbank AG to avoid situation of sustained over-indebtedness and, respectively that sufficient equity will be provided to the HRE Holding being the superordinated institute of the group of companies to fulfil regulatory capital requirements. External liquidity support is necessary to avert insolvency due to illiquidity of the Deutsche Pfandbriefbank AG and its significant subsidiaries. These liquidity supports must be available until the Deutsche Pfandbriefbank AG is capable to raise sufficient liquidity on the money and capital markets by itself and until the agreed restructuring arrangements are implemented and the equity capital increase is performed as scheduled

To ensure the future existence of the Deutsche Pfandbriefbank AG and its significant subsidiaries as a Going Concern it is thus particularly necessary that

- the German Finanzmarktstabilisierungsfonds provides sufficient support in form of equity capital to both the Deutsche Pfandbriefbank AG and the HRE Holdingl,
- the German Finanzmarktstabilisierungsfonds and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance,
- refinancing with sustainable conditions on the money and capital markets occurs,
- the restructuring arrangements will be implemented as scheduled
- the appropriate authorities do not take regulatory actions, and
- no legal reservations (especially EU legal actions) will be successfully enforced.

On 28 March 2009, the German Finanzmarktstabilisierungsfonds confirmed to HRE Holding and the Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) that it intends to stabilise the HRE Holding in a sustainable manner by way of adequate recapitalisation and the Deutsche Pfandbriefbank AG by further sufficient extensions of guarantees.

The precondition for the intended recapitalisation of the HRE by the German Finanzmarktstabilisierungsfonds is the acquisition of complete control over HRE Holding and thus also over its wholly owned subsidiary Deutsche Pfandbriefbank AG by the German Finanzmarktstabilisierungsfonds or the German Federal Government.

As a first step in the direction of recapitalising the HRE, the the German Finanzmarktstabilisierungsfonds has acquired on 28 March 2009 20 million HRE Holding shares for a legal minimum price of € 3.00 per share, whereby shareholders' subscription rights were excluded. As the second step of recapitalisation of the HRE, the shareholders adopted a resolution regarding a capital increase of around € 2.96 billion in return for

a cash contribution at the extraordinary general meeting held on 2 June 2009. The round 986.5 million shares were issued at the nominal value and legal minimum price of € 3.00 specified in the articles of incorporation. Only the German Finanzmarktstabilisierungsfonds was permitted to take up the new shares out of the capital increase, and the statutory shareholders' subscription rights were excluded. After the registration of the capital increase on 8 June 2009, the German Finanzmarktstabilisierungsfonds holds round 90% of the company's share capital, and has initiated a squeeze-out procedure under the German Law on Stock Companies (Aktienrecht).

The Management Board of HRE Holding has provided a commitment to the German Finanzmarktstabilisierungsfonds that it will take the steps necessary for implementing the recapitalisation.

3 Consolidation

The Annual Report 2008 contains a list of all consolidated and non consolidated holdings on page 136.

Compared with the group of consolidated companies in the Annual Report the following changes arose:

Liffey Camelback LLC, Willmington, was initially consolidated on 15 June 2009. This subsidiary of Hypo Real Estate Capital Corp., New York, took over a salvage acquisition in Arizona / USA. The book value of salvage acquisition amounted to US\$ 14 million as of the initial consolidation date and as of 30 June 2009 and of the. The initial consolidation has not resulted in any significant impact on the income statement or balance sheet of the group.

The merger between the former DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG was agreed and decided by the annual general meeting in the second quarter of 2009 and was registered in the commercial register on 10 and 29 June 2008 at the local courts (Amtsgerichte) Frankfurt and Munich. The new entity now trades as Deutsche Pfandbriefbank AG. The former DEPFA Deutsche Pfandbriefbank AG focussed on public sector activities.

The former DEPFA Deutsche Pfandbriefbank AG was merged with Hypo Real Estate Bank AG by way of absorption in an existing company by transferring the assets and liabilities of DEPFA Deutsche Pfandbriefbank AG in accordance with sections 2, 60 et seq. UmwG. Because Hypo Real Estate Bank AG as well as the former DEPFA Deutsche Pfandbriefbank AG were subsidiaries of HRE Holding, the transaction is a business combination involving companies subject to joint control. The assets and liabilities transferred within the framework of the merger were valued with the consolidated carrying amounts of the parent company at the time of the transaction (so-called predecessor accounting). DEPFA Finance N.V., Amsterdam, which was a subsidiary of former DEPFA Deutsche Pfandbriefbank AG, became a consolidated subsidiary of Deutsche Pfandbriefbank AG by the merger.

From 30 June 2009, Hypo Real Estate Systems GmbH was sold at arms length by HRE Holding to Deutsche Pfandbriefbank AG. Because Deutsche Pfandbriefbank AG as well as the Hypo Real Estate Systems GmbH are subsidiaries of HRE Holding, the transaction is a business combination involving companies subject to joint control. The assets and liabilities transferred within the framework of the merger were valued with the consolidated carrying amounts of the parent company at the time of the transaction (so-called predecessor accounting).

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4 Notes to segment reporting by business segment (primary segmenting)

Since the merger of former DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Bank AG into Deutsche Pfandbriefbank AG. The new entity operates its business in the two business segments Commercial Real Estate and Public Sector.

The business segment Commercial Real Estate (CRE) combines mainly the international and German businesses of the strategic, commercial real estate financing including customer derivatives.

The business segment Public Sector (PS) pools mainly the Public Sector business.

Contributions to earnings made by the non-strategic portfolios such as the CDO portfolio and an internal HRE guarantee as well as the costs for essential corporate functions are some of the items shown in the Corporate Center. In addition, the Corporate Center also includes the costs of the liquidity support and certain administrative expenses of backoffice operations.

Deutsche Pfandbriefbank AG Group's segment reporting is based on its internal controlling instrument and management information system, which is prepared in accordance with IFRS. Income and expenses are shown such that they reflect the originating unit. Revenues are allocated by portfolio structures. General administrative expenses are allocated to the correct segment according to causation. The segments only generated group external income but no income with other segment of Deutsche Pfandbriefbank Group or the Corporate Center. Therefore there were no consolidations between segments or with the Corporate Center. The management information system is based on the accounting and valuation methods of the group interim financial statement which is based on IFRS. Therefore a reconciliation to the accounting and valuation methods used in the group interim financial statements is not necessary.

The cost-income ratio is the ratio of 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, the result of hedging relationships and the balance of other operating income/expenses.

In the segment reporting of the annual report as of 31 December 2008 which did not contain DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Systems GmbH, the group was divided into the four divisions Germany, Europe, America and Asia as well as Other/Consolidation. The comparative figures 2008 have been adjusted accordingly to the new segmentation into the business Commercial Real Estate and Public Sector. In addition to the comparative figures, according to IAS 1.36, combined figures for the income are disclosed to make the comparison between the financial year 2009 and 2008 easier. The combined figures report income as if DEPFA Deutsche Pfandbriefbank AG and die Hypo Real Estate Systems GmbH had been part of the group in the total years 2008 and 2009.

5 Income statement, broken down by business segment

Income/expenses in € million					
	CRE	PS	Corporate Center	Deutsche Pfandbriefbank	
Operating revenues					
Deutsche Pfandbriefbank 1.1.-30.6.2009	326	1	-293	34	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	326	55	-276	105	
former HRE Bank 1.1.-30.6.2008	177	-	-281	-104	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	431	47	-274	204	
Net interest income and similar income					
Deutsche Pfandbriefbank 1.1.-30.6.2009	323	1	-73	251	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	323	78	-72	329	
former HRE Bank 1.1.-30.6.2008	145	-	12	157	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	382	50	-16	416	
Net commission income					
Deutsche Pfandbriefbank 1.1.-30.6.2009	48	-	-54	-6	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	48	-6	-54	-12	
former HRE Bank 1.1.-30.6.2008	9	-	-5	4	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	41	-1	-1	39	
Net trading income					
Deutsche Pfandbriefbank 1.1.-30.6.2009	-48	-	-61	-109	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	-48	-1	-59	-108	
former HRE Bank 1.1.-30.6.2008	-	-	-91	-91	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	-19	-	-107	-126	
Net income from financial investments					
Deutsche Pfandbriefbank 1.1.-30.6.2009	1	-	-29	-28	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	1	-	-29	-28	
former HRE Bank 1.1.-30.6.2008	23	-	-192	-169	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	23	-	-151	-128	
Net income from hedge relationships					
Deutsche Pfandbriefbank 1.1.-30.6.2009	-	-	-16	-16	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	-	-17	-16	-33	
former HRE Bank 1.1.-30.6.2008	-	-	-4	-4	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	-	-6	-4	-10	
Balance of other operating income/expenses					
Deutsche Pfandbriefbank 1.1.-30.6.2009	2	-	-60	-58	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	2	1	-46	-43	
former HRE Bank 1.1.-30.6.2008	-	-	-1	-1	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	4	4	5	13	
Provisions for losses on loans and advances					
Deutsche Pfandbriefbank 1.1.-30.6.2009	1,034	-	14	1,048	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	1,034	1	14	1,049	
former HRE Bank 1.1.-30.6.2008	16	-	21	37	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	48	1	21	70	
General administrative expenses					
Deutsche Pfandbriefbank 1.1.-30.6.2009	74	-	33	107	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	74	12	46	132	
former HRE Bank 1.1.-30.6.2008	22	-	21	43	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	89	15	42	146	
Balance of other income/expenses					
Deutsche Pfandbriefbank 1.1.-30.6.2009	-1	-	14	13	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	-1	-	16	15	
former HRE Bank 1.1.-30.6.2008	-	-	-	-	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	-	-	-	-	
Pre-tax profit					
Deutsche Pfandbriefbank 1.1.-30.6.2009	-783	1	-326	-1,108	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	-783	42	-320	-1,061	
former HRE Bank 1.1.-30.6.2008	139	-	-323	-184	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	294	31	-337	-12	

6 Key ratio, broken down by business segment

Cost income ratio in %					
	CRE	PS	Corporate Center	Deutsche Pfandbriefbank	
Deutsche Pfandbriefbank 1.1.-30.6.2009	22.7	-	> 100.0	> 100.0	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2009	22.7	21.8	> 100.0	> 100.0	
former HRE Bank 1.1.-30.6.2008	12.4	-	> 100.0	> 100.0	
Deutsche Pfandbriefbank (combined figures) 1.1.-30.6.2008	20.6	31.9	> 100.0	71.6	

7 Key capital ratios [based on German Commercial Code (HGB)], broken down by business segment

Deutsche Pfandbriefbank AG is according the "Waiver Rule" regulated in section 2a 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 2a KWG contains 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 25a KWG.

if specific conditions are fulfilled.

8 Operating revenues by products

Operating revenues by products in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Commercial Real Estate financings	326	177
Public Sector financings	1	-
Other products	-293	-281
Total	34	-104

Notes to the income statement

9 Net interest income and similar income

Net interest income and similar income, broken down by categories of income/expenses in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Interest income and similar income	2,373	1,813
Lending and money-market business	1,761	1,361
Fixed-income securities and government-inscribed debt	516	451
Equity securities and other variable-yield securities	-	-
Companies valued using the equity method	-	-
Current result from swap transactions (balance of interest income and interest expenses)	96	-
Other	-	1
Interest expenses and similar expenses	2,122	1,656
Deposits	521	598
Liabilities evidenced by certificates	1,546	902
Subordinated capital	55	29
Current result from swap transactions (balance of interest income and interest expenses)	-	127
Total	251	157

Total interest income for financial assets that are not categorised at fair value through profit or loss, amount to € 2.2 billion (1.1.–30.6.2008: € 1.8 billion). Total interest expenses for financial liabilities that are not categorised at fair value through profit or loss amount to € 2.1 billion (1.1.–30.6.2008: € 1.5 billion).

Net interest income and similar income includes income of € 56 million (1.1.–30.6.2008: € 7 million) due to the increase in the present value of the adjusted allowances resulting over a period of time and an expense of € – 12 million (1.1. – 30.6.2008: € 0 million) due to the increase in the present value of the adjusted liabilities over a period of time.

10 Net commission income

Net commission income in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Securities and custodial services	-2	-4
Lending operations and other service operations	-4	8
Total	-6	4

Net commission income is attributable exclusively to financial assets and financial liabilities which are not designated at fair value through profit or loss. The decline in net commission income results mainly through the expenses for the liquidity support.

11 Net trading income

Net trading income in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
from other equity instruments and related derivatives	-	-
from interest rate instruments and related derivatives	-47	-1
from credit risk instruments and related derivatives	-62	-90
thereof:		
valuation result from synthetic CDOs	-25	-90
from foreign exchange trading interest	-	-
Total	-109	-91

12 Net income from financial investments

Net income from financial investments in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Income from financial investments	6	126
Expenses from financial investments	34	295
Total	-28	-169

Net income from financial investments by components in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Held-to-maturity financial investments	-	-
Available-for-sale financial investments	5	-200
Loans-and-receivables financial investments	-33	-
Negative difference from business combination	-	-
Result from investment properties	-	31
Total	-28	-169

13 Net income from hedge relationships

Net income from hedge relationships in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Result from fair value hedge accounting	-8	-
Result from hedged items	8	-
Result from hedging instruments	-16	-
Result from dFVTPL investments and related derivatives	-8	-4
Result from dFVTPL investments	7	-29
Result from derivatives related to dFVTPL investments	-15	25
Ineffectiveness from cash flow hedge accounting affecting income	-	-
Total	-16	-4

The item net income from hedge relationships reflected two effects. On the one hand expenses resulted from hedge inefficiencies within the range of 80 % to 125 % which is admissible under IAS 39. These expenses are mainly a reverse effect from the corresponding income in the fourth quarter 2008. On the other hand a negative valuation result was attributable to assets designated at Fair Value through Profit or Loss (dFVTPL) and related derivatives. The fair values of these positions hedging interest risks have declined as a result of credit spread changes.

14 Balance of other operating income/expenses

Balance of other operating income/expenses in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Other operating income	5	4
Other operating expenses	63	5
Balance of other operating income/expenses	-58	-1

Change in the balance of other operating income/expenses resulted mainly from foreign currency changes.

15 Provisions for losses on loans and advances

Provisions for lending business in € million		
	1.1.-30.6.2009	1.1.-30.6.2008
Provisions for losses on loans and advances	1,047	39
Additions	1,069	47
Releases	-22	-8
Provisions for contingent liabilities and other commitments	2	-
Additions	2	-
Releases	-	-
Recoveries from write-offs of loans and advances	-1	-2
Total	1,048	37

The development of allowances 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.

16 General administrative expenses

General administrative expenses in € million

	1.1.-30.6.2009	1.1.-30.6.2008
Personnel expenses	47	24
Wages and salaries	39	21
Social security costs	5	3
Pension expenses and related employee benefit costs	3	-
Other general administrative expenses	53	16
Depreciation/amortisation	7	3
on software and other intangible assets excluding goodwill	5	2
on property, plant and equipment	2	1
Total	107	43

in %

	1.1.-30.6.2009	1.1.-30.6.2008
Cost income ratio	> 100.0	> 100.0

17 Balance of other income/expenses

Balance of other income/expenses in € million

	1.1.-30.6.2009	1.1.-30.6.2008
Other income	21	-
thereof:		
Releases of restructuring provisions	21	-
Other expenses	8	-
thereof:		
Additions to restructuring provisions	8	-
Balance of other income/expenses	13	-

A restructuring provision was created in the fourth quarter of 2008 in connection with the strategic refocussing and restructuring of the HRE. Due to new information the calculation of the restructuring provision was revised in the second quarter of 2009. So it is possible for individual locations to be closed sooner than originally planned. Overall, there was a release of € 13 million.

18 Taxes on income

Breakdown in € million

	1.1.-30.6.2009	1.1.-30.6.2008
Current taxes	6	6
thereof:		
Deemed current taxes	-	-
Deferred taxes	-26	-41
thereof:		
Deferred taxes on capitalised losses carried forward	1	-49
Total	-20	-35

19 Net gains/net losses

The income statement contains the following income statement- related net gains/net losses according to IFRS 7.20 a:

in € million

	1.1.-30.6.2009	1.1.-30.6.2008
Loans and receivables	-1,039	5
Held to maturity	-	-
Available for sale	5	-200
Held for trading	-88	-91
designated at Fair Value through P&L	-8	-4
Financial liabilities at amortised cost	321	-

Notes to the balance sheet (Assets)

20 Trading assets

Trading assets in € million		
	30.6.2009	31.12.2008
Debt securities and other fixed-income securities	-	-
Equity securities and other variable-yield securities	-	-
Positive fair values from derivative financial instruments	-	-
Other trading assets	-	-
Stand alone derivatives (bankbook)	1,310	131
Total	1,310	131

21 Loans and advances to other banks

Loans and advances to other banks, broken down by type of business in € million		
	30.6.2009	31.12.2008
Loans and advances	79,287	68,073
Public sector loans	10,804	5,725
Real estate loans	70	94
Other loans and advances	68,413	62,254
Investments	3,016	4,053
Total	82,303	72,126

Loans and advances to other banks, broken down by maturities in € million		
	30.6.2009	31.12.2008
Repayable on demand	3,521	18,087
With agreed maturities	78,782	54,039
up to 3 months	68,020	48,073
from 3 months to 1 year	3,386	1,075
from 1 year to 5 years	3,294	3,474
from 5 years and over	4,082	1,417
Total	82,303	72,126

22 Loans and advances to customers

Loans and advances to customers, broken down by type of business in € million		
	30.6.2009	31.12.2008
Loans and advances	95,011	66,700
Public sector loans	37,444	8,091
Real estate loans	56,937	57,974
Other loans and advances	630	635
Investments	-	3,238
Total	95,011	69,938

Loans and advances to customers, broken down by maturities in € million		
	30.6.2009	31.12.2008
Unspecified terms	1	1
With agreed maturities	95,010	69,937
up to 3 months	5,837	7,517
from 3 months to 1 year	9,985	7,488
from 1 year to 5 years	36,108	29,694
from 5 years and over	43,080	25,238
Total	95,011	69,938

23 Volume of lending

Volume of lending in € million		
	30.6.2009	31.12.2008
Loans and advances to other banks	79,287	68,073
Loans and advances to customers	95,011	66,700
Contingent liabilities	1,608	1,855
Total	175,906	136,628

24 Allowances for losses on loans and advances

Development in € million			
	Individual allowances on loans and advances	Portfolio-based allowances	Total
Balance at 1.1.2008	635	164	799
Changes affecting income	816	184	1,000
Gross additions	902	254	1,156
Releases	-54	-70	-124
Increase of the present value due to passage of time (unwinding)	-32	-	-32
Changes not affecting income	-49	91	42
Changes in the group of consolidated companies	94	95	189
Use of existing loan-loss allowances	-176	-4	-180
Effects of currency translations and other changes not affecting income	33	-	33
Balance at 31.12.2008	1,402	439	1,841
Balance at 1.1.2009	1,402	439	1,841
Changes affecting income	985	6	991
Gross additions	1,063	6	1,069
Releases	-22	-	-22
Increase of the present value due to passage of time (unwinding)	-56	-	-56
Changes not affecting income	5	1	6
Changes in the group of consolidated companies	-	2	2
Use of existing loan-loss allowances	-58	-1	-59
Effects of currency translations and other changes not affecting income	63	-	63
Balance at 30.6.2009	2,392	446	2,838

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

25 Financial investments

Breakdown in € million		
	30.6.2009	31.12.2008
AfS financial investments	2,875	2,822
Shares in non-consolidated subsidiaries	53	44
Participating interests	7	8
Debt securities and other fixed-income securities	2,813	2,769
Equity securities and other variable-yield securities	2	1
dFVTPL financial investments	1,005	1,037
Debt securities and other fixed-income securities	1,005	1,037
LaR financial investments	32,124	25,075
Debt securities and other fixed-income securities	32,124	25,075
Companies valued using the equity method	-	-
Investment properties	-	-
Total	36,004	28,934

Financial investments, broken down by maturities in € million		
	30.6.2009	31.12.2008
Unspecified terms	62	53
With agreed maturities	35,942	28,881
up to 3 months	1,665	780
from 3 months to 1 year	2,497	2,288
from 1 year to 5 years	9,810	9,405
from 5 years and over	21,970	16,408
Total	36,004	28,934

Deutsche Pfandbriefbank Group respectively its predecessor institutes have 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, 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 € 302 billion).

Since the date of reclassification, financial assets with a (reclassified) carrying amount of € 2.7 billion became due.

At the date of reclassification the effective interest rate for AfS asserts was between 0.25 % and 34.4 %.

The following table summarises the carrying amounts and the fair values as of 30 June 2009 as well as fair value gains and losses that would have been recognised in the first half of 2009 if the financial assets had not been reclassified.

Reclassifications					
	into			effect if no assets would have been reclassified (01.01.2009 till 30.06.2009)	
	Financial investments loans and receivables (LaR)				
	Date	30.06.2009		income statement in € million	AfS reserve (after tax) in € million
out of		carrying amount in € billion	fair value in € billion		
Financial investments available for sale (AfS)	01.07.2008	27.0	26.1	-41	-31

26 Other assets

Other assets in € million		
	30.6.2009	31.12.2008
Positive fair values from derivative financial instruments	12,216	9,789
Hedging derivatives	12,216	9,789
Micro fair value hedge	2,609	175
Cash flow hedge	9,607	9,614
Derivatives hedging dFVTPL financial instruments	-	-
Salvage acquisitions	190	183
Other assets	298	157
Deferred charges and prepaid expenses	26	23
Capitalised excess cover of qualified insurance for pension provisions	51	52
Total	12,781	10,204

27 Income tax assets

Income tax assets in € million		
	30.6.2009	31.12.2008
Current tax assets	104	82
Deferred tax assets	4,293	4,341
Total	4,397	4,423

Notes to the balance sheet (Equity and liabilities)

28 Liabilities to other banks

Liabilities to other banks by maturities in € million		
	30.6.2009	31.12.2008
Repayable on demand	1,058	1,795
With agreed maturities	71,352	54,669
up to 3 months	59,847	41,533
from 3 months to 1 year	6,466	8,723
from 1 year to 5 years	4,022	3,496
from 5 years and over	1,017	917
Total	72,410	56,464

29 Liabilities to customers

Liabilities to customers by maturities in € million		
	30.6.2009	31.12.2008
Repayable on demand	315	575
With agreed maturities	11,455	13,410
up to 3 months	510	1,911
from 3 months to 1 year	711	1,356
from 1 year to 5 years	3,189	2,986
from 5 years and over	7,045	7,157
Total	11,770	13,985

30 Liabilities evidenced by certificates

Liabilities evidenced by certificates, broken down by maturities in € million		
	30.6.2009	31.12.2008
With agreed maturities		
up to 3 months	7,593	37,165
from 3 months to 1 year	42,746	12,046
from 1 year to 5 years	37,877	27,549
from 5 years and over	31,351	18,701
Total	119,567	95,461

31 Trading liabilities

Trading liabilities in € million		
	30.6.2009	31.12.2008
Negative fair values from derivative financial instruments	397	369
Equity-related transactions	-	-
Interest-based and foreign-currency-based transactions	-	-
Credit-related transactions	397	369
Others	-	-
Other trading liabilities	-	-
Stand alone derivatives (bankbook)	1,830	664
Total	2,227	1,033

32 Provisions

Breakdown in € million		
	30.6.2009	31.12.2008
Provisions for pensions and similar obligations	56	-
Restructuring provisions	106	128
Provisions for contingent liabilities and other commitments	11	11
Other provisions	40	29
thereof:		
Long-term liabilities to employees	4	5
Total	213	168

As of 1 January 2005, the Deutsche Pfandbriefbank Group took out a reinsurance which is classified as a "qualifying insurance policy" under IAS 19 to protect itself against the primary 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. The reinsurance is a plan asset in accordance with IAS 19. In accordance with IAS 19.54, the pension obligation has to be reduced by the extent of the plan assets.

33 Other liabilities

Other liabilities in € million		
	30.6.2009	31.12.2008
Negative fair values from derivative financial instruments	13,843	10,736
Hedging derivatives	13,777	10,687
Micro fair value hedge	3,787	694
Cash flow hedge	9,990	9,993
Derivatives hedging dFVTPL financial instruments	66	49
Other liabilities	563	267
Deferred income	100	115
Total	14,506	11,118

34 Income tax liabilities

Income tax liabilities in € million		
	30.6.2009	31.12.2008
Current tax liabilities	82	31
Deferred tax liabilities	3,643	3,545
Total	3,725	3,576

35 Subordinated capital

Breakdown in € million		
	30.6.2009	31.12.2008
Subordinated liabilities	3,699	1,826
Participating certificates outstanding	97	125
Hybrid capital instruments	295	286
Total	4,091	2,237

Subordinated capital, broken down by maturities in € million		
	30.06.2009	31.12.2008
With agreed maturities		
up to 3 months	104	163
from 3 months to 1 year	148	81
from 1 year to 5 years	1,484	1,084
from 5 years and over	2,355	909
Total	4,091	2,237

36 Equity

The company's share capital remained unchanged after the merger with the former DEPFA Deutsche AG Pfandbriefbank.

The subscribed capital amounts to € 380,376,059.67 which is divided into 134,475,308 (2007: 46,970,484) ordinary bearer shares in the form of no-par-value shares with a theoretical interest in the share capital of € 2.83 per share (rounded). The total shareholders' equity of the former DEPFA Deutsche Pfandbriefbank AG (€ 751,393,607.32) was allocated to additional paid-in capital as part of the merger process.

The share capital of the Bank is wholly owned by HRE Holding.

37 Assets and liabilities according to measurement categories and classes

Asset and liabilities according to measurement categories and classes in € million		
	30.06.2009	31.12.2008
Assets		
Loans-and-receivables (LaR)	206,600	165,298
Held-to-maturity (HtM)	-	-
Available-for-sale (AfS)	2,875	2,822
Held-for-trading (HfT)	1,310	131
dFVTPL-assets (dFVTPL)	1,005	1,037
Cash reserve	194	546
Positive fair values from hedging derivatives	12,216	9,789
Liabilities		
Held-for-trading (HfT)	2,227	1,033
Financial liabilities at amortised cost	208,336	168,360
Negative fair values from hedging derivatives	13,843	10,736

38 Past due but not impaired assets

At 30 June 2009, the following amounts were noted by the group as being past due. However, no impairment provision was made against these assets as the bank does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur frequently in the normal course of business and do not, by themselves, impair the quality of the asset. The total investment in relation to the past due amounts have also been disclosed to put the size of the amounts in question into context.

LaR assets

LaR assets: past due but not impaired (due amounts) in € million		
	30.06.2009	31.12.2008
up to 3 months	129	13
from 3 months to 6 months	109	117
from 6 months to 1 year	40	27
from 1 year and over	42	13
Total	320	170

LaR assets: past due but not impaired (total investment) in € million		
	30.06.2009	31.12.2008
up to 3 months	1,226	443
from 3 months to 6 months	672	252
from 6 months to 1 year	259	53
from 1 year and over	157	80
Total	2,314	828

Carrying amounts LaR assets in € billion		
	30.06.2009	31.12.2008
Carrying amount of LaR assets that are neither impaired nor past due	204.7	165.1
Carrying amount of LaR assets that are past due but not impaired (total investment)	2.3	0.8
thereof: due amounts	0.3	0.2
Carrying amount of individually assessed impaired LaR assets (net)	2.0	0.8
Balance of portfolio-based allowances	0.5	0.4
Total	209.5	167.1
thereof:		
Loans and advances to other banks (incl. investments)	82.3	72.1
Loans and advances to customers (incl. investments)	95.0	69.9
Financial investments (gross)	32.2	25.1

Other Notes

39 Contingent liabilities and other commitments

Contingent liabilities and other commitments in € million		
	30.06.2009	31.12.2008
Contingent liabilities¹⁾	1,608	1,855
Guarantees and indemnity agreements	1,608	1,855
Loan guarantees	44	47
Performance guarantees and indemnities	1,564	1,808
Other commitments	3,351	5,289
Irrevocable loan commitments	3,316	5,232
Book credits	641	846
Guarantees	46	64
Mortgage and public sector loans	2,629	4,322
Other commitments	35	57
Total	4,959	7,144

¹⁾ In principle, the amount of contingent liabilities equates to the amount of contingent assets

The former Hypo Real Estate Bank Internatinal AG has overtaken with the announcement as of 2 January 2008 irrevocable and unconditional guarantees to fulfil all liabilities of Hypo Public Finance Bank, Dublin. By the fact that all shares of Hypo Public Finance Bank, Dublin were sold, the commitment was limited according the guarantee contract to all liabilities, which existed until the date of sale.

As of 3 July 2008, the former Hypo Real Estate Bank International AG guaranteed DEPFA Bank plc the loss of AAA rated CMBS with an amount up to US \$ 1.86 billion. This guarantee was assigned by DEPFA Bank plc to its subsidiary Hypo Public Finance Bank. The guarantee is constituted in a contingency, which arose at year end in accordance with the sale of Hypo Public Finance Bank puc to DEPFA Bank plc.

Both above mentioned guarantees were approved by the supervisory board of the former Hype Real Estate Bank International AG.

Deutsche Pfandbriefbank obligated itself to Hypo Real Estate Bank International LLC I, and to Hypo Real Estate Capital Hongkong Corporation Limited, Hong Kong, to support these companies in such a way that the companies are in a position to satisfy their financial obligations.

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

40 Key capital ratios (based on German Commercial Code)

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

41 Employees

Average number of employees		
	30.06.2009	31.12.2008
Employees (excluding trainees)	789	843
Apprentices	8	8
Total	797	851

Munich, 6 August 2009

Deutsche Pfandbriefbank AG

The Management Board

Dr. Axel Wieandt

Manuela Better

Dr. Kai Wilhelm Franzmeyer

Frank Krings

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Munich, 6 August 2009

Deutsche Pfandbriefbank AG

The Management Board

Dr. Axel Wieandt

Manuela Better

Dr. Kai Wilhelm Franzmeyer

Frank Krings

Review Report

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich --comprising the balance sheet, the income statement, the statement of comprehensive income, the condensed statement of changes in equity, the condensed cash flow statement and selected explanatory notes-- together with the interim group management report of the Deutsche Pfandbriefbank AG, Munich for the period from 1 January to 30 June 2009 that are part of the semi-annual financial report according to § 37w section 3 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 aspects, 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 aspects, 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.

Without qualifying our opinion we refer to the passages in the group management report concerning “Risks threatening the existence” [“Bestandsgefährdende Risiken”] as well as in the condensed notes under number two. There it is mentioned that the future existence of the Deutsche Pfandbriefbank AG as a going concern is dependent on the assumption that sufficient equity will be provided to the Deutsche Pfandbriefbank AG to avoid a situation of sustained over-indebtedness and, respectively, that sufficient equity will be provided to the Hypo Real Estate Holding AG being the superordinated institute of the group of companies to fulfil regulatory capital requirements. External liquidity support is necessary to avert insolvency due to illiquidity of the Deutsche Pfandbriefbank AG and its significant subsidiaries. These liquidity supports must be available until the Deutsche Pfandbriefbank AG is capable to raise sufficient liquidity on the money and capital market by itself, and until the agreed restructuring arrangements are implemented and the equity capital increase is performed as scheduled.

To ensure the future existence of the Deutsche Pfandbriefbank AG and its significant subsidiaries as a going concern it is thus particularly necessary that

- the German Finanzmarktstabilisierungsfonds provides sufficient support in form of equity capital to both the Deutsche Pfandbriefbank AG and the Hypo Real Estate Holding AG,
- the German Finanzmarktstabilisierungsfonds and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance,
- refinancing with sustainable conditions on the money and capital market occurs,
- the restructuring arrangements will be implemented as scheduled
- the appropriate authorities do not take regulatory actions, and

- no legal reservations (especially EU legal actions) will be successfully enforced.

Munich, 6 August 2009

KPMG AG

Wirtschaftsprüfungsgesellschaft

[original German version signed by:]

Dielehner
Wirtschaftsprüfer
[German Public Auditor]

Wiechens
Wirtschaftsprüfer
[German Public Auditor]