



Interim Management Report 2008

Hypo Pfandbrief Bank International S.A. Interim Management Report 2008

Table of contents

Interim Management Report

- 04 | Business activity and general conditions
- 05 | Economic report
- 07 | Risk report
- 10 | Forecast report
- 11 | Other particulars

Interim accounts

- 14 | Balance-Sheet
- 16 | Profit and Loss account
- 18 | Report on Review of Interim Financial Information
Assurance from the legal representatives

Notes

- 21 | Notes

Executive bodies

- 29 | Executive bodies



Interim Management Report

1. Business activity and general conditions

1.1. General economic conditions The first half of 2008 was marked by rising oil prices. Whereas the price increase in the first three months amounted to 11.1 %, the second quarter saw an oil price increase of 33.7 %. This was accompanied by higher prices, in particular for other raw materials and food, which were reflected by a rise in inflation for consumers. According to provisional figures, inflation in the Eurozone during the period under review was at 3.7 %, but with an upward trend. For the first time since May 1992, inflation of the harmonised consumer price index for the Eurozone saw a 4 as the first figure – a premiere in the ten-year long history of the European Central Bank. The expected inflation in the Eurozone for 2008 is also now considerably above the ECB reference mark of 2 %, at 2.9 %. The Central Bank could therefore not avoid raising the key interest rate by a further 25 base points, effective from 9 July 2008. This rate had remained constant for over a year.

Even more noticeable increases in expected inflation have been reported from the USA (3.5 %) and Asia (3.9 %). Due to the ongoing banking crisis, which is affecting the US market in particular, as well as the poor economic situation, the recent relaxed monetary policy of the USA is unlikely to change.

In the meantime, the real economy is also beginning to show noticeable signs of an economic slowdown. This applies to Europe as well as the USA and the Asian region, and can be seen in the continued decline of all important stock market indices. However, Germany and Luxembourg are enjoying sustained growth in employment and thus are continuing to cut the unemployment figures.

1.2. Branch-specific conditions The general conditions on the money and capital markets continued to be difficult in the first half of 2008. The mistrust among the market participants remains; this can be felt particularly in the money market. Although the central banks have made additional tender facilities available through joint actions, this has not led to a significant relaxation of the money markets over longer terms (3 months or more).

Some spreads in the individual asset classes have expanded considerably, caused by the downgrade risk of ratings due to the troubled economic situation, but also due to the increasing pressure of offers from market participants who want or have to reduce their overall banking risk as a result of their own position in terms of equity capital.

The financial situation of public authorities has also deteriorated in the first half of 2008, with only a few exceptions. Due to declining rates of growth, the tax income of many European countries and the USA has declined. The repercussions of the crisis on the financial markets will continue to have a negative impact on public finances over the course of the remainder of the year. This will lead to additional borrowing on the capital markets, which will affect the spreads respectively.

A noticeable cooling of the economy can also be seen in countries outside of central Europe, with repercussions for the budgets of countries and communities.

The uncertainty on the money and capital markets has resulted in the fact that public bodies are increasingly borrowing through direct financing (budget financing). The financing of public projects within the framework of PPP transactions or using securitisation has been met with a more reserved approach.

1.3. Business conditions specific to the bank Hypo Pfandbrief Bank International S.A. reacted to the ongoing difficulties on the market by cutting back on new credit business and issues.

In the first half of 2008, the Bank concentrated on ensuring the availability of liquidity at any time. In this connection, Hypo Pfandbrief Bank International S.A. benefited from its good contacts on the interbank money market. In view of the high quality of its assets, the Bank was also in a position to satisfy the liquidity needs at any time within the framework of repurchase and tender transactions. Surplus liquidity was invested in the Group. The fact that Hypo Pfandbrief Bank International S.A. had set great stock in the past not only on the quality but also on the liquidity (Repo/ECB eligibility) of its assets paid off yet again.

With the takeover of DEPFA Bank plc by the Hypo Real Estate Group in the summer of 2007, the area of public financing sharply gained in importance within the Group as a whole. This will also have repercussions on the business of Hypo Pfandbrief Bank International S.A. In the first half of 2008, the integration of HPBI into the DEPFA subgroup was advanced further. It is particularly worth mentioning the close cooperation in the areas of liquidity management and capital market financing.

As a result of the high quality of the cover pool, public Pfandbriefe (lettres de gage publiques) of Hypo Pfandbrief Bank International S.A. continue to be rated AAA by the rating agency Standard & Poors. This rating was confirmed in April 2008. The counterparty rating for Hypo Pfandbrief Bank International S.A. was lowered by Standard & Poors to A (from A+) in July 2008 with a stable outlook. The short-term rating remained at A-1 with a stable outlook.

By transferring the business activities of the Hypo Public Finance Bank to DEPFA Bank plc as from 31 March 2008, DEPFA Bank plc became the sole shareholder. Hypo Pfandbrief Bank received a comprehensive guarantee from DEPFA Bank plc on 1 April 2008.

So far in 2008, the Board of Directors of Hypo Pfandbrief Bank International S.A. held one meeting and used two circular resolutions to discuss and decide on matters for which there is a reporting obligation under the Bank's Articles of Association and rules of procedure. This concerned in particular the approval of the 2007 annual accounts.

In the annual general meeting on 26 March 2008, Mr Bo Heide-Ottosen, Mrs Julia Hoggett and Mr Jim Ryan were appointed as new members of the Board of Directors. They succeeded Dr. Robert Grassinger, Mrs Heather Nesbitt, Mrs Orla Nicholson, Mr James Campbell and Mr Michael Schultheiss as members of the Board. Mr Hagen Schmidt and Mr Klaus Söllner were confirmed as members of the Board. Assigning new positions in the Board of Directors was an important step as part of the integration into the DEPFA subgroup. Mr Bo Heide-Ottosen was appointed chairman of the Board by the members of the Board of Directors.

The implementation of the new reporting regulations (FinRep/ CoReP) was a particular challenge for the first half of 2008. The bank was able to fulfil and complete all reportings and requirements on time and in the required format.

2. Economic report

Profit and loss account in tabular form			
in thousand €			
		30.6.2008	30.6.2007
Net interest income		7,625	6,878
Net commission income		-304	-223
Net income from financial operations		44	-1,019
Staff costs	-863		-935
Other administrative expenses	-1,165		-1,119
Depreciation in respect of property, plant and equipment	-23		-20
Administrative expenses		-2,051	-2,074
Other operation income/expenses		131	56
Operating result before risk provisions		5,445	3,618
Capital gains/losses in respect of investment holdings		0	450
Operating result after risk provisions		5,445	4,068
Taxes		-1,063	-892
Total		4,382	3,176

2.1. Development of the earnings position In the period under review, Hypo Pfandbrief Bank International S.A. continued to show a positive development of results, realising an after-tax profit of € 4.4 million, thereby exceeding the result in the same period of the previous year (€ 3.2 million) by 37.9 %.

An efficient liquidity management enabled the net interest income to be increased by 10.9 % compared to the previous year. The administrative expenses are at the same level as during the same period in the previous year (-1.1 %). The cost-income ratio was further reduced to 26.8 % (32.9 % in the previous year).

2.2. Development of the assets situation The balance sheet total for Hypo Pfandbrief Bank International S.A., as at 30 June 2008, amounted to € 10,194 million, compared with € 10,739 million as at 31 December 2007.

Loans and advances, including securities, amount to € 9,111 million. This represents a decrease of 5.7 % compared to 31 December 2007 (€ 9,666 million).

In the period under review, the Bank did not acquire nor dispose of securities or bonds. The decline is merely due to maturities. Derivative financial instruments were only used to hedge against risks arising out of market changes.

All securities of third-party issuers are assigned to the investment portfolio, where they are valued in accordance with the mitigated lowest-value principle. Value adjustments on account of foreseeable persistent declines in value did not have to be made. As at 30 June 2008, for securities in the investment portfolio with a book value of € 4,610 million, lower market values amounting to € 4,384 million existed. Of these value differences, € 132 million was attributable to changes in credit spreads. The remaining differences in value were covered by opposite interest rate derivatives positions.

In principle, market prices were used to value the securities. In the case of securities for which no active market was available (€ 1,206 million), the prices were derived from comparable actively traded securities.

2.3. Development of the financial situation The capital structure of Hypo Pfandbrief Bank International S.A. continued to be solid as at 30 June 2008; all current commitments can be met. The liabilities also exhibit a balanced maturity structure.

The refinancing capital amounts to € 9,808 million. This is a 4.8 % reduction compared to the previous year's end (€ 10,303 million).

Covered bearer and registered public sector Pfandbriefe (lettres de gage publiques) as well as subordinated funds were not issued in the first half of this year.

During the period under review, four issued Pfandbriefe for a nominal € 421.2 million (€ 444 million in the same period of the previous year) matured. A bearer Pfandbrief (volume of € 15.0 million) was repurchased before term and destroyed.

The limit of the commercial paper programme was utilised mid-year with € 10 million (previous year's end € 45 million). There was one new issue in EUR.

Balance sheet own capital as at 30 June 2008 came to € 114.0 million compared with € 106.7 million at the end of the previous year.

Banking supervisory data Also from the point of view of banking supervisory law, Hypo Pfandbrief Bank International S.A. showed a solid own capital endowment as at 30 June 2008. Eligible own capital (according to the new reporting regulations – CoREP) declined due to the increase in negative revaluation reserves from € 136.4 million (as at 31 December 2007) to € 128.6 million. The own-capital ratio (minimum 8%) stood at 14.9 % mid-year 2008; the core capital ratio was 11.0 %.

Liquidity Hypo Pfandbrief Bank International S.A. has at all times complied with the liquidity principles laid down by supervisory law. The relevant ratio is between the assets declared to be liquid and outstanding liabilities. Liquidity is deemed to be sufficient if the outstanding liabilities are covered by assets to the extent of at least 30%. For the Bank, this ratio stood at 41.9 % at the reporting date (previous year 40.7 %).

3. Risk report

3.1. Organisation, responsibilities and tasks As a member of the Hypo Real Estate Group, Hypo Pfandbrief Bank International S.A. is integrated into the methods/processes of the Group's risk identification, measurement, limitation, control and management. In this context and that of local rules, the Bank monitors risks independently. In that regard, major tasks lie with the risk control unit. This unit, which reports directly to a member of the management who is independent of portfolio and risk management, has kept pace with the Bank's growth and further developed the risk measurement and control systems accordingly in response to the constantly changing internal and external requirements. The main functions of this unit are:

- day-to-day risk measurement and monitoring of market, credit, counterparty, foreign exchange and liquidity risks, largely on the basis of the value-at-risk approach,
- daily determination of economic performance,
- independent monitoring of the parameters used to measure risk and performance,
- refinement and implementation of the control concepts

The continual improvements made to the measurement and control systems and the integration into the risk control system of DEPPFA Bank plc and the Hypo Real Estate Group mean that the Bank has a high-performance risk control.

In order to monitor and control individual risks, the Bank has set out corresponding report channels and control measures by which, not only the Bank's Management and Board of Directors, but also other levels of the Hypo Real Estate Group, are informed.

3.2. Risk measurement, control and management with respect to major types of risk in Hypo Pfandbrief Bank International S.A.

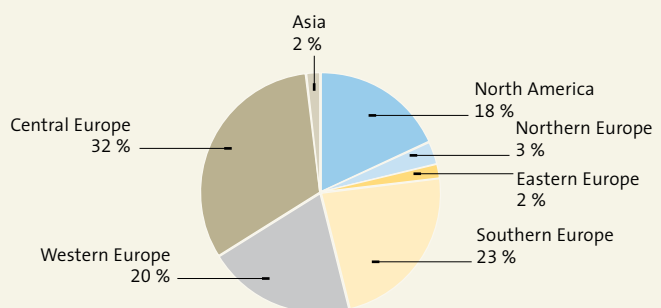
3.2.1. Address risks Address risks may be broken down into credit, counterparty, issuer and country risks and refer in each case to the potential loss of value which may arise in the event of the default or a decrease in

creditworthiness of borrowers, issuers of loans evidenced by promissory notes and securities or counterparties to money-market, securities and derivatives transactions.

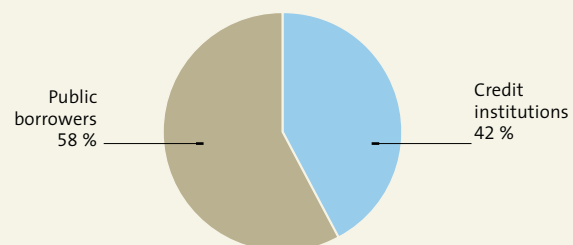
The Bank's exposure to credit risks is almost completely restricted to public-sector borrowers and banks in OECD countries. The utilisation of all credit lines is available for each individual counterparty, and also in aggregated form, online on a market-value basis.

The credit portfolio as at 30 June 2008 can be broken down as follows:

Breakdown of credit portfolio according to region



Breakdown of credit portfolio according to borrower



In the case of organisational measures and the functional separation of credit processes, not only is compliance with the legal conditions in Luxembourg ensured, but also the Bank, as a member of the Hypo Real Estate Group, acts in accordance with the German minimum requirements for risk management (MaRisk).

Counterparty risks designate possible losses in value of interest-rate and foreign-currency based derivatives and futures. Such transactions are concluded predominantly in order to hedge positions in the context of assets/liabilities management. The yardstick for counterparty risks used throughout the Group is a value-at-risk approach based on a market-valuation method using potential future replacement costs. Counterparty risks in derivatives, securities and money-market transactions exist with credit institutions, central banks and supranational institutions whose creditworthiness is to be regarded as above average according to the assessment of external rating agencies and in-house rating procedures. In order to reduce derivatives-based counterparty risks, the Bank uses framework contracts with its business partners which enable the contracts covered by the framework contract to be set against a net claim in the event that the counterparty does not fulfil its obligations (so-called close-out netting). In order to reduce the risk further, where appropriate, security agreements are concluded which may lead to the termination of transactions in the event that the counterparty does not comply with a request to provide security.

The Hypo Real Estate Group designates as country risk the risk of potential transfer and conversion problems with contracting parties based abroad. The risk consists in the possibility that a debtor which is in principle solvent and willing to pay will not be able to fulfil its payment obligations because it is not in a position to procure foreign exchange or to transfer assets to non-residents on account of state measures. Country risks are constantly monitored by risk control. Management of country risks by credit-risk management is carried out on the basis of country limits. Depending on the results of the in-house rating process of the Hypo Real Estate Group

- each individual country and

- groups of countries in specific rating corridors are assigned limits restricting business activities. All country ratings and country limits are checked at least once a year by the Hypo Real Estate Group's Risk Management Committee. In addition, in-house risk assessments are regularly checked against the assessments of the major rating agencies.

3.2.2. Market risk By market risk is meant the potential loss which may arise due to changing prices on financial markets as a result of altered market risk factors (namely interest, foreign exchange rates, volatilities). In this connection, as in the case of all banks belonging to the Hypo Real Estate Group, total lending business, all own issues, the securities making up the investment and liquidity provision holdings and all transactions in derivatives are taken into account.

In this context, a distinction is made between general and specific interest rate risks (spread risks). The former measure the possible changes in the present value of positions in the event of shifts in the risk-free interest curve (swap curve). The measurement of spread risks takes account of possible changes in present value in the event that the credit spreads factored in the prices of securities and derivatives alter.

At Hypo Pfandbrief Bank International S.A., as in all banks belonging to the Hypo Real Estate Group, currency risks are hedged as extensively as possible and therefore are present only to a slight extent.

For the purposes of the day-to-day quantification of market risk, Hypo Pfandbrief Bank International S.A. uses value-at-risk approaches. These determine a potential loss assuming a 10-day holding period of the position and a 99 % level of confidence. The period of consideration of historical data is 250 trading days. The value-at-risk is determined daily by local risk control and reported to Management, the Board of Directors and competent authorities of the Hypo Real Estate Group. With this system, the Bank is in a position at any time to manage the consequences of potential market fluctuations, in a timely manner and efficiently. The exposure to general interest rate risks was € 1.8 million as at 30 June 2008 and € 0.1 million for general currency risks, and thus on the same level as in the previous

year.

Risk measurement systems for credit spreads exist for all relevant positions in the Hypo Real Estate Group and are being continually improved and unified. The increased volatility of the spreads has caused the corresponding value at risk figure to strongly expand, although the structures and assets do not show any significant changes. However, as HPBI's business model generally holds positions until maturity (particularly for cover funds), this risk indicator only has limited significance.

The day-to-day determination, limitation and reporting of the value at risk and the present actual value changes are supplemented by regular stress testing. While the value-at risk measures the market risk for "normal" market fluctuations, the simulation of stress scenarios can also measure the potential changes in present value for extreme and extraordinary market movements, so that, in such an event, the continued existence of the company can always be guaranteed. Even in such circumstances, the measured market risk moved within the "normal limits".

The CSSF circular 08/338 of 19 February 2008 is planning a stress test for credit institutions and investment firms under Luxembourg law, to be carried out biannually – with the first test date on 30 June 2008. The interest scenario which is to be applied corresponds to an increase / decrease of all interest rates by 200 base points. For Hypo Pfandbrief Bank International S.A., the potential change in present value for general interest rate risks at the aforementioned interest rate increase was € -9.5 million and at the interest rate decrease € 10.8 million.

HPBI does not have any further market risks such as equity or inflation risks.

3.2.3. Liquidity risk The principal aim of controlling liquidity risks is to guarantee the Bank's unrestricted solvency at any time. In accordance with the in-house limit system, foreseeable incoming and outgoing payment flows and any liquidity-procuring measures, the so-called liquidity position, must be at least in balance at all times over the following five days. This position is determined daily on the basis of conservative precau-

tionary deductions ("haircuts"), monitored by risk control and reported to Management and the group authorities responsible for risk supervision. These criteria were complied with at all times. Furthermore, in order to be able to recognise short-term refinancing needs at an early stage, a liquidity preview extended to 90 days is produced independent of trading, which serves as the basis for active and foresighted liquidity policy. In addition, every day a liquidity status is determined on the basis of a rolling thirty-day horizon and reported. This covers all future payment flows, together with the liquidity potential arising out of securities not used for cover, and enables precise liquidity control to be carried out.

Hypo Pfandbrief Bank International S.A. has connections with a number of well-performing banks within and outside the Hypo Real Estate Group in order to meet short-term liquidity requirements.

3.2.4. Operational risk In the Hypo Real Estate Group, operational risk is defined as the danger of losses caused by erroneous in-house practices, human error, technological failure or external events. This definition includes legal risks. Strategic risks, reputation risks and general transaction risks are not included.

Since all areas of the Group may be affected by operational risks, the Group has implemented a framework complying with Basle II for the purpose of the uniform identification and control of such risks. The overarching group-wide framework includes the group policy for understanding and proactively engaging with this type of risk, together with roles and responsibilities and/or processes and instruments.

Identification, analysis and management come under the responsibility of the individual sectors of the Bank. Operational risk events are therefore compiled decentrally in the loss database in accordance with uniform group criteria. Hypo Pfandbrief International S.A. has not yet had such a case to report. In particular the decentralised assessment of key risk indicators is used to identify early indicators for potential sources of risk in the Group. In order to assess sector-specific operational risks and possible management measures, techni-

cally supported risk self-assessment is used.

4. Forecast report

4.1. General economic situation In light of the current macroeconomic situation – relatively high rates of inflation combined with distinct signs of an economic slowdown – the term stagflation is being used more commonly again recently. This is problematic, as in such a situation, monetary and fiscal policy has to decide whether to focus on combating inflation or stabilising the real economy. This will be a trial for the consensus on economic or stabilizing policy in the Eurozone in particular.

Production is less energy consuming than in the nineteen seventies, and so it could be expected that the most recent shock in oil prices could be better absorbed by the real economy. However, it is increasingly uncertain up to which energy price levels this robustness will be retained and particularly how high the prices are yet to go. Many areas have no option to switch to other energy sources in the short- or medium-term, and the potential for saving energy is limited.

Despite the expansive course of American monetary and fiscal policy, the International Monetary Fund is currently only expecting real growth of 0.5 % for the USA in the current year – and thus a pronounced economic cooling off. The expected growth figures for the Eurozone and Japan are slightly rosier at 1.4 %, but also considerably dampened compared to the two previous years.

4.2. Branch-specific situation The financial-market crisis which began in the summer of 2007 will accompany market participants still further into 2008. The decline in liquidity and the risk aversion of many market participants will lead to continuing persistence of spread volatility. This also affects the market for public financing, although how pronounced it will be will depend on the borrower and the structure of the financing.

In addition, States' need for funds will also increase in budget financing, since as a result of declining growth rates there is likely to be a tendency for public finances to deteriorate owing to falling tax receipts and possible expenditure on programmes for the stimulation of the

economy.

The trend for consolidation in the financial sector will continue to prevail and also have an effect on state financing. The trend towards larger providers with a comprehensive range of products and broad know-how base will continue.

4.3. Situation specific to the company Forecasts relating to the future development of Hypo Pfandbrief Bank International S.A. are estimates based on all the information that is currently available. Should the assumptions on which the forecasts are based be incorrect, or risks – as mentioned in the risk report – occur to a not calculated extent, the actual results could deviate from the results which are currently expected.

As a result of the takeover of DEPPFA Bank plc by the Hypo Real Estate Group in 2007, the public financing sector within the Group has been massively extended. This will be reflected in the business activities of Hypo Pfandbrief Bank International S.A. In this regard, the Bank will pay particular attention to the manifold opportunities afforded by the Luxembourg law on Pfandbriefe. In particular, the upcoming new law will open up new business opportunities for Hypo Pfandbrief Bank International S.A. The Bank intends to take advantage of these possibilities within the Group and as a member of the DEPPFA sub-group.

After the crisis on the capital and financing markets continued and in some cases worsened in the first half of 2008, it continues to be impossible to reliably assess the short term general conditions of the markets. The international financing markets remain fragile and in some areas only with limited functionality, if any. Against this background, further strain on the credit economy – and therefore also for Hypo Pfandbrief Bank International S.A. – cannot be ruled out for the coming quarters.

However, due to its business model, Hypo Pfandbrief Bank International S.A. is principally expecting a satisfactory result for the year 2008, on the same level if not above the result of the previous year, with an interest rate result above the previous year and a continuation of the constant low cost ratio.

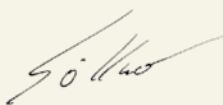
Despite the continuing crisis on the capital markets, the Board of Directors and the Management see no cause to undertake any value adjustments.

5. Other particulars

After 30 June 2008, the earnings situation continues to be in accordance with expectations.

Other events of particular importance for the assets, financial and earnings position of the last financial year did not occur after the closure of the first half-year.

18 August 2008



Klaus Söllner
Managing Director and
Member of the
Board of Directors



Hagen Schmidt
Managing Director and
Member of the
Board of Directors



Interim accounts

Balance-Sheet as at 30 June 2008

Assets			
in €		30.6.2008	31.12.2007
Cash in hand, balances at central banks and postal check offices		11,130,776	1,788
Treasury bills and other bills eligible for refinancing with central banks		522,032,538	532,258,376
Treasury bills and similar securities	522,032,538		532,258,376
Loans and advances to credit institutions		1,405,595,504	1,664,053,748
Municipal loans and loans guaranteed by public institutions	632,074,716		653,420,805
Other loans and advances	773,520,788		1,010,632,943
of which: payable on demand	64,308,190		70,308,864
Loans and advances to customers		262,910,917	289,444,180
Municipal loans and loans guaranteed by public institutions	262,910,917		289,431,680
Other loans and advances	0		12,500
Bonds and other fixed-interest securities		6,909,368,225	7,180,111,547
Public sector issuers	1,989,819,684		2,017,217,689
Other issuers	4,782,139,043		5,025,338,139
Own bonds	137,409,498		137,555,719
Property, plant and equipment		687,752	502,268
Other assets		57,905	59,550
Prepayments and accrued income		1,082,503,257	1,072,871,618
Total assets		10,194,286,874	10,739,303,075

Liabilities				
in €			30.6.2008	31.12.2007
Amounts owed to credit institutions			2,988,341,622	3,003,748,966
Issued public-sector registered Pfandbriefe		5,000,000		5,000,000
of which: with agreed maturity dates or periods of notice		5,000,000		5,000,000
Other liabilities		2,983,341,622		2,998,748,966
of which: payable on demand		69,115,867		148,509,190
of which: with agreed maturity dates or periods of notice		2,914,225,755		2,850,239,776
Amounts owed to customers			1,367,796,661	1,367,796,661
Other liabilities		1,367,796,661		1,367,796,661
Issued public-sector registered Pfandbriefe	1,367,796,661			1,367,796,661
of which: with agreed maturity dates or periods of notice	1,367,796,661			1,367,796,661
Debts evidenced by certificates			5,452,172,099	5,931,632,502
Issued bonds		5,442,172,099		5,886,632,502
Public sector Pfandbriefe	5,442,172,099			5,886,632,502
Other		10,000,000		45,000,000
Other liabilities			458,861	333,184
Accruals and deferred income			227,263,030	282,468,517
Provisions			5,850,727	5,301,403
Provisions for taxation		5,267,287		4,614,610
Other provisions		583,440		686,793
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			33,021,842	25,721,842
Result			4,382,032	7,300,000
Total liabilities			10,194,286,874	10,739,303,075

Profit and Loss account for the period from 1 January to 30 June 2008

Expenses				
in €			1.1. - 30.6.2008	1.1. - 30.6.2007
Interest paid and similar expenses			396,689,782	403,533,959
Commission payable			349,721	463,706
Result from financial operations			0	1,018,906
General administrative expenses			2,028,666	2,054,780
Staff costs		863,439		935,313
of which: wages and salaries	755,661			824,550
Social security	107,058			109,758
of which: relating to pensions	83,573			24,821
Other staff expenses	720			1,005
Other administrative expenses		1,165,227		1,119,467
Depreciation and value adjustment in respect of intangible assets and property, plant and equipment			22,970	20,494
Other operating expenses			1,569	52,287
Depreciation and value adjustment in respect of securities held as financial assets			4,150	1,041,288
Taxes on income from ordinary activity			1,062,677	892,073
Result			4,382,032	3,175,529
Total expenses			404,541,567	412,253,022

Income				
in €			1.1. - 30.6.2008	1.1. - 30.6.2007
Interest receivable and similar income			404,315,225	410,411,506
arising from fixed-interest securities		165,283,457		176,843,254
Result from financial operations			43,664	0
Commission receivable			45,400	240,924
Other operating income			133,128	109,018
Income in respect of write-backs of value adjustments in respect of securities held as financial assets, in respect of participating interest and shares held in affiliated companies			4,150	1,491,574
of which: profits from the sale of fixed-interest securities held as financial assets		4,150		1,491,574
Total income			404,541,567	412,253,022

Report on Review of Interim Financial Information

Assurance from the legal representatives

Report on Review of Interim Financial Information We have reviewed the accompanying condensed balance sheet of the Hypo Pfandbrief Bank International S.A. (“the Bank”), as at 30 June 2008, the related condensed statements of income for the six months period then ended, a condensed explanatory notes (the “interim financial information”), and an interim management report as at 30 June 2008. Board of directors is responsible for the preparation and presentation of this interim financial information in accordance with Luxembourg legal and regulatory requirements.

Our responsibility is to express a conclusion on this interim financial information and on the management report based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” as adopted by the Institut des Réviseurs d’Entreprises. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

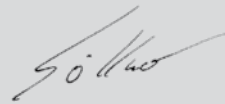
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information and the interim management report are not prepared, in all material respects, in accordance with Luxembourg legal and regulatory requirements.

Luxembourg, 18 August 2008
KPMG Audit S.à r.l. – Réviseurs d’Entreprises

T. Feld C. Brüne

Assurance from the legal representatives To the best of our knowledge, we confirm that the half-yearly accounts give an accurate representation of the true asset, financial and earnings situation of the company, according to the accounting principles for interim reports. The interim management report presents the business development, including the result and the situation of the company, in a way which conveys an accurate picture of the actual circumstances and describes the significant opportunities and risks of the anticipated development of the company during the course of the remainder of the financial year.

18 August 2008



Klaus Söllner
Managing Director and
Member of the
Board of Directors



Hagen Schmidt
Managing Director and
Member of the
Board of Directors

Notes

1. **General notes**
2. **Balance-sheet and valuation methods**
3. **Notes on the asset items**
 - 3.1 | Presentation of assets as at 30 June 2008
 - 3.2 | Presentation of loans and advances and/or bonds and other fixed-interest securities vis-à-vis affiliated companies
 - 3.3 | Overview of capital requirements in accordance with CSSF circular 07/273
 - 3.4 | Information regarding the credit/country risk
 - 3.5 | Bonds and other fixed-interest securities (after deduction of value adjustments)
 - 3.6 | Other assets
 - 3.7 | Prepayments and accrued income
4. **Notes on the liability items**
 - 4.1 | Presentation of liabilities as at 30 June 2008
 - 4.2 | Presentation of amounts owed to affiliated companies or companies, in which a participating interest is held
 - 4.3 | Other liabilities
 - 4.4 | Equity capital
 - 4.5 | Assets deposited as security for own liabilities
5. **Notes on the off-balance-sheet items**
6. **Other explanatory notes**
 - 6.1 | Staff
 - 6.2 | Items not denominated in the balance-sheet currency
7. **Asset overview**
8. **Special information**
 - 8.1 | Statement of cover assets for public-sector Pfandbriefe
 - 8.2 | Additional breakdown
 - 8.2.1 | Cover assets
 - 8.2.2 | Cover holding for municipal loans
 - 8.2.3 | Statement of cover assets in terms of present value
 - 8.3 | Accrued and deferred items
 - 8.4 | Redemption of own public-sector Pfandbriefe
 - 8.5 | Interest arrears

Notes

1. General notes

Hypo Pfandbrief Bank International S.A. (HPBI) was founded on 27 July 1999 in Luxembourg under its original name of Pfandbrief Bank International S.A. (PBI). On 14 September 1999, a licence to operate the Bank as a mortgage credit bank (banque d'émission de lettres de gage) under Luxembourg law was issued by the Minister of Finance of the Grand Duchy of Luxembourg.

The entry in the commercial register was made on 16 August 1999 under number 71104 (Section B). The legal basis for the operation of a mortgage credit bank is laid down in Articles 12-1 to 12-9 of the Law of 5 April 1993 on the financial sector (in its version in force at the time being).

The Bank was originally founded by Bayerische Hypo- und Vereinsbank AG (HVB) and its German mortgage bank subsidiaries, each with equal shares in the capital, under a holding scheme.

Within the framework of the reorganisation of the HVB Group in 2003, HPBI became a subsidiary within the Hypo Real Estate Group. Since 31 March 2008, all shares in the Bank are held 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 group accounts of Hypo Real Estate Holding AG, Munich, as well as into the subgroup accounts of DEPFA Bank plc, Dublin. The accounts are available at the registered offices of the respective companies.

2. Balance-sheet and valuation methods

The Bank's interim accounts as at 30 June 2008 have been drawn up in compliance with the rules in force in the Grand Duchy of Luxembourg, in particular the Law of 17 June 1992 regarding the annual accounts and the

consolidated annual accounts of credit institutions ("the Law"). The balance sheet and valuation methods of the 2007 annual accounts were used.

3. Notes on the asset items

3.1 Presentation of assets as at 30 June 2008

Maturity schedule	Treasury bills eligible for refinancing with central banks		Loans and advances to credit institutions (including central bank balances)		Loans and advances to customers	
	30.6.2008	31.12.2007	30.6.2008	31.12.2007	30.6.2008	31.12.2007
in thousand €						
Payable on demand	-	-	75,438	70,311	-	13
Up to 3 months	65,339	10,226	709,213	690,324	-	30,217
Over 3 months and up to 1 year	101,129	116,468	88,598	325,434	-	-
Over 1 year and up to 5 years	105,000	275,564	321,195	307,553	206,857	168,563
Over 5 years	250,565	130,000	222,282	270,434	56,054	90,651
Total	522,033	532,258	1,416,726	1,664,056	262,911	289,444

Loans and advances to credit institutions payable on demand include assets with central banks amounting to € 11,131 k (previous year: € 2 k).

3.2 Presentation of loans and advances and/or bonds and other fixed-interest securities vis-à-vis affiliated companies

in thousand €	30.6.2007	31.12.2007
Loans and advances to credit institutions	709,213	977,182
Bonds and other fixed-interest securities	200,683	200,829
Total	909,896	1,178,011
Of which own bonds	137,409	137,556

3.3 Overview of capital requirements in accordance with CSSF circular 07/273

in thousand €	Capital requirements
Loans and advances to central administrations and central banks	2,325
Loans and advances to regional and local governments	5,212
Loans and advances to public bodies	5,733
Loans and advances to institutions	30,225
Loans and advances in the form of covered bonds	5,132
Other loans and advances	58
Loans and advances from securitisations	18,271
Own capital requirements to cover the currency risks	258
Own capital requirements to cover the operational risk	1,881
Total	69,095

in thousand €	Exposure value (EAD)*	Risk weighted exposure amount (RWA)	Capital requirements
0 %	5,272,770	0	0
10 %	641,529	64,153	5,132
20 %	2,484,173	496,835	39,747
50 %	85,734	42,867	3,429
100 %	4,715	4,715	377
Loans and advances from securitisations	1,141	228,390	18,271
Own capital requirements to cover the currency risk	-	-	258
Own capital requirements to cover the operational risk	-	-	1,881
Total			69,095

*) EAD: basis for RWA

Notes

3.4 Information regarding the credit/country risk

Loans and advances and bonds and other fixed-interest securities (after deduction of value adjustments) are made up as follows as at the balance-sheet date:

Remaining maturity in thousand €	≤ 1 year	> 1 year ≤ 5 years	> 5 years ≤ 10 years	> 10 years	Total
	Credit institutions				
Europe	1,307,954	845,835	1,508,715	–	3,662,504
Japan	6,888	46,638	–	–	53,526
Canada	8,428	–	9,994	–	18,422
South Korea	–	25,089	26,280	–	51,369
USA	4,663	19,947	3,527	–	28,137
Others	–	–	–	–	17,700
Total	1,327,933	937,509	1,548,516	–	3,831,658
Public sector borrowers (not including credit institutions)					
Europe	533,241	780,414	909,255	1,354,416	3,577,326
Japan	17,281	42,282	–	–	59,564
Canada	25,672	57,501	23,047	175,479	281,698
South Korea	–	–	37,470	–	37,470
USA	6,320	3,565	17,478	1,269,840	1,297,203
Others	–	–	14,988	–	14,988
Total	582,514	883,762	1,002,238	2,799,735	5,268,249
Overall total	1,910,447	1,821,271	2,550,754	2,799,735	9,099,907

3.5 Bonds and other fixed-interest securities (after deduction of value adjustments)

in thousand €	30.6.2008	31.12.2007
Listed securities	6,156,496	6,379,839
Unlisted securities	752,872	800,273
Total	6,909,368	7,180,112

Bonds and other fixed-interest securities falling due within a year stand at € 655,474 k.

Bonds of a Member State of the European Union participating in the euro which are eligible for refinancing with a Central Bank of the Eurozone stand at a nominal amount of € 4,668 million as at the balance-sheet date.

The “Bonds” holding breaks down as follows:

in thousand €	30.6.2008	31.12.2007
Financial assets	6,771,959	7,042,556
Liquid assets	137,409	137,556
Total	6,909,368	7,180,112

As at 30 June 2008, the accumulated amount of apportioned premiums stands at € 3,542 k accumulated apportioned discounts are shown as € 4,764 k. Repurchase

commitments under repurchase agreements stand as at 30 June 2008 at € 1,397,715 k whereas € 650,000 k has been earmarked for tender.

No value adjustment to the lower price value has been effected for securities in the financial assets with a book value of € 4,609,784 k (previous year: € 3,549,192 k) in respect of a market value of € 4,383,700 k (previous year: € 3,438,410 k), since

- the fixed-interest securities in question have been hedged against interest risks by asset swaps. These hedging relations have been booked as a balancing unit. The effect of interest rate changes (€ -94,293 k; previous year: € -64,052 k) is counterbalanced by commensurate undisclosed reserves in corresponding hedging transactions.
- in the case of paper with negative changes in credit spreads (€ -131,791 k; previous year: € -46,730 k) to date no failure or default has occurred or is expected.

The market values shown herein are based on market prices or prices provided by brokers. In the case of securities for which no active market was available (€ 1,206 million), the prices were derived from comparable actively traded paper. The credit spreads resulting therefrom were monitored by the risk control unit.

3.6 Other assets

Other assets (€ 58 k) mainly consist of the outstanding claim arising out of foreign withholding tax.

3.7 Prepayments and accrued income

Prepayments and accrued income mainly consist of interest-rate accruals and premium and discount depreciations arising from the issuing and lending business. Discounts from the issue business stand at € 705,404 k.

4. Notes on the liability items**4.1 Presentation of liabilities
as at 30 June 2008****Maturity schedule**

in thousand €	Amounts owed to credit institutions		Amounts owed to customers	
	30.6.2008	31.12.2007	30.6.2008	31.12.2007
Payable on demand	69,116	148,509	–	–
Up to 3 months	2,555,647	2,613,313	–	–
Over 3 months and up to 1 year	358,579	236,927	–	–
Over 1 year and up to 5 years	5,000	5,000	142,700	112,700
Over 5 years	–	–	1,225,097	1,255,097
Total	2,988,342	3,003,749	1,367,797	1,367,797

Of the amounts owed to credit institutions, € 2,047,715 k arise out of repurchase agreements.

Debts evidenced by certificates as at 30 June 2008

in thousand €	Öffentliche Pfandbriefe	Andere	Total
Payable on demand	–	–	–
Up to 3 months	269,141	–	269,141
Over 3 months and up to 1 year	1,660,231	10,000	1,670,231
Over 1 year and up to 5 years	2,323,031	–	2,323,031
Over 5 years	1,189,769	–	1,189,769
Total	5,442,172	10,000	5,452,172

Debts evidenced by certificates falling due within a year amount to € 1,939,372 k.

**4.2 Presentation of amounts owed to affiliated
companies or companies, in which a participating
interest is held**

Amounts owed to affiliated companies consist of short-term money-market transactions amounting to € 858 million.

4.3 Other liabilities

Other liabilities (€ 459 k) as at the balance-sheet date predominantly consist of outstanding payments in respect of value added tax, income tax and social security contributions.

Notes

4.4 Equity capital

The subscribed capital amounts to € 66,000,000 and is divided into 66,000 registered shares with no par value.

Under the Luxembourg Law of 10 August 1915 on commercial companies, the Bank must allocate every year a sum equivalent to at least 5 % of its annual net profit to a legal reserve until such time as the reserve reaches 10 % of the subscribed capital. No distribution may be made from the legal reserve. As at 30 June 2008, there was a legal reserve of € 1,830 k and free reserves of € 31,192 k.

The Bank utilises the tax-credit option for the imputation of wealth tax against corporate tax, whereby five times the amount of wealth tax is deposited in a special profits reserve. No distribution of this reserve is possible for five years in so far as wealth tax is no longer to be finally paid. The reserves contain € 12,640 k for imputation of the wealth tax. Another corresponding allocation to the reserves will be made for the 2008 financial year.

4.5 Assets deposited as security for own liabilities

Assets of a nominal value of € 665,525 k have been deposited with the Central Bank as security.

5. Notes on the off-balance-sheet items

Transactions in derivatives are effected exclusively for hedging purposes as part of the Bank's assets/liabilities management on the OTC market. No trading operations involving derivatives were conducted. The Bank has, in principle, entered into netting agreements with its trading partners in the derivatives business with a view to reducing risks.

During the period under review, the Bank included, as cover, interest-rate and currency swaps amounting to € 159 million. It has entered into contractual agreements with the counterparties concerned to provide for the duties of information and other cooperation obligations. The procedure has been approved by the supervisory authority and the trustee.

At 30 June 2008, the nominal volume of outstanding off-balance-sheet transactions was € 9,260 million, of which € 5,010 million involved affiliated companies. The address risk arising from derivatives was deter-

mined, inter alia, on the basis of the gross replacement costs. These are calculated as the sum of all positive market values, not taking netting agreements into account. At 30 June 2008, the address risk thus defined (maximum risk of default) was € 246 million, or 2.7 % of the outstanding nominal volume. After netting agreements are taken into account, the address risk is reduced to € 241 million.

If, in accordance with banking supervisory criteria, add-ons and also risk weightings are taken into account for potential future risk, there is an address risk on the basis of the market-value method of € 48 million as at 30 June 2008. HPBI shall also in the future pay strict attention to ensuring that the counterparty risk is kept within tight confines through active management. Counterparties in the derivatives business are solely OECD banks.

in million €	Nominal amount Remaining maturity ≤ 1 year	Nominal amount Remaining maturity ≤ 5 years	Nominal amount Remaining maturity > 5 years	Total Nominal amount	Positive market values	Negative market values	Address risks
Interest-rate transactions							
Interest-rate swaps (same currency)	1,838	2,961	3,315	8,114	111	281	–
Interest-rate options – purchases	35	107	59	201	1	1	–
Other interest-rate contracts	–	–	–	–	–	–	–
Foreign exchange transactions							
Currency-swaps	102	–	–	102	–	1	–
Cross-Currency-Swaps	63	214	566	843	134	17	–
Total	2,038	3,282	3,940	9,260	246	300	48*

*) on account of netting agreements not being apportionable

Derivatives were concluded only for hedging purposes. As against the negative market values shown above, there are corresponding undisclosed reserves in the hedged underlying transactions.

6. Other explanatory notes

6.1 Staff

The average numbers of staff employed until 30 June 2008 were as follows:

Management, including heads of departments 3,0
Other staff: 13,8

At 30 June 2008, the Management was comprised of two persons. There were another 15 employees on the staff.

6.2 Items not denominated in the balance-sheet currency

The total amount of assets in foreign currency (not including euro currencies) is € 2,621 million. At 30 June 2008, liabilities in foreign currencies came to € 2,922 million. These items are almost fully hedged by currency and interest/currency swaps.

7. Asset overview

in thousand €	Acquisition costs	Accruals financial year	Disposals financial year	Depreciation financial year	Accumulated depreciation	Residual cost 30.6.2008	Residual cost 31.12.2007
Office and business equipment	918	208	0	-23	-438	688	502
of which: IT equipment	817	208	0	-16	-364	661	469
Investment securities	7,042,556	2,819	-273,416	-	-	6,771,959	7,042,556
Total	7,043,474	3,027	-273,416	-23	-438	6,772,647	7,043,058

8. Special information

Statement of cover assets held in accordance with Articles 12-1 to 12-9 of the Law of 5 April 1993 on the financial sector

The information is confined to the presentation of public-sector Pfandbriefe. No mortgage-backed Pfandbriefe were issued. Derivative financial instruments with a total value of € 158,997 k were used for cover as at the balance-sheet date.

8.1 Statement of cover assets for public-sector Pfandbriefe

in thousand €	30.6.2008
Cover assets	6,107,586
Substitute cover assets	
Securities	45,400
Bank balances	370,000
Total cover	6,522,986
In circulation	
Bearer securities	5,301,060
Registered securities	678,438
Total circulation (requiring cover)	5,979,498
Excess cover	543,488

8.2 Additional breakdown

8.2.1 Cover assets

Standard cover	30.6.2008
in thousand €	
Loans and advances to credit institutions Municipal loans or loans guaranteed by public institutions	663,204
Loans and advances to customers Municipal loans or loans guaranteed by public institutions	733,814
Bonds of public sector issuers or guaranteed by public institutions	4,359,487
Covered public-sector Pfandbriefe	192,084
Derivatives	158,997
Subtotal	6,107,586
Substitute cover assets	
Other loans and advances to credit institutions	370,000
Bonds pursuant to article 42 (3) of the UCITS Act	45,400
Cash	
Total	6,522,986

Notes

8.2.2 Cover holding for municipal loans

Breakdown according to orders of magnitude			30.6.2008
in thousand €		Number	
Up to 25 million €		67	815,589
Up to 50 million €		41	1,413,092
Up to 100 million €		32	2,058,932
Over 100 million €		13	2,235,373
Total			6,522,986

Breakdown by country	in thousand €	in %
USA	1,229,322	18.8
Austria	1,149,734	17.6
Germany	981,447	15.1
Spain	508,903	7.8
Ireland	474,554	7.3
Switzerland	423,518	6.5
Canada	283,531	4.4
Italy	261,317	4.0
International organisations	169,382	2.6
Great Britain	162,610	2.5
Portugal	158,000	2.4
Finland	145,982	2.2
Japan	112,207	1.7
France	105,000	1.6
Belgium	101,986	1.6
Slovenia	80,000	1.2
South Korea	62,589	1.0
Luxembourg	60,784	0.9
Poland	18,685	0.3
Sweden	10,920	0.2
Czech Republic	9,515	0.1
Slovakia	8,000	0.1
Lithuania	5,000	0.1
Total	6,522,986	100.0

8.2.3 Statement of cover assets in terms of present value

in million €	Cover fund	Public sector Pfandbriefe* requiring cover	Excess cover	in %
Nominal value	6,523	5,980	543	9.1
Present value	6,623	5,941	682	11.5
Present value, in case of shift of the interest-rate curve				
um + 100 bp	6,431	5,779	652	11.3
um - 100 bp	6,836	6,109	727	11.9

*) Lettres de gage publiques

8.3 Accrued and deferred items

in thousand €	30.6.2008
Prepayments and accrued income	
Accrued interest	218,506
from issuing and lending business	713,161
Others	150,836
Total	1,082,503
Accruals and deferred income	
Deferred interest	211,124
from issuing and lending business	983
Others	15,156
Total	227,263

8.4 Redemption of own public-sector Pfandbriefe

During the period under review, we redeemed a nominal amount of € 15.0 million of our own public-sector Pfandbriefe for price regulatory purposes. This volume of € 15.0 million was also released early. There were no scheduled final maturities during the period under review. A holding with a book value of € 137.4 million is shown as at the balance-sheet date. Further re-investments are planned in so far as this is deemed to be appropriate in view of the market situation.

8.5 Interest arrears

Interest due during the period under review from loans and advances and securities has been received in full. There are no arrears; no write-offs or value adjustments in respect of interest have been made.

Board of Directors

Bo Heide-Ottosen Chairman since 27.03.2008	Member of the Board of Management of Hypo Real Estate Holding AG, Munich Chairman of the Board of Directors, Depfa ACS Bank, Dublin since 27.03.2008
Dr. Robert Grassinger Chairman until 26.03.2008	Chairman of the Board of Management of Hypo Real Estate Bank AG, Neufarn until 26.03.2008
Julia Hoggett	Managing Director and Member of the Board of Management of Depfa ACS Bank, Dublin Group Head of Long-Term Funding and Debt Investor Relations, Depfa ACS Bank, Dublin since 27.03.2008
Jim Ryan	Managing Director und Global Head of Balance Sheet Management, Depfa ACS Bank, Dublin since 27.03.2008
James Campbell	Member of the Board of Management of Hypo Public Finance Bank, Dublin until 26.03.2008
Heather Nesbitt	Member of the Board of Management of Hypo Public Finance Bank, Dublin until 26.03.2008
Orla Nicholson	Head of Treasury of Hypo Public Finance Bank, Dublin until 26.03.2008
Michael Schultheiß	Managing Director of Hypo Real Estate Bank AG, Starnberg until 26.03.2008
Klaus Söllner	Administrateur-Délégué (Managing Director), Trier
Hagen Schmidt	Administrateur-Délégué (Managing Director), Trier

Management

Klaus Söllner	Administrateur-Délégué (Managing Director), Trier
Hagen Schmidt	Administrateur-Délégué (Managing Director) Trier

Réviseur Spécial

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