DEUTSCHE HYPO
Member of NORD/LB

HALF-YEARLY FINANCIAL REPORT 2016

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.- 30.06.2016	01.01.- 30.06.2015	Change (in %)
New business figures			
Commercial real estate finance business	1,802.4	1,402.9	28.5
Domestic finance	1,092.6	939.4	16.3
Foreign finance	709.7	463.5	53.1
Funding volume	2,681.0	1,518.0	76.6
Mortgage Pfandbriefe	1,250.0	615.0	> 100.0
Unsecured	1,431.0	903.0	58.5

in € millions	30.06.2016	31.12.2015	Change (in %)
Portfolio figures			
Commercial real estate finance business	11,679.2	11,953.6	– 2.3
Domestic finance	7,240.1	7,380.3	– 1.9
Foreign finance	4,439.1	4,573.2	– 2.9
Loans to local authorities	5,027.6	5,588.6	– 10.0
Securities	7,122.0	7,038.0	1.2
Funding capital	24,107.0	25,243.7	– 4.5
Mortgage Pfandbriefe	7,950.4	8,486.5	– 6.3
Public Pfandbriefe	6,185.1	7,028.5	– 12.0
Unsecured	3,014.0	2,606.9	15.6
Other liabilities	6,957.5	7,121.8	– 2.3
Equity **)	1,307.6	1,330.6	– 1.7
Balance sheet total	25,713.7	26,943.7	– 4.6

in € millions	01.01.- 30.06.2016	01.01.- 30.06.2015*)	Change (in %)
Income figures			
Net interest income	101.9	124.3	– 18.0
Net commission income	1.7	– 0.1	> 100.0
Administrative expenses ***)	42.6	45.9	– 7.2
Risk result	– 25.5	– 24.6	– 3.7
Income from securities and participatory interest	0.0	– 20.3	100.0
Result from normal operations	33.7	31.3	7.7
Extraordinary result	– 2.5	– 0.5	< – 100.0
Interest on investments by silent partners	4.2	4.2	0.0
Profit before taxes and profit and loss transfer agreement	27.0	26.6	1.5

in %	30.06.2016	30.06.2015*)	
Other information			
Cost-income ratio	41.9	37.6	

*) The amounts from the previous years were partly corrected. Reference is made to the information in the notes with regards to this.
**) including funds for general banking risks , jouissance right capital and subordinated liabilities
***) including write-downs and value adjustments of intangible assets and tangible fixed assets

The half-yearly finacial report of Deutsche Hypo is also available in German. In the event of any descrepancy, the German version shall prevail.

HALF-YEARLY FINANCIAL REPORT 2016

CONTENT

INTERIM MANAGEMENT REPORT

The figures in the tables and charts in the interim management report are expressed in thousand euros (€ thousands) or million euros (€ millions). It should be noted that the amounts and percentages quoted in the tables, charts and text are rounded figures, resulting in rounding differences in some cases.

Economic report

Macroeconomic and sector environment

Economic performance in Germany and Europe

The German economy entered 2016 with a great deal of momentum, with economic output growing against the previous quarter by 0.7 % in the first three months of the year. Compared to the same period in the previous year, it was 1.6 % higher. Construction investment in particular profited from the mild weather conditions in the early months of the year. Private consumption boosted good job figures and helped to sustain robust wage increases under collective bargaining agreements. Domestic demand remained a sturdy pillar of the upturn in the first half of the year, even if the positive effects of the low oil price will gradually wane over the course of the year, ceasing to stimulate private consumption so actively. This growth momentum is likely to be less pronounced in the second quarter, however. Despite this, the most important survey-based mood indicators saw significant improvements in June, with most of those surveyed having faith in the robustness of the German economy in advance of the decision by the people of the United Kingdom to leave the EU (the Brexit referendum).

The eurozone economy also started the year with momentum, with the real GDP of the single-currency region improving 0.5 % against the previous quarter. The European economy kept its cool in the first quarter in the face of global economic concerns and turbulence on the financial market. The observed growth was spread across Germany, France and Spain in particular. In the second quarter of 2016, the Brexit referendum gave rose to uncertainty due to the unpredictable impact that the decision will have on the economy.

Development of real estate markets

Global investment in commercial real estate demonstrated a continued buoyancy in the first quarter of 2016 – although a drop towards normalcy was observed. With a 14 % drop against the first quarter of 2015, the global transaction volume came to US$ 133 billion.

After a number of years of very strong performance, the European real estate markets lost a little of their momentum, achieving a rather weak first quarter with a sales volume of € 42.0 billion – a decline of 15 % as against the same quarter of the previous year. Due to falling returns and excessive pricing, a number of investors scaled back their activities in preferred locations. While the United Kingdom continues to hold the top European spot for real estate investments, it did report a fall in sales figures even before the EU referendum, with the country seeing real estate sales of € 13.5 billion in the first quarter, a year-on-year decline of 34 %. France and the Netherlands too saw their real estate markets weaken.

In Germany, the transaction volume in the first quarter of 2016 fell to € 8.2 billion – a drop of 8 % compared to the same period in the previous year. The reasons for this are a lack of supply of real estate properties in class A and class B cities as well as a significant decline in major transactions. Office real estate had a 47 % share of the overall volume, followed by retail real estate with 20 %. Germany's real estate strongholds – namely Berlin, Hamburg, Munich, Cologne, Frankfurt, Stuttgart and Dusseldorf – saw a 22 % fall in sales relative to the first quarter of 2015 to a total of roughly € 4 billion. The aggregated net initial yields declined in all asset classes.

Development of international financial markets

The international financial markets continued to be dominated by the monetary policies of the central banks. The ECB for instance announced in March 2016 that it would expand its existing securities purchase programme by € 20 billion a month to now € 80 billion. At the same time, it announced that it would be buying corporate bonds. This measure was backed up by a drop in the deposit facility interest rate to minus 0.4 %. Interest rates fell again for German government bonds. While six-year bonds just about offered a zero yield at the start of the year, this fell to below minus 0.5 % as of the half-year point in 2016. Even maturities of up to 15 years ceased to provide positive yields at this time. The unexpected outcome of the Brexit referendum exacerbated this situation, with the result causing a brief increase in volatility and other declines in yields to take hold.

Performance in the foreign exchange markets was fairly unremarkable until the Brexit referendum. At the start of the year, the euro was valued at US$ 1.08, rising in value by an insignificant amount to US$ 1.10 at the end of the half-year period. Only the British pound was trending downwards.

In summary, the first half of 2016 was defined by a previously unseen environment of negative yields. Many participants in the international financial markets must be prepared to face more of this situation, because there is no end in sight to the current policies of the central banks in the near term.

Development of the banking sector

Despite the overall decline in transaction volume, the target markets for Deutsche Hypo performed well on the whole due to favourable economic conditions, although there were differences observed in individual countries. Depending on the political situation, individual target markets performed less positively by comparison. The first months of the year also showed that the EU is currently in a kind of limbo associated with great uncertainty – which of course has an impact on the real estate sector. The issues of refugee policy and in particular the Brexit referendum are good examples of this. Germany's real estate market can profit from these developments in the short to medium-term. As the politically and economically most stable country across the EU, Deutsche Hypo's home market is the preferred market for domestic and foreign investors, more so than ever. However, this is also likely to intensify competition here in Germany, not least because the current negative yields in the capital markets continue to drive investors into the commercial real estate finance market.

Because the supply of high-quality real estate has been unable to keep pace with the elevated demand, investors have increasingly been switching to B and C class locations as well as niche classes. The growing competition among investors – for instance as insurers, funds and pension providers enter the market as new lenders – is linked to the sustained high level of competition among commercial real estate financiers. And it remains to be seen whether Brexit will cause a weakening of the economies of Deutsche Hypo's target markets.

Course of business at a glance

Significant influential factors and developments

Deutsche Hypo's business was significantly affected by the continued intensity of the competition in commercial real estate finance alongside the strong demand for real estate during the first half of 2016. In the midst of such an environment presenting continued challenges, Deutsche Hypo has still managed to increase its volume of new business year on year. The Bank has maintained its conservative risk policy in the year to date, remaining faithful to its strictly-defined criteria regarding the quality and profitability of new business.

At the same time, early loan repayments in the real estate finance portfolio fell significantly year on year. Despite the aforementioned rise in the volume of new business, the lending portfolio in the core business area fell slightly year on year due to repayments. The quality oriented lending policy and the positive market environment once again generated a mild improvement in the quality of the real estate finance portfolio.

The Brexit referendum outcome in the first half of the year was a development that is important for the Bank and must be analysed in a critical context. As of the reporting date, it had no direct impact on the business of Deutsche Hypo. The Bank also believes that it is well-positioned in the United Kingdom with a robust finance portfolio, and does not anticipate the real estate markets there to perform negatively country-wide. However, the potential reticence of investors as a result of the uncertainty and internal lending policies may result in a more restrained performance of new business in the future, at least temporarily. Deutsche Hypo has intensively observed and analysed the developments in the United Kingdom, which is a key foreign market.

The developments surrounding Heta Asset Resolution AG (Heta) have also been of particular significance in the capital market business in the year to date. On 10 April 2016, the Austrian Financial Market Supervisory Authority (FMA) imposed a bail-in process. Then, in mid-May 2016, a memorandum of understanding (MoU) was signed by a majority of the creditors and the Republic of Austria, stipulating that tier 1 creditors could receive either 75 % of their nominal claim in cash or convert their claim at a ratio of 1:1 to a zero-coupon bond issued by Kärntner Ausgleichsfonds (KAF) and guaranteed by the Austrian Government. With a planned maturity of 13.5 years, this would provide a cash value of around 90 %. However, this settlement between Heta and a majority of the creditors is still tied to the fulfilment of a range of requirements. Thus, in the light of ongoing uncertainties, the risk provision has been maintained as of the balance sheet date of 31 December 2015 based on cautious assumptions for the claims of Deutsche Hypo against Heta.

Because demand for European government bonds has remained high as a result of the various measures taken by the ECB, Deutsche Hypo's public sector finance business remained largely calm in the first half of the year, despite uncertainty in the meantime. The developments and information regarding possible capital problems at Italian banks also had no direct impact on the Bank, because Deutsche Hypo has no credit exposures to Italian banks. The Bank will continue to attentively monitor developments as the year progresses and handle any possible indirect impact via the international financial markets as part of its risk management efforts.

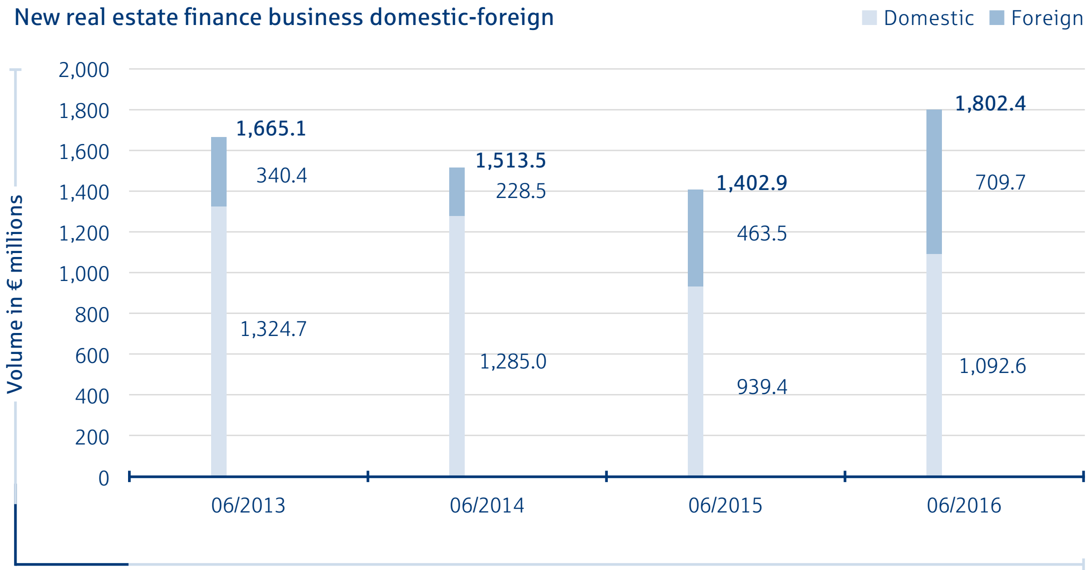
The Bank's funding was also affected in the first half of 2016 by the developments on the international financial markets. Political uncertainties and other factors that were impossible to assess within the EU caused investors to continue to act cautiously. The demand for low-risk securities – including primarily Pfandbriefe as a high-grade investment – and the ongoing purchase programme of the ECB continued to drive robust demand. Deutsche Hypo issued two benchmark Pfandbriefe in the first half of 2016, once in February to the amount of € 500.0 million with a seven-year maturity, once in May to the amount of € 750.0 million with a maturity of eight years. Both had a highly granular order book and strong demand among both domestic and foreign investors. While the Pfandbriefe were largely issued through benchmark transactions, the unsecured bonds were mostly sold through private placements. The Bank also bought back its own securities in the first half of the current financial year as part of its market servicing efforts.

The development of the Bank's business also continued to be affected by regulatory developments. Regulatory requirements once again necessitated the implementation of significant measures in various areas of the Bank. Due to the continued high level of cost discipline combined with the measures taken in recent years, administrative expenses remained stable in the first half of 2016.

Development of new business in the core business area

In the midst of a market environment that remains highly competitive, Deutsche Hypo generated new business of € 1,802.4 million (2015: € 1,402.9 million), representing a year-on-year increase despite the challenging environment. As in previous years, new business transactions were subject to high requirements in terms of the quality of financing. At € 1,092.6 million (2015: € 939.4 million), a large share of the new business was once again within the domestic market. At 60.6 %, the domestic share of new credit commitments was only slightly above that of the same period in the previous year. In the foreign markets, new business was taken on for the purpose of portfolio retention in the United Kingdom in particular.

New real estate finance business domestic-foreign



Of the total new commitments in the real estate finance area (domestic and foreign), the majority remained in commercial real estate, which accounted for € 1,649.8 million (2015: € 1,300.2 million), a share of 91.5 % (2015: 92.7 %). Among these financed commercial properties, office real estate once again accounted for the largest share at € 927.4 million (2015: € 694.5 million). The share of financing for residential properties came to 8.5 % (2015: 7.3 %).

Net assets, financial and income position

Income position

in € million	Total result 1 January – 30 June		Commercial real estate finance 1 January – 30 June		Capital market business 1 January – 30 June		Other business 1 January – 30 June	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Net interest income	101.9	124.3	86.3	88.2	7.3	27.2	8.3	8.9
Net commission income	1.7	– 0.1	2.1	1.1	– 0.3	– 0.4	0.0	– 0.8
Administrative expenses **)	42.6	45.9*)	19.3	19.3	2.9	2.9	20.5	23.7*)
Other operating income	– 1.7	– 2.1*)	0.0	0.0	0.0	0.0	– 1.7	– 2.1*)
Risk result ***)	– 25.5	– 24.6	1.5	– 8.4	– 15.0	– 11.2	– 12.0	– 5.0
Income from securities and participatory interest ****)	0.0	– 20.3	0.0	0.0	0.0	– 20.3	0.0	0.0
Result from normal operations	**33.7**	**31.3**	**70.6**	**61.6**	**– 10.9**	**– 7.6**	**– 26.0**	**– 22.7**
Extraordinary result	– 2.5	– 0.5	0.0	0.0	0.0	0.0	– 2.5	– 0.5
Interest on investment by silent partners *****)	4.2	4.2	0.0	0.0	0.0	0.0	4.2	4.2
Profit before taxes and profit and loss transfer	**27.0**	**26.6**	**70.6**	**61.6**	**– 10.9**	**– 7.6**	**– 32.7**	**– 27.4**
CIR	41.9 %	37.6 %*)	21.8 %	21.5 %	41.1 %	10.8 %	> 100.0 %	> 100.0 %
RoRaC / RoE	6.4 %	6.4 %	36.5 %	29.6 %	– 17.7 %	– 9.7 %	<– 100.0 %	<– 100.0 %

*) The amounts from the previous year were corrected due to the change in the reporting of contributions made to the restructuring funds for financial institutions as of 31 December 2015.
**) General administrative expenses including write-downs and value adjustments on intangible assets and tangible fixed assets.
***) Write-down and value adjustments on receivables and specific securities as well as allocations to provisions in the credit business.
****) Write-down and value adjustments on participatory interest, shares in affiliated companies and securities treated as fixed assets.
*****) Interest on investment by silent partners is part of the income statement item „Profit surrendered under partial surrender agreements".

In the first half of the year, Deutsche Hypo generated a result from normal operations of € 33.7 million (2015: € 31.3 million). The Bank has reported a good half-yearly result with this slight year-on-year increase in the result. The main driver behind this was the good performance of the commercial real estate finance business. Thanks to a robust income situation and the very good performance of the risk result, the result once again significantly increased year on year in the first half of 2016 to € 70.6 million (2015: € 61.6 million) in the core business area, more than compensating for the mild declines in the result of the capital market business and the other business area.

For the Bank as a whole, net interest income totalled € 101.9 million in the period under review, significantly below the previous year's high level of € 124.3 million. This anticipated performance is primarily the result of the special effects from early credit repayments in the previous year no longer applying, which in turn caused a significant decline in net interest income in the capital market business to € 7.3 million (2015: € 27.2 million). On the other hand, the decline of the net interest income to € 86.3 million (2015: € 88.2 million) was comperatively lower as anticipated as the result of the slight decline in portfolio and margin performance. Nonetheless, net interest income continued to represent a stable and robust source of income for Deutsche Hypo.

At € 42.6 million (2015: € 45.9 million), administrative expenses fell slightly year on year. The primary reason for this was the maintenance of a system of robust cost discipline, which continued to provide a stable cost basis. The positive year-on-year performance was also the result of a number of factors including lower consulting expenses in the year to date and special effects during the year. Bank levy contributions have already been recognized in full under this item for the current financial year.

At a total of € – 1.7 million (2015: € – 2.1 million), other operating income remained almost constant year on year.

The risk result for the Bank as a whole remained relatively consistent year on year at € – 25.5 million (2015: € – 24.6 million). The risk result was again primarily defined by very good performance in the real estate finance business area. Following the trend of recent years, a positive risk result was generated in the core business area as a result of not only favourable economic conditions but also the very good quality of the credit portfolio and the resultant low holdings of impaired financing combined with impairment reversals. On the other hand, the risk result for the capital market business of € – 15.0 million (2015: € – 11.2 million) was affected by special effects from the buy-back of the Bank's own securities as part of market servicing efforts, resulting in a somewhat weaker risk result in this area compared to the same period in the previous year. Precautionary reserves were once again recognized in the other business area.

Unlike the previous year, there were no write-downs on securities, putting income from securities and participatory interest at € 0.0 million (2015: € – 20.3 million).

For the Bank as a whole, the described developments led to a result from normal operations of € 33.7 million (2015: € 31.3 million). Taking into account interest on investment by silent partners of € 4.2 million (2015: € 4.2 million) and the extraordinary result of € – 2.5 million (2015: € – 0.5 million) resulting in particular from expenses from the full reversal of the remaining difference for the pension provisions under the BilMoG and also from offsetting effects arising from the extension of the average calculation for the purpose of determining of the discounting rate for pension provisions, profit before taxes and profit and loss transfer of € 27.0 million (2015: € 26.6 million) was reported.

The cost-income ratio (CIR) increased to 41.9 % (2015: 37.6 %), as a result of a lower income base combined with a slight decline in expenses. Return on equity (RoE) remained constant at 6.4 % (2015: 6.4 %). The positive performance in commercial real estate finance led to a further improvement in the return on risk-adjusted capital (RoRac) in the core business area to 36.5 % (2015: 29.6 %). The RoRac remained negative in the capital market business.

Net assets and financial position

in € millions	30.06.2016	31.12.2015	Change (in %)
Receivables			
Mortgage loans	11,679.2	11,953.6	– 2.3
Loans to local authorities	5,027.6	5,588.6	– 10.0
Other receivables	1,671.9	2,138.1	– 21.8
Securities	7,122.0	7,038.0	1.2
Other assets	213.0	225.4	– 5.5
Total assets	**25,713.7**	**26,943.7**	**– 4.6**
Liabilities			
Mortgage Pfandbriefe	7,950.4	8,486.5	– 6.3
Public Pfandbriefe	6,185.1	7,028.5	– 12.0
Unsecured bonds	3,014.0	2,606.9	15.6
Other liabilities	6,957.5	7,121.8	– 2.3
Subordinated liabilities	320.0	320.0	0.0
Jouissance right capital	60.0	83.0	– 27.7
Funds for general banking risks	14.4	14.4	0.0
Equity	913.2	913.2	0.0
Other liabilities	299.1	369.4	– 19.0
Total liabilities	**25,713.7**	**26,943.7**	**– 4.6**
Contingent liabilities	1,053.9	1,127.0	– 6.5
Other obligations	1,258.7	1,245.0	1.1

Deutsche Hypo's total assets fell significantly from the end of 2015 to € 25,713.7 million (2015: € 26,943.7 million). Portfolio reductions arose once again predominantly in the capital business area, with continuing strategic efforts to scale back the portfolio particularly visible through the fall in loans to local authorities to € 5,027.6 million (2015: € 5,588.6 million). Holdings of securities even rose slightly to € 7,122.0 million (2015: € 7,038.0 million), although the Bank continued to take a restrictive approach to generating new business in the capital market area, primarily for liquidity, cover pool and bank management. Because new business was only concluded with good and very good ratings in line with the strategic direction, the quality of the capital market portfolio remained at the previous year's very good level. For more information on this, please refer to the statements on counterparty risk in the expanded risk report of this interim management report.

The commercial real estate finance portfolio also fell slightly year on year to € 11,679.2 million (2015: € 11,953.6 million). The domestic finance portfolio also declined slightly to € 7,240.1 million (2015: € 7,380.3 million), as did the foreign finance portfolio, which fell to € 4,439.1 million (2015: € 4,573.4 million). The share of foreign financing therefore remained practically constant at 38.0 % (2015: 38.3 %) compared to the reporting date of the previous year. Among foreign markets, the UK continued to exhibit the largest share of real estate financing, despite a significant decline to € 1,488.2 million (2015: € 1,620.5 million). In the Benelux countries, the real estate portfolio saw mild growth to € 1,339.5 million (2015: € 1,302.2 million), while holdings in France fell slightly to € 877.5 million (2015: € 908.2 million).

Among the property classes, office real estate continued to account for the largest share of the portfolio despite a mild decline at € 4,582.6 million (2015: € 4,791.0 million). Retail real estate remained the second largest property class at € 4,088.8 million (2015: € 4,165.0 million). The residential real estate finance portfolio grew slightly to € 1,439.3 million (2015: € 1,353.0 million).

The quality of the real estate finance portfolio again improved slightly as a result of the quality oriented lending policy and an active approach to portfolio management. The share of financing with at a least a satisfactory rating continued to rise year on year, while the share of financing in default continued to decline. The loan loss provisions in the commercial real estate finance portfolio fell to € 90.7 million (2015: € 109.1 million). For more detailed information on rating changes, please refer to the statements regarding counterparty risk in the expanded risk report of this management report.

The Bank further secured its good competitive position in new commercial real estate finance business by ensuring that its funding mix always provided a comfortable and favourable liquidity situation. In the first half of 2016, Deutsche Hypo issued its securities with a volume of € 2,681.0 million (2015: € 1,518.0 million), of which € 1,250.0 million (2015: € 615.0 million) are mortgage Pfandbriefe and € 1,431.0 million (2015: € 903.0 million) are unsecured bonds.

As a result of the Bank's own securities maturing and the Bank buying back these securities as part of market servicing efforts, the portfolio of mortgage and public Pfandbriefe in circulation declined. Mortgage Pfandbriefe came to € 7,950.4 million (2015: € 8,486.5 million), while public Pfandbriefe came to € 6,185.1 million (2015: € 7,028.5 million). Unsecured bonds rose slightly to € 3,014.0 million (2015: € 2,606.9 million), however. The nominal volume of the Bank's own securities bought back as part of market servicing efforts in the first half of 2016 came to € 379.4 million (2015: € 0.0 million). The nominal value of the own securities portfolio came to € 36.4 million (2015: € 24.5 million) as of the balance sheet date.

The reported equity remained unchanged at € 913.2 million in comparison to the previous year. Due to the control and profit and loss transfer agreement, Deutsche Hypo transfers all of its profits to NORD/LB. The total reported equity plus jouissance right capital, subordinated liabilities and funds for general banking risks in accordance with Section 340g HGB fell year on year to € 1,313.6 million (2015: € 1,336.6 million) due to jouissance rights maturing as planned. For information on the regulatory equity capital, reference is made to the explanations in the expanded risk report of this management report.

Under off-balance-sheet obligations, contingent liabilities fell further to € 1,053.9 million (2015: € 1,127.0 million) due to credit derivatives becoming due. At € 1,258.7 million (2015: € 1,245.0 million), other obligations in the form of irrevocable credit commitments remained practically unchanged as against the end of the previous year.

Overall statement on the course of business and the Bank's situation

In the first half of 2016, Deutsche Hypo generated a half-year result of € 33.7 million (2015 € 31.3 million). With a robust cost and income base, this result was primarily based on the continued very good performance of the risk result in the core business area of commercial real estate finance. This also makes the good quality of the real estate finance portfolio apparent in the year to date. Despite the recurring slight decline in the capital market business, it enabled the positive performance of the core business area to contribute to a good half-year result for the Bank as a whole.

In a market environment that continued to be defined by high demand for real estate but also by intense competition in commercial real estate finance, the Bank achieved a mild increase in the volume of new business in its core business area. However, scheduled repayments caused a slight decline in the real estate finance portfolio in the first half of the year. At the same time, the structure of the portfolio saw another slight year-on-year increase as a result of the quality-centric lending policy and an active system of portfolio management.

The Brexit referendum has had no direct impact to date on the performance of Deutsche Hypo's business. The Bank believes that it is well-positioned in the United Kingdom with its finance portfolio and anticipates that at most, the potential reticence of investors will temporarily restrain new lending in the key British market in future.

Within the capital market business, the strategic downsizing of the portfolio has continued as planned. There has to date been no particular impact on the Bank from the capital market environment, despite uncertainty on the international financial markets. The monetary policies of the ECB and demand for low-risk investments have instead laid the groundwork for a favourable environment in the capital market business.

The latest developments surrounding Heta in the first half of the year have to date had no impact on the Bank due to the persisting uncertainties. The developments surrounding certain Italian banks have also had no effect on Deutsche Hypo, not least because it has no credit exposures to Italian banks.

Report on subsequent events

There were no events of particular significance that occurred after the end of the interim reporting period and that could have a sustained impact on the Bank's risk situation and the net assets, financial and income position.

Forecast, opportunity and risk report

Forecast report

Development of business and general conditions

Economic performance

Economically, Germany is closely intertwined with the United Kingdom. It is therefore to be expected that the German export industry in particular may possibly suffer as a result of the Brexit decision. In the short term, there may be turbulence on the financial markets, while in the medium term, there may be noticeable drops in growth. The Research/Economics Division at NORD/LB therefore only forecasts growth of 1.6 % in real GDP for 2016 as a whole.

Real GDP for Europe is forecast to rise by 1.4 % for the full year 2016, although the possible upheaval caused by the Brexit decision has necessitated a significant downward adjustment of this value. In the short term, future performance will depend on stabilization measures taken by the central banks and on economic policy.

Development of target real estate markets

In the second half of 2016, the maintenance of low interest rates around the world and alternative investments offering hardly any yields mean that robust global demand for real estate is expected. However, because this demand is not satisfied with adequate supply, it is highly unlikely that the level of the previous year of US$ 704 billion will be matched. Moreover, yields from real estate investments will fall in many places. For 2016, Jones Lang LaSalle expects a global transaction volume of around US$ 660 billion in commercial real estate.

Due to the Brexit referendum, the United Kingdom may lose its position as a stable market for real estate investments. Many investors are expected to handle the British market with greater caution and be less willing to invest. Whether this will cause real estate prices to fall in the UK remains to be seen. Other real estate locations in the European Union single market may profit from this. It is possible that businesses may take the uncertainty in London as a reason to relocate their corporate headquarters to other major European cities.

In the second half of the reporting year, Germany will continue to become more attractive for foreign investors in particular. A transaction volume of over € 50 billion is once again expected for German commercial real estate in 2016, putting the real estate markets in Berlin and Frankfurt in particular under increasing yield pressure. The office and retail segments remain the asset classes with the highest sales in commercial real estate.

Development of international financial markets

The development of the international financial markets will also remain heavily dependent on the measures taken by central banks. The ECB's bond purchasing programme will remain on its announced path of € 80 billion a month until September 2016 for the time being. Because the eurozone continues to have a persistently low rate of inflation, it is expected that these measures may be extended, that the purchase volume may be increased, and possibly that the range of eligible instruments may be expanded. The US Federal Reserve on the other hand has exercised restraint in the form of a number of initial cautious steps, gradually heading towards normalization through efforts to mildly tighten monetary policy, but its monetary policy is likely to tend towards remaining more relaxed or expansive. Given this, a long-term rise in capital market yields is still not to be expected in the short term.

Business performance and forecast

Despite the aforementioned year-on-year growth in the volume of new business in commercial real estate finance, the current uncertainties in the business and economic environment and the ongoing intensity of competition in the business area make it impossible to exclude the possibility that the previously forecast mild increase in the volume of new business and in the real estate finance portfolio may not be achieved. Stringent requirements imposed on the quality and profitability of potential new business continue to play a forefront role in lending for Deutsche Hypo.

Despite this, Deutsche Hypo now anticipates the result from normal operations to remain roughly consistent with that of the financial year 2015 at € 70.3 million. The resultant positive difference relative to the assumptions expressed in the 2015 management report is primarily the result of the sustained positive trend towards an improved risk result in the commercial real estate finance business area, which is already suggested by the ongoing improvement in the quality of the real estate finance portfolio in the first half of 2016. This is expected to more than compensate for the negative impact that the capital market portfolio will have on income.

For the Bank as a whole, it is assumed that net interest income will see a year-on-year decline, due primarily to a significant reduction in special effects from early credit repayments compared to the previous year. Accordingly, net interest income in the capital market business is expected to fall heavily as previously forecast. Net interest income in the core business area of commercial real estate finance is accordingly expected to be slightly lower, with a mild decline in portfolio margin performance in conjunction with a lateral movement in the real estate finance portfolio compared to the previous year. Despite this, net interest income will continue to represent a robust source of income for the Bank.

Otherwise, there have been no new discoveries that would require an adjustment of other previous significant forecasts or of other statements regarding the anticipated development or performance of the Bank.

Opportunities and risks of future business development

Business performance in the second half of the current financial year must be assessed in the light of the latest information regarding the claims against Heta in particular. The possibility for Heta to reach an agreement with its creditors based on the presented proposal may provide considerable potential for a recovery in value for the Bank. Should such an agreement not be reached, there is the risk of further impairment.

The United Kingdom's exit from the EU presents further uncertainty. While the Bank does not expect any direct risks regarding its earnings performance to arise in the second half of 2016 from the Brexit referendum, it is possible that new business in the UK may be more restrained, at least temporarily. It is also possible that the current uncertainties may create risks as a result of price declines in this key foreign market.

In addition, unexpected developments in external economic conditions may have a significant and unpredictable influence on the performance of Deutsche Hypo's business and income. This relates in particular to developments on international financial markets, which continued to be characterized by volatility in the first half of 2016. The Bank's risk management system enables possible opportunities and risks resulting from such developments to be recognized early on and managed accordingly.

Any uncertainty arising on the markets in connection with the Italian banks will at most have an indirect effect on Deutsche Hypo through its public sector lending business. No direct effect is to be expected because Deutsche Hypo holds no exposures to Italian banks.

As before, there are also no major effects expected on results in connection with negative interest rates.

Beyond the above, the opportunities and risks illustrated in the management report as of 31 December 2015 continue to apply as before.

The following expanded risk report describes the significant risk-related developments and changes in the first half of the current financial year.

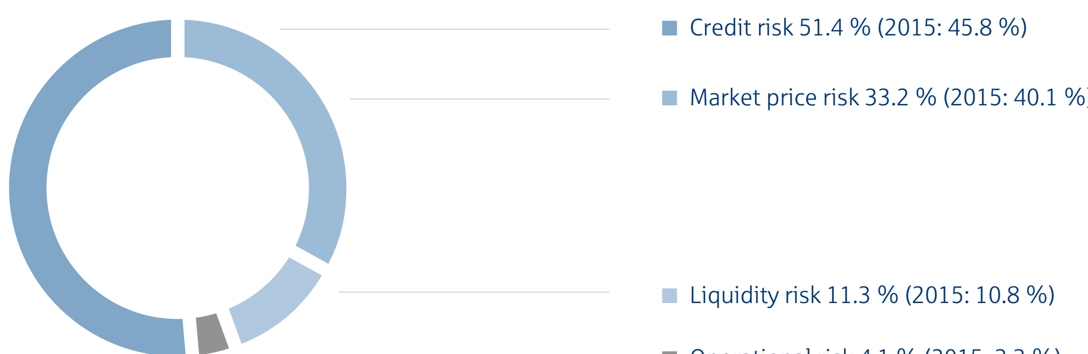
Expanded risk report

Current developments in risk management

As a result of the waiver rule under Section 2a (1) of the German Banking Act (old) and Art. 7 CRR, the risk-bearing capacity of Deutsche Hypo is secured at the level of the NORD/LB Group. The risk-bearing capacity at Group level was met as of 30 June 2016. As part of a functional early warning system regarding risk-bearing capacity at the level of the NORD/LB Group, NORD/LB AöR determines the institution's limits for material risk types, and compliance with these limits is a central aspect of the Bank's risk management system. Risk potential, which is based on a value-at-risk approach (VaR approach), is analysed in relation to the appropriate institution limits, as part of the regular monitoring of the limits.

The risk potential (confidence level of 95 %, time horizon set at one year) from the material risk types consists of the following as of 30 June 2016:

Composition of risk potential from the significant risk types as of 30 June 2016



The breakdown of risk potential from the material risk types only changed slightly in comparison to 31 December 2015. While the market-price risk declined, credit risk rose slightly. In both cases, these are non-material and entirely normal fluctuations.

Counterparty risk

Breakdown of total credit exposure by rating category:

30.06.2016 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva-tives	Other	Total exposure	Share in total exposure
Very good to good	9,189.0	4,947.2	6,299.1	1,483.4	529.0	**22,447.7**	82.1 %
Good / satisfactory	2,462.8	0.3	307.1	0.0	0.0	**2,770.1**	10.1 %
Still good / sufficient	898.1	53.4	344.0	0.0	39.1	**1,334.6**	4.9 %
Elevated risk	226.8	0.0	61.2	0.0	0.0	**288.0**	1.1 %
High risk	55.8	0.0	3.0	34.2	0.0	**93.1**	0.3 %
Very high risk	17.0	0.0	0.0	0.0	0.0	**17.0**	0.1 %
Default (=NPL)	210.2	65.2	108.5	0.0	0.0	**384.0**	1.4 %
Total	**13,059.7**	**5,066.1**	**7,122.8**	**1,517.7**	**568.1**	**27,334.4**	**100.0 %**

31.12.2015 in € millions	Real estate finance	Loans to local authorities	Securities	Deriva-tives	Other	Total exposure	Share in total exposure
Very good to good	9,326.3	5,508.5	6,038.5	1,485.0	1,154.2	**23,512.6**	81.8 %
Good / satisfactory	2,018.1	0.3	444.1	0.0	0.8	**2,463.2**	8.6 %
Still good / sufficient	1,151.2	1.3	331.9	0.0	151.7	**1,636.1**	5.7 %
Elevated risk	417.3	51.2	118.9	0.0	0.0	**587.4**	2.0 %
High risk	35.2	0.0	3.4	34.8	0.0	**73.4**	0.3 %
Very high risk	27.1	0.0	0.0	0.0	0.0	**27.1**	0.1 %
Default (=NPL)	282.0	41.9	108.0	0.0	0.0	**431.9**	1.5 %
Total	**13,257.2**	**5,603.2**	**7,044.7**	**1,519.8**	**1,306.7**	**28,731.5**	**100.0 %**

Compared to the reporting date of 31 December 2015, the credit exposure fell in the first half of 2016, consistently with the changes in the portfolio described in the asset position, to € 27,334.4 million (2015: € 28,731.5 million). The quality of Deutsche Hypo's overall finance portfolio further improved slightly, with the share of financing with a rating of at least satisfactory rising to 97.1 % (2015: 96.1 %) of the total exposure as a result of further improvements in commercial real estate finance in particular. The share of non-performing loans (NPL) in the overall exposure remained low at 1.4 % (2015: 1.5 %). The absolute NPL volume fell by € 47.9 million to € 384.0 million (2015: € 431.9 million).

Within the core business area, the share of financing with a rating of at least satisfactory rose again to 96.1 % (2015: 94.2 %). At the same time, the share of real estate financing in default followed the trend of recent years by declining to 1.6 % (2015: 2.1 %) of the overall portfolio in the core business area.

Market-price risk

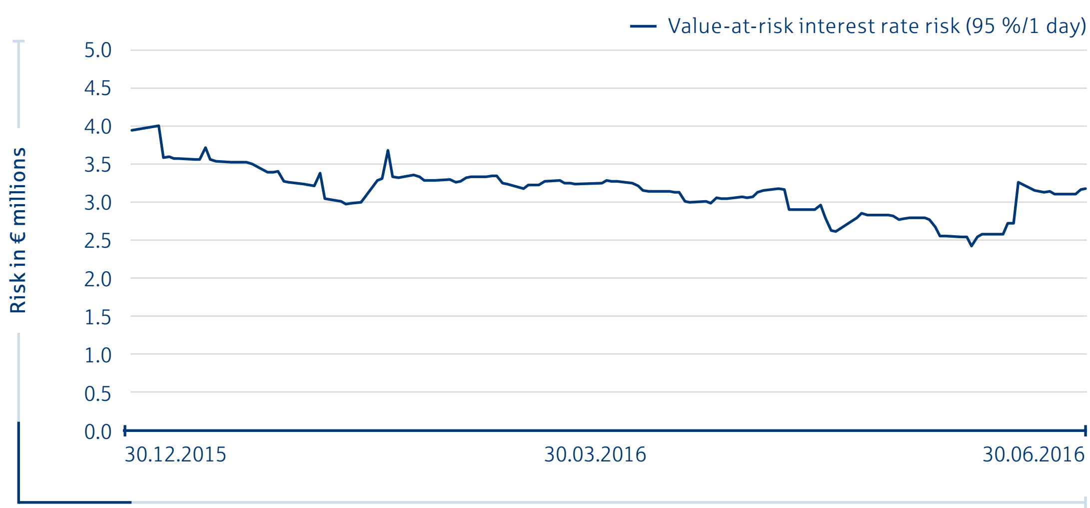
In the following overview, the market price risks of Deutsche Hypo are represented as of the reporting date and in comparison to 31 December 2015.

Market price risks in € thousands	Reference date value 30.06.2016	Reference date value 31.12.2015
VaR*) Interest rate risk portfolio of "entire bank"	3,177	3,950
Standard risk **) Interest rate risks portfolio "operating"	8,804	19,842

*) Confidence level 95 %, 1 day holding period **) Parallel shift 100 BP

The VaR fluctuated in the reporting period between € 2.4 million and € 4.0 million with an average value of € 3.1 million. Only 71 % of the VaR limit was utilized on average in the reporting period and the VaR limit was not exceeded at any time. The development of the Bank's VaR over time (95 % confidence level, 1 day holding period) is outlined in the following chart. The chart does not include the credit spread risks.

Change in value-at-risk interest rate risks (95 %/1 day)



The assumption of interest rate risks plays a secondary role for Deutsche Hypo from a risk strategy perspective. Interest rate risks for Deutsche Hypo declined in the first half of the year. This is attributable to the downsizing of a position in the operating portfolio, and the standard risk was also significantly reduced for this sub-portfolio. The value-at-risk as of 30 June 2016 arose largely as a result of the investment of the perpetual equity and, now only to a very minor extent, from the operating business.

The reduction of the positions in the banking book involving credit spread risks as described in the 2015 financial report was also successfully continued in the first half of 2016, such that the portfolio fell by roughly € 0.4 billion to about € 12.5 billion. The Brexit referendum to date has had no noteworthy effect on the development of Deutsche Hypo's hidden charges, which had hardly changed on the whole as against 31 December 2015.

Liquidity risk

In the first half of 2016, Deutsche Hypo had excellent access to money markets and capital markets at all times. In the dynamic liquidity stress test used for management and limits, a satisfactory liquidity situation was observed throughout the entire period. Relative to the end of 2015, the distance to illiquidity improved slightly to 315 days (2015: 295 days).

Deutsche Hypo held a sufficient portfolio of highly liquid securities in the reporting period, such that the MaRisk rules regarding the liquidity buffer to be maintained were met in full. At 2.22 (2015: 1.50), the liquidity performance indicator in accordance with the German Liquidity Regulation (LiqV) was significantly above the regulatory required minimum of 1.0 as of the reporting date. This minimum value was maintained throughout the entire reporting period. The applicable regulatory minimum performance value regarding the liquidity coverage ratio (LCR) of 70.0 % had been satisfied by a clear margin at 195 % as of the end of June 2016 (according to the delegated legal act of the European Commission).

Operational risk

In the first half of 2016, no notable losses of an operational nature were known. There were also no risks identified in this period that had the potential to cause severe losses.

Regulatory equity resources

In accordance with regulatory requirements, a total of € 1,210.6 million (2015: € 1,227.4 million) was eligible for recognition under regulatory minimum capital requirements. The mild decline in equity was offset by a comparable 7.3 % drop in risk-weighted assets, putting the equity ratio at 20.0 % (2015: 19.4 %).

Summary and outlook

The quality of Deutsche Hypo's real estate finance portfolio improved further. New business was conducted in the core business area solely on a quality oriented basis. As before, Deutsche Hypo will not follow the tendency observed on the market to enter into higher-risk financing.

The capital market portfolio has been further reduced in accordance with the strategic alignment. There were no noteworthy changes in the hidden charges as against 31 December 2015. In the light of the sustained risk of a rebound, the measures that began some time ago to reduce the capital market portfolio in order to maintain the income situation were continued.

Even if the Brexit referendum has had no major effect on the risk situation of Deutsche Hypo to date, continued developments must be intensively monitored.

Beyond the above-mentioned risks, no significant new risks can currently be identified compared to those illustrated in the management report as of 31 December 2015. Deutsche Hypo has accounted for all known and material risks appropriately by means of precautionary measures and considers itself to be well-equipped for the coming challenges thanks to the risk provisions it has established.

Hanover, 10 August 2016

The Board of Managing Directors

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INTERIM CONDENSED FINANCIAL STATEMENTS

BALANCE SHEET AS OF 30 JUNE 2016

ASSETS

	€	€	€	31 December 2015 (in € thousands)
1. Cash reserve				
b) Credit with central banks		23,271,005.06		90,940
of which: with the "Deutsche Bundesbank" € 23,271,005.06 (PY € 90,940 thousand)				
			23,271,005.06	**90,940**
2. Receivables from financial institutions				
a) Mortgage loans		14,711,580.72		16,867
b) Loans to local authorities		633,541,731.96		947,047
c) Other receivables		1,598,340,317.49		2,084,594
of which: due daily € 1,368,111,853.48 (PY € 1,227,938 thousand)				
			2,246,593,630.17	**3,048,508**
3. Receivables from customers				
a) Mortgage loans		11,664,478,383.42		11,936,683
b) Loans to local authorities		4,394,012,178.90		4,641,580
c) Other receivables		73,583,570.75		53,533
			16,132,074,133.07	**16,631,796**
4. Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers	3,520,268,977.68			3,486,986
of which: borrowed from "Deutsche Bundesbank" € 2,008,767,067.28 (PY € 1,896,960 thousand)				
bb) from other issuers	3,601,769,056.58			3,551,031
of which: borrowed from "Deutsche Bundesbank" € 3,028,530,433.90 (PY € 2,978,966 thousand)				
c) Own bonds		7,122,038,034.26		
Nominal amount: € 36,447,000.00 (PY € 24,483 thousand)		36,890,598.73		50,651
			7,158,928,632.99	**7,088,668**
5. Participatory interests			**76,949.43**	**77**
6. Shares in affiliated companies			**51,129.19**	**51**
7. Intangible Assets				
b) Purchased licenses, industrial property, as well as licenses to those rights and assets		621,596.96		654
d) Payments made on account		74,922.40		75
			696,519.36	**729**
8. Tangible assets			**2,120,673.67**	**2,237**
9. Other assets			**88,505,151.73**	**22,393**
10. Accrued and deferred items				
a) from the issue and loan transaction		51,137,565.54		47,667
b) others		10,209,862.60		10,679
			61,347,428.14	**58,346**
Total assets			**25,713,665,252.81**	**26,943,745**

LIABILITIES

	€	€	€	31 December 2015 (in € thousands)
1, Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		136,293,141.70		183,827
b) Issued registered public Pfandbriefe		433,686,577.22		386,601
c) Other liabilities		5,138,387,305.62		4,659,548
of which: due daily				
€ 569,018,407.53 (PY € 380,396 thousand)				
			5,708,367,024.54	**5,229,976**
2, Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		663,340,789.65		768,883
b) Issued registered public Pfandbriefe		4,619,963,845.71		5,500,452
d) Other liabilities		1,819,106,773.15		2,462,295
of which: due daily				
€ 4,177,044.85 (PY € 6,047 thousand)				
			7,102,411,408.51	**8,731,630**
3, Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,150,752,672.08			7,533,804
ab) public Pfandbriefe	1,131,411,948.55			1,141,423
ac) other bonds	3,013,959,871.57			2,606,916
		11,296,124,492.20		
			11,296,124,492.20	**11,282,143**
4, Other liabilities			**159,312,051.74**	**252,181**
5, Accrued and deferred items				
a) from the issue and loan transaction		37,519,896.97		44,544
b) other		12,059,035.27		10,866
			49,578,932.24	**55,410**
6, Provisions				
a) Provisions from pensions				
and similar obligations		43,906,690.29		40,524
b) Tax provisions		1,492,729.93		907
c) Other provisions		44,900,300.17		20,402
			90,299,720.39	**61,833**
7, Subordinated liabilities			**320,000,000.00**	**320,000**
8, Jouissance right capital			**60,000,000.00**	**83,000**
9, Funds for general banking risks			**14,400,000.00**	**14,400**
10, Equity				
a) Subscribed capital		80,640,000.00		80,640
Capital held by silent partners		75,000,000.00		75,000
b) Capital reserves		481,313,877.23		481,314
c) Profit reserves				
ca) statutory reserves	18,917,799.60			18,918
cd) other profit reserves	257,299,946.36			257,300
		276,217,745.96		
			913,171,623.19	**913,172**
Total liabilities			**25,713,665,252.81**	**26,943,745**
1, Contingent liabilities				
b) Liabilities arising from sureties				
and guarantee agreements		1,053,908,599.72		1,126,952
			1,053,908,599.72	**1,126,952**
2, Other obligations				
c) Irrevocable credit commitments		1,258,658,860.52		1,245,029
			1,258,658,860.52	**1,245,029**

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2016

	€	€	€	1 January 2015 – 30 June 2015 (in € thousands)
1. Interest earnings from				
a) Credit and money market transactions	264,195,719.09			333,235
b) Fixed interest bearing securities and book-entry securities	95,270,905.80			126,062
		359,466,624.89		**459,297**
2. Interest expenses		257,601,602.11		335,014
			101,865,022.78	**124,283**
3. Commission income		6,917,870.31		5,511
4. Commission expenses		5,206,797.84		5,590
			1,711,072.47	**– 79**
5. Other operating income			**959,318.93**	**1,950**
6. General administrative expenses				
a) Personnel expenses				
aa) wages and salaries	17,924,366.59			17,906
ab) social security and expenses for pension plans and for support of which: for pension plans € 697,920.14 (PY € 1,443 thousand)	3,455,694.73			4,100
		21,380,061.32		
b) Other administrative expenses		20,905,608.06		23,520
			42,285,669.38	**45,526**
7. Write-downs and value adjustments of intangible assets and tangible fixed assets			**341,600.79**	**326**
8. Other operating expenses			**2,682,182.12**	**4,064**
9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business		25,539,958.09		24,606
			25,539,958.09	**24,606**
10. Write-downs and value adjustments on participatory interest, shares in affiliated companies and on securites treated as fixed assets		0.00		20,299
			0.00	**20,299**
11. Result from normal operations			**33,686,003.80**	**31,333**
12. Extraordinary income		3,178,305.00		0
13. Extraordinary expenses		5,661,442.46		506
14. Extraordinary result			**– 2,483,137.46**	**– 506**
15. Taxes on income		991,746.38		1,385
16. Other taxes not included under item 8		– 13,790.77		9
			977,955.61	**1,394**
17. Profits surrendered under partial surrender agreements			**4,200,000.00**	**4,200**
18. Profits surrendered under partial surrender agreements or a profit and loss transfer agreement			**26,024,910.73**	**25,233**
19. Profit for the period			**0.00**	**0**

STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Balance sheet profit	Total equity
As of 1 January 2016	**80,640**	**75,000**	**481,314**	**276,218**	**0**	**913,172**
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	0	0	0	0	0	0
Conversion of capital	0	0	0	0	0	0
held by silent partners	0	0	0	0	0	0
Profit for the period						
As of 30 June 2016	**80,640**	**75,000**	**481,314**	**276,218**	**0**	**913,172**

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Balance sheet profit	Total equity
As of 1 January 2015	**80,640**	**75,000**	**481,314**	**276,218**	**0**	**913,172**
Capital increases	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	0
Other changes						
Allocations to the profit reserves	0	0	0	0	0	0
Conversion of capital	0	0	0	0	0	0
held by silent partners	0	0	0	0	0	0
Profit for the period						
As of 30 June 2015	**80,640**	**75,000**	**481,314**	**276,218**	**0**	**913,172**

CASH FLOW STATEMENT

in € thousands		1 January 2016 – 30 June 2016	1 January 2015 – 30 June 2015
1.	**Net result**	**0**	**0**
2.	Write-downs, value adjustments and write-ups to receivables and tangible fixed assets	19,711	59,879
3.	Increase/decrease in reserves	– 627	13,238
4.	Other non-cash expenses/income	0	0
5.	Profit/loss from the disposal of tangible fixed assets	4	– 122,826
6.	Profit to be surrendered under a profit and loss transfer agreement	26,025	25,233
7.	Other adjustments (balance)	4,222	4,131
8.	Increase/decrease of receivables from financial institutions	720,723	120,165
9.	Increase/decrease of receivables from customers	414,182	993,188
10.	Increase/decrease of securities (if not financial assets)	13,028	41,427
11.	Increase/decrease of other assets from current operations	– 76,159	54,080
12.	Increase/decrease of liabilities to financial institutions	600,109	– 1,058,897
13.	Increase/decrease of liabilities to customers	– 1,586,410	59,600
14.	Increase/decrease of securitised liabilities	51,327	– 834,336
15.	Increase/decrease of other liabilities from current operations	– 76,098	31,745
16.	Interest expenses/income	– 101,865	– 124,283
17.	Expenses/income from extraordinary items	2,483	506
18.	Income tax expenses/income	992	1,385
19.	Interest and dividend payments received	503,757	613,132
20.	Interest paid	– 379,935	– 482,180
21.	Extraordinary deposits	0	0
22.	Extraordinary disbursements	0	0
23.	Income tax payments	43	– 1,078
24.	**Cash flow from current operations (total of items 1 to 23)**	**135,512**	**– 605,891**
25.	Deposits from disposals of financial assets	241,024	1,483,527
26.	Disbursements for investments in financial assets	– 336,338	– 850,388
27.	Deposits from disposals of tangible fixed assets	1	12
28.	Disbursements for investments in tangible fixed assets	– 115	– 347
29.	Deposits from disposals of intangible fixed assets	0	0
30.	Disbursements for investments in intangible fixed assets	– 83	0
31.	Deposits from disposals from the consolidated group	0	0
32.	Disbursements for additions to the consolidated group	0	0
33.	Changes in funds from other investment activities (balance)	0	0
34.	Deposits from extraordinary items	0	0
35.	Disbursements for extraordinary items	0	0
36.	**Cash flow from investment activities (total of items 25 to 35)**	**– 95,511**	**632,804**
37.	Deposits from equity contributions by shareholders of the parent company	0	0
38.	Deposits from equity contributions by other shareholders	0	0
39.	Disbursements for equity reductions to shareholders of the parent company	0	0
40.	Disbursements for equity reductions to other shareholders	0	0
41.	Deposits from extraordinary items	0	0
42.	Disbursements for extraordinary items	0	0
43.	Dividends paid to shareholders of the parent company	0	0
44.	Dividends paid to other shareholders	0	0
45.	Other disbursements to company owners	– 22,820	– 22,311
46.	Profit and loss transfer	– 61,850	– 28,818
47.	Changes in funds from other capital (balance)	– 23,000	0
48.	**Cash flow from financing activities (total of items 37 to 47)**	**– 107,670**	**– 51,129**
49.	Cash changes in finance funds (total from 34, 36, 48)	– 67,669	– 24,216
50.	Exchange-rate and valuation-related change in finance funds	0	0
51.	Consolidation-related change in finance funds	0	0
52.	Finance funds at the start of the period	90,940	41,883
53.	**Finance funds at the end of period (total of items 49 to 52)**	**23,271**	**17,667**

CONDENSED NOTES

The figures in the tables in the condensed notes are expressed in thousand euros (€ thousands). It should be noted that the amounts quoted in the tables are rounded figures, resulting in rounding differences in some cases. Comparison values for balance sheet performance figures relate to the annual financial statements as of 31 December 2015, while comparison values for income statement performance figures relate to the interim financial statements as of 30 June 2015.

General information on accounting and valuation principles

The condensed interim financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, (Deutsche Hypo or the Bank) as of 30 June 2016 have been prepared in accordance with the provisions of the German Commercial Code (HGB) in conjunction with the German Ordinance Regulating the Financial Reporting of Banks and Credit Institutes (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG), the German Pfandbrief Act (PfandBG) and the recommendations of the German accounting standards.

The condensed interim financial statements as of 30 June 2016 comprise the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and selected disclosures provided in the form of the condensed notes. The Bank has refrained from voluntary segment reporting. With regard to the events and circumstances in the current interim reporting period that are of relevance for an understanding of the material changes in the positions in the balance sheet and income statement as compared to the presented comparison figures, reference is made to the information in the condensed notes and the information in the economic report provided in the interim management report.

Unlike the annual financial statements for the previous year, pension provisions are no longer discounted on the basis of the average market interest rate for the last seven years, but rather the last ten years as a result of the new requirement of Section 253 (2) clause 1 of the HGB, which applies to financial years ending after 31 December 2015. The result of this was that the newly applicable discounting rate was now higher and that the pension obligations fell accordingly as of 1 January 2016. The associated non-recurring adjustment to pension provisions which was recognised in the income statement with € 3,178 thousand was reported under extraordinary income.

As of the balance sheet date of 30 June 2016, use was also made of the option to add the remaining shortfall arising from the application of Art. 67 (1) of the Introductory Act to the German Commercial Code (EGHGB) in full to the pension provisions in connection with the measurement of pension obligations under the BilMoG. In addition to the planned derecognition of the € 285 thousand shortfall in the first half of 2016, this also gave rise to an extraordinary expense of € 4,846 thousand.

Beyond the above, the accounting, valuation and measurement methods for the preparation of the annual financial statements to 31 December 2015 were applied in unchanged form.

As a result of the previous amendment in the annual financial statements as of 31 December 2015 in the reporting of the expenses arising from contributions to the restructuring funds for financial institutions (bank levy) under the item “General administrative expenses”, the previous year's figures as of 30 June 2015 were to be adjusted as follows, with these amounts for the contributions payable for 2016 already having been fully paid as of 30 June 2015 and recognized as an expense:

in € thousands	before adjustment	adjustment	after adjustment
6. General administrative expenses	33,826	11,700	45,526
8. Other operating expenses	15,764	– 11,700	4,064

Due to the fiscal tax unit on account of the profit and loss transfer agreement between Deutsche Hypo and Norddeutsche Landesbank Girozentrale (Anstalt öffentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB), Deutsche Hypo only reports income taxes that relate to financial years up to and including 2012 or that relate to a foreign branch. These have been calculated on the basis of the anticipated taxable result at the applicable income tax rate and have been recognized at the corresponding proportion. The profit and loss transfer reported in item 18 of the income statement as of 30 June 2016 has not taken place yet because it is governed by the result at the end of the financial year. For this reason, the amount reported therein has been added to the provisions. This provision also includes the above-mentioned positive interest rate change effect arising from the new regulation of Section 253 (2) clause 1 of the HGB. While this provision is prohibited from being distributed as a dividend in accordance with Section 253 (6) of the HGB, it is not prohibited from being included in a profit transfer according to the wording of Section 301 of the AktG. It is therefore included in the provisions relating to the profit and loss transfer in order to represent the correct performance of the profit and loss transfer agreement.

Notes on the balance sheet

Receivables from financial institutions and customers

in € thousands	30.06.2016	31.12.2015
Receivables from financial institutions		
Breakdown of residual maturities		
- due daily	1,368,112	1,227,938
- up to three months	32,745	233,085
- between three months and one year	121,788	718,008
- between one year and five years	331,055	389,527
- more than five years	203,138	208,983
- proportionate interest in total	189,756	270,967
Balance sheet item	**2,246,594**	**3,048,508**
Receivables from customers		
Breakdown of residual maturities		
- up to three months	527,742	728,460
- between three months and one year	1,548,774	1,974,216
- between one year and five years	6,206,751	6,083,091
- more than five years	7,770,421	7,730,389
- proportionate interest in total	78,386	115,640
Balance sheet item	**16,132,074**	**16,631,796**

Bonds and other fixed interest securities

For securities in fixed assets with a carrying value of € 557.9 million (2015: € 1,181.7 million) and a fair value of € 510.7 million (2015: € 1,117.1 million), a write-down of € 47.2 million (2015: € 64.6 million) calculated as the lower of cost or market value was not applied. In these cases, the Bank does not anticipate a long-term impairment, since a review of the credit rating of the issuers in question did not reveal any signs that a long-term impairment was justified.

Liabilities to financial institutions or customers as well as securitised securities

in € thousands	30.06.2016	31.12.2015
Liabilities to financial institutions		
Breakdown of residual maturities		
- due daily	569,018	380,396
- up to three months	2,460,903	2,076,936
- between three months and one year	914,509	1,252,099
- between one year and five years	1,251,544	992,207
- more than five years	328,188	285,338
- proportionate interest in total	184,205	243,000
Balance sheet item	**5,708,367**	**5,229,976**
Liabilities to customers		
Breakdown of residual maturities		
- due daily	4,177	6,047
- up to three months	335,890	975,746
- between three months and one year	915,127	1,216,497
- between one year and five years	1,793,393	1,837,143
- more than five years	3,931,567	4,531,102
- proportionate interest in total	122,257	165,095
Balance sheet item	**7,102,411**	**8,731,630**
Securitised liabilities		
- due in the following year	2,218,343	3,004,662

Contingent liabilities and other obligations

in € thousands	30.06.2016	31.12.2015
Liabilities arising from sureties and guarantee agreements	**1,053,909**	**1,126,952**
of which credit default swaps	879,839	939,219
of which sureties in the mortgage business	174,070	187,733

Other obligations amounting to € 1,258.7 million (2015: € 1,245.0 million) are reported on the off-balance sheet and involve solely irrevocable credit commitments from mortgage loans.

Notes on the income statement

Other operating income

Other operating income totalled € 960 thousand (2015: € 1,950 thousand) and mainly included income from the release of provisions, income from foreign currency valuation and ongoing income from leases.

Other operating expenses

Other operating expenses of € 2,682 thousand (2015: € 4,064 thousand) mainly included expenses in connection with the discounting of provisions (pension provisions in particular) and expenses for buildings let to third parties.

Extraordinary income

Extraordinary income of € 3,178 thousand (2015: € 0 thousand) was generated from the release of pension provisions due to the increased discounting rate resulting from the new version of Section 253 (2) clause 1 of the HGB regarding the valuation of pension provisions.

Extraordinary expenses

Extraordinary expenses of € 5,661 thousand (2015: € 506 thousand) were mainly attributable to the addition of the full remaining shortfall of € 4,846 thousand to the pension provisions as per Art. 67 (1) clause 1 of the EGHGB and to the implementation of measures related to the efficiency improvement programme SIGN.

Other disclosures

Disclosures regarding cover analysis

The quarterly disclosures required pursuant to Section 28 of the PfandBG are available on the Bank's website at www.deutsche-hypo.de.

Changes on the Board of Managing Directors

Mr Andreas Pohl, formerly the speaker of the Board of Managing Directors, assumes the role of Chairman of the Board of Managing Directors of Deutsche Hypo as of 1 July 2016.

Ms Sabine Barthauer was also appointed to the Bank's Board of Managing Directors on 19 May 2016 by the Supervisory Board of Deutsche Hypo. She will initially serve as Executive Manager with effect of 1 July 2016 before joining the Bank's Board of Managing Directors as soon as approval is issued by the Supervisory Authorities.

Size of workfore on average

	2016	2015
Female employees	176	169
Male employees	220	222
Total	**396**	**391**

Hanover, 10 August 2016

The Board of Managing Directors

Pohl Rehfus

REVIEW REPORT

To Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover

We have reviewed the condensed interim financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and condensed notes – together with the interim management report of Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover, for the period from 1 January to 30 June 2016 that are part of the semi annual report according to § 37 w WpHG ["German Securities Trading Act"]. The preparation of the condensed interim financial statements in accordance with German principles of proper accounting and of the interim management report in accordance with the requirements of the WpHG applicable to interim management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim financial statements and on the interim management report based on our review.

We performed our review of the condensed interim financial statements and the interim management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim financial statements have not been prepared, in material respects, in accordance with German principles of proper accounting, and that the interim management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim financial statements have not been prepared, in material respects, in accordance with German principles of proper accounting or that the interim management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim management reports.

Hanover, 10 August 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thiede	Dr. Röhricht
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

RESPONSIBILITY STATEMENT

"We affirm that, to the best of our knowledge and pursuant to the applicable accounting principles for interim financial reporting, the condensed interim financial statements provide a true and fair view of net assets, financial and income position of the Bank and that the interim management report presents the business development, including the Bank's results and position, such that an accurate picture is presented, with a suitable description of the opportunities and risks relating to the probable development of the Bank in the rest of the financial year."

Hanover, 10 August 2016

The Board of Managing Directors

Pohl

Rehfus

ADDRESSES IN GERMANY AND ABROAD

Management

30159 Hanover

Osterstraße 31 · Tel.: +49 511 3045-0 · Fax: +49 511 3045-459 · www.Deutsche-Hypo.de

Domestic locations

60311 Frankfurt am Main

Goetheplatz 2 · Tel.: +49 69 2193518-13 · Fax: +49 69 2193518-15

20457 Hamburg

Brodschrangen 4 · Tel.: +49 40 37655-310 · Fax: +49 40 37655-305

30159 Hanover

Osterstraße 31 · Tel.: +49 511 3045-591 · Fax: +49 511 3045-599

80538 Munich

Widenmayerstraße 15 · Tel.: +49 89 512667-0 · Fax: +49 89 512667-25

Foreign locations

UK: London EC2V 7WT

One Wood Street · Tel.: +44 207 4294700 · Fax: +44 207 4294701

France: 75002 Paris

23, rue de la Paix · Tel.: +33 1 550484-85 · Fax: +33 1 550484-89

The Netherlands: 1077 XX Amsterdam

Strawinskylaan 625 · Tower B, Level 6 · Tel.: +31 20 6914551 · Fax: +31 20 6919811

Poland: 00-021 Warszawa

ul. Chmielna 25 · Tel.: +48 22 8280253 · Fax: +48 22 6924428

Supervisory body

European Central Bank (ECB) · Kaiserstraße 29 · 60311 Frankfurt am Main

Bundesanstalt für Finanzdienstleistungsaufsicht · Graurheindorfer Straße 108 · 53117 Bonn

DEUTSCHE HYPO

Member of NORD/LB

Deutsche Hypothekenbank
(Actien-Gesellschaft)
Osterstraße 31
30159 Hannover
Telefon +49 511 3045-0
Telefax +49 511 3045-459
Mail@Deutsche-Hypo.de
www.Deutsche-Hypo.de