DEUTSCHE HYPO
Member of NORD/LB

Half-yearly Financial Report

2018

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.-30.06.2018	01.01.-30.06.2017	Change (in %)
New business figures			
Commercial real estate finance business	1,402.9	2,116.2	– 33.7
Domestic finance	1,049.4	1,313.4	– 20.1
Foreign finance	353.5	802.8	– 56.0
Funding volume	1,626.8	2,247.9	– 27.6
Mortgage Pfandbriefe	1,203.0	628.0	91.6
Unsecured	423.8	1,619.9	– 73.8

in € millions	30.06.2018	31.12.2017	Change (in %)
Portfolio figures			
Commercial real estate finance business	12,116.3	12,077.1	0.3
Domestic finance	7,116.9	7,079.6	0.5
Foreign finance	4,999.4	4,997.5	0.0
Loans to local authorities	2,942.2	3,892.5	– 24.4
Securities	4,795.7	5,489.9	– 12.6
Funding capital	19,786.8	22,254.0	– 11.1
Mortgage Pfandbriefe	8,731.7	8,414.1	3.8
Public Pfandbriefe	3,950.9	4,490.4	– 12.0
Unsecured	2,058.5	2,677.4	– 23.1
Other liabilities	5,045.7	6,672.1	– 24.4
Equity *)	1,232.1	1,252.1	– 1.6
Balance sheet total	21,257.8	23,698.3	– 10.3

in € millions	01.01.-30.06.2018	01.01.-30.06.2017	Change (in %)
Income figures			
Net interest income	89.0	98.6	– 9.7
Net commission income	– 0.4	0.2	<– 100.0
Administrative expenses **)	50.3	46.0	9.3
Risk result	– 3.0	– 19.5	84.6
Income from securities and participatory interest	0.2	0.7	– 71.4
Result from normal operations	33.9	35.2	– 3.7
Extraordinary result	0.1	0.5	– 80.0
Interest on investments by silent partners	0.0	3.5	– 100.0
Profit before taxes and profit and loss transfer agreement	34.0	32.3	5.3

in %	30.06.2018	30.06.2017
Other information		
Cost-Income-Ratio	57.8	46.0

*) 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 annual report of Deutsche Hypo is also available in German. In the event of any descrepancy, the German version shall prevail.

HALF-YEARLY FINANCIAL REPORT 2018

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

Eurozone growth declined year-on-year. In real terms, the real gross domestic product only expanded at quarterly rates of 0.4 % and 0.3 % in the first half of the year. Economic growth was slowed by a number of temporary effects such as strikes, an outbreak of influenza and general weather conditions. In spite of this, the rate of unemployment continued to decline and stood at 8.3 % at the midway point of the year. The rate of inflation rose to 2.1 % in July, its highest level since the end of 2012.

In Germany, economic performance increased with a similar level of momentum to the eurozone. Real gross domestic product expanded by 0.3 % quarter-on-quarter in the first quarter and is likely to have grown by a slightly higher margin in the second quarter. The primary factor in the upswing in terms of consumer prices was the rise in energy prices through to the midway point of the year. Domestic demand, particularly private consumption and construction investment, remained the most important pillar of growth. The increase in employment figures continued, with the seasonally adjusted number of people in work rising to some 44.8 million at the midway point of the year. The rate of inflation was over 2.0 % at the end of June 2018.

Development of target real estate markets

The global real estate market remained in robust shape in the first half of 2018. Global commercial transaction volume amounted to around € 292 billion in this period (2017: approx. € 260 billion).

In spite of the real estate cycle already being at an advanced stage, solid macroeconomic conditions in Europe have resulted in persistently high demand for real estate. This has led to property prices continuing to rise and vacancy rates in Europe's key major cities remaining at an extremely low level. The construction industry continues to operate at the limits of its capacity, and this is increasingly acting as a hurdle to even better real estate market development.

Commercial transaction volume in Europe in the first half of 2018 was up year-on-year at approximately € 109.5 billion (2017: € 99.8 billion). Transaction volume in the UK increased to € 31.3 billion (2017: € 29.0 billion), in spite of matters relating to Brexit. In France, transaction volume rose by a particularly high margin to some € 13.2 billion (2017: € 7.9 billion). However, transaction volumes in the Netherlands and Spain declined to € 5.6 billion (2017: € 5.9 billion) and € 3.9 billion (2017: € 5.2 billion) respectively.

The momentum observed in the previous year continued to bolster the German commercial real estate market. Commercial transaction volume remained roughly on a par with the previous year at approximately € 25.6 billion in the first half of 2018. The top 7 cities in the country experienced particularly high demand, and saw their transaction volume increase by roughly 29.3 % to € 16.0 billion. As usual, office real estate constituted the most in-demand asset class in the first half of 2018, accounting for around 45.5 % of total commercial transaction volume. These were followed by retail real estate (18.0 %) and logistical real estate (11.0 %).

Development of international financial markets

The development of the capital markets in the first half of the year was characterised by intermittent political uncertainty. However, the ongoing expansive monetary policy pursued by key central banks continued to have a positive impact. The US Federal Reserve continued to pursue its policy of raising interest rates, however, increasing the range of Fed Funds Target Rate by 25 basis points on two separate occasions in March and June. The Federal Reserve also continued with its policy of gradually reducing the size of its balance sheet.

Unlike the Fed, the European Central Bank (ECB) has stuck by its extremely expansive monetary policy. However, the ECB announced in June that it would once again be reducing the pace of its net bond buying within the scope of the Expanded Asset Purchase Programme (EAPP), starting with a drop to € 15 billion per month in autumn 2018. Capital market rates in Europe demonstrate a clear upward trend at the start of the year. Yields on ten-year German federal bonds reached their highest point so far this year, 0.80 %, in February, but slipped back down to below 0.20 % for a short period of time in late May due to turbulence surrounding the government formation in Italy and escalating trade conflicts. The US dollar was able to benefit from the considerable tightening of US monetary policy and rising uncertainty, whereas the European currency lost value against the dollar from a high of some 1.25 USD to 1.15 USD per EUR.

Course of business at a glance

Significant influential factors and developments

Deutsche Hypo's business was again affected by the continued intensity of competition in commercial real estate financing during the first half of the financial year. In this ongoing challenging environment and also against the backdrop of efforts to uphold quality and profitability requirements for new loan approvals, Deutsche Hypo was unable to achieve its own forecast regarding new business volume. Detailed information on the development of new business in the core business area is presented in the following section. Despite the sluggish development of new business, the bank still maintained its real estate financing portfolio at the same level as the previous year thanks to a reduction in early repayments.

Positive macroeconomic conditions and a risk-conscious approach to lending that has been in place for years continued to ensure that risk key figures remained good. Portfolio quality remained high in the core business area, with the share of financing in default in relation to the overall portfolio declining once again. Accordingly, the positive risk result once again had an extremely positive effect on the Bank's income performance. The strategy pursued over the past few years of only concluding new business with a sufficiently good risk profile continued to pay off.

Uncertainty surrounding the impending departure of the UK from the European Union continues to force Deutsche Hypo to exercise caution on the important British real estate market. The Bank has further reduced new business volume in the current financial year but, given the high quality of the financing portfolio in the UK, still believes that it is well-positioned in this market. Deutsche Hypo is well prepared for the outcome of ongoing Brexit negotiations, with a number of possible courses of action. As at 30 June 2018, Brexit has not had any impact on the net assets, financial and income position with the exception of a lower new business volume.

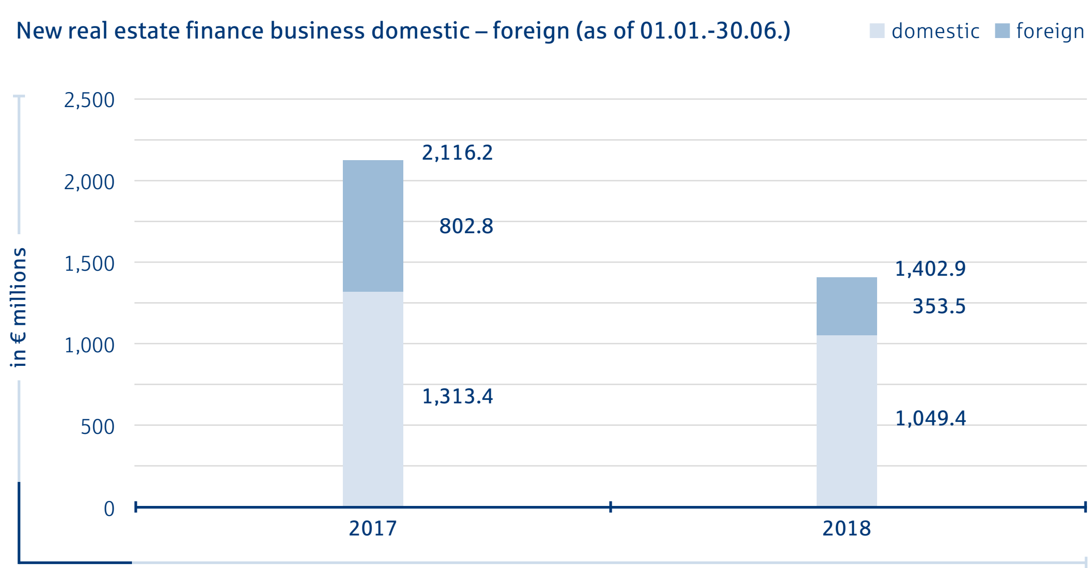
The Bank continued its strategic portfolio reduction in capital market business. The funding of Deutsche Hypo, which is also allocated to the capital market business, was carried out as planned in the first half of the year. The Bank also issued a Pfandbrief in British pounds for the first time. For detailed information please refer to the explanations regarding funding activities.

Regulatory requirements continued to necessitate the implementation of significant measures in various areas of Deutsche Hypo. In addition, the Bank also made a number of investments in its organisational and technical infrastructure. As expected, this resulted in higher administrative expenses.

Development of new business in the core business area

Deutsche Hypo was unable to achieve the forecast new business targets in the first half of the financial year. In a market environment that continues to be characterised by fierce competition, the Bank generated a new business volume of € 1,402.9 million (2017: € 2,116.2 million). As in previous years, Deutsche Hypo remained focused on lending quality while maintaining a good risk profile and attractive profitability.

New real estate finance business domestic – foreign (as of 01.01.-30.06.)



The majority of new business, € 1,049.4 million (2017: € 1,313.4 million) was once again concluded in Germany. Due to political uncertainty in some international markets and the resulting caution exercised in relation to lending activities, new business volume abroad declined by a greater margin to € 353.5 million (2017: € 802.8 million). In terms of these international markets, Benelux generated the most notable share of new business volume of € 171.8 million (2017: € 357.7 million). Uncertainty surrounding the effects of Brexit meant that particular caution was exercised in the UK. Deutsche Hypo has concluded just € 37.7 million of new business in this market so far this year (2017: € 253.1 million).

Of the total new commitments in real estate finance (domestic and foreign), € 565.0 million (2017: € 712.1 million) was attributable to office real estate and € 341.0 million (2017: € 700.7 million) to retail real estate. New business involving residential real estate came to € 275.2 million (2017: € 387.2 million), while other real estate with a total of € 221.8 million (2017: € 316.3 million) was financed.

Funding activities

Deutsche Hypo realised adequate funding for new business by issuing own securities with a volume of € 1,626.8 million (2017: € 2,247.9 million), of which € 1,203.0 million (2017: € 628.0 million) were mortgage Pfandbriefe and € 423.8 million (2017: € 1,619.9 million) were unsecured bonds. The mortgage Pfandbriefe were primarily issued in benchmark format, while sales of unsecured bonds were carried out by means of private placements. The Pfandbrief benchmarks comprise one new issue of € 500 million, one tap of € 250 million and one debut issue in pound sterling of £ 355 million.

Rating

	Mortgage Pfand-briefe	Public Pfandbriefe	Short-term rating	Senior unsecured preferred	Junior/Senior unsecured non-preferred	Baseline Credit Assessment (BCA)
Moody’s	Aa1	Aa2	Prime-2	Baa2 Outlook: negative until 3 August 2018: –	Ba1 until 3 August 2018: Baa3 Outlook: negative	b2

Deutsche Hypo’s ratings remained unchanged in the first half of 2018. However, on 3 August 2018, rating agency Moody’s published a new Bank rating methodology in response to the implementation of the EU Bank Recovery and Resolution Directive into German law.

As part of the changes to the liability cascade, the senior unsecured debt class was divided into two new debt classes: senior unsecured preferred and junior/senior unsecured non-preferred. All bonds issued by Deutsche Hypo prior to the implementation of the law fall under the junior/senior unsecured non-preferred debt class from 21 July 2018 and are rated Ba1. The senior unsecured preferred debt class received the better Baa2 rating. The very good Aa1 rating for Deutsche Hypo’s mortgage Pfandbriefe was confirmed.

Sustainability ratings

	imug
Sustainability rating	positive BB
Mortgage Pfandbriefe	positive BB
Public Pfandbriefe	positive BBB

Oekom research
Overall Score C+
Investment Status „Prime“
„Industry Leader“

In March 2018, the sustainability rating agency imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH reevaluated the Bank as part of its annual cycle. Its ratings put Deutsche Hypo in second position of all evaluated mortgage banks (a total of 26) and in twelfth position out of all European banks (a total of 186). The positive ratings are a testament to the progress the Bank has made in terms of its sustainability management.

Net assets, financial and income position

Income position

in € millions	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	
	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	89.0	98.6	78.6	86.8	6.5	5.9	3.9	5.9
Net commission income	– 0.4	0.2	0.0	0.5	– 0.3	– 0.3	0.0	0.0
Administrative expenses	50.3	46.0	23.2	21.3	3.3	3.1	23.8	21.6
Other operating income	– 1.6	1.2	0.4	0.2	0.0	0.0	– 2.0	1.0
Risk result	– 3.0	– 19.5	12.4	– 2.3	– 8.3	– 0.2	– 7.0	– 17.0
Income from securities and participatory interest	0.2	0.7	0.0	0.0	0.2	0.7	0.0	0.0
Result from normal operations	**33.9**	**35.2**	**68.1**	**63.9**	**– 5.2**	**2.9**	**– 28.9**	**– 31.7**
Extraordinary result	0.1	0.5	0.0	0.0	0.0	0.0	0.1	0.5
Interest on investment by silent partners	0.0	3.5	0.0	0.0	0.0	0.0	0.0	3.5
Profits before taxes and profit and loss transfer	**34.0**	**32.3**	**68.1**	**63.9**	**– 5.2**	**2.9**	**– 28.9**	**– 34.6**
CIR	57.8 %	46.0 %	29.4 %	24.3 %	53.2 %	55.6 %	> 100.0 %	> 100.0 %
RoRaC / RoE *)	8.0 %	7.6 %	26.0 %	23.7 %	– 14.1 %	4.5 %	<– 100.0 %	<– 100.0 %

*) on business area level disclosure of Return on Risk Adjusted Capital (RoRaC), on level of whole bank disclosure of Return on Equity (RoE)

RoRaC business area = Profit before taxes and profit and loss transfer / fixed capital (= 12.0 % of yearly average risk-weighted assets). The previous year's figures were adjusted and also reported at 12.0 % of the average risk-weighted assets.

RoE whole bank = Profit before taxes and profit and loss transfer / yearly average of capital under commercial law (= subcribed capital + capital and profit reserves)

Deutsche Hypo generated a result from normal operations of € 33.9 million in the first half of the year (2017: € 35.2 million), which was in line with expectations. Commercial real estate finance business contributed € 68.1 million to this result (2017: € 63.9 million). As a result, the core business area managed to generate a year-on-year improvement in the first half of 2018. This was due to a positive risk result, which underlines the risk-conscious lending policy and the stable market environment. Deutsche Hypo used the positive result in the core business area to set aside further precautionary reserves. The result in capital market business of € –5.2 million (2017: € 2.9 million) was negatively influenced by effects from the repurchasing of issued Pfandbriefe in the course of market servicing.

Net interest income at the Bank as a whole totalled € 89.0 million, and was below its level of € 98.6 million in the previous year. At € 78.6 million, net interest income in the commercial real estate finance area fell short of the strong figure recorded in the previous year of € 86.8 million. This was due to the aforementioned reduction in new business volume and the pressure on margins that resulted from the competitive situation. At the same time, prepayment penalties linked to extraordinary repayments were lower than in the previous-year period. Thanks to a number of different insignificant one-off effects, capital market business generated a slight increase in net interest income year-on-year in spite of the further reduction in the portfolio. In other business, low interest rates resulted in investment income from the Bank's equity falling year-on-year as expected, leading to a year-on-year decline in net interest income.

Administrative expenses came to € 50.3 million and were higher than the figure recorded in the previous year of € 46.0 million. The rise in the bank levy to € 11.1 million (2017: € 10.0 million) played a major role in this respect. As in the previous year, it was recognised in full in profit and loss on the reporting date. In addition, Deutsche Hypo continued to strengthen its brand image and make investments in optimising the organisational and technical infrastructure, which resulted in a rise in administrative expenses. In parallel to this investment, a cost programme has also been designed to maintain the same kind of cost discipline that has proven so successful in the past. The trends presented resulted as expected in a cost-income ratio (CIR) of 57.8 % (2017: 46.0 %) that, as in the previous year, was oversubscribed intrayear by the bank levy.

Other operating income of € –1.6 million was down on the previous year's figure of € 1.2 million as one-off effects relating to amended tax assessments resulted in income in the previous year.

In the commercial real estate finance business, the consistent quality-oriented lending policy coupled with stable real estate markets led to a net release of loan loss provisions. The risk result allocated to the capital market business of € –8.3 million (2017: € –0.2 million) was primarily the result of negative effects from repurchasing own Pfandbriefe in the course of market servicing. Some of these negative factors were compensated for by positive effects from the reduction of the portfolio in capital market business. Taking into account the strengthening of precautionary reserves, the risk result from the Bank's overall perspective came to € –3.0 million (2017: € –19.5 million).

No interest for investment by silent partners has been incurred in 2018 (2017: € 3.5 million) as said investment by silent partners was repaid in the previous year.

Profit before taxes and profit and loss transfer amounted to € 34.0 million in the first half of 2018 (2017: € 32.3 million); this increase was particularly due to positive risk development. The associated RoE figure was 8.0 % (2017: 7.6 %) and therefore demonstrated better development than anticipated. Good profitability in core business was reflected in the RoRaC figure, which once again was extremely positive at 26.0 % (2017: 23.7 %).

Net assets

in € millions	30.06.2018	31.12.2017
Receivables		
Mortgage loans	12,116.3	12,077.1
Loans to local authorities	2,942.2	3,892.5
Other receivables	1,060.0	1,392.2
Securities	4,795.7	5,489.9
Other assets	343.6	846.6
Total assets	**21,257.8**	**23,698.3**

Deutsche Hypo's total assets decreased significantly compared to the end of 2017, to € 21,257.8 million (2017: € 23,698.3 million). The primary reason for this was portfolio reduction in capital market business, which was achieved through decreases in loans to local authorities and securities. Besides running off securities, the Bank also managed to sell securities in the reporting period as part of its active portfolio management strategy that is aimed at further reducing the volume of risk-weighted assets and credit spread risks. No new business was conducted in accordance with the strategy. The quality of the capital market portfolio remained at the same high level as the previous year. For more information, please see the explanations regarding counterparty risk in the expanded risk report in this interim management report.

In the core business area of commercial real estate finance, portfolios failed to meet expectations of a slight year-on-year increase and remained roughly on a par with the previous year as of the reporting date at € 12,116.3 million (2017: € 12,077.1 million). This stable development was due to new business not matching expectations, and particularly to a fall in early repayments compared to the previous period. The portfolio of irrevocable credit commitments remained stable at a high level of € 1,385.2 million (2017: € 1,378.7 million). The domestic finance portfolio also remained almost unchanged at € 7,116.9 million (2017: € 7,079.6 million), as did portfolios in foreign target markets at € 4,999.4 million (2017: € 4,997.5 million). In terms of the foreign portfolio, the greatest share of € 1,766.1 million (2017: € 1,805.0 million) continued to be attributable to the Benelux target market. The portfolio in the UK amounted to € 1,453.1 million (2017: € 1,425.7 million), while the finance portfolio in France declined to € 925.0 million (2017: € 1,005.8 million).

In terms of the financed property classes, there were minor shifts towards residential real estate. The residential portfolio rose in volume to € 2,052.1 million (2017: € 1,923.1 million). The financing portfolio for other real estate also increased to € 1,711.5 million (2017: € 1,484.9 million). The office real estate portfolio declined in volume to € 4,375.0 million (2017: € 4,460.0 million), while the portfolio of retail real estate fell to € 3,977.7 million (2017: € 4,209.1 million).

The quality of the real estate finance portfolio with regard to the average rating remained at a good level as a result of the quality-oriented lending policy and active portfolio management that have been practised for years at the bank. The proportion of financing in default and specific loan loss provisions declined even further to a very low level. For detailed information about the development of ratings, please see the explanations regarding counterparty risk in the expanded risk report in this interim management report.

Financial position

in € millions	30.06.2018	31.12.2017
Liabilities		
Mortgage Pfandbriefe	8,731.7	8,414.1
Public Pfandbriefe	3,950.9	4,490.4
Unsecured bonds	2,058.5	2,677.4
Other liabilities	5,045.7	6,672.1
Subordinated liabilities	379.5	379.5
Jouissance right capital	0.0	20.0
Funds for general banking risks	14.4	14.4
Equity	838.2	838.2
Other liabilities	238.9	192.2
Total liabilities	**21,257.8**	**23,698.3**
Contingent liabilities	524.7	502.2
Other obligations	1,385.2	1,378.7

In terms of balance sheet total, the reduction in total liabilities was primarily due to amounts becoming due that were attributable to public Pfandbriefe currently in circulation and unsecured bonds as well as a reduction in liabilities from money market transactions. The Bank repurchased own securities, as it has done in the past, in the course of marketing servicing activities. Issuing activities in the current financial year have resulted in a rise in the portfolio of mortgage Pfandbriefe.

Balance sheet equity remained unchanged at € 838.2 million in comparison to 31 December 2017. Deutsche Hypo transfers all profits to NORD/LB on the basis of the control and profit and loss transfer agreement. Total balance sheet equity, plus jouissance right capital, subordinated liabilities and the funds for general banking risks pursuant to Section 340g German Commercial Code (HGB) declined to € 1,232.1 million year-on-year (2017: € 1,252.1 million), primarily due to the full repayment of jouissance rights. Please refer to the statements in the expanded risk report to this interim management report with regard to regulatory equity resources.

Contingent liabilities rose to € 524.7 million (2017: € 502.2 million) as a result of new commitments in the guarantee business. Other liabilities, solely resulting from irrevocable credit commitments, remained practically unchanged at € 1,385.2 million (2017: € 1,378.7 million).

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

Deutsche Hypo's business development was satisfactory in the first half of 2018. In a market environment that continued to be characterised by fierce competition as well as political uncertainty in some international markets, the Bank was not able to achieve its own new business targets while maintaining its high standards of quality when it comes to new lending. Despite this, the Bank still maintained its portfolio in the core business area and maintained high portfolio quality, as in the prior year. In the capital market business, Deutsche Hypo continued to reduce its public-sector finance portfolio according to plan. Funding has progressed in line with demand so far this year and at competitive terms and conditions.

At the same time, Deutsche Hypo generated a solid result for the bank as a whole in the first half of 2018, which continued to be primarily influenced by commercial real estate finance business. Stable real estate markets continued to offer good risk key figures, with correspondingly positive effects on the risk result in the core business area. This was able to compensate for the decline in net interest income and the planned rise in administrative expenses. Deutsche Hypo used the positive result in the core business area to set aside further precautionary reserves.

Report on subsequent events

There were no events of particular significance that occurred after the end of the interim reporting period and which 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 framework conditions

Forecast for economic development

The German economy lost some momentum compared to the previous year, but remains on a path of expansion. Following the downturn in the first half of 2018, with a significant decline in the GDP growth rate compared to the previous year, it appears as if economic growth will continue in the second half of 2018. The research/economy department at NORD/LB therefore only expects economic output to grow by 1.9 %.

The macroeconomic prospects for the eurozone have also deteriorated somewhat. Generally speaking, the sentiment indicators published by the European Commission point to a moderate rate of growth. The decline in unemployment is set to continue. NORD/LB now expects real economic growth of 2.1 % for the year overall in comparison with the previous year. Monetary policy will remain extremely expansive to begin with, creating a favourable monetary environment.

Forecast for the development of the target real estate markets

All in all, the fundamental framework for the global commercial real estate market will remain robust in 2018, even though investors are becoming increasingly concerned in the face of the advanced real estate cycle and political uncertainty. Against the backdrop of scarce supply, global commercial transaction volume is expected to remain on a par with the previous year (€ 583 billion) in financial year 2018.

Despite a range of geopolitical uncertainty factors, indications on the European real estate market in 2018 continue to point to growth. The fundamental framework conditions remain positive and are generating a tailwind for the industry. Demand in office real estate markets should continue to develop robustly overall, with a lack of equilibrium between supply and demand set to continue to apply in large cities and cause vacancy rates to fall further.

This positive development on the German real estate market is set to continue. In 2018, commercial transaction volumes are expected to reach approximately € 55.0 billion (2017: € 56.8 billion). Office real estate are only expected to see a minor decline in yields, as the market has already bottomed out to a certain extent in this regard. Investors are focusing more and more on potential rent increases, particularly in this asset class. Pressure on yields is expected to continue, especially in alternative locations in A cities and with regard to logistics real estate.

Forecast for development of international financial markets

The US Federal Reserve is expected to continue its moderate rise in prime rates in the second half of 2018 and gradually reduce its balance sheet total. However, NORD/LB only expects one further interest rate rise before the year is out. On the other hand, the European Central Bank (ECB) is continuing its extremely expansive monetary policy and, according to its latest announcements, is only set to stop net purchases within the scope of the ECB's Expanded Asset Purchase Programme (EAPP) by the end of 2018. If there is no further deterioration in the economic data, September 2019 is likely to see an initial rise in benchmark rates – probably in relation to the deposit facility rate. A further increase in capital market rates is expected over the next few months. The yield on ten-year German federal bonds should rise to 0.70 % by the end of 2018. NORD/LB predicts a US dollar exchange rate of 1.20 USD/EUR over the next twelve months.

Business performance and forecast

The following section concerns new business and income performance compared to the forecast published in the 2017 management report.

As stated above, Deutsche Hypo was unable to meet its target new business figures in the first half of 2018. The forecast for the end of 2018 has been adjusted to take into account the failure to achieve the previous year's figures. However, given that a lower volume of repayments has been recorded in 2018, the portfolio remained on a par with the previous year overall as at the reporting date. Against this backdrop, the real estate financing portfolio is expected to remain stable compared to 2017 as at the end of 2018 – and not increase slightly year-on-year, as was originally forecast.

Deutsche Hypo confirms its income forecast and continues to expect a solid result from normal operations, which is expected to fall just short of the previous-year figure at € 62.7 million. Accordingly, RoE is also expected to be on a par with the previous year. The core business of commercial real estate finance, which is forecast to contribute the largest income share, is expected to generate a solid result by the end of the year. An excellent risk result is set to be achieved as at the end of 2018 due to the high level of quality of the real estate finance portfolio. It could more than compensate for income development failing to match expectations.

Administrative expenses will rise marginally year-on-year, as forecast, due to investments in the further strengthening of the Deutsche Hypo brand identity and in the organisational and technical infrastructure, therefore resulting in a slight year-on-year increase in the CIR. However, the CIR will remain positive compared to the rest of the industry. Administrative expenses are expected to fall in the long term due to the planned cost-cutting programme.

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

The opportunities and risks associated with future business development are presented in the management report as at 31 December 2017 and continue to apply.

Opportunities and risks can result from an upturn or downturn in demand for real estate finance, which results in new business volume being higher or lower than forecast. Two factors influencing demand are interest rates and economic growth. Political uncertainty in international target markets also influence investment decisions and, by consequence, also new business volume. The uncertainty fuelled by the negotiations concerning the UK's departure from the European Union must be followed closely. Deutsche Hypo does not expect to be exposed to any direct risks in the second half of 2018 by its exposure in the UK. The risk management system promptly identifies potential opportunities and risks from such developments and implements corresponding countermeasures.

Furthermore, changes to underlying conditions and the competitive situation in the commercial real estate finance market can lead to portfolios and margins performing better or worse than forecast. Changes to underlying external or internal conditions could also have an impact on the Bank's funding terms for its core business area. One noteworthy factor in this regard is the harmonisation of EU insolvency law for banks, which has resulted in the senior unsecured asset class being split up into preferred and non-preferred variations. This has resulted in ratings for these asset classes being re-evaluated. This presents an opportunity in the case of more favourable funding and a risk in the case of more expensive funding.

Unexpected developments in underlying external conditions, such as economic, geopolitical or industry-specific changes, may also have an unforeseeable and considerable positive or negative influence on the financial performance of Deutsche Hypo's capital market business. Political developments in Italy are being monitored particularly closely, and no income effect is anticipated at the current time.

Deutsche Hypo made use of the waiver rule in accordance with Art. 7 (1) CRR. This allows the Bank to ensure compliance with regulatory capital at the level of NORD/LB as the primary institute, and not at the level of Deutsche Hypo. This opens the Bank up to the risk that its opportunities for new business will be restricted by the Common Equity Tier 1 of the primary institute, discretionary judgements from regulators in this regard and decisions made by the primary institute concerning capital allocation.

Significant income effects from negative interest rates are not expected.

A planned cost-cutting and restructuring programme could also lead to restructuring expenses as the year progresses, which could impact profit before taxes as extraordinary expenses.

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 (KWG) (old version) 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 2018. 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 credit risk, market price risk and liquidity risk, and compliance with these limits is a central aspect of Deutsche Hypo's risk management system. NORD/LB has further refined its strategy for managing risk-bearing capacity at group level. A greater distinction is now made when it comes to market price risk, resulting in new and additional risk limits for Deutsche Hypo. The individual limits are compared as part of the regular monitoring of risk potential.

Counterparty risk is the focus of risk management due to the Bank's strategic orientation on its core commercial real estate finance business. The Bank deliberately manages market price and liquidity risks closely. Risks resulting from capital market business (both counterparty risks and credit spread risks) continued to be decreased in the first half of 2018 through targeted portfolio reduction. Operational risk remains of minor significance. There was no significant change to the risk profile compared to 31 December 2017.

The developments in the first half of the year for each risk type are described in detail in the following section.

Counterparty risk

Breakdown of total credit exposure by rating category

30.06.2018 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Very good to good	10,069.0	2,897.4	4,435.4	664.7	1,303.3	**19,369.8**	82.2 %
Good / satisfactory	2,483.3	0.1	329.4	0.0	0.0	**2,812.8**	11.9 %
Still good / sufficient	801.9	52.5	16.7	0.0	0.0	**871.2**	3.7 %
Elevated risk	119.2	0.0	15.9	0.0	203.2	**338.2**	1.4 %
High risk	36.4	0.0	0.0	0.0	0.0	**36.4**	0.2 %
Very high risk	10.5	0.0	0.0	0.0	0.0	**10.5**	0.0 %
Default (=NPL)	99.0	0.0	0.0	24.9	3.3	**127.2**	0.5 %
Total	**13,619.3**	**2,950.0**	**4,797.4**	**689.6**	**1,509.8**	**23,566.1**	**100.0 %**

31.12.2017 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Very good to good	10,083.0	3,849.0	5,128.9	640.0	791.7	**20,492.6**	81.5 %
Good / satisfactory	2,321.6	0.1	233.9	0.0	35.1	**2,590.7**	10.3 %
Still good / sufficient	765.4	51.2	123.0	0.0	669.1	**1,608.7**	6.4 %
Elevated risk	204.9	0.0	7.8	0.0	15.0	**227.8**	0.9 %
High risk	30.8	0.0	0.0	0.0	2.3	**33.1**	0.1 %
Very high risk	11.4	0.0	0.0	0.0	0.0	**11.4**	0.0 %
Default (=NPL)	164.9	0.0	0.0	24.2	0.0	**189.1**	0.8 %
Total	**13,582.2**	**3,900.3**	**5,493.6**	**664.2**	**1,513.2**	**25,153.4**	**100.0 %**

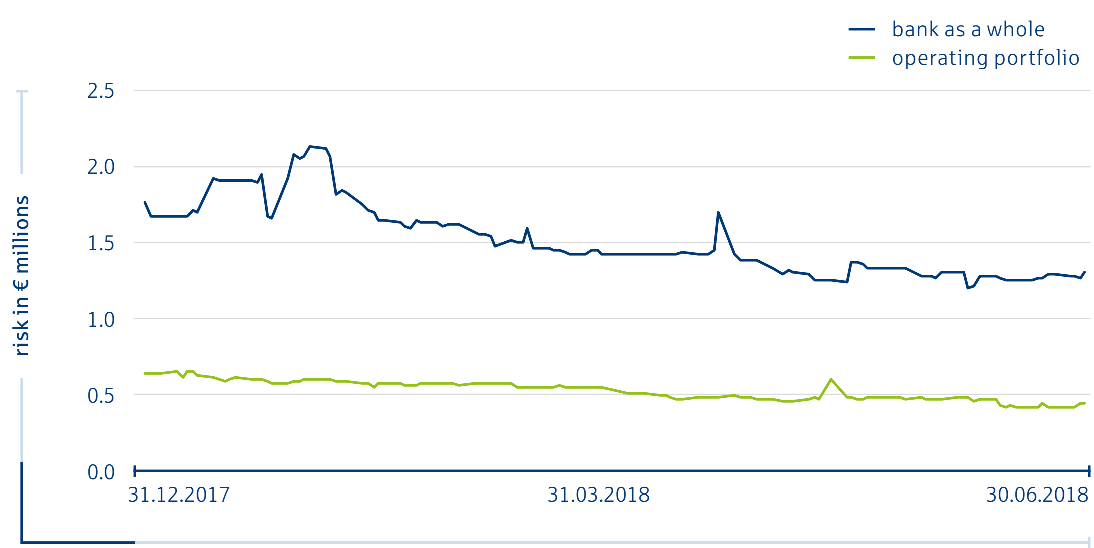
Total credit exposure declined in the first half of 2018 compared to the reporting date of 31 December 2017, in line with the portfolio development described in the section net assets. The breakdown according to rating categories confirms the high quality of the entire Deutsche Hypo finance portfolio. The share of financing with a rating of at least satisfactory amounted to 97.8 % of the total exposure (2017: 98.2 %), remaining at a solid level. The share of non-performing loans (NPL) fell to 0.5 % of total exposure (2017: 0.8 %) and remained at a very low level. This corresponds to an absolute decline in NPL volume of € 61.9 million to € 127.2 million (2017: € 189.1 million).

In the core business area, the share of financing with a rating of at least satisfactory improved slightly once again to 98.1 % (2017: 97.0 %). At the same time, the share of real estate financing in default followed the trend of recent years by declining to 0.7 % (2017: 1.2 %) of the overall portfolio in the core business area.

Market price risk

The value-at-risk (VaR) for interest rate risks for the Bank as a whole fluctuated in the reporting period between € 1.2 million and € 2.1 million with an average value of € 1.5 million. The development of the entire Bank's VaR over time (95 % confidence level, 1 day holding period) and the VaR of the operating portfolio (excluding equity employed) is outlined in the following chart. This chart does not include credit spread risks.

Value-at-risk interest rate risks (95 %/1 day)



The assumption of interest rate risks plays a minor role for Deutsche Hypo from a risk strategy perspective. Interest rate risks for Deutsche Hypo declined slightly in the first half of the year. The value-at-risk as of 30 June 2018 continued to arise largely as a result of the investment of the perpetual equity and, still only to a minor extent, from the operating business.

The Bank successfully continued to reduce items in the banking book portfolio exposed to credit spread risks in the first half of 2018. As a result, the portfolio's nominal volume fell significantly by some € 1.6 billion to roughly € 7.7 billion. At the same time, political developments in Italy in the first half of 2018 led to an increase in the spread on Italian government bonds.

Liquidity risk

In the first half of 2018, Deutsche Hypo again had excellent access to money 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. The distance to illiquidity as at 30 June 2018 was over 365 days (2017: 265 days) and therefore in line with internal requirements.

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. The Bank's liquidity coverage ratio (LCR) as of the end of June 2018 stood at 262 %, significantly exceeding the minimum ratio under regulatory requirements of 100 %. Minimum values for the LCR were not breached throughout the entire reporting period.

Operational risk

There were no incidences of operational risk leading to significant losses in the reporting period.

Regulatory equity resources

Due to the exercising of the waiver rule, the obligations to provide individual bank reports and comply with the equity and capital requirements in accordance with CRR, part 2 and 3, do not apply to Deutsche Hypo on the level of the individual institute. For the reports on the equity resources on the Group level pursuant to IFRS and for internal controlling pursuant to HGB, Deutsche Hypo calculates, after exercising the waiver rule, the equity and risk-weighted assets (RWA) that are consolidated in the reports prepared by NORD/LB for the Group. In addition, the Bank has calculated an equity ratio on the basis of HGB that compares all existing capital components pursuant to Art. 4 (1) No. 71 CRR at individual bank level against the equity requirements of Deutsche Hypo as calculated according to regulatory requirements.

According to this calculation, a total of € 1,090.3 million (2017: € 1,123.0 million) was eligible for recognition under regulatory minimum capital requirements. This mild decline in equity was offset by a 0.8 % fall in risk-weighted assets. As a result, the equity ratio stood at 19.9 % as at 30 June 2018 (2017: 20.3 %).

Summary and outlook

There was further improvement in the key quality criteria and risk parameters for the Deutsche Hypo real estate financing portfolio compared to 31 December 2017. New business was also 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.

Once again, there was a significant reduction in the capital market portfolio in the reporting period. Measures initiated some time ago to reduce the capital market portfolio while maintaining the result were continued.

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 2017. 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 challenges ahead.

Hanover, 14 August 2018

The Board of Managing Directors

Barthauer

Rehfus

HALF-YEARLY FINANCIAL STATEMENTS AS OF 30 JUNE 2018

Balance Sheet as of 30 June 2018

Income Statement for the period from 1 January to 30 June 2018

Statement of changes in equity

Cash flow statement

Condensed Notes

BALANCE SHEET AS OF 30 JUNE 2018

ASSETS

	€	€	€	31 December 2017 (in € thousands)
1. Cash reserve				
b) Credit with central banks		147,043,397.61		648,151
of which:				
with the "Deutsche Bundesbank"				
€ 147,043,397.61 (PY € 648,151 thousand)				
			147,043,397.61	648,151
2. Receivables from financial institutions				
a) Mortgage loans		9,935,429.57		10,582
b) Loans to local authorities		351,237,189.49		487,081
c) Other receivables		1,044,463,663.01		1,375,328
of which: due daily				
€ 675,725,338.80 (PY € 773,251 thousand)				
			1,405,636,282.07	**1,872,991**
3. Receivables from customers				
a) Mortgage loans		12,106,321,197.17		12,066,514
b) Loans to local authorities		2,591,011,382.81		3,405,403
c) Other receivables		15,489,277.07		16,868
			14,712,821,857.05	**15,488,785**
4. Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers	2,281,254,675.36			2,847,185
of which:				
lendable to the "Deutsche Bundesbank"				
€ 1,493,660,574.29 (PY € 1,533,444 thousand)				
bb) from other issuers	2,514,418,491.18			2,642,680
of which:				
lendable to the "Deutsche Bundesbank"				
€ 2,343,039,744.44 (PY € 2,365,299 thousand)				
		4,795,673,166.54		
c) Own bonds		25,809,209.95		26,650
Nominal amount :				
€ 25,590,000.00 (PY € 26,479 thousand)				
			4,821,482,376.49	**5,516,515**
5. Intangible assets				
b) Purchased licenses, industrial property rights, as well as licenses to such rights and assets		1,311,049.78		595
d) Payments made on account		243,307.40		1,056
			1,554,357.18	**1,651**
6. Tangible assets			**1,945,906.15**	**2,146**
7. Other assets			**117,284,755.49**	**118,968**
8. Accrued and deferred items				
a) from the issue and loan transaction		43,486,408.46		40,530
b) others		6,504,596.83		8,532
			49,991,005.29	**49,062**
Total assets			**21,257,759,937.33**	**23,698,269**

LIABILITIES

	€	€	€	31 December 2017 (in € thousands)
1. Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		173,701,973.43		276,014
b) Issued registered public Pfandbriefe		266,715,864.84		283,487
c) Other liabilities		2,019,413,959.58		3,117,686
of which: due daily				
€ 259,052,892.35 (PY € 339,357 thousand)				
			2,459,831,797.85	**3,677,187**
2. Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		702,789,119.22		684,296
b) Issued registered public Pfandbriefe		3,541,811,873.11		3,825,684
d) Other liabilities		3,026,325,110.21		3,554,438
of which: due daily				
€ 6,838,773.04 (PY € 1,448 thousand)				
			7,270,926,102.54	**8,064,418**
3. Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	7,855,249,244.19			7,453,756
ab) public Pfandbriefe	142,325,271.36			381,203
ac) other bonds	2,058,484,584.27			2,677,420
		10,056,059,099.82		
			10,056,059,099.82	**10,512,379**
4. Other liabilities			**81,922,867.27**	**62,564**
5. Accrued and deferred items				
a) from the issue and loan transaction		27,091,572.71		31,125
b) other		13,166,643.85		13,605
			40,258,216.56	**44,730**
6. Provisions				
a) Provisions from pensions				
and similar obligations		48,986,409.86		48,373
b) Tax provisions		2,103,974.16		2,796
c) Other provisions		65,599,846.08		33,750
			116,690,230.10	**84,919**
7. Subordinated liabilities			**379,500,000.00**	**379,500**
8. Jouissance right capital			**0.00**	**20,000**
9. Funds for general banking risks			**14,400,000.00**	**14,400**
10. Equity				
a) Subscribed capital		80,640,000.00		80,640
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		
			838,171,623.19	**838,172**
Total liabilities			**21,257,759,937.33**	**23,698,269**
1. Contingent liabilities				
b) Liabilities arising from sureties				
and guarantee agreements		524,731,534.27		502,232
			524,731,534.27	**502,232**
2. Other obligations				
c) Irrevocable credit commitments		1,385,230,979.68		1,378,660
			1,385,230,979.68	**1,378,660**

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018

	€	€	€	€	1 January 2017 – 30 June 2017 (in € thousands)
1. Interest earnings from					
a) Credit and money market transactions					
less negative interest from money market	213,764,252.62				252,597
transactions	– 1,607,475.80				– 1,511
b) Fixed interest bearing securities and		212,156,776.82			
book-entry securities		60,918,661.03			83,555
			273,075,437.85		
2. Interest expenses					
Interest expenses from the banking business		186,470,047.79			241,331
less positive interest from the banking business		– 2,385,773.19			– 5,319
			184,084,274.60	**88,991,163.25**	
					98,629
3. Commission income			5,184,585.17		5,468
4. Commission expenses			5,548,785.48		5,310
				– 364,200.31	**158**
5. Other operating income				**1,744,748.68**	**9,244**
6. General administrative expenses					
a) Personnel expenses					
aa) wages and salaries		19,819,028.64			19,578
ab) social security and expenses for		3,815,523.97			
pension plans and for support					3,707
of which:					
for pension plans					
€ 811,747.10 (PY € 738 thousand)					
			23,634,552.61		
b) Other administrative expenses			26,200,788.84		22,367
				49,835,341.45	**45,652**
7. Write-downs and value adjustments of intangible assets and tangible fixed assets				**460,905.55**	**370**
8. Other operating expenses				**3,385,043.83**	**8,025**
9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business			2,980,656.26		19,491
				2,980,656.26	**19,491**
10. Income from write-ups of participatory interest, shares in affiliated companies and securities treated as fixed assets			214,103.77		677
				214,103.77	**677**
11. Result from normal operations				**33,923,868.30**	**35,170**
12. Extraordinary income			74,182.81		545
13. Extraordinary result				**74,182.81**	**545**
14. Taxes on income			1,273,395.16		1,073
15. Other taxes not included under item 8			8,582.40		– 40
				1,281,977.56	**1,033**
16. Profits surrendered under partial surrender agreements				**0.00**	**3,465**
17. Profits surrendered under partial surrender agreements or a profit and loss transfer agreement				**32,716,073.55**	**31,217**
18. Profit for the period				**0.00**	**0**
19. Balance sheet profit				**0.00**	**0**

STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2018	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**
Capital increase/ reduction	0	0	0	0	0	0	0	0
Allocation to/ withdrawal from reserves	0	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0	0
As of 30 June 2018	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**

in € thousands	Subscribed capital	Capital held by silent partners	Capital reserves	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2017	**80,640**	**75,000**	**481,314**	**276,218**	**0**	**0**	**0**	**913,172**
Capital increase/ reduction	0	– 75,000	0	0	0	0	0	– 75,000
Allocation to/ withdrawal from reserves	0	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0	0
As of 30 June 2017	**80,640**	**0**	**481,314**	**276,218**	**0**	**0**	**0**	**838,172**

CASH FLOW STATEMENT

in € thousands		1 January 2018 – 30 June 2018	1 January 2017 – 30 June 2017
1.	**Net result**	**0**	**0**
2.	Write-downs, value adjustments and write-ups to receivables and tangible fixed assets	8,037	21,688
3.	Increase/decrease in reserves	– 179	5,824
4.	Other non-cash expenses/income	0	0
5.	Profit/loss from the disposal of tangible fixed assets	– 42,497	– 2,829
6.	Profit to be surrendered under a profit and loss transfer agreement	32,716	31,217
7.	Other adjustments (balance)	– 1,083	2,614
8.	Increase/decrease of receivables from financial institutions	429,532	27,897
9.	Increase/decrease of receivables from customers	759,264	8,230
10.	Increase/decrease of securities (if not financial assets)	885	18
11.	Increase/decrease of other assets from current operations	– 5,459	– 53,563
12.	Increase/decrease of liabilities to financial institutions	– 1,106,854	– 1,058,399
13.	Increase/decrease of liabilities to customers	– 767,096	401,739
14.	Increase/decrease of securitised liabilities	– 447,558	219,135
15.	Increase/decrease of other liabilities from current operations	28,033	– 73,795
16.	Interest expenses/income	– 88,991	– 98,628
17.	Expenses/income from extraordinary items	– 74	– 545
18.	Income tax expenses/income	1,273	1,073
19.	Interest and dividend payments received	329,519	413,417
20.	Interest paid	– 256,398	– 311,748
21.	Extraordinary deposits	0	0
22.	Extraordinary disbursements	0	0
23.	Income tax payments	– 1,826	362
24.	**Cash flow from current operations (total of items 1 to 23)**	**– 1,128,756**	**– 466,293**
25.	Deposits from disposals of financial assets	741,876	805,413
26.	Disbursements for investments in financial assets	– 24,367	– 89,205
27.	Deposits from disposals of tangible fixed assets	3	0
28.	Disbursements for investments in tangible fixed assets	– 103	– 289
29.	Deposits from disposals of intangible fixed assets	0	0
30.	Disbursements for investments in intangible fixed assets	0	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)	– 64	– 518
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)**	**717,345**	**715,401**
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	– 13,417	– 20,568
46.	Profit and loss transfer	– 56,280	– 101,609
47.	Changes in funds from other capital (balance)	– 20,000	– 75,500
48.	**Cash flow from financing activities (total of items 37 to 47)**	**– 89,697**	**– 197,677**
49.	Cash changes in finance funds (total from 24, 36, 48)	– 501,108	51,431
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	648,151	50,541
53.	**Finance funds at the end of period (total of items 49 to 52)**	**147,043**	**101,972**

CONDENSED NOTES

The figures in the tables in the condensed notes are expressed in thousand euros (€ thousands) or million euros (€ million). It should be noted that the amounts quoted in the tables and the text 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 2017, while comparison values for income statement performance figures relate to the interim financial statements as of 30 June 2017.

General information on accounting and valuation principles

The half-yearly financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, (Deutsche Hypo or the Bank) as of 30 June 2018 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 half-yearly financial statements as of 30 June 2018 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.

Beyond the above, the accounting, valuation and measurement methods for the preparation of the annual financial statements as of 31 December 2017 were applied in unchanged form for the preparation of the half-yearly financial statements. The new Heubeck 2018 G mortality tables published in July and used to calculate pension provisions were not applied to these half-yearly financial statements. There will be an initial recognition effect in administrative expenses as at the end of the year.

Due to the fiscal tax unit on account of the profit and loss transfer agreement between Deutsche Hypo and Norddeutsche Landesbank Girozentrale (Anstalt offentlichen Rechts), Hanover, Braunschweig and Magdeburg (NORD/LB), Deutsche Hypo only reports income taxes 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 recognised at the corresponding proportion.

The profit to be transferred and recognised in item 17 of the income statement as of 30 June 2018 has not been transferred 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.

Notes on the balance sheet

Cash reserve

in € thousands	30.06.2018	31.12.2017
Balance sheet item	**147,043**	**648,151**
of which credit with the Deutsche Bundesbank	147,043	648,151

Receivables from financial institutions

in € thousands	30.06.2018	31.12.2017
Breakdown of residual maturities		
due daily	675,725	773,251
up to three months	275,335	484,803
between three months and one year	91,062	161,042
between one year and five years	12,191	64,716
more than five years	200,564	200,564
proportional interest in total	150,759	188,614
Balance sheet item	**1,405,636**	**1,872,990**

Receivables from customers

in € thousands	30.06.2018	31.12.2017
Breakdown of residual maturities		
up to three months	394,797	352,719
between three months and one year	1,422,066	1,302,346
between one year and five years	6,097,801	6,352,012
more than five years	6,742,069	7,391,308
proportional interest in total	56,089	90,400
Balance sheet item	**14,712,822**	**15,488,785**

Bonds and other fixed interest securities

in € thousands	30.06.2018	31.12.2017
Balance sheet item	**4,821,482**	**5,516,515**
due in the following year *)	870,731	337,845
of which not valued at the lower of cost or market value **)	321,276	234,539
fair value of securities not valued at lower of cost or market value	282,289	201,907

*) This item is presented without accrued interest, by derogation of previous presentation. The previous-year figure had to be adjusted as a result.

**) In these cases, a long-term impairment was not anticipated, as the individual review of the relevant issuers' credit ratings did not reveal any signs that would justify a long-term impairment.

Other assets

in € thousands	30.06.2018	31.12.2017
Balance sheet item	**117,285**	**118,968**
of which adjustment items from foreign currencies	115,948	113,359

Liabilities to financial institutions

in € thousands	30.06.2018	31.12.2017
Breakdown of residual maturities		
due daily	259,053	339,357
up to three months	398,754	1,204,862
between three months and one year	1,029,134	995,529
between one year and five years	240,414	518,671
more than five years	387,731	420,673
proportional interest in total	144,746	198,095
Balance sheet item	2,459,832	3,677,187

Liabilities to customers

in € thousands	30.06.2018	31.12.2017
Breakdown of residual maturities		
due daily	6,839	1,448
up to three months	293,218	433,691
between three months and one year	558,464	1,111,989
between one year and five years	2,610,856	2,472,339
more than five years	3,702,967	3,919,854
proportional interest in total	98,582	125,097
Balance sheet item	7,270,926	8,064,418

Securitised liabilities

in € thousands	30.06.2018	31.12.2017
Balance sheet item	10,056,059	10,512,379
of which due in the following year	1,343,605	2,967,523

Other liabilities

in € thousands	30.06.2018	31.12.2017
Balance sheet item	81,923	62,564
of which adjustment items from foreign currencies	59,199	47,813
of which pro-rata interest on subordinated liabilities	9,706	10,986

Provisions

Provisions increased to € 116.7 million compared to 31 December 2017 (2017: € 84.9 million). This was primarily due to accounting for the profit and loss transfer of € 32.7 million, which had not been carried out as at 30 June 2018, in other provisions.

Jouissance right capital

Jouissance right capital no longer existed after the planned repayment of the final jouissance rights as at the reporting date of 30 June 2018 (2017: € 20.0 million).

Contingent liabilities and other obligations

In € thousands	30.06.2018	31.12.2017
Liabilities arising from sureties and guarantee agreements	**524,732**	**502,232**
of which total return swaps	159,972	155,457
of which sureties in the mortgage business	364,760	346,775

The risk of utilising contingent liabilities continues to be considered low as obligations are processed within the scope of the Bank's standard credit monitoring processes.

Other obligations relate exclusively to irrevocable credit commitments.

Derivative financial instruments

The Bank uses derivative financial instruments to manage the general interest rate risk (overall bank management) as well as to hedge foreign currency risks. Forward exchange transactions to hedge against foreign currency positions (currency-related transactions) are reported under forward transactions. Other reported items exclusively include swap transactions to hedge against interest rate risk (risk-related transactions) and changes in interest rate and currency risk (currency and interest rate-related transactions). The bank also has credit derivatives in its portfolio related to the credit substitution business. According to IDW RS BFA 1, these represent collateral issued and received; as a result, they are not included in the presentation below.

Market values represent the current value of the derivatives at market conditions (yield curves, forex rates, etc.) without accrued interest. The figures determined in this way are summarised in the following tables by product group.

30.06.2018 in € millions	Nominal amount	Market value positive	 negative
Currency-related transactions	519	6	2
Interest rate-related transactions	35,832	1,245	1,560
Interest rate and currency related transactions	2,224	122	173
Total	**38,575**	**1,373**	**1,735**

31.12.2017 in € millions	Nominal amount	Market value positive	 negative
Currency-related transactions	581	4	3
Interest rate-related transactions	41,201	1,346	1,714
Interest rate and currency related transactions	2,007	126	188
Total	**43,789**	**1,476**	**1,905**

Notes on the income statement

Other operating income

in € thousands (in each case 1 January – 30 June)	2018	2017
Income statement items	**1,745**	**9,244**
of which significant items:		
income from the release of provisions	761	114
reimbursement of expenses	524	63
interest rebates from taxes	267	8,797

Other operating expenses

in € thousands (in each case 1 January – 30 June)	2018	2017
Income statement items	**3,385**	**8,025**
of which significant items:		
expenses from the discounting of provisions (including interest rate effects from the discounting of provisions)	3,123	2,499
losses from currency transactions	39	279
interest on retrospective tax payments	2	108
additions to provisions due to legal uncertainty over existing credit agreements	0	5,000

Extraordinary income

in € thousands (in each case 1 January – 30 June)	2018	2017
Income statement items	**74**	**545**
of which release of provisions in connection with the efficiency improvement programme	74	545

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. They are not part of this half-yearly financial report.

Size of workforce on average over the year

	2018	2017
Female employees	190	182
Male employees	241	232
Total	**431**	**414**

Hanover, 14 August 2018

The Board of Managing Directors

Barthauer

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 2018 that are part of the semi annual report according to § 115 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, 14 August 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thiede	Röwekamp
Wirtschaftsprüfer	Wirtschaftsprüfer
(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 half-yearly financial reporting, the half-yearly 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 during the rest of the financial year."

Hanover, 14 August 2018

The Board of Managing Directors

Barthauer

Rehfus

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