

Interim Report as of 30 June 2011

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This English version of the review report is a translation purely for information purposes of the German original, which is the legally binding version.

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Interim Management Report

1. Business activities and economic conditions

1.1. Macroeconomic conditions

As in 2010, during the first half of 2011 the debate at macroeconomic level was dominated by financial policy problems in a whole range of countries. After Greece and Ireland, Portugal, too, has now sought aid from the European Stability Mechanism. To avert a payment default, Greece received a further bailout in July, and private creditors are also being asked to contribute to the balancing of state budgets by restructuring their loans with lower interest rates and longer maturities. A new factor during the reporting period was the increasingly negative view taken of fiscal stability in the USA, despite the agreement to raise the US debt ceiling. Against this backdrop, all the major rating agencies have considered downgrading US bonds, and at the beginning of August US bonds were indeed downgraded to AA+ by Standard & Poor's (S&P), while Moody's put them on negative watch.

Contrary to fears in some quarters, the (global) economic impact of the tsunami in Japan in March 2011 was very moderate, despite the fact that the disaster broke international supply and production chains for a substantial period. Even the Nikkei index, which had been hovering around the 10,500 mark before the disaster, has now largely recovered from its low point of 8,605; it was heading back towards the 10,000 mark by the end of the reporting period, though since then it has slumped back towards the 9,000-point region.

The real economy has continued to recover from the collapse of 2009, albeit to differing degrees when viewed internationally. Growth has been particularly sluggish in countries facing fiscal problems touched on at the outset, with some of them, such as Ireland and Greece, even suffering negative trends. Meanwhile, Germany saw a return to the production levels reached before the crisis during the first half of 2011, and this went hand in hand with a further improvement in the labour market situation. The unemployment figure fell below the three million mark, with a rate of 7.0% as against an EU average of 9.5%. In contrast, the US unemployment rate remained stubbornly around the 9% mark.

The above-mentioned financial policy developments, coupled with these differences in real economic performance, contributed during the first half of the year to a marked increase in the euro's value against the US dollar, though here, too, movements were volatile.

In contrast, the Swiss franc rose massively against the euro during the reporting period, a development precipitated by the debt crises in both the eurozone and the USA.

1.2. Sector-specific economic conditions

The banking industry In the countries that enjoyed economic growth, the lending volume increased during the first half of 2011 for the first time since the outbreak of the financial crisis. Despite this, the difficult situation in Greece weighed down on the entire banking industry. Continuing pressure from the rating agencies on those European countries on which the spotlight had once again turned, to wit Portugal, Ireland, Italy and Spain, led to further strain on many bank bond portfolios. Meanwhile, due to the equally problematic situation facing the US government budget, many institutional investors have reduced their holdings of US treasuries. The entire industry is looking for ways to improve its capital adequacy so that it will be able to meet future Basel III requirements. As a consequence of the financial crisis, many American banks in particular are faced with criminal cases or private settlements with investors holding secured real estate loans, and in some instances have already had to pay significant sums in damages.

Financing the public sector Against a backdrop of government debt crises and an appraisal of the major disparity in the current credit ratings of different eurozone countries, the market in public debt has undergone a radical structural transformation.

Credit checking conditions have changed significantly. Although public debt continues to be regarded as a low-risk, popular investment class, in the wake of the sovereign debt crisis evaluations of the risk posed by individual debtors have become a good deal more sensitive.

Nevertheless, overall demand for public debt remains stable mainly due to the fact that the leading banks that

have withdrawn from the market have been replaced by other investors, among them regional banks.

In the Hypo Real Estate (HRE) Group's strategic core markets, local and regional banks have taken on the main role in financing the public sector with a particular focus on health care, education, culture and sport. Additional prospects are opening up due to the growing demand for investment in public infrastructure, such as to expand public transport or for environmental projects.

In Germany, margins have stabilised at an enduringly low rate. However, stronger distinctions are being made between different credit ratings, a trend that can be expected to persist in light of the as-yet-unresolved financial problems facing German cities and municipalities, leading to increasing differentiation. Until 2010 the financing of public projects was largely determined by the conditions of the federal government's economic stimulus package, whereby investments eligible for subsidy were given short-term preference, whereas public-private partnership (PPPs), where injections of public money have been found to take a long time to bear fruit, were postponed. Since then, the role of PPPs in public financing has once again increased, albeit only slightly.

In France, margins recovered during the first half of 2011 due to greater restraint from individual local market participants, while demand in Spain was limited by the 2010 ban imposed on Spanish local authorities to take out any new debt. Despite this, the margins on direct transactions with the more solvent Spanish regions and other public-sector enterprises, measured in terms of their fundamentals, remain very high. Given that the follow-up financing that Spain will need has yet to reach its peak, we can assume that margins will remain at historic highs. In Italy, the adjustment of the maximum interest rates permissible for loans to local authorities and regions also spelt higher margins than in 2010. All in all, during the first half year most EU governments were pressing ahead with their efforts to consolidate.

Refinancing markets A major feature of the international refinancing markets during the first half of 2011 was the proliferation of covered bonds. In January alone over €40 billion of covered bonds were issued, the highest-

ever volume for a single month. The bulk of the bonds issued were successfully placed in the market, but their subsequent highly variable performance reflects investors' sense of insecurity in the face of the enduring sovereign debt crisis.

The trend towards covered bonds has been further reinforced by the continuing debate over the possible participation of private creditors in the restructuring of government paper in conjunction with the introduction of the new bodies of regulations (Basel III for banks and Solvency II for insurance companies). In general, however, investor confidence in the securitisation market remains low, so that no significant recovery was discernible during the first half of 2011 and unsecured issues have proven to be significantly harder to place in the capital markets.

Influenced by high levels of issuance activity on the international capital markets, the private placement market for German banks got off to a weak start, with investors preferring public placements due to their liquidity and risk premium, while also endeavouring to geographically diversify their portfolios.

1.3. Group- and company-specific economic conditions

1.3.1. Principle events

Liquidity The liquidity of Hypo Pfandbrief Bank International S.A. (HPBI) is guaranteed by DEPFA Bank plc, Dublin, (DEPFA).

European commission proceedings On 18 July 2011 the European Commission approved the Federal Republic of Germany's state aid for Hypo Real Estate (HRE). The European Commission decision relates to all elements of the subsidies given to HRE since autumn 2008, including the capitalisation, guaranteed lines of credit and transfer of asset positions to the winding-up agency FMS Wertmanagement AöR (FMSW), while also envisaging corresponding compensatory measures by HRE, in particular the reduction of the Deutsche Pfandbriefbank Group's balance sheet total, a process that is already well on its way to completion.

Both Deutsche Pfandbriefbank and the DEPFA subgroup or its companies and/or loan portfolios will have to be sold in the short term, and steps to demerge the units of

the DEPFA subgroup from HRE's other companies are already under way.

Until their reprivatisation, DEPFA subgroup companies must refrain from any new business activities, with the exception of measures designed to retain value and ensure the efficient management of the cover assets, as well as action required in compliance with supervisory law or on other legal grounds, in particular in connection with risk and refinancing management. Companies of the DEPFA subgroup are also free to continue furnishing services for FMSW after 30 September 2013.

A further condition imposed by the European Commission for its approval of the state aid package is the meeting in full of the €1.59 billion payment obligation stipulated by the Bundesanstalt für Finanzmarkt-stabilisierung (Federal Agency for Financial Market Stabilisation – FMSA) to prevent distortion of competition in connection with resorting to the winding-up agency. This payment obligation requirement will entail a subsequent adjustment to the purchase prices of HRE companies that have transferred assets to FMSW. The FMSA has now implemented this payment obligation requirement imposed on individual HRE subsidiaries through its ruling of 11 August 2011 and modified ruling of 18 August 2011, whereby HPBI is required to disburse €27 million in two tranches during September 2011.

1.3.2. Company-specific economic conditions

General During the European Commission's investigation of the Financial Market Stabilisation Fund (Sonderfonds für Finanzmarktstabilisierung – SoFFin) aid package for the HRE Group, HPBI refrained from any new loan business or issuing activities.

In the first half of 2011 HPBI's main focus was on securing constant liquidity and reducing the portfolio in order to boost revenues. HPBI's refinancing now consists predominantly of Lettres de Gage (LdG), as well as the unsecured refinancing necessary to satisfy the cover asset solvency requirements, which is procured predominantly via the parent company DEPFA. In addition, participation in central bank tender operations was possible due to the high quality of the remaining assets.

Ratings During the first half of 2011 and until 5 August 2011, HPBI's bank ratings remained unaltered. However,

the ratings of the LdG changed as follows:

S&P reduced its rating of the HPBI LdG from AA to AA–, removed its 'CreditWatch negative' warning and issued a stable outlook.

The European Commission's approval of the state aid for the HRE Group had no direct impact on HPBI's ratings. The rating methods applied mean that the ratings of DEPFA subgroup banks currently benefit from such factors as the links between DEPFA and FMSW due to the transfer of assets and DEPFA's consequent provision of services for FMSW. Given current circumstances we feel that the best possible ratings have been achieved for these banks.

The current ratings of HPBI and the LdG are set out in the Table below:

**Issuer ratings and ratings for the HPBI LdG
(as of 5 August 2011)**

		Standard & Poor's ¹
HPBI	Long-term rating	BBB
	Outlook	Stable
	Short-term rating	A-2
LdG		AA-

Changes in accordance with company law In line with the Bank's Articles of Association and Rules of Procedure, during the first half of 2011 HPBI's board of directors held several meetings and engaged in correspondence in which they deliberated on events requiring reporting and took corresponding decisions. Among the main issues addressed were the approval of the 2010 annual financial statements, HPBI's strategic prospects and further portfolio reduction options.

The Annual General Meeting on 14 April 2011 appointed Thomas Glynn to the board of directors with immediate effect, while the mandates of all other board members were duly extended for a further year.

The directors kept the local supervisory authority, Commission de Surveillance du Secteur Financier (CSSF), Banque Centrale du Luxembourg (BCL) and the external auditors and trustees fully and promptly informed of all developments within the Group and HPBI.

2. Economic report

2.1. Operating results

The table below sets out the movements of individual income statement items during the reporting period from 1 January to 30 June 2011:

Profit and loss account in tabular form			
in thousand €		30.06.2011	30.06.2010
Net interest income		5,353	5,650
Net commission result		-121	-1,644
Net income from financial transactions		-127	300
Personnel costs	-658		-646
Other administration expense	-1,702		-1,322
Write-downs of tangible fixed assets	-59		-61
Administrative costs		-2,419	-2,029
Other operating income/expenses		613	186
Operating result before provisions for risk		3,299	2,463
Profits/losses from investment		1	2
Operating result after provisions for risk		3,300	2,465
Taxes		-742	-314
Net profit for the period		2,558	2,151

Net interest income was €0.3 million down on the previous year, due to falling core business portfolios.

The commission result improved by €1.5 million over the same period in 2010 as a result of the absence of the charges previously paid for the SoFFin financing facilities, which totalled €1.4 million during the first six months of 2010.

The administrative costs rose by €0.4 million to €2.4 million. This increase was chiefly due to the higher costs of services provided by intra-Group companies.

Other operating income included releases from previous years' tax provisions totalling €0.5 million.

2.2. Assets

The HPBI balance sheet total on 30 June 2011 amounted to €4,273 million, down from €4,640 million on 31 December 2010.

Accounts receivable including securities totalled €3,227 million, down 11.6% from 31 December 2010 (€3,651 million).

The fall in accounts receivable mainly results from asset maturities during the reporting period.

Derivative financial instruments were only used to hedge against risks arising from market fluctuations.

All securities are assigned to the fixed assets and are valued according to the modified lower of cost or market principle, whereby assets do not have to be written down due to reductions in value deemed likely to be long-term in nature.

2.3. Finances

HPBI's capital structure as of 30 June 2011 remains solid. The company is capable of meeting all current obligations and the accounts payable show a balanced maturity structure.

The refinancing funds total €4,007 million, representing a further reduction of 8.1% from the 2010 year's end figure of €4,362 million.

During the first half of 2011 HPBI issued neither bearer nor registered public Pfandbriefe.

As of 30 June 2011 HPBI's balance sheet equity totalled €128.7 million, as against €126.1 million at the end of 2010.

Key figures required by bank supervisory law As of 30 June 2011 HPBI also registered solid capital adequacy figures

that meet the requirements of bank supervisory law. The liable equity capital on 30 June 2011 amounted to €179.1 million (end of 2010: €178.8 million), while the equity ratio (minimum 8%) on the same date was no less than 88.7%, and the core capital ratio was 71.92% (2010: 48.98% and 39.7% respectively).

Liquidity HPBI complied at all times with the liquidity ratio required by supervisory law. This figure states the liquid assets as a proportion of due liabilities. Liquidity is deemed sufficient provided at least 30% of due liabilities are covered by eligible assets. On 30 June 2011 HPBI had a liquidity ratio of 63.39% (2010: 65.71%).

3. Risk report

3.1. Risk management organisation, responsibilities and functions

HRE has established a cross-Group risk management and controlling system. All functions required by §25a of the German Banking Act (Kreditwesengesetz – KWG) in the field of standardised risk identification, measurement and limitation, as well as risk management, are prescribed centrally by HRE Holding. Their operational implementation, however, is the responsibility of the individual subsidiary banks.

Organisation and committees The executive board of HRE Holding is responsible for the cross-Group risk management system and takes decisions on all strategic matters and other key issues relating to the Group's risk management and risk organisation. All relevant criteria are clearly and systematically identified, analysed, evaluated, managed, documented and communicated, before being monitored on the basis of a clearly defined risk strategy that is revised annually.

The principle risk management system components for which the executive board is responsible are:

- Fixing, updating and communicating business and risk strategies to form the foundation for the business operations and risk-taking for all HRE units
- Fixing and updating organisational structures within the HRE, in particular those relating to risk management, to ensure the control and monitoring of all significant risks

- Assigning credit responsibilities to form the decision-making framework for overall credit processes
- Taking decisions on (portfolio) controlling activities outside the assigned responsibilities

HRE's risk management system is centrally organised. Alongside the executive board and the supervisory board, it also includes several committees that have been set up by the executive boards of HRE Holding and its subsidiaries. In view of their importance to HPBI, the following bodies should be mentioned at this point:

The composition and role of the HRE Risk Committee (RC), Credit Committee and Liquidity Committee (LC) have not changed significantly since the previous reporting date. Details thereof can be found in the Risk Report section of HPBI's 2010 annual report.

HRE's Asset and Liability Committee (ALCO) is chaired by the executive board member responsible for treasury and asset management. Its members are the chief risk officer (CRO), the chief financial officer (CFO), the managers of the treasury, finance, and risk management and control (RMC) departments, as well as the DEPFA executive board member responsible for the treasury. It meets monthly, and its remit comprises liquidity management, balance sheet structure management, fixing the intra-Group transfer prices and monitoring market risks and regulatory capital ratios.

DEPFA's ALCO fixes the liquidity and refinancing strategy decision-making terms of reference for the executive boards of DEPFA subgroup companies. To monitor compliance with the Group's terms of reference in relation to the above-mentioned parameters, HPBI has set up its own ALCO, which meets as and when necessary. The committee's members are the directors plus personnel from the treasury and RMC departments.

Apart from the above-mentioned committees, also relevant from HPBI's perspective are the following organisational units of the CRO, which form an integral component of the HRE Group's risk management system, into which HPBI is integrated:

- The RMC, which among other things is responsible for cross-Group market, counterparty, operational and liquidity risks, as well as for uniform cross-Group risk measurement methods, risk reporting and credit processes
- The Credit Officer Public Sector, Financial Institutions & Value Portfolio I, which have the remit of dealing with portfolio management and analysing selected new business

The unit within HPBI with responsibility for risk monitoring and reporting is organisationally part of the RMC and reports locally to the director responsible for the back office.

Risk strategy and policies The risk strategy is based on the business strategy and the outcome of the cross-Group financial planning process. It applies to HRE's business segments and legal units, and also forms the framework for the risk and business strategies employed by HRE's business segments, as well as for the cross-Group risk manual. The risk strategy was approved by the executive board of HRE Holding in December 2010 and updated in June 2011, and has been submitted to the risk management and liquidity strategy committee of the HRE supervisory board for their attention.

Within the Group's overall risk strategy, as part of the DEPFA subgroup HPBI applies the following risk strategy:

- Further portfolio or balance sheet total reduction through successive maturities of portfolio items, or if necessary through selective sales of securities

- There continue to be no plans for new issues of Pfandbriefe or increases in cover assets. However, should these prove necessary for legal or rating-related reasons, as part of the cover asset management selected papers will either be added to the cover assets or exchanged for other securities
- Monitoring the ratings of HPBI's LdG in conformity with Group terms of reference
- Safeguarding the refinancing and optimising its cost structure throughout the portfolio term
- Stabilising HPBI's staff numbers
- Strengthening HPBI's integration into the HRE Group and DEPFA subgroup, e.g. through migration to the SUMMIT trading system used by DEPFA (project HPBI Migration SUMMIT) and adapting the reporting systems used therein for Luxembourg

HRE's risk strategy is implemented in operational terms via risk policies for both the individual business segments and all major risk categories (counterparty, market, liquidity and operational risk). These policies describe in detail the risk measurement, monitoring and management, the limitation process and the escalation process in the event of exceeding a limit. They are regularly checked and are updated as and when necessary. These policies are supplemented by local HPBI-specific regulations, of which the most important are those contained in the risk manual, the risk and cover pool report manual, and the liquidity manual, which contains a detailed description of all relevant working processes and regular reports.

Risk reporting system In line with the Group's terms of reference and local guidelines, HPBI's RMC is responsible for the following tasks:

- Daily measurement and monitoring of market, credit, counterparty and liquidity risk, chiefly applying a value-at-risk (VAR) approach, as well as determining the economic results. To this end, profit & loss and risk reports, cover pool reports and liquidity reports are drawn up and submitted to local management, members of the HPBI board of directors, RMC Munich, RMC Dublin and also the local treasury, operations and accounting departments. The monitoring of credit and counterparty risks is outsourced to RMC Credit Risk. The BCL receives weekly reports on HPBI's cover assets and liquidity risk

- Weekly and monthly reporting of the most important cover asset key figures to the rating agency S&P
- Monthly preparation of the covered bond report, the maturity profile report and the total assets list for S&P, pbb AG's asset and liability management and the local treasury department
- Independent control of the risk and results measurement parameters
- Implementation of the monitoring systems prescribed by the central RMC department, in particular the internal capital adequacy assessment process (ICAAP). During the reporting period the liquidity risk report was augmented by a stress scenario and further improvements were made to the ICAAP reporting system
- Monitoring the risk-weighted assets (RWA) at portfolio level via stress tests designed to ensure that the core capital ratio does not fall below 10%, as required by Basel II
- Operational risk controlling via:
 - An improved limit system for counterparty and issuer risks, based on a standard application that has been tried and tested under market conditions, applying a uniform cross-Group risk measurement methodology
 - Intensive monitoring and management of individual counterparties
 - Evaluating the risk of loss via corresponding impairment triggers, as required by IAS 39

In addition to this regular reporting, special reports are prepared for management and the board of directors as and when necessary to deal with specific and acute risk factors.

Risk quantification, control and management With a particular view to determining the economic capital, the major risk categories other than liquidity risk are calculated using the VAR approach. The individual calculation methods are described in detail in the section of the Risk Report entitled 'Findings of the Risk-Bearing Capacity Analysis'.

Other risk categories regarded as significant in connection with the regular internal risk inventory, such as strategic, regulatory and model risks, as well as ones viewed as intangible, such as pension, investment and real estate risks, are not measured quantitatively but monitored and limited via regular detailed reports and clear terms of reference (such as the compliance and corporate governance provisions).

HPBI controls its risks at book and individual transaction level by:

- Monitoring risk-bearing capacity on the basis of a comparison of HPBI's economic capital with its aggregate risk cover, taking stress test results duly into account. Risk quantification via ICAAP and the corresponding stress testing is outsourced to Deutsche Pfandbriefbank AG's risk capital RMC, which performs this task for the Group as a whole

Economic capital and monitoring risk-bearing capacity HRE Group has established a risk-bearing capacity analysis system based on ICAAP.

The evaluation of internal capital adequacy is founded on the concept of economic capital. The methodology for calculating economic capital takes into account both supervisory law requirements (Basel II, Pillar 2, and the German minimum risk management requirements – Mindestanforderungen an das Risikomanagement – MaRisk) and the bank's business activities. HPBI itself is also subject to the specific provisions of Luxembourg supervisory law derived from Basel II, Pillar 2 (see for instance circulars CSSF 07/301, 06/273, 08/338 and 09/403), which prescribe adequate internal capitalisation.

Economic capital is defined as the volume of capital needed by a bank to absorb the largest potential unexpected overall loss with a defined probability over a time horizon of one year. The Risk Report section of the 2010 annual report gives detailed grounds for applying a confidence level of 99.95%.

The specific individual methods of calculating the VAR for the various risk categories are explained in detail in the section entitled 'Findings of the Risk-Bearing Capacity Analysis'. As is standard within the industry, economic capital is not calculated in relation to the liquidity risk, but liquidity risk is nevertheless taken into account in the stress scenarios.

In calculating HRE's capital adequacy, the level of economic capital is tallied against the financial resources available to the bank, i.e. the aggregate risk cover, over a period of one year. The definition of available aggregate risk cover for one year involves industry-standard components such as the balance sheet equity according to IFRS, and also equity-like components such as subordinated and hybrid capital with a holding period of at least one year. These components are able to cushion potential losses and maintain an adequate risk buffer. The aggregate risk cover must at all times exceed the economic capital.

Based on ICAAP, the largest risk category (measured in terms of economic capital and without taking liquidity risk explicitly into account) is counterparty risk, to which 58% of the undiversified economic capital is apportionable.

The results of the capital adequacy testing procedure and the stress tests are submitted at regular intervals to senior management (e.g. the HPBI board of directors), which then decides on any necessary control measures.

3.2. HPBI's measurement, control and management of the principle risk categories

Risk categories In its business activities HPBI distinguishes between the following principle risk categories:

- Counterparty risk
- Market risk
- Liquidity risk
- Operational risk
- Business risk

Economic capital is calculated for all risk categories other than liquidity risk. However, liquidity risk scenarios are taken into account, such as in connection with risk-bearing capacity stress tests both at HRE Group level and at HPBI level.

The other major risk categories, which are not quantified but are limited via suitable reporting, terms of reference and policies, are:

- Strategic risk
- Reputation risk

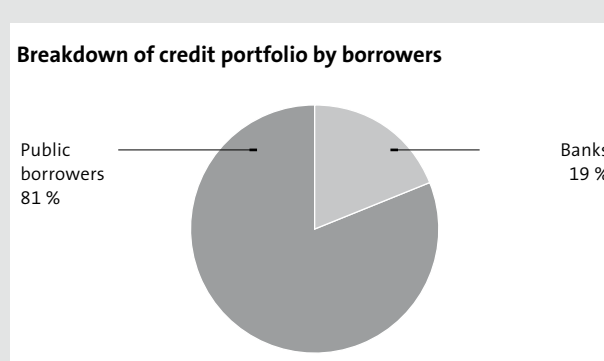
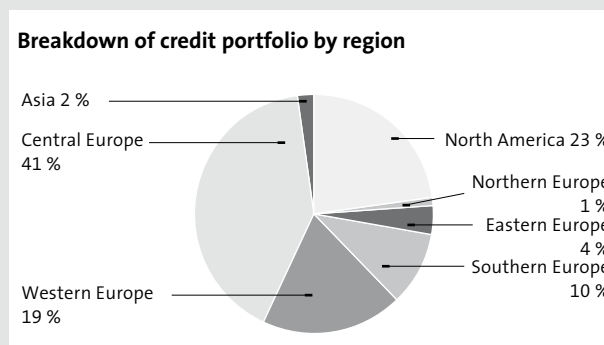
- Regulatory risk
- Model risk

3.2.1. Counterparty risk

Definition The reader is referred to the in-depth discussion in the Counterparty Risk section of the risk report contained in HPBI's 2010 annual report.

Credit portfolio by regions and sectors Credit risks are apportionable almost exclusively to public borrowers and banks in OECD member states. Every single one of the counterparties, both individually and in aggregate online, is entitled to exhaust all lines of credit available to it on a market value basis.

As of 30 June 2011 the credit portfolio is broken down as follows:



Origin and management of counterparty risks The reader is referred to the in-depth discussion in the Counterparty Risk section of the risk report contained in HPBI's 2010 annual report.

Controlling country risks The reader is referred to the in-depth discussion in the Counterparty Risk section of the risk report contained in HPBI's 2010 annual report.

Counterparty risk quantification via both the economic capital and risk-weighted assets pursuant to Basel II

Credit portfolio model To calculate the counterparty risk economic capitals (= counterparty VAR), HPBI uses a credit portfolio model that is described in detail in the section entitled 'Findings of the Risk-Bearing Capacity Analysis'.

Stress tests The counterparty risk economic capital stress tests are discussed in detail in the section entitled 'Findings of the Risk-Bearing Capacity Analysis'.

Counterparty risk economic capital As part of the HRE risk-bearing capacity analysis, a credit portfolio model covering a period of one year and applying a confidence level of 99.95% is used to calculate the potential cost of the unexpected loss of the credit portfolio, i.e. the counterparty VAR. The figure arrived at to 30 June 2011 was €37 million (as compared with €41 million on 31 December 2010), a figure that does not take into account diversification effects to other risk categories. Details of the calculation are given in the section entitled 'Findings of the Risk-Bearing Capacity Analysis'.

3.2.2. Market risk

Definition The reader is referred to the discussion in the Market Risk section of the risk report contained in HPBI's 2010 annual report.

Controlling, monitoring and measuring market risk The reader is referred to the discussion in the Market Risk section of the risk report contained in HPBI's 2010 annual report..

Market VAR movements On 30 June 2011 the VAR in relation to interest rate risks was €3.7 million (31 December 2010: €3.2 million), and for currency risks €0.7 million (31 December 2010: €0.8 million). No limits were exceeded during the reporting period.

Findings of the stress tests conducted every six months in compliance with CSSF Circular 08/338 of 19 February 2008:

On 30 June 2011 the interest rate risk-related potential cash value change for HPBI in the event of a yield increase of 200 basis points was €-14.0 million and in the event of a yield decrease of 200 basis points €23.0 million (31 December 2010: €-13.4 million and €23.6 million).

HPBI is not exposed to any other market risks such as share risk or inflation risk.

Market risk quantification via economic capital

Economic market risk capital To calculate the economic market risk capital to be considered by the risk-bearing capacity analysis, the market VAR is scaled both over a one-year period and at a higher confidence level (up from 99% to 99.95%). On 30 June 2011, the economic capital for market risks, without taking into account diversification effects to other risk categories, was €26 million (31 December 2010: €18 million).

3.2.3. Liquidity risk

Definition The reader is referred to the discussion in the Liquidity Risk section of the risk report contained in HPBI's 2010 annual report.

Organisation of liquidity risk controlling The reader is referred to the discussion in the Liquidity Risk section of the risk report contained in HPBI's 2010 annual report.

Monitoring liquidity risks The internal limit system stipulates that the expected incoming and outgoing payment streams over each of the following five days, as well as any possible liquidity-generating occurrences – to wit the liquidity position – must as a minimum be in balance. This is determined on a daily basis, applying conservative safety discounts (haircuts), as well as being monitored by RMC and reported to the directors and the Group units responsible for risk monitoring. However, we were unable to meet these requirements on a number of days during the reporting period. The reason for this was our very short-term refinancing through overnight transactions via DEPPFA, as well as the effects of transfers between cover assets and repo transactions, particularly in the context of the more stringent rating requirements imposed by S&P, and also the highly conservative assumptions in relation to the haircuts on ECB-eligible securities.

For a discussion of further core elements of the daily liquidity report we refer the reader to the in-depth discussion in the Liquidity Risk section of the risk report contained in HPBI's 2010 annual report.

During the reporting period our daily liquidity reporting was refined as follows:

- Calculation of the value of free, ECB-eligible paper is now based on the catalogue of tenderable paper and their haircuts, as published each day by the ECB.
- The stress tests stipulated before transferring positions to the FMSW are currently being revised. An initial important step in this direction is the implementation of a stress scenario based on a historic simulation that examines the impact on the HPBI liquidity position of a sudden additional need for liquidity due to collateral calls.

In procuring short-term liquidity, HPBI was only occasionally (and predominantly only during the above-mentioned periods) dependent upon tender operations with the BCL, repo transactions and unsecured loans taken out via DEPFA.

Liquidity position movements and forecast liquidity needs

The cumulative liquidity position over a 12-month period in the base scenario, as calculated during the course of the liquidity risk measurement on 30 June 2011, amounted to €125 million (31 December 2010: €-217 million). In light of this HPBI's current liquidity situation may be rated as comfortable. However, the extent of future liquidity needs depends upon the following external factors:

- Future developments as regards discounts on securities in relation to repo financing on the market and tender operations with BCL
- Possible additional collateral requirements as a result of changes to market parameters such as interest rates and foreign currency exchange rates
- Changing requirements imposed by the S&P rating agency regarding the necessary excess cover provided by the cover assets

3.2.4. Operational and business risk

Definition The reader is referred to the discussion in the Operational Risk section of the risk report contained in HPBI's 2010 annual report.

Organisation of the operational risk management The reader is referred to the in-depth discussion in the Operational Risk section of the risk report contained in HPBI's 2010 annual report, as well as to the Risk Strategy and Policies section (in particular, the initiatives mentioned therein may be expected to counteract the operational risks inherent in decoupling HPBI from the HRE Group and DEPFA subgroup system landscape and the associated lack of backup options in the event of encountering difficulties).

In line with uniform cross-Group terms of reference, operational risk incidents continue to be recorded in decentralised fashion in the Loss Database. During the first half of 2011 HPBI reported two such incidents, neither of which led to any loss.

3.3. Findings of the risk-bearing capacity analysis

Economic capital by risk categories in million €	30.06.2011	31.12.2010	Change
Counterparty risk	37	41	-4
Market risk	26	18	8
Operational risk	1	1	—
Business risk	—	—	—
Total before diversification effects	64	60	4
Total after diversification effects	59	56	3
Aggregate risk cover	139	143	-4
Excess cover (+)/cover shortfall (-)	+80	+87	-7

Quantification of operational risk via the economic capital

The economic capital for operational risks on 30 June 2011 amounted to €1 million (unchanged from 31 December 2010).

Economic capital by risk categories

Excluding diversification effects between the individual risk categories, HPBI's economic capital to 30 June 2011 amounted to some €64 million (31 December 2010: €60 million). Taking said effects into account reduces the figure to approximately €59 million (31 December 2010: €56 million). Changes in the result are discussed in greater detail in the individual risk category sections. Under the new regulatory requirements laid down by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin), the forecast results for the next 12 months can no longer be included in the aggregate risk cover (this is dealt with uniformly for the Group as whole). This largely explains the slight decrease in aggregate risk cover to approximately €139 million, from €143 million on 31 December 2010.

Applying the ICAAP model required by supervisory law, which determines a company's economic risk-bearing capacity, as of 30 June 2011 the economic capital buffer viewed over a one-year period came to some €80 million (31 December 2010: €87 million).

Based on ICAAP, the most important risk category (measured in terms of economic capital and without taking liquidity risk explicitly into account) is counterparty risk, to which 58% of the undiversified economic capital is apportionable.

In terms of economic capital, HPBI was adequately capitalised throughout the first half of 2011, in view of which its risk-bearing capacity was satisfactory at all times.

Methodology for the individual risk categories The economic capital for each risk category is determined using a quantitative approach and aggregated taking specific correlations with overall bank risk into account. Applying normal industry standards, the capital sums for each individual risk category are calculated over a one-year period to a confidence level derived from the target rating, in this case 99.95%.

Below, we discuss the methods used to calculate the economic capital for each individual risk category.

Counterparty risk To calculate the counterparty risk at portfolio level, HPBI uses a stand-alone credit portfolio model that follows an asset value model approach. The main thinking behind this approach is that forecasts of the probability of potential credit business losses can be made via the repeated simulation of correlated rating migrations and debtor defaults, as well as a calculation of the resultant changes in the value of the portfolio. The counterparty risk economic capital can then be derived as a VAR figure from the loss allocation thus arrived at, and this figure represents, to a confidence level of 99.95%, the maximum estimated unexpected loss that could be incurred within one year as a result of rating migrations and credit business defaults. Alongside the credit portfolio loss allocation, another important outcome of this process is the risk-adequate allocation of the counterparty risk capital thus arrived at to the individual debtor units according to the expected shortfall principle, which ensures allocation to debtors on a causal basis, thereby forming a key building block for the risk-oriented management of the credit portfolio.

Calculated on the basis of the credit portfolio model, on 30 June 2011 the economic capital for counterparty risks, to a confidence level of 99.95%, up to a one-year time horizon and disregarding diversification effects to other risk categories, was €37 million (31 December 2010: €41 million). The roughly €4 million drop was chiefly due to the almost complete disappearance of concentration and transfer risk.

Market risk The VAR used to monitor market risk, supplemented by the VAR figures for the equity books, is also used in calculating the market risk economic capital. To take into account both the higher confidence level and the one-year period used in calculating capital adequacy, the market VAR is scaled accordingly.

On 30 June 2011, the economic market risk capital over a one-year time horizon, and disregarding diversification effects to other risk categories, was approximately €26 million (31 December 2010: €18 million). This €8 million increase in market risk capital is chiefly due to rising interest rate risk.

Operational risk The standard approach laid down by Basel II was applied when calculating the operational risk economic capital. To calculate capital adequacy, the regulatory capital requirements were scaled up to bring them in line with the higher confidence level (99.95% rather than 99.9%).

As of 30 June 2011 the operational risk economic capital totalled €1 million (unchanged from 31 December 2010).

Business risk The economic capital is calculated from the following two components:

1. Outstanding income from new business

Since supervisory law prescribes that the aggregate risk no longer contains any forecast profits, this component of the business risk has become redundant.

2. Rising financing costs

Financing costs may increase due to either of the following two factors:

- Higher financing needs
- Increases in the unsecured refinancing rate

During the measurement of liquidity risk, each month certain market events leading to higher financing needs are simulated via the stress scenario. For the unsecured refinancing rate, an increase to the market's historic maximum credit spreads for the bank's own ratings is simulated. On precautionary grounds it is assumed that both events occur simultaneously.

Given this state of affairs, the first of the above two components was zero as of 30 June 2011. Furthermore, thanks to our very comfortable refinancing situation, the further decline stress scenario yielded a (positive)

liquidity buffer over the next 12 months, in view of which the second component also comes out as zero.

Liquidity risk The capitalisation of liquidity risk in the narrower sense is not standard industry practice. However, liquidity risk in the broader sense of increased refinancing costs is reflected in the business risk economic capital.

Stress tests Stress tests are used in relation to the economic capital in order to achieve a better understanding of the sensitivity of the results as compared with the risk parameters underlying the models. As tools to facilitate appropriate economic capital management, HPBI conducts stress tests for the following individual categories, each related to an isolated risk category

- Downgrading of the largest individual counterparties, measured in terms of economic capital
- Downgrading of the largest groups of counterparties (by regions and sectors), measured in terms of economic capital
- Stress tests of all counterparties' credit ratings (assuming downgrading by one rating grade)
- Stress tests of the collateral (assuming increases in loss given default rates (LGDs) by respective 10%-point amounts, assuming minimum LGDs of 40%)
- Interest rate risk stress test in compliance with CSSF Circular 08/338
- Stress test in which operational risk is realised as loss
- To calculate the business risk assuming the loss in relation to the refinancing scenario ensuing from the break-up of the EU

4. Future outlook

4.1. Macroeconomic outlook

An international comparison of growth forecasts for 2011 shows that they are more divergent than usual from one country to the next. Thus, for instance, German growth forecast is 3.4%, much the same as the figure for 2010. As a result, Germany has now surpassed the pre-crisis wealth creation level. In contrast, after

the decision to increase the USA's debt limit, coupled with massive cuts, US growth prospects appear decidedly shaky, and a return to recession is viewed as possible. Growth in the European Union's economic output is estimated at 1.8%, the same figure as for the eurozone. Meanwhile, the crisis in Greece is expected to be further exacerbated by a forecast fall of 4.5% in the country's gross domestic product.

Caution continues to be called for given the risks posed by the financial markets. This is all the more so given the situation facing the government finances in some European countries and the USA, as outlined in the discussion of the macroeconomic situation.

Fears of inflation prevalent in 2010 can be expected to deepen in the near future. Forecast eurozone inflation for 2011 as a whole is currently 2.6% (Germany 2.4%), but the rate is then expected to subside through 2012. However, it should be noted that in some sectors and countries industrial capacity is now being fully utilised, as a result of which the potential for price rises has largely been used up already. At 2.5% the 2011 US consumer price inflation forecast is at a similar level, despite massively expansionary monetary and financial policies.

4.2. Sector-specific outlook

Overall situation for the banking industry Despite the prevailing instability, the economic upturn remains robust in many European countries, with Germany and France being very much in the fore in this respect. However, if the current debt crisis were to grow into a full-blown currency crisis, this would further exacerbate market instability. Accordingly, the banking industry will continue to be dogged by uncertainty during the second half of the year, and will consequently be aiming to increase liquidity, while favouring low-risk investments.

Financing the public sector Since the onset of the sovereign debt crisis in 2010, financial markets have become ever more sensitive to financial policy risks. The financial markets were evaluating the specific budgetary figures of the individual national economies, thus placing the various countries' financial policy risks centre stage. Particularly in Europe, this increased focus has induced all national economies – not just the ones in the spotlight due to their deficits – to take steps both to consolidate their budgets and to publicise the fact that they are doing so.

Due to the size of its economy, the focus on Spain has been particularly sharp, and in response the Spanish government has announced additional consolidation measures and labour market reforms. France and Great

Britain have also taken budget consolidation measures, and the British emergency budget was in general well received. France has taken similar steps to curb its rising indebtedness and protect its AAA rating. Meanwhile, after Spain, the rating agencies and financial markets have turned a highly critical eye on Italy, which has responded by approving a massive package of cuts to ease its budgetary situation.

Three of the most severely affected national economies can now only refinance themselves at significantly higher interest rates, and are dependent on multilateral financing from the International Monetary Fund, coupled with EU financing assurances, to secure their liquidity and solvency. The impact of additional rescue measures involving private creditors for other countries in the spotlight cannot currently be foreseen.

Refinancing markets During the second half of 2011 the refinancing markets will continue to be in thrall to the sovereign debt crisis, and this will mean enduring uncertainty for market participants, with no let up in the trend towards covered bonds. In light of this, future issues of uncovered bonds can be expected to be viewed more critically given current talk of private creditor involvement in guaranteeing sovereign debt and the prospect of new regulations.

Banks that had not previously issued covered bonds are increasingly joining the bandwagon, and we see a clear trend in this direction even among banks based in countries with no special legislation applying to covered bonds, such as Australia and the USA.

Accordingly, the Pfandbrief will remain the refinancing instrument of choice for special banks and the importance of covered financing will remain high.

4.3. Group- and company-specific outlook

4.3.1. Group-specific economic conditions

Forecasts of HRE's future performance represent estimates based on the information available at the present time. If the assumptions on which the forecasts are based are not borne out, or if the risks outlined in the risk report prove to be greater or smaller than calculated, then the actual outcomes could diverge significantly from current expectations.

Continuation of trading On 18 July 2011 the European Commission approved the Federal Republic of Germany's state aid for HRE, subject to certain conditions. The European Commission's favourable decision was also an acknowledgement of the sustainability of Deutsche Pfandbriefbank AG's business model as a real estate financing special bank and public investment financing.

Future operating results, finances and assets HRE registered a profit during the first half of 2011. However, the size of the profit was positively influenced by one-off effects such as gains from the redemption of liabilities. As things currently stand, the executive board anticipates a profitable 2011 and a generally positive result. However, in line with the 'burden sharing' condition imposed by the European Commission ruling, any profits will be retained by the subgroup Deutsche Pfandbriefbank until reprivatization, when they will be used to repay the money invested by the Federal Republic of Germany. Between the date on which the €1.59 billion payment obligation stipulated by BaFin has been met in full and eventual privatization, the DEPFA subgroup will be required to pay annual fees to the Federal Republic of Germany under the burden-sharing arrangement. The precise form of these payments will be regulated by a contract between the DEPFA subgroup companies concerned and the Federal Republic of Germany.

The new business volume during the first half of 2011 lay within expectations. Throughout 2011 HRE expects to conclude new business in the fields of real estate financing and public investment financing up to a total value of some €8 billion.

The balance sheet total during the first half of 2011 fell significantly due to the diminishing counterbalancing effects of the transfer of positions to FMSW. The extent of these counterbalancing effects can be expected to continue decreasing in the future, with changes of debtors via innovations in relation to further instruments. In addition, FMSW will become increasingly independent in refinancing terms and thus will no longer need HRE as a conduit for funds. Any further reduction of the balance sheet total is shrouded in uncertainty and would not be solely determined by HRE. Furthermore, market-induced effects such as changes in the exchange

rate and market interest rates could affect the balance sheet total.

Opportunities The progress of the operating results, finances and assets since the transfer of assets to FMSW, as well as their expected future performance, serve to highlight HRE's potential.

The conclusion of the approval procedure is a further milestone in the restructuring and realignment of HRE, opening up opportunities outlined over the following paragraphs.

The conclusion of the EU's state aid investigation will increase security for clients and lenders of outside capital, making it somewhat easier for HRE to conclude deals.

On top of this, now that the realignment process is largely complete and projects such as the EU state aid issue have been successfully concluded, HRE is in a position to concentrate fully on its clients and core lines of business. The focus here will be on public investment financing, as well as real estate financing in selected target markets.

HRE has great experience in the Pfandbrief market, and will be able to draw on that experience more fully now that the EU state aid investigation is over, as it does so building on existing client relationships. Due to their high quality and stable maturity profile, the Pfandbriefe are less susceptible to market distortion, so HRE is falling back on a financial instrument that continues to be highly sought-after in the capital markets. Furthermore, since mismatching refinancing maturities have now largely been eliminated, liquidity gaps have become a great deal less likely.

HRE's market circumstance improved during the first half of 2011. Despite the fact that market uncertainty remains high, due for instance to the excessive levels of sovereign debt facing some countries, the performance of the relevant markets can essentially be viewed as positive. For instance, real estate financing is benefiting from a resurgence in transaction volume, while at the same time some of our rivals have been forced to withdraw from the market or to concentrate on specific regions. In light of these developments, and given HRE's

in-depth market and product knowledge, as well as its existing client relationships, opportunities are bound to present themselves for HRE to conclude low-risk new business deals offering attractive margins. Meanwhile, our existing business will also yield transaction opportunities, as the profits from the redemption of liabilities during the first half of 2011 have demonstrated.

A project is currently under way to demerge the Deutsche Pfandbriefbank and DEPFA groups. This demerger will make the two subgroups easier to separate and give them more independent market presences, thus boosting their chances of successful reprivatisation.

Risk Future pressure on the operating results, finances and assets position cannot be ruled out, however. The extent of these potential pressures will be most critically influenced by whether and the extent to which the risks discussed below come to fruition.

To ensure that the stabilisation measures will have a neutral effect on the competitive situation, FMSA instructed HRE to make a payment obligation of €1.59 billion, and the European Commission made its approval of the state aid received conditional on this FMSA requirement being met in full. This payment obligation will have a significant effect on HRE's finances but does not jeopardise its continuing existence.

Although the situation has improved in some respects, various individual markets are still jittery and the overall economic situation remains uncertain, as a consequence of which significant write-downs of accounts receivable cannot be ruled out. Depending on the specific properties involved, this could impact on our real estate financing operations. Furthermore, the high fiscal deficits of some states make refinancing difficult and, in some cases, impossible without external aid, in view of which it is likely that some countries will be unable to meet their interest and repayment obligations. If this happens, significant write-downs on securities and loans will be necessary.

HRE's image has suffered in recent years. Despite the successes achieved since re-entering the market we cannot rule out the possibility that this factor will have a negative impact on future business and client relation-

ships. This could lead to HRE failing to meet its loan and refinancing new business targets, to the detriment of the operating results, finances and assets position. Both current and impending future legal disputes could also have a significant effect on HRE's results.

HRE has launched projects designed to optimise its IT processes and infrastructure. The corresponding expenditure will be charged to administrative expenses. Despite these projects, HRE is exposed to operational risks arising from its restructuring, for instance its dependency on key positions, technology risks due to the multiplicity of booking systems and risks associated with increased employee turnover. These risks could also have an impact on the service obligations taken on by HRE in relation to FMSW's ongoing operations, and could eventually lead to significant losses.

The government has imposed additional levies and taxes designed to prevent future financial market crises. The action already taken and possible future strengthening of these measures could have a negative impact on profits.

The strengthening of domestic and international supervisory requirements could affect HRE's assets and liabilities structure, to the corresponding detriment of profits. For instance, the increased liquidity requirements promulgated by the Basel Committee on Banking Supervision (Basel III) could curtail profitability, as could more stringent equity requirements. Furthermore, regulatory and economic ratio requirements already in force could be impacted on, which for example demand an increase in capital adequacy.

The EU credit rating agencies regulation passed in September 2009 stipulated that external ratings could in future only be used by banks in calculating their capital requirements if the rating agencies in question were duly registered in the EU and supervised by the competent supervisory authority. Furthermore, if said agencies produce ratings outside the EU, the relevant third-country regulatory system must comply with European standards. Currently, the registration of the rating agencies Fitch Ratings, Moody's and Standard & Poor's is still in progress, as is the evaluation of the regulatory standards of various third countries. If registration were to be refused or third-country regulatory

systems rejected, this could have negative consequences for HRE's financial situation as it would entail the need to increase the level of equity capital recognised under supervisory law.

4.3.2. Company-specific situation

HPBI is a well-capitalised and operationally profitable public sector financier that has hitherto been integrated into HRE's business model. Currently, HPBI is a wholly owned subsidiary of the DEPFA Group, forming part of the value portfolio reporting segment, whose focus is on the management and value-preserving reduction of portfolios. Within the framework of this strategy, HPBI is likely to be involved in transactions such as the following:

- Restructuring existing loans for value-retention or value-adding purposes
- Liquidity management transactions
- Asset swaps in connection with the risk strategy
- The sale of loan portfolios
- Any transactions necessary for the management of the cover assets
- Any derivative transactions necessary to manage the value portfolio's interest, currency and credit risk positions
- Any transactions necessary to comply with legal, regulatory or other requirements on HPBI, including overcollateralisation requirements in relation to the cover assets

The HRE restructuring plan, which has now been implemented and essentially approved by the European Commission, focuses centrally on simplifying the Group structure, a process now well on its way to completion, and concentrates on business for which cover can be provided. As far as possible this implementation process anticipated the European Commission's instructions. The restructuring process has entailed a virtual halving of HPBI's balance sheet total. After the successful transfer of assets to FMSW on 1 October 2010, HPBI has pursued and will continue unaltered to pursue its own strategy in conformity with the overarching HRE strategy. The extent of the reduction in the balance sheet total that this may bring in its wake remains shrouded in uncertainty, however, and is in any case not entirely under HPBI's control. A further aim of this strategy is to facilitate the incipient process of bringing about the possible strategic repositioning of HPBI in

response to the instructions laid down by the European Commission in relation to HRE, for which process the transfer of assets to FMSW was an important first step. In addition, various projects have been launched with the aim of more closely integrating HPBI into HRE and DEPFA's prospective new IT infrastructure system during the course of 2011 and 2012.

The vast majority of HPBI's refinancing operations take place in tandem with its parent company, and as a result HPBI's fate will for the foreseeable future be dependent on the development of HRE. In 2011 the bulk of the unsecured refinancing HPBI needs is being obtained via DEPFA.

Given the risks and opportunities facing the Group and HPBI, as outlined above, it is difficult to reliably forecast future trends regarding HPBI's operating results, finances and assets.

- As things currently stand, the board of directors nevertheless expects 2011 operations to remain profitable despite forgoing any new business, leading to a slight profit
- 2011 assets will be hit by the €27 million one-off payment obligation required in connection with the stabilisation measures
- The huge fiscal deficits some states are running could make refinancing significantly harder, and we cannot rule out some countries being unable to meet their interest payment and repayment obligations. In this event, significant write-downs on securities could prove necessary, which would hit our financial assets result particularly hard. Despite this state of affairs, the board of directors and senior management do not see any current grounds for making specific allowances for bad debts

The board of directors of HPBI is confident of the company's continuing existence.

Luxembourg, 2 September 2011

Dr. Matthias Achilles	John Cox
Director Member of the board of directors	Director Member of the board of directors

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Interim Accounts

Balance Sheet as of 30 June 2011

Assets			
in €		30.06.2011	31.12.2010
Cash in hand, balances at central banks and post check offices		309	428
Treasury bills and other bills eligible for refinancing with central banks		130,000,000	155,000,000
Treasury bills and similar securities	130,000,000		155,000,000
Loans and advances to credit institutions		498,298,969	716,183,369
Municipal loans and loans guaranteed by public institutions	402,672,539		431,489,098
Other loans and advances	95,626,430		284,694,271
of which: payable on demand	95,626,430		278,671,323
Loans and advances to customer		204,033,247	248,295,707
Municipal loans and loans guaranteed by public institutions	204,033,247		248,295,707
Bonds and other fixed-interest securities		2,394,446,478	2,531,278,664
Public sector issuers	576,617,787		633,354,596
Other issuers	1,806,178,691		1,861,274,068
Own bonds	11,650,000		36,650,000
Property, plant, equipment		3,430	61,886
Other assets		708,816	78,730
Prepayments and accrued income		1,045,710,597	989,062,474
Total assets		4,273,201,846	4,639,961,258

Liabilities				
in €			30.06.2011	31.12.2010
Amounts owed to credit institutions			522,965,000	369,140,000
Issued public-sector registered Pfandbriefe		—		—
of which: with agreed maturity or periods of notice	—		—	
Other liabilities		522,965,000		369,140,000
of which: payable on demand	461,090,000			369,140,000
Amounts owed to customers			1,597,096,661	1,602,096,661
Other liabilities		1,597,096,661		1,602,096,661
Issued public-sector registered Pfandbriefe	1,597,096,661			1,602,096,661
of which: with agreed maturity or periods of notice	1,597,096,661			1,602,096,661
Debts evidenced by certificates			1,887,259,377	2,391,203,703
Issued bonds		1,887,259,377		2,391,203,703
Public-sector Pfandbriefe	1,887,259,377			2,391,203,703
Other liabilities			1,162,212	3,121,886
Accruals and deferred income			97,115,220	109,494,614
Provisions			4,992,508	4,851,766
Provisions for taxation		—		53,898
Other provisions		4,992,508		4,797,868
Subordinated liabilities			34,000,000	34,000,000
Subscribed capital			66,000,000	66,000,000
Offering premiums			15,000,000	15,000,000
Reserves			45,052,628	42,787,628
Profit for the reporting period			2,558,240	2,265,000
Total Liabilities			4,273,201,846	4,639,961,258

Profit and loss account for the period from 1 January to 30 June 2011

Expenses				
in €			1.1. - 30.06.2011	1.1. - 30.06.2010
Interest paid and similar expenses			113,936,686	160,812,547
Commissions payable			121,217	1,644,159
Result from financial business			127,271	—
General administrative expenses			2,360,470	1,967,475
Staff costs		658,391		645,709
of which: wages and salaries	554,383			535,675
of which: social security	86,049			70,868
of which: relating to pensions	54,620			49,599
Other staff expenses	17,960			39,166
Other administrative expenses		1,702,079		1,321,766
Depreciation and value adjustment in respect of intangible assets and property, plant and equipment			58,456	60,837
Other operating expenses			5,630	1,994
Depreciation and value adjustment in respect of loans and advances and provisions for contingent liabilities and credit risks			-809	—
Taxes on income from ordinary activity			741,757	314,376
Profit for the financial year			2,558,240	2,151,411
Total expenses			119,908,918	166,952,799

Income				
in €			1.1. - 30.06.2011	1.1. - 30.06.2010
Interest receivable and similar income			119,290,229	166,462,646
of which: from fixed-interest securities		35,167,719		83,740,170
Profit from financial business			—	300,021
Other operating income			618,689	187,812
Income from release of impairments on securities held as financial assets, on participating interests and shares in affiliated companies			—	2,320
of which: Profit from the sale of fixed-interest securities held as financial assets		—		2,320
Total income			119,908,918	166,952,799

Report on the Review of the Interim Financial Review and Financial Statements to 30 June 2011

Introduction We have reviewed the abridged interim financial review to 30 June 2011, comprising the balance sheet, income statement and notes for the period from 1 January 2011 to 30 June 2011 (the interim financial review) of Hypo Pfandbrief Bank International S.A. (HPBI). The preparation of the abridged interim financial review in conformity with the legal provisions and regulations prevailing in Luxembourg is the responsibility of HPBI's board of directors. Our remit is to furnish a report on the abridged financial review on the basis of our review.

Scope of the Review We conducted our review of the abridged interim financial review in conformity with the provisions of the International Standard on Review Engagements 2410 applicable to the review of interim financial reviews by the auditors, as well as the relevant provisions and pronouncements prevailing in the Grand Duchy of Luxembourg and also the professional standards and recommendations promulgated by the Institut des Réviseurs d'Entreprises (IRE). A review of interim financial information involves interviewing company employees, chiefly those responsible for the financial management and accounting, as well as analytical and other reviewing activities. The scope of such a review is considerably less extensive than that of an annual audit, and as a consequence it does not offer the same degree of certainty that we have considered all the factors that would have been identified by an annual audit. We have not conducted an audit and accordingly are not issuing an audit opinion.

Review Findings During the course of our review we did not become aware of any circumstances that would lead us to assume that the present abridged interim financial review to 30 June 2011 fails in any significant respect to comply with the legal provisions and regulations prevailing in Luxembourg.

Report on the Interim Financial Review The interim financial review, whose content is the responsibility of the board of directors, is in conformity with the abridged interim financial review.

Luxembourg, 2 September 2011

KPMG Audit S.à r.l.
Cabinet de révision agréé

W. Ernst

Assurance of the legal representatives

To the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting, the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company. The interim management report presents the development of business including the results and the situation of the company in such a way as to provide an accurate picture of the actual circumstances and to describe the main opportunities and risks of the probable development of the company in the remainder of the year.

Luxembourg, 2 September 2011

Dr. Matthias Achilles John Cox

Director	Director
Member of the Board of Directors	Member of the Board of Directors

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Notes

1. General comments

Hypo Pfandbrief Bank International S.A. (HPBI) was founded in Luxembourg on 27 July 1999 under its original name of Pfandbrief Bank International S.A. (PBI). On 14 September 1999 it was granted a licence to operate as a Pfandbrief bank (Banque d'émission de lettres de gage) under Luxembourg law by the finance minister of the Grand Duchy of Luxembourg.

HPBI was entered into the Luxembourg Commercial Register on 16 August 1999 as Number 71104 (Section B). The legal foundations for operating a Pfandbrief bank are laid down in articles 12–1 to 12–9 of the Luxembourg Financial Sector Act of 5 April 1993, as amended.

The bank was originally founded by Bayerische Hypo- und Vereinsbank AG (HVB) and its German Hypothekbank subsidiaries, each with equal capital shares, via a corporate holding structure.

After the restructuring of the HVB Group in 2003, HPBI became a subsidiary of the Hypo Real Estate Group. Since 31 March 2008 the bank has been wholly owned by DEPFA Bank plc, Dublin (DEPFA). The bank's subscribed capital is fully paid up.

Hypo Pfandbrief Bank International S.A. is integrated into the consolidated financial statements of Hypo Real Estate Holding AG, Munich (HRE Holding), as well as into the subgroup of consolidated financial statements of DEPFA. These statements are available at the headquarters of the respective companies.

2. Accounting policies

The interim financial statements to 30 June 2011 have been drawn up in compliance with the laws and regulations prevailing in the Grand Duchy of Luxembourg, and in particular with the act concerning the annual financial statements and consolidated financial statements of banks, dated 17 June 1992. The departures from the provisions of the act regarding the balance sheet layout are based on the recommendations made by the Commission de Surveillance du Secteur Financier (CSSF) concerning the annual financial statements of Pfandbrief banks. The interim financial statements have been drawn up on the assumption that the company will continue trading. However, the company's continuing existence remains under threat due to a series of risks, as discussed in subsection 4.3, Group- and Company-Specific Outlook, of the interim financial review.

In light of the support measures provided by the Financial Market Stabilisation Fund (Sonderfonds für Finanzmarktstabilisierung – SoFFin), the transfer of all HRE Holding shares to SoFFin as well as the action taken in 2010, HRE's current refinancing situation and the future opportunities discussed in the report, at the time of drawing up the interim report the management of HPBI is confident that HRE and the bank will indeed continue trading.

The capital currency is the euro (€).

The accounting policies applied in the previously published HPBI Annual Financial Statements have also been used here.

3. Disclosures relating to asset items

3.1 Presentation of assets as of 30 June 2011

Schedule of maturity	Government bonds eligible for refinancing with the central bank		Loans and advances to other banks (including cash at central banks)		Loans and advances to customers	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
in thousand €						
Due daily	–	–	95,627	278,671	–	–
Less than 3 month	–	50,000	24,853	42,011	–	–
More than 3 month and less than 1 year	–	–	92,843	23,993	41,421	50,000
More than 1 year and less than 5 years	105,000	105,000	214,976	206,534	137,759	126,319
More than 5 years	25,000	–	70,000	164,974	24,853	71,977
Total	130,000	155,000	498,299	716,183	204,033	248,296

On the balance sheet date, receivables payable on demand by banks did not include any significant credit balances with the central bank..

3.2 Details of receivables and bonds and other fixed-income securities with affiliated companies

in thousand €	30.06.2011	31.12.2010
Loans and advances to other banks	62,000	243,823
Bonds and other fixed-income securities	25,150	50,150
Total	87,150	293,973
Thereof own bonds	11,650	36,650

In accordance with Part XVI, point 24 of Circular 06/273, as amended by Circular 10/475, the CSSF has on request granted the bank permission not to include HRE's group-internal transactions when calculating the major credit risk ratio.

All receivables exempted from the major credit ceiling relate to Group companies, which are subject to the consolidated supervision of Hypo Real Estate Holding AG Group companies.

3.3 Overview of capital requirements in accordance with CSSF circular 06/273

in thousand€	Capital requirements
Capital requirements for receivables subject to the standard approach	
Loans and advances to credit institutions	3
Other assets	10
Capital requirements for receivables subject to the IRB approach, with own estimates of losses in the event of default and/or conversion factors (advanced IRB approach)	
Loans and advances to central administrations and banks	4,254
Loans and advances to credit institutions	5,199
Loans and advances as part of securitisation	2,979
Capital requirements for covering the currency risk	1,285
Capital requirements for covering the operational risk	2,423
Total	16,153
Liable Capital	179,104
Equity ratio (%)	88.70

3.4 Information on debtors and remaining terms

On the balance sheet date, accounts receivable, bonds and other fixed-income securities (after deduction of impairments) broke down as follows:

Remaining term in thousand €	≤ 1 year	> 1 year ≤ 5 years	> 5 years ≤ 10 years	> 10 years	Total
Banks					
Europe	373,744	200,640	671,517	-	1,245,901
Japan	46,968	-	-	-	46,968
Canada	14,118	-	-	-	14,118
South Korea	-	6,810	19,885	-	26,695
USA	6,164	3,824	-	-	9,988
Total	440,994	211,274	691,402	-	1,343,670
Public sector borrowers (excluding credit institutions)					
Europe	119,320	415,653	304,218	309,769	1,148,960
Canada	-	20,757	107,760	88,190	216,707
USA	4,318	9,667	4,593	498,864	517,442
Total	123,638	446,077	416,571	896,823	1,883,109
Grand total	564,632	657,351	1,107,973	896,823	3,226,779

3.5 Bonds and other fixed-income securities (after deduction of impairments)

in thousand €	30.06.2011	31.12.2010
Listed securities	2,139,418	2,256,755
Unlisted securities	255,028	274,524
Total	2,394,446	2,531,279

The value of the bonds and other fixed-income securities maturing within one year amounts to T€159,778.

On the balance sheet date, debt securities from European Union and European Currency Union member states that are authorised for refinancing purposes by a euro-zone central bank nominally totalled €1,383 million.

As in the previous year, all debt securities are assigned to the financial assets as of the balance sheet date.

The cumulative figure of accrued premiums to 30 June 2011 was T€1,450, while accrued discounts totalling T€1,888 were recognised. Redemption obligations from repurchase agreements to 30 June 2011 totalled T€61,875.

Impairments to the lower (i.e. market) value were recognised in relation to securities held on the financial investment portfolio with a nominal value of T€1,602,492 (market value T€1,494,826), given that no defaults or impairments of performance have yet occurred and that none are expected.

3.6 Other assets

Other assets totalling T€709 exclusively comprise entitlements to tax rebates.

3.7 Accruals and deferrals

This item essentially comprises interest accruals and discounts from issuing and lending operations, with the discounts in question amounting to T€676,583.

4. Disclosures relating to liability terms**4.1 Presentation of liabilities as of 30 June 2011**

Schedule of maturity	Liabilities due to banks		Liabilities due to customers	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010
in thousand €				
Due daily	461,090	-	-	-
Less than 3 month	61,875	-	-	-
More than 3 month and less than 1 year	-	369,140	12,000	5,000
More than 1 year and less than 5 years	-	-	100,000	112,000
More than 5 years	-	-	1,485,097	1,485,097
Total	522,965	369,140	1,597,097	1,602,097

On 30 June 2011 our liabilities from repurchase agreements due to credit institutions totalled T€61,875.

Securitised liabilities / Public Pfandbriefe	30.06.2011	31.12.2010
in thousand €		
Due daily	-	-
Less than 3 month	-	-
More than 3 month and less than 1 year	410,378	884,196
More than 1 year and less than 5 years	999,087	728,200
More than 5 years	477,794	778,808
Total	1,887,259	2,391,204

4.2 Details of liabilities due to affiliated companies or other group companies, by virtue of a participating interest

Liabilities totalling €395 million (31 December 2010: €320 million) towards affiliated companies arise from short-term money-trading transactions.

4.3 Other liabilities

The other liabilities to 30 June 2011, amounting to T€1,162, chiefly comprise payment obligations for IT services (T€856) plus due value added tax payments.

4.4 Accruals and deferrals

This item mainly comprises interest accruals and premiums.

4.5 Provisions

The other provisions recognised to 30 June relate to outstanding obligations towards affiliated companies in connection with ongoing service contracts totalling T€1,903, for personnel and for obligations towards third parties for audit costs, consultancy costs, etc. The T€1,839 provision formed in 2009 due to a long-term

liability in connection with the liquidity support furnished by the Federal Republic of Germany remained in place at the end of June 2011. On the same date the provision for restructuring measures as yet unused amounted to T€568.

4.6 Subordinated liabilities

On 28 December 2000 HPBI received a 'silent participation' of €9 million, the term of which was indefinite and the interest rate profit-related. As required by supervisory law, this was classified as Tier 1 Supplementary Capital. With effect from 1 January 2003 this silent participation was converted into subordinated debt, though its interest, term and supervisory law status remained unaltered. During the reporting period T€266 was charged to the income statement for interest payments.

On 18 May 2001 HPBI issued subordinate capital to a value of €15 million, and on 30 January 2002 raised this by €10 million to €25 million on the same terms and conditions. This subordinated capital is due for repayment in instalments from 18 May 2017 onwards, with the final repayment on 18 May 2026. Interest is being charged on it at a rate of 6.8% p.a. During the reporting period T€850 was charged to the income statement for interest payments in this respect. As required by supervisory law, this subordinated capital is classified as Tier 2 Supplementary Capital.

4.7 Equity

The subscribed capital totals €66 million divided into 66,000 registered shares of no nominal value.

Under Luxembourg's Trading Companies Act of 10 August 1915, each year HPBI has to allocate at least 5% of its net annual profit to a legal reserve until this is equal to 10% of the subscribed capital. This legal reserve may not be distributed. On the balance sheet date, HPBI held a legal reserve amounted to T€2,445 and a free reserve of more than T€42,608.

The Bank makes use of the tax option of offsetting its wealth tax burden, whereby a sum five times greater than the wealth tax burden has to be allocated to a special revenue reserve, with no distributions being payable from this reserve for a five-year period, that is until the associated wealth tax is no longer payable. The retained earnings thus include T€11,475 for the offsetting of wealth tax, and a corresponding allocation to retained earnings will once again be made in 2011.

5. Disclosures relating to off-balance-sheet items

HPBI carried out transactions in derivative instruments for purely hedging purposes in order to control assets and liabilities on the OTC market. No trading in derivatives took place. Essentially, derivative transactions with trading partners involved netting arrangements to reduce risk.

During the reporting period HPBI included in its cover interest and currency swaps a nominal net amount of €273 million. Agreements were entered into with the counterparties in question to regulate obligations to provide information and additional assistance. The process has been coordinated with the supervisory authorities and trustees.

As of 30 June 2011, the nominal volume of HPBI's open, off-balance sheet transactions amounted to €4,347 million, of which €2,921 million was with affiliated compa-

nies. To determine the counterparty risk generated by the derivatives, we calculated factors such as the gross replacement cost, which is arrived at by taking the sum total of all positive market values, without taking netting agreements into account. To 30 June 2011 the counterparty risk or maximum default risk thus came to €501 million, or 11.53% of the outstanding nominal volume.

Bearing in mind bank supervisory law criteria, whereby the add-ons and counterparty-related risk weighting also have to be taken into account in determining potential future risks, we arrive at a counterparty risk according to the market method for 30 June 2011 of some €42 million. HPBI will continue in future to apply stringent and active controls to ensure that counterparty risk remains within strict bounds. All counterparties involved in our derivative transactions are OECD banks.

in million €	Nominal Remaining term ≤ 1 year	Nominal Remaining term ≤ 5 years	Nominal Remaining term > 5 years	Total nominal values	Positive market values	Negative market values	Counter- party risks
Interest-related transactions							
Interest swaps (same currency)	660	566	1,596	2,822	139	188	-
Interest options - purchases	29	72	-	101	1	1	-
Currency-related transactions							
Currency swaps	597	-	-	597	-	-	-
Cross-currency swaps	-	497	331	828	361	-	-
Total	1,286	1,135	1,927	4,348	501	189	42*

*) Not allocatable due to netting agreements

The derivatives were used for hedging purposes only. The negative market values given above are counterbalanced by hidden reserves in the hedged underlying transactions.

6. Special disclosures

Cover fund statement for cover pool set up pursuant to articles 12-1 to 12-9 of the Luxembourg Financial Sector Act of 5 April 1993 The details given are limited to public-sector Pfandbriefe since no mortgage Pfandbriefe were issued. Derivative financial instruments to a portfolio value of €273,462,000 were in place as cover on the balance sheet date.

6.1 Cover fund statement for public Pfandbriefe

in thousand €	30.06.2011
Cover securities	3,159,899
Substitute cover	
Securities	45,400
Total Cover	3,205,299
Circulation	
Bearer securities	1,874,020
Registered securities	926,088
Total circulation (requiring cover)	2,800,108
Surplus cover	405,191

6.2 Further breakdown**6.2.1 Cover securities**

Ordinary cover in thousand €	30.06.2011
Loans and advances to banks	
Municipal loans or loans guaranteed by public sector bodies	402,673
Loans and advances to customer	
Municipal loans or loans guaranteed by public sector bodies	334,033
Bonds of public-sector issuers or other issuers guaranteed by public sector bodies	2,127,929
Covered public-sector bearer Pfandbriefe	21,802
Covered public-sector registered Pfandbriefe	-
Derivative products	273,462
Subtotal	3,159,899
Substitute cover	
Other loans and advances to banks	-
Bonds in accordance with article 42 (3) of the OGAW Act*	45,400
Total	3,205,299

* OGAW Act = Act implementing Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities

6.2.3 Present value statement of cover

in million €	Cover fund	Public Pfand- briefe ¹ requiring cover	Surplus cover	in %
Nominal	3,205	2,800	405	14.5
Present value ²	3,559	2,989	570	19.1
Present value, with a shift in the interest rate curve of				
+ 100 bp	3,346	2,810	536	19.1
- 100 bp	3,795	3,185	610	19.2

1 Lettres de gage publiques; 2 Calculated with the original credit spreads

6.2.2 Cover breakdown of municipal loans

Breakdown by size class 30.06.2011	Number	in thousand €
Up to €25 million	33	333,088
Up to €50 million	25	853,413
Up to €100 million	14	915,342
Over €100 million	8	1,103,456
Total	80	3,205,299

Breakdown by country	in thousand €	in %
Austria	614,452	19.2
Germany	497,881	15.5
USA	490,349	15.3
Switzerland	372,794	11.6
Spain	291,510	9.1
Ireland	232,107	7.2
Canada	216,706	6.8
Slovenia	80,000	2.5
International organisations	68,049	2.1
Great Britain	54,854	1.7
Italy	52,422	1.6
Japan	46,919	1.5
Finland	45,400	1.4
Belgium	38,347	1.2
Slovakia	29,000	0.9
South Korea	26,850	0.8
Poland	24,853	0.8
France	13,500	0.4
Luxembourg	8,303	0.3
Sweden	1,003	0.0
Total	3,205,299	100.0

38 **Board of Directors**

38 **Management**

38 **Réviseur Spécial**

Executive Bodies

Board of Directors

Cyril Dunne , Dublin Chairman	Member of the Board of DEPFA Bank plc
Stephane Rio , Soisy sur Seine	Member of the Board of DEPFA Bank plc
Markus Fels , Rosenheim	Head of Group Finance of Deutsche Pfandbriefbank AG
Thomas Glynn , Wilton CT, USA since 14 April 2011	CEO of DEPFA Bank plc
Dr. Matthias Achilles , Oberursel	Administrateur-Délégué
John Cox , Howald since 1 August 2011	Administrateur-Délégué

Management

Dr. Matthias Achilles , Oberursel	Administrateur-Délégué
John Cox , Howald	Administrateur-Délégué

Réviseur Spécial

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