DEUTSCHE HYPO
Member of NORD/LB

Half-yearly Financial Report 2019

Your success is : our benchmark

DEUTSCHE HYPO AT A GLANCE

in € millions	01.01.-30.06.2019	01.01.-30.06.2018	Change (in %)
New business figures			
Commercial real estate finance business	1,495.7	1,402.9	6.6
Domestic finance	815.2	1,049.4	– 22.3
Foreign finance	680.5	353.5	92.5
Funding volume	1,279.4	1,626.8	– 21.4
Mortgage Pfandbriefe	1,045.0	1,203.0	– 13.1
Unsecured	234.4	423.8	– 44.7

in € millions	30.06.2019	31.12.2018	Change (in %)
Portfolio figures			
Commercial real estate finance business	12,391.2	12,264.0	1.0
Domestic finance	6,769.0	6,878.0	– 1.6
Foreign finance	5,622.2	5,386.0	4.4
Loans to local authorities	2,603.5	2,844.4	– 8.5
Securities	4,235.5	4,716.6	– 10.2
Funding capital	19,344.5	19,616.7	– 1.4
Mortgage Pfandbriefe	8,983.6	8,128.1	10.5
Public Pfandbriefe	3,501.6	3,806.9	– 8.0
Unsecured	1,715.9	1,784.3	– 3.8
Other liabilities	5,143.4	5,897.4	– 12.8
Equity *)	1,214.1	1,232.1	– 1.5
Balance sheet total	20,821.9	21,072.8	– 1.2

in € millions	01.01.-30.06.2019	01.01.-30.06.2018	Change (in %)
Income figures			
Net interest income	87.1	89.0	– 2.1
Net commission income	1.3	– 0.4	>100.0
Administrative expenses **)	49.3	50.3	– 2.0
Risk result	– 9.1	– 3.0	<– 100.0
Income from securities and participatory interest	0.1	0.2	– 50.0
Result from normal operations	33.0	33.9	– 2.7
Extraordinary result	0.0	0.1	– 100.0
Profit before taxes and profit and loss transfer	33.0	34.0	– 2.9

in %	30.06.2019	30.06.2018	
Other information			
Cost-Income-Ratio	54.0	57.8	

*) including funds for general banking risks 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 2019

CONTENT

INTERIM MANAGEMENT REPORT

The figures in the tables and charts in the interim management report are expressed in 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

Growth in Europe was surprisingly positive at the start of the year – the economy in the eurozone grew by + 0.4 % in real terms in the first quarter of 2019. However, this dynamic slowed as the summer approached. In comparison, real GDP only grew by a half of that amount or + 0.2 % in the second quarter. The industrial sector bore the brunt of the downswing, whilst the services sector remained stable.

In Germany GDP was up + 0.4 % in the first quarter of 2019. However, the rate of growth declined significantly towards the summer, indicating that the slowdown in the global economy was having a greater impact. This was reflected above all in the export statistics and the negative trend in overseas orders. However, the export statistics also clearly showed that the risk of a no-deal Brexit is taking its toll. The German industrial sector is suffering the most. In May manufacturing was down 3.7 % year on year. The only positive trend was in construction production.

Development of real estate target markets

After the record year 2018, the year started on a somewhat more subdued note on the global commercial property market. The transaction volume in the first quarter of 2019 stood at € 169.4 billion, down 15.8 % compared to the same period in the previous year. Following the turbulences on the stock markets at the end of 2018, investors exhibited increased concerns about rising borrowing costs and a global economic downturn. Fears of an interest-rate rise, however, subsided since the ECB's postponement of a rate change and the interest-rate cut being discussed in the USA. The fresh sharp falls in interest rates over the course of this year are buoying the real estate markets. Alongside the worsening economic environment, the limited availability of desirable investment products, due among other things to a lack of capacity in the construction sector, continued to limit the transaction volume on the real estate markets.

In view of these framework conditions, the European real estate markets also experienced a fall in transaction volumes. In the first quarter of 2019 only € 55.3 billion was invested in commercial real estate – a decline of 23 % as compared to the same period last year. Developments on European markets varied in part significantly. Whilst the Netherlands further boosted its transaction volume, most European target markets experienced downswings: France and the UK saw small declines, and Germany and Spain somewhat larger ones.

Sentiment on the German real estate market also deteriorated in the current year. Despite this warning signal, the real estate markets appeared to be in good health in the first half-year. Supply is still outstripped by the demand for high-quality rental premises or investment opportunities. At just under € 32.2 billion (2018: € 36.8 billion), the transaction volume including the residential asset class did not match the previous year's value for the first six months. This represented a fall of around 12.5 % as compared to the same period of the previous year. € 24.2 billion was attributable to properties used exclusively for commercial purposes. Investors clearly remained focused on office properties (36 % share of overall transaction volume), followed by residential (around 28 %), retail properties (around 15 %) and logistics properties (around 9 %).

Development of international financial markets

Capital markets continued to feel the uncertainty both around Brexit, which has been postponed until 31 October 2019 as things currently stand, and also trade disputes and geopolitical tensions, for instance between the USA and Iran. However, the suggestion of a more expansive approach by the central banks has had a greater impact, with the US Fed playing a pivotal role by reducing the base interest rate on 31 July 2019. The European Central Bank also made a monetary U-turn with the resumption of EAPP net asset purchases being hinted at during the July meeting on interest rates.

The overall result of this was a sharp fall in yields on government bonds. For instance, the return on German federal bonds with a maturity in the ten-year region was – 0.32 % at the end of June. US ten-year treasuries had a return of just above 2.0 %. Government bond spreads in the eurozone have converged since the start of the year. The yield gap of the ten-year benchmark bonds – even Greek ones – was less than 250 base points to comparable government bonds. The US dollar benefited in particular from the comparatively positive economic trend in the USA. At the start of the year, a euro was still worth USD 1.1450, dropping to just USD 1.1150 at the end of June despite the fall in interest rates.

Course of business at a glance

Business development at Deutsche Hypo was very satisfactory in the first half of 2019 despite a market environment that continues to be marked by high levels of competition and political and economic uncertainties. The sustained high demand for commercial real estate and the correspondingly strong position on the real estate markets have had a positive effect over the course of this year. This enabled the high portfolio quality in the core business area to be retained based on the available risk indicators, such as the average rating and the proportion of defaulted financings. Bolstered by risk provisions lying well below the long-term average and a corresponding positive development of the risk result in commercial real estate financing, in the first half of 2019 Deutsche Hypo achieved a result from normal operations that was similar to the previous year's value.

Despite the continuing challenging market environment, Deutsche Hypo increased its new business in the field of commercial real estate financing to € 1,495.7 million year on year (2018: € 1,402.9 million). The key factor for Deutsche Hypo so far in financial year 2019 has been the quality of lending. This is characterised by a good risk profile with attractive profitability. Although at € 815.2 million (2018: € 1,049.4 million) a little over half of the new business volume was generated in Germany, the overseas proportion rose considerably as a result of the new business in foreign markets, which increased to € 680.5 million (2018: € 353.5 million) compared to the same period in the previous year. A significant proportion of the new foreign business transactions were executed in the largest target markets of the UK (€ 270.2 million (2018: € 37.7 million)), Benelux (€ 183.4 million (2018: € 171.8 million)) and Poland (€ 145.9 million (2018: € 74.0 million)). The Bank continued to pursue a conservative risk policy in its new lending business.

Of total new commitments in real estate finance business (Germany and abroad), in the first six months a significant proportion – € 822.5 million (2018: € 565.0 million) – was attributable to office properties. From the Bank's perspective, these remain the most stable type of property with the best liquidity. The volume of new business in residential real estate (€ 280.5 million (2018: € 275.2 million)) and other real estate business (€ 285.7 million (2018: € 221.8 million)) remained largely stable year on year. Conversely, new business in retail properties fell sharply to € 107.0 million (2018: € 341.0 million) due to structural changes in the retail sector. Finance was only provided selectively for correspondingly good risk profiles.

As regards the capital market business, the Bank continued its portfolio reduction in its public sector lending business as planned. Maturities were predominantly used for the repayment of funding and only replaced by securities for the purpose of liquidity and cover pool management to a limited extent. In the year to date, funding has been undertaken in accordance with demand and on competitive terms. In the first six months, Deutsche Hypo has issued own securities at a volume of € 1,279.4 million (2018: € 1,626.8 million), of which € 1,045.0 million (2018: € 1,203.0 million) is made up of mortgage Pfandbriefe and € 234.4 million (2018: € 423.8 million) of unsecured bonds. The mortgage Pfandbriefe were mainly issued in the benchmark format, whilst the unsecured bonds were marketed via private placements. The Pfandbrief benchmarks relate to a new issue of € 625 million, which was tapped by € 125 million after a week and again by € 250 million from a mortgage Pfandbrief issued in June 2018. Substantial investor trust was again apparent from the high demand for Deutsche Hypo's securities.

The first half of 2019 also saw the implementation of the measures of the cost-saving programme commenced in the previous year, comprising further investments in the organisational and technical infrastructure. The Bank' on its objective of digitising and streamlining internal processes has gone to plan. The Bank's headcount fell slightly year on year to 421 (2018: 430) employees.

Net assets, financial and income position

Income position

in € millions	Total result		Commercial real estate finance		Capital market & other business	
	2019	2018	2019	2018	2019	2018
Net interest income	87.1	89.0	78.2	78.6	8.9	10.4
Net commission income	1.3	– 0.4	1.6	0.0	– 0.3	– 0.3
Administrative expenses	49.3	50.3	22.4	23.2	26.9	27.1
Other operating income	3.0	– 1.6	0.0	0.4	2.9	– 2.0
Risk result	– 9.1	– 3.0	2.3	12.4	– 11.4	– 15.3
Income from securities and participatory interest	0.1	0.2	0.0	0.0	0.1	0.2
Result from normal operations	**33.0**	**33.9**	**59.7**	**68.1**	**– 26.7**	**– 34.2**
Extraordinary result	0.0	0.1	0.0	0.0	0.0	0.1
Profit before taxes and profit and loss transfer	**33.0**	**34.0**	**59.7**	**68.1**	**– 26.7**	**– 34.1**

In the first half of 2019, and taking account of the further strengthening and formation of contingency reserves, Deutsche Hypo achieved a result from normal operations comparable with the previous year (€ 33.0 million (2018: € 33.9 million)). As expected, the stable level of earnings in the commercial real estate finance business area made a significant contribution to the Bank's overall result. In terms of the core business area, the result from normal operations of € 59.7 million fell below the previous year's result of € 68.1 million because the 2018 half-yearly result was positively influenced by the reversal of loan loss provisions.

Net interest and commission income for the Bank as a whole totalling € 88.4 million was comparable with the previous year's level of € 88.6 million. Similarly, net interest income in the commercial real estate finance business showed a stable development with € 78.2 million (2018: € 78.6 million). The slight rise in the real estate finance portfolio offset the sustained pressure on margins resulting from the competitive position, producing a margin result comparable to the previous year. Net interest income in the capital market business and other was, as expected, impacted by the ongoing reduction of the capital market portfolio and lower year-on-year investment returns on the Bank's equity.

Administrative expenses of € 49.3 million were down on the same period in the previous year of € 50.3 million. A significant factor here was the reduction of the bank levy to € 9.8 million (2018: € 11.1 million). As in the previous year, the bank levy was recorded in full as an expense in the first half of the year. Costs incurred for projects implementing regulatory requirements and the strengthening of the Bank's market presence and investments in technical infrastructure kept administrative expenses high compared to the previous year. 2019 saw the start of the implementation of the cost-saving programme, which is intended to make a contribution towards good cost discipline. The cost-income ratio (CIR) for the first half of 2019 stood at 54.0 % (2018: 57.8 %).

The other operating income of € 3.0 million (2018: € – 1.6 million) was marked by the dissolution of reserves in conjunction with legal uncertainties regarding existing contracts in the lending business totalling € 6.9 million. This effect was partially offset by interest-related allocations, in particular for pension provisions.

In the commercial real estate finance business, the consistently quality-orientated lending policy with stable real estate markets produced a better risk result than forecast. The low net allocations to specific loan loss provisions were more than offset by payments towards written-down claims, meaning that a positive impact on the result was generated by the risk result as in the previous year. The positive development of individual risk provisions in the lending business was used to form further contingency reserves. The risk result attributable to the capital market was impacted by expenses for the repurchase of the Bank's own Pfandbriefe for purposes of market servicing. After entering into associated hedging transactions and the sale of associated asset positions, the remaining net impact on earnings was € 7.2 million. Overall, taking into account the strengthening of contingency reserves, there remained a risk result for the Bank as a whole of € – 9.1 million (2018: € – 3.0 million).

In particular, the stable earnings performance of Deutsche Hypo in the first half of 2019 was due to the development of income in the core commercial real estate finance business area. Overall, profit before taxes and profit and loss transfer totalled € 33.0 million (previous year: € 34.0 million). The associated RoE figure was 7.7% (2018: 8.0%) and was thus similar to the previous year's level.

Asset position

in € millions	30.06.2019	31.12.2018
Receivables		
Mortgage loans	12,391.2	12,264.0
Loans to local authorities	2,603.5	2,844.4
Other receivables	1,351.5	1,014.2
Securities	4,235.5	4,716.6
Other assets	240.3	233.6
Total assets	**20,821.9**	**21,072.8**

The decrease in Deutsche Hypo's balance sheet total to € 20,821.9 million as compared to the end of 2018 (2018: € 21,072.8 million) resulted again from the portfolio reduction in the capital market business due to scheduled maturities in loans to local authorities and in the securities portfolio. No sales have been made to date in this financial year, and new business has only been entered into in accordance with the strategy for purposes of liquidity and cover pool management. For information on the quality of the capital market portfolio, please refer to the statements regarding counterparty risk in the expanded risk report of this interim management report.

In the core commercial real estate finance business, portfolios as at the balance sheet date were up slightly year on year at € 12,391.2 million (2018: € 12,264.0 million). Despite the higher new business volume, portfolios performed slightly less well than the Bank's own expectations. However, this needs to be seen in the context that some credit approvals from the current year had not yet been transferred to the portfolio. Accordingly, the volume of irrevocable credit commitments rose to € 1,189.0 million as at the balance sheet date (2018: € 1,061.6 million).

In terms of the average rating (in accordance with the IFD rating classes), the quality of the real estate finance portfolio remained high following the longstanding strategy of quality-orientated lending, active portfolio management and stable real estate markets. Increasing economic uncertainty has not yet affected Deutsche Hypo's finance portfolio. The proportion of finance in default and the portfolio of specific loan loss provisions have remained at a correspondingly very low level. For more detailed information on rating changes, please refer to the statements regarding counterparty risk in the expanded risk report of this interim management report.

As at the reporting date of 30 June 2019, there was a further shift towards the foreign target markets within the commercial real estate finance portfolio. Whilst the portfolio of domestic finance fell slightly at € 6,769.0 million (2018: € 6,878.0 million), the proportion on the foreign target markets rose slightly to € 5,622.2 million (2018: € 5,386.0 million). The regional distribution of new business in the Bank's portfolio was thus clear. In terms of the foreign portfolio, by far the largest proportion of € 1,952.0 million (2018: € 1,909.9 million) was attributable to the Benelux target market. The portfolios in the UK and France were € 1,723.1 million (2018: € 1,580.3 million) or € 1,012.5 million (2018: € 1,046.6 million).

As regards the classes of property, the finance portfolios stood at € 4,686.6 million as at balance sheet date (2018: € 4,505.1 million) and other properties at € 1,689.3 million (2018: € 1,560.1 million). The portfolio of residential properties was stable at € 2,237.9 million (2018: € 2,250.1 million), whereas finance for retail properties fell further to € 3,777.4 million (2018: € 3,948.8 million).

Financial position

in € millions	30.06.2019	31.12.2018
Liabilities		
Mortgage Pfandbriefe	8,983.6	8,128.1
Public Pfandbriefe	3,501.6	3,806.9
Unsecured bonds	1,715.9	1,784.3
Other liabilities	5,143.4	5,897.4
Subordinated liabilities	361.5	379.5
Funds for general banking risks	14.4	14.4
Equity	838.2	838.2
Other liabilities	263.2	224.0
Total liabilities	**20,821.9**	**21,072.8**
Contingent liabilities	368.3	462.2
Other obligations	1,189.0	1,061.6

The decline in the balance sheet total on the liability side resulted largely from maturities of public Pfandbriefe in circulation and from a reduction of other liabilities to financial institutions. Similarly, as in the past, the Bank's own securities were repurchased for purposes of market management. The issuing activity during ongoing financial year was reflected in a significant increase in the portfolio of mortgage Pfandbriefe. Further information on the development of the Bank's financial position can be found in the cash flow statement. For information on the maturities or the due dates for liabilities, please refer to the maturity breakdowns for the liabilities in the condensed notes to the financial statements. The expanded risk report also shows the Bank's liquidity situation. Information on Deutsche Hypo's funding activity in the previous financial year can be seen in the descriptions of the business performance.

The reported equity remained unchanged at € 838.2 million in comparison to 31 December 2018. Due to the control and profit and loss transfer agreement, Deutsche Hypo transfers all of its profits to NORD/LB. For information on the regulatory equity, reference is made to the explanations in the expanded risk report of this interim management report. The contingent liabilities fell to € 368.3 million (2018: € 462.2 million) as a result of reductions in the guarantee credit business. The other liabilities, resulting exclusively from irrevocable credit commitments, rose to € 1,189.0 million (2018: € 1,061.6 million).

Rating

	Mortgage Pfandbriefe	Public Pfandbriefe	Short-term liabilities	Senior unsecured preferred	Junior/Senior unsecured non-preferred	Baseline Credit Assessment (BCA)
Moody's	Aa1 Outlook: on review for upgrade	Aa2 Outlook: on review for upgrade	Prime-2	Baa2 Outlook: on review for upgrade	Ba1 Outlook: on review for upgrade	b2 Outlook: on review for upgrade

The rating agency Moody's published a press release on 14 February 2019 in which all of the Bank's ratings were set to "on review for upgrade". The short-term rating was confirmed with a stable P2 rating. At this point, Moody's assumed that the current rating process would be completed during the second or third quarter of 2019. Given that the capital strengthening measures are not yet completed at NORD/LB, the anticipated rating adjustment has not yet been performed.

Sustainability Ratings

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

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

The two sustainability rating agencies imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH and oekom research AG are set to issue a new rating for Deutsche Hypo in the coming months. The Bank also assumes that it will be awarded excellent sustainability ratings and will be one of the leaders in the banking sector.

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

In the first half of 2019, the business performance of Deutsche Hypo was very satisfactory. In a market environment that remains marked by high levels of competition and economic uncertainty, the Bank was able to slightly increase its volume of new business year on year whilst maintaining a high quality standard for new lending business. At the same time, the slight portfolio rise in the core business area fell somewhat short of the Bank's expectations. In the capital market business, the Bank continued its portfolio reduction in its public sector business as planned. In the year to date, funding has been undertaken in accordance with demand and on competitive terms.

Deutsche Hypo nonetheless achieved a stable overall result in the first half of 2019, which was largely generated by the commercial real estate finance business area. The high demand for commercial real estate and the associated strong position on the real estate markets continue to generate good risk indicators with correspondingly positive effects on the risk result in the core business area. Taking account of the further strengthening and formation of contingency reserves, the Bank achieved a result from normal operations comparable to the previous year's level in the first half of 2019.

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 material impact on the Bank's risk situation and the assets, financial and income position.

Forecast, opportunity und report

Forecast report

The following section should be read in conjunction with the other chapters of this interim management report. The forward-looking statements contained in this forecast report are based on assessments and conclusions from information available at the present time. The statements are based on a range of assumptions about future events. The occurrence of the future events is subject to uncertainties and risks, many aspects of which lie outside the Bank’s scope of influence. Accordingly, actual results may deviate from the prognoses set out below.

Development of business and framework conditions

Economic development

The most significant pillar of German growth is domestic consumption. The continuing robust position on the employment market also ensures that this will remain a driver of growth this year. Although the fall in unemployment has slowed somewhat, employment levels remain high and will have a corresponding bolstering effect. The scarcity of skilled workers in some sectors will continue up to the end of 2019 and suppress the potential for growth. Low interest rates will drive consumption and the construction sector. The economy should therefore stabilise again in the third quarter. However, a technical recession cannot be completely ruled out in Germany: the relevant indicators from the Mannheimer ZEW and the Münchener ifo-Institut do not point to a turnaround. For 2019 as a whole, currently only 0.4 % real GDP growth is assumed for Germany as a whole.

A more expansive monetary policy by the central banks in the second half of the year is intended to revive the economy in the eurozone, meaning that real GDP growth of 1.1 % is expected for the year as a whole. The European employment market remains highly country-specific. Employment overall should increase, and some countries – such as France and Portugal – are expected to perform better than others. Low unemployment is generating sustained domestic demand.

Development on target real estate markets

The global transaction volume in commercial real estate is expected to be more moderate following the record value in 2018. However, only a single-figure percentage fall is expected. After a weaker first six months, more positive development is anticipated for the second half of the year. A US economy that is performing better than expected, lower interest rates and high liquidity levels are factors for further improvement of the investment markets, with the other side of the equation marked by supply and pricing bottlenecks, making a transaction volume at the previous year’s level unlikely.

Overall, stable performance on the German real estate market is expected in 2019 despite a weakening economy. The demand for real estate will remain high because low interest rates are expected to continue and there is a lack of investment alternatives. Also, with certain larger properties and portfolios currently undergoing sale processes, a transaction volume (including the residential asset class) in the region of € 70 billion is expected by the end of the year. Prime yields for office properties remain under pressure and are expected to fall slightly again by the end of the year. Investors are increasingly focusing on the potential for rent increases in this asset class. Similarly, the prime yields for logistics properties – under the four-percent threshold for the first time in history – are expected to fall further due to their ever-increasing dependence on retail. In terms of retail properties, the differentiation of individual segments apparent since the end of 2018 will continue. Whilst yields are increasing for shopping centres, we expect that the prime yield for special market properties will decline. Prime yields for individual special markets and inner-city commercial buildings are expected to remain stable until the end of the year.

Development on international financial markets

The end of the extra-loose monetary policy has been postponed for the foreseeable future. Expectations on the ECB are for continued low inflation, and it is likely to implement an interest rate reduction in the deposit facility and announce EAPP net asset purchases in September of this year. Interest rates on the euro money markets remain extremely low in the context of the ECB's long-term, very expansive monetary policy. This will also be reflected in the change in yield of the longer-term interest rates. Yields of – 0.4 % are expected on German federal bonds with a maturity in the ten-year region to the end of the year. The North American bond market is now accounting for interest-rate reductions by the FOMC and currently expects that the US Federal Reserve will act too aggressively. Other asset classes such as stocks and real estate are benefiting from low capital market interest rates. Similarly, the euro is expected to stand at the current US dollar rate of 1.12 at the end of the year.

Business performance and forecast

This section looks at the performance of new business and results compared to the forecast published in the 2018 management report.

Due to the strong development of new business in the core business area in the first half of 2019, Deutsche Hypo looks likely to confirm the forecast of a volume of new business slightly above the previous year's level for the year as a whole. Correspondingly, Deutsche Hypo continues to assume a slight increase in the portfolio.

Deutsche Hypo also confirms the forecast result and assumes a good result from normal operations, which as expected will be significantly lower than the previous year's result that was influenced by positive one-off effects of € 74.7 million. As forecast as at 31 December 2018, we still expect that the previous year's RoE figure will be approximately matched. In the core commercial real estate finance business, stable yield performance and a good risk result can still be assumed even if a slight increase in risk costs and thus need for net allocations in the real estate finance business is expected.

Administrative expenses will be slightly up year on year, as forecast, due to the regulatory requirements and investment in the further strengthening of the market presence of Deutsche Hypo as well as in the organisational and technical infrastructure. 2019 saw the start of the implementation of a cost-saving programme. Accordingly, substantial savings are expected in coming years. A slight year-on-year CIR increase is therefore anticipated for 2019. However, the CIR will continue to be low in the sector comparison.

Otherwise, there have been no new findings 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 of future business development are set out in the management report as at 31 December 2018 and apply without change.

Opportunities and risks result from the limited capacity to plan developments in the capital market portfolio. Unexpected developments in external economic, geopolitical and sector-specific framework conditions or developments on the international financial markets over the rest of the year could significantly impact the earnings performance of Deutsche Hypo. They can drive the worsening of borrowers' credit ratings and thus result in a greater need for loan loss provisions both in the commercial real estate finance business and the capital market portfolio as compared to the forecast. Despite careful planning of the risk result, a turnaround in external framework conditions, for example a sharp fall in real estate prices following an interest rate rise, can result in a worsening of borrowers' credit ratings and also to a reduction in value of the furnished collateral and trigger a need for more loan loss provisions

Similarly, weaker-than-planned portfolio and margin performance, for example following an intensification of competition or lower credit demand, can negatively impact the result. It is also conceivable that the conditions for funding will become more expensive and these cannot be passed on through credit terms, or else the demand for uncovered funding increases. Overall, an earlier improvement of the Bank's or the parent company's ratings than assumed in the plan could have positive effects on funding terms. A worsening of the Bank's or the parent company's ratings, or also longer-lasting uncertainty in terms of the Group situation, can correspondingly have negative effects on the Bank's funding opportunities and costs. Potential tensions on the financial markets could make funding measures more difficult. Similarly, a more restrictive monetary policy by the main central banks than expected could increase funding costs or reduce funding opportunities. Risks may arise if the anticipated new business volume cannot be generated on the markets with the planned margins. Increased funding costs for Deutsche Hypo, e.g. following rating changes by the Bank or the parent company with constant margin requirements, could restrict the scope of planned new business and reduce the income base.

Also, in the context of the integration into the NORD/LB Group and the use of the waiver rule pursuant to Art. 7 (1) CRR, there is a risk that the Bank's opportunities for new business could be limited by the CET1 capitalisation of the upstream institute, discretionary decisions in this regard by the banking regulation authorities regarding additional individual and increased industry-wide capital requirements (capital buffer for systemic and anti-cyclical risks) as well as decisions by the parent institute regarding capital allocation. Similarly, the substantial uncertainty about the further development of

NORD/LB could have a negative impact on new business. Also, increasing statutory or regulatory requirements (in particular regarding equity backing) or an increased RWA binding following a worsening of the real estate economy could result in fewer opportunities for new business. The effect on earnings for 2019 resulting from a lower volume of new business than forecast is considered to be low at this point in the year.

It cannot be ruled out that there will be a significant fall in real estate prices in the UK following its exit from the EU, which could result in increased expenditure for risk provisions. Taking account of the strong risk parameters of the portfolio and the conservative portfolio orientation, result risks are regarded as low in terms of the real estate finance portfolio of Deutsche Hypo in the UK with a volume of € 1,723.1 million (31 December 2018: € 1, 580.3 million). The economic developments in the UK resulting from Brexit could also restrict the opportunities for new business. The resulting impact on earnings for 2019 is deemed low at this point in the year. One-off costs and increased administrative costs that may be incurred as a result of Brexit are not currently predicted on a large scale.

In terms of the opportunities and risks of future developments, we refer to the statements in the section "Opportunities and risks of future business development" of the management report dated 31 December 2018.

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

Dependencies of Deutsche Hypo on NORD/LB

Deutsche Hypo is dependent on the Group parent NORD/LB under a control and profit and loss transfer agreement and the use of the waiver rule pursuant to Art. 7 (1) CRR, formerly section 2a (1) German Banking Act (KWG). Further key dependencies exist in terms of compliance with Group capital requirements, development of the rating, liquidity and funding and the internal Group management and organisation. Additionally, service relationships as well as intra-group receivables and liabilities exist between Deutsche Hypo and NORD/LB.

Over the previous year, the ongoing crisis on the shipping markets has led to a gradual increase in non-performing credit portfolios as well as a strong need for risk provisions with a corresponding adverse impact on the regulatory capital ratios of NORD/LB and the NORD/LB Group. Similar trends also contributed to the significant annual losses at NORD/LB level in 2018. As a consequence of this, NORD/LB no longer complies with regulatory capital ratios as at 31 December 2018 and in the first half of 2019.

In order to reduce non-performing ship finance portfolios and create the basis for measures to strengthen capital ratios, NORD/LB and its owners as well as Deutsche Sparkassen- und Giroverband e.V. (DSGV) agreed by way of a notarised basic agreement dated 21 June 2019 to take measures for capital strengthening and reorientation of NORD/LB. Cornerstones of this agreement are a capital increase of around € 2.8 billion in exchange for cash deposits and capital substitution measures with a CET1 equivalent of around € 0.8 billion. This is intended to steel NORD/LB for further increasing regulatory requirements and shore up its crisis resilience and competitiveness in the long term. Alongside reducing non-performing credit portfolios, the measures for realigning the NORD/LB business model envisage an extensive transformation of individual business areas and subsidiaries of NORD/LB and Group over the coming years.

Until the capital strengthening exercise is performed, there will be a shortfall of the regulatory minimum capital quotas at the NORD/LB and NORD/LB Group level. NORD/LB has notified the banking supervisory authority accordingly.

NORD/LB's capital and business plan for 2019 to 2024 takes into account the capital contribution described, the capital substitution measures and the realignment of the business model. NORD/LB's capital and business plan is currently being approved by the banking supervisory authority and, from the perspective of state aid, the European Commission. NORD/LB assumes that the capital ratios will bounce back in future and will satisfy all regulatory requirements when the measures included for capital strengthening and realignment of the business model are implemented.

Due to the dependencies of NORD/LB set out above, there is significant uncertainty surrounding the continuation of the business activity of Deutsche Hypo. The assumption of a continuation of business activity (going concern) for accounting and valuation purposes and the survival of Deutsche Hypo is dependent on the survival of NORD/LB. The survival of NORD/LB in turn faces significant uncertainty and is premised in particular on

- the capital strengthening measures agreed under the basic agreement dated 21 June 2019 at NORD/LB level being implemented, completed and approved by all relevant stakeholders, in particular the regional parliaments of Lower Saxony and Saxony-Anhalt as well as the Deutscher Sparkassen- und Giroverband e.V., enabling renewed compliance of the capital ratios and buffers and thresholds required under regulatory law,
- banking regulation authorities, in particular the European Central Bank, the German Federal Institute for the Supervision of Financial Services and the Deutsche Bundesbank, tolerating a shortfall of the regulatory minimum capital quotas up to the point of the completion of the intended measures for capital strengthening at NORD/LB level,
- all official approvals required for implementation, in particular from the EU Commission and the relevant banking regulation authority, being granted and
- the realignment of the business model and the intended restructuring measures are implemented as planned.

If the intended capital strengthening measures at NORD/LB level are not performed as planned, the outcome may be the winding up of NORD/LB. This eventuality or a rating downgrade or other adverse developments may trigger significant outflows of short-term funds, fundamentally limiting the funding options for NORD/LB.

A successful implementation of the realignment of the NORD/LB business model also presupposes the requisite acceptance by the market participants and other relevant stakeholders.

A winding up of NORD/LB could result in a winding up or sale of Deutsche Hypo. Such a situation or a rating downgrade of NORD/LB or other adverse developments may fundamentally limit the funding options of Deutsche Hypo.

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 version) and Art. 7 CRR, the risk-bearing capacity of Deutsche Hypo is secured at the level of the NORD/LB Group. The NORD/LB Group's RBC model includes a range of considerations. Based on the ECB guidance on ICAAP, the risk bearing capacity is considered from a normative and an economic perspective. The interplay of both perspectives is taken into account. For Deutsche Hypo, concrete limits are derived in terms of the credit risk, market price risk and liquidity risk, compliance with which represents a central aspect of risk management. It can be established that the relevant limits at the level of Deutsche Hypo were complied with as at 30 June 2019.

Because of the strategic orientation on the commercial real estate finance business, counterparty risks are the focus of risk management. Market price and liquidity risks are deliberately managed closely. Risks resulting from the capital market business (both counterparty risks and credit spread risks) were also further reduced in the first half of 2019 as a result of the targeted reduction of positions and regular maturities. Operational risk remains less significant. There was no overall material change to the risk profile as compared to 31 December 2018.

Below we look more specifically at the development of the individual risk types in the first half-year.

Counterparty risk

Breakdown of total credit exposure by rating category

30.06.2019 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Very good to good	10,165.1	2,584.5	3,835.9	678.5	1,212.8	**18,476.9**	82,4 %
Good / satisfactory	2,243.5	0.0	181.0	0.0	0.0	**2,424.4**	10,8 %
Still good / sufficient	975.0	0.0	164.9	0.0	0.0	**1,139.9**	5,1 %
Elevated risk	111.3	26.0	14.1	0.0	46.7	**198.1**	0,9 %
High risk	47.9	0.0	0.0	0.0	0.0	**47.9**	0,2 %
Very high risk	36.3	0.0	0.0	0.0	0.0	**36.3**	0,2 %
Default (=NPL)	48.8	0.0	0.0	17.2	27.6	**93.5**	0,4 %
Total	**13,627.9**	**2,610.5**	**4,195.9**	**695.7**	**1,287.1**	**22,417.1**	**100,0 %**

31.12.2018 in € millions	Real estate finance	Loans to local authorities	Securities	Derivatives	Other	Total exposure	Share in total exposure
Very good to good	9,804.1	2,852.8	4,352.6	603.5	1,739.6	**19,352.6**	82,4 %
Good/ satisfactory	2,554.2	0.0	332.5	0.0	0.0	**2,886.7**	12,3 %
Still good / sufficient	868.7	0.0	16.2	0.0	0.0	**884.9**	3,8 %
Elevated risk	128.8	0.0	14.1	0.0	11.3	**154.3**	0,7 %
High risk	65.8	0.0	0.0	0.0	0.0	**65.8**	0,3 %
Very high risk	10.4	0.0	0.0	0.0	0.0	**10.4**	0,0 %
Default (=NPL)	103.9	0.0	0.0	17.0	0.0	**120.9**	0,5 %
Total	**13,535.9**	**2,852.8**	**4,715.5**	**620.6**	**1,750.9**	**23,475.6**	**100,0 %**

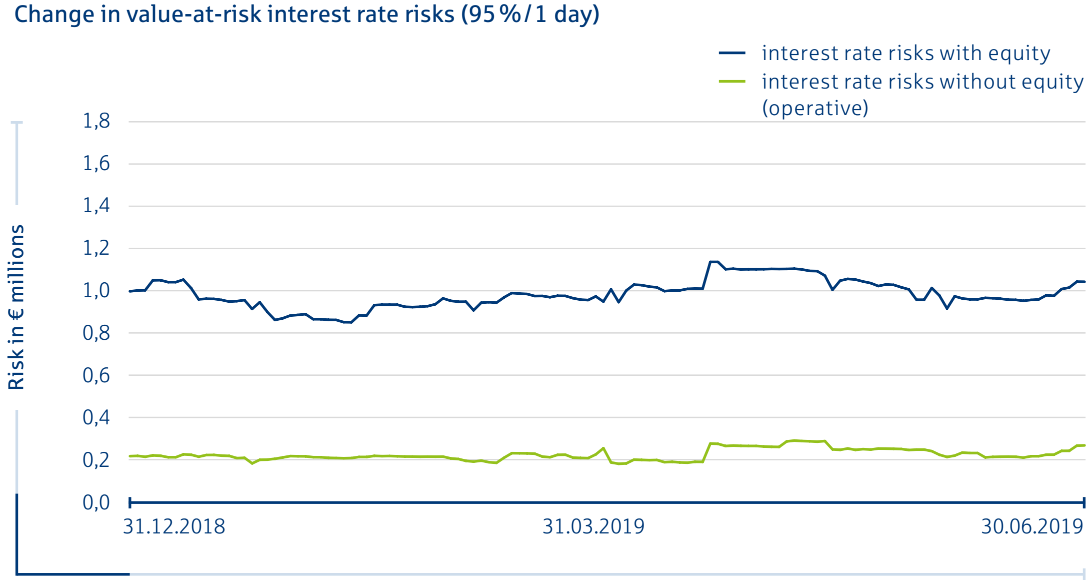
Compared to the reporting date of 31 December 2018, total credit exposures fell in the first half of 2019, which is consistent with the changes in the portfolio described in the asset position. The composition by rating categories attests to the existing high quality of Deutsche Hypo's overall financing portfolio. The proportion of finance with a rating of at least satisfactory was 98.3 % of the overall exposure (2018: 98.5 %), and thus remained unchanged at a high level. The share of non-performing loans (NPL) fell slightly to 0.4 % of total exposure (2018: 0.5 %) and thus also remained unchanged at a very low level. This corresponded to an absolute fall in the NPL volume of € 27.4 million to € 93.5 million (2018: € 120.9 million).

Within the core business area, the share of financing with a rating of at least "satisfactory" rose again to 98.2 % (2018: 97.7 %). At the same time, the share of real estate financing in default followed the trend of recent years by declining to 0.4 % (2018: 0.8 %) of the overall portfolio in the core business area.

Market-price risk

The value-at-risk (VaR) for interest rate risks of the whole Bank risk fluctuated in the reporting period between € 0.9 million and € 1.1 million, with an average value of € 1.0 million. The development of the whole-Bank VaR (95 % confidence level, 1 day holding period) and the VaR of the operative portfolio (without equity investments) is displayed in the following figure. 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. The change in interest rate risks for Deutsche Hypo was negligible in the first half of the year. The value at risk as at 30 June 2019 was still largely a result of the investment of the perpetual equity and, still only to a very minor extent, from the operating business.

The reduction of positions from the investment book affected by credit spread risks was successfully continued in the first half of 2019. The nominal volume of this portfolio fell by around € 0.7 billion to around € 6.8 billion.

Liquidity risk

In the first half of 2019, Deutsche Hypo had adequate access to money markets and capital markets at all times at fair market conditions. 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 2019 was 270 days (31 December 2018: 293 days) and thus within internal specifications.

Deutsche Hypo held a sufficient portfolio of highly liquid securities in the reporting period, such that the Minimum Requirements for Risk Management (MaRisk) rules regarding the liquidity buffer to be maintained were met in full. The applicable regulatory minimum performance value regarding the liquidity coverage ratio (LCR) of 100 % had been satisfied by a clear margin at 409% as of the end of June 2019. The minimum LCR value was maintained throughout the entire reporting period.

Operational risk

No cases with a significant loss occurred during the reporting period. The provisions for legal uncertainties in existing contracts in the lending business were significantly reduced.

Regulatory equity resources

Due to the exercising of the waiver rule, the obligations to provide individual bank reports and compliance 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 in accordance with IFRS and for internal controlling pursuant to the German Commercial Code (HGB), Deutsche Hypo calculates, after exercising the waiver rule, the eligible equity and the risk-weighted assets (RWA). The results in accordance with IFRS are consolidated at NORD/LB level for the IFRS calculation for the Group. Additionally, the Bank calculates an equity ratio based on HGB rules that compared all allowable equity pursuant to Art. 4 (1) no. 71 CRR at individual institute level with the risk-weighted assets.

In accordance with the regulatory requirements, a total of € 1,032.7 million (2018: € 1,054.8 million) could be included for regulatory capital backing. The slight fall in equity compared to 31 December 2018 due to the scheduled phase-out of subordinate funds is contrasted by a fall of 0.8 % in the risk-weighted assets. The equity ratio as at 30 June 2019 of 18.4 % (2018: 18.5 %) was almost unchanged compared to 31 December 2018.

Summary and outlook

The key quality criteria and risk parameters of Deutsche Hypo's real estate finance portfolio compared with 31 December 2018 testify to the high level to date. New business continued to be conducted in the core business area solely on the basis of quality. The capital market portfolio was further reduced during the reporting period. The measures that were started some time ago for reducing the capital market portfolio without impacting results were continued.

Beyond the above-mentioned risks, no significant further risks can currently be identified compared to those illustrated in the management report as of 31 December 2018. 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.

Hanover, 21. August 2019

The Board of Managing Directors

Barthauer Rehfus


HALF-YEARLY FINANCIAL STATEMENTS AS OF 30 JUNE 2019

BALANCE SHEET AS OF 30 JUNE 2019

ASSETS

	€	€	€	31 December 2018 (in € thousands)
1. Cash reserve				
b) Credit with central banks		1,305,517.26		13,662
of which: with the "Deutsche Bundesbank" € 1,305,517.26 (PY € 13,662 thousand)				
			1,305,517.26	13,662
2. Receivables from financial institutions				
a) Mortgage loans		7,190,635.76		7,853
b) Loans to local authorities		209,051,799.54		298,009
c) Other receivables		1,326,539,292.69		997,234
of which: due daily € 882,486,762.36 (PY € 679,162 thousand)				
			1,542,781,727.99	1,303,096
3. Receivables from customers				
a) Mortgage loans		12,384,016,226.10		12,256,144
b) Loans to local authorities		2,394,419,948.73		2,546,401
c) Other receivables		24,919,035.82		17,006
			14,803,355,210.65	14,819,551
4. Bonds and other fixed interest securities				
b) Bonds and debentures				
ba) from public issuers	2,304,748,771.01			2,282,180
of which: lendable to the "Deutsche Bundesbank" € 1,515,386,642.69 (PY € 1,489,321 thousand)				
bb) from other issuers	1,930,755,592.18			2,434,434
of which: lendable to the "Deutsche Bundesbank" € 1,746,463,625.28 (PY € 2,299,337 thousand)				
		4,235,504,363.19		
c) Own bonds		52,461,115.25		46,869
Nominal amount € 53,062,000.00 (PY € 47,297 thousand)				
			4,287,965,478.44	4,763,483
5. Intangible assets				
b) Purchased licenses, industrial property rights, as well as licenses to such rights and assets		1,294,212.47		1,382
d) Payments made on account		119,348.67		119
			1,413,561.14	1,501
6. Tangible assets			1,608,797.82	1,770
7. Other assets			136,457,969.99	121,790
8. Accrued and deferred items				
a) from the issue and loan transaction		41,594,154.61		42,904
b) others		5,404,189.48		5,081
			46,998,344.09	47,985
Total assets			20,821,886,607.38	21,072,838

LIABILITIES

	€	€	€	31 December 2018 (in € thousands)
1. Liabilities to financial institutions				
a) Issued registered mortgage Pfandbriefe		193,396,245.82		191,895
b) Issued registered public Pfandbriefe		209,246,809.06		278,094
c) Other liabilities		1,718,467,973.97		2,643,359
of which: due daily € 315,564,172.02 (PY € 324,473 thousand)				
			2,121,111,028.85	**3,113,348**
2. Liabilities to customers				
a) Issued registered mortgage Pfandbriefe		566,990,877.52		680,490
b) Issued registered public Pfandbriefe		3,145,928,013.04		3,385,838
d) Other liabilities		3,424,929,107.34		3,253,997
with which: due daily € 1,339,672.65 (PY € 8,747 thousand)				
			7,137,847,997.90	**7,320,325**
3. Securitised liabilities				
a) Assigned bonds				
aa) mortgage Pfandbriefe	8,223,256,638.73			7,255,699
ab) public Pfandbriefe	146,443,327.52			142,990
ac) other bonds	1,715,859,602.99			1,784,279
		10,085,559,569.24		
			10,085,559,569.24	**9,182,968**
4. Other liabilities			**88,144,938.81**	**83,447**
5. Accrued and deferred items				
a) from the issue and loan transaction		32,155,802.13		28,559
b) other		9,583,447.30		11,307
			41,739,249.43	**39,866**
6. Provisions				
a) Provisions from pensions and similar obligations		57,132,317.98		54,163
b) Tax provisions		1,272,435.40		2,274
c) Other provisions		75,007,446.58		44,375
			133,412,199.96	**100,812**
7. Subordinated liabilities			**361,500,000.00**	**379,500**
8. Funds for general banking risks			**14,400,000.00**	**14,400**
9. 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			**20,821,886,607.38**	**21,072,838**
1. Contingent liabilities				
b) Liabilities arising from sureties and guarantee agreements		368,310,690.07		462,220
			368,310,690.07	**462,220**
2. Other obligations				
c) Irrevocable credit commitments		1,188,964,812.82		1,061,606
			1,188,964,812.82	**1,061,606**

INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2019

	€	€	€	€	1 January 2018 – 30 June 2018 (in € thousands)
1. Interest earnings from					
a) Credit and money market transactions	205,229,523.55				213,764
less negative interest from money market transactions	– 1,593,089.66				– 1,608
b) Fixed interest bearing securities and		203,636,433.89			
book-entry securities		55,651,310.03			60,919
			259,287,743.92		
2. Interest expenses					
Interest expenses from the banking business		175,501,071.46			186,470
less positive interest from the banking business		– 3,327,676.40			– 2,386
			172,173,395.06		
				87,114,348.86	88,991
3. Commission income			5,907,995.91		5,185
4. Commission expenses			4,613,705.66		5,549
				1,294,290.25	– 364
5. Other operating income				7,095,713.45	1,745
6. General administrative expenses					
a) Personnel expenses					
aa) wages and salaries		19,987,850.22			19,819
ab) social security and expenses for pension		3,944,923.18			
plans and for support					3,815
of which:					
for pension plans					
€ 991,244.30 (PY € 812 thousand)					
			23,932,773.40		
b) Other administrative expenses			24,965,374.41		26,201
				48,898,147.81	49,835
7. Write-downs and value adjustments of intangible assets and tangible fixed assets				427,962.97	461
8. Other operating expenses				4,132,978.64	3,385
9. Write-downs and value adjustments on receivables and specific securities as well as allocations to provisions in credit business			9,062,159.46		2,981
				9,062,159.46	2,981
10. Income from write-ups of participatory interest, shares in affiliated companies and securities treated as fixed assets			60,732.16		214
				60,732.16	214
11. Result from normal operations				33,043,835.84	33,924
12. Extraordinary income			0.00		74
13. Extraordinary expenses			14,337.94		0
14. Extraordinary result				– 14,337.94	74
15. Taxes on income			1,047,462.64		1,273
16. Other taxes not included under item 8			23,035.33		9
				1,070,497.97	1,282
17. Profits to be transferred on the basis of a profit pooling, a profit transfer or a partial profit transfer agreement				31,958,999.93	32,716
18. Profit for the period				0.00	0
19. Transfer to the profit reserves				0.00	0
20. Balance sheet profit				0.00	0

STATEMENT OF CHANGES IN EQUITY

in € thousands	Subscribed capital	Capital reserves	Profit reserves	Equity difference from currency conversion	Profit/loss carried forward	Profit/loss for the period	Total
As of 1 January 2019	80,640	481,314	276,218	0	0	0	838,172
Capital increase / reduction	0	0	0	0	0	0	0
Allocation to / withdrawal from reserves	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0
As of 30 June 2019	80,640	481,314	276,218	0	0	0	838,172

in € thousands	Subscribed capital	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	481,314	276,218	0	0	0	838,172
Capital increase / reduction	0	0	0	0	0	0	0
Allocation to / withdrawal from reserves	0	0	0	0	0	0	0
Distribution	0	0	0	0	0	0	0
Currency conversion	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0
Profit/loss for the period	0	0	0	0	0	0	0
As of 30 June 2018	80,640	481,314	276,218	0	0	0	838,172

CASH FLOW STATEMENT

in € thousands		1 January 2019 – 30 June 2019	1 January 2018 – 30 June 2018
1.	**Net result**	**0**	**0**
2.	Write-downs, value adjustments and write-ups to receivables and tangible fixed assets	9,609	8,037
3.	Increase/decrease in reserves	1,629	– 179
4.	Other non-cash expenses/income	0	0
5.	Profit/loss from the disposal of tangible fixed assets	– 61	– 42,497
6.	Profit to be surrendered under a profit transfer agreement	31,959	32,716
7.	Other adjustments (balance)	– 1,376	– 1,083
8.	Increase/decrease of receivables from financial institutions	– 262,151	429,532
9.	Increase/decrease of receivables from customers	7,583	759,264
10.	Increase/decrease of securities (if not financial assets)	– 5,738	885
11.	Increase/decrease of other assets from current operations	– 19,843	– 5,459
12.	Increase/decrease of liabilities to financial institutions	– 904,137	– 1,106,854
13.	Increase/decrease of liabilities to customers	– 156,763	– 767,096
14.	Increase/decrease of securitised liabilities	896,212	– 447,558
15.	Increase/decrease of other liabilities from current operations	15,164	28,033
16.	Interest expenses/income	– 87,114	– 88,991
17.	Expenses/income from extraordinary items	14	– 74
18.	Income tax expenses/income	1,047	1,273
19.	Interest and dividend payments received	285,820	329,519
20.	Interest paid	– 208,019	– 256,398
21.	Extraordinary deposits	0	0
22.	Extraordinary disbursements	0	0
23.	Income tax payments	– 2,049	– 1,826
24.	**Cash flow from current operations (total of items 1 to 23)**	**– 398,214**	**– 1,128,756**
25.	Deposits from disposals of financial assets	783,233	741,876
26.	Disbursements for investments in financial assets	– 312,287	– 24,367
27.	Deposits from disposals of tangible fixed assets	0	3
28.	Disbursements for investments in tangible fixed assets	– 76	– 103
29.	Deposits from disposals of intangible fixed assets	0	0
30.	Disbursements for investments in intangible fixed assets	– 103	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	– 64
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)**	**470,767**	**717,345**
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	– 11,713	– 13,417
46.	Profit and loss transfer	– 55,196	– 56,280
47.	Changes in funds from other capital (balance)	– 18,000	– 20,000
48.	**Cash flow from financing activities (total of items 37 to 47)**	**– 84,909**	**– 89,697**
49.	Cash changes in finance funds (total from 24, 36, 48)	– 12,356	– 501,108
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	13,662	648,151
53.	**Finance funds at the end of period (total of items 49 to 52)**	**1,306**	**147,043**

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 2018, while comparison values for income statement performance figures relate to the interim financial statements as of 30 June 2018.

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 2019 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. 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.

The accounting, valuation and measurement methods for the preparation of the annual financial statements as of 31 December 2018 were applied in unchanged form for the preparation of the half-yearly financial statements.

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 2019 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.

Statements on the continuation of business activities

Deutsche Hypo is dependent on the Group parent NORD/LB under a control and profit and loss transfer agreement and the use of the waiver rule pursuant to Art. 7 (1) CRR, formerly section 2a (1) German Banking Act (KWG). Further key dependencies exist in terms of compliance with Group capital requirements, development of the rating, liquidity and funding and the internal Group management and organisation. Additionally, service relationships as well as intra-group receivables and liabilities exist between Deutsche Hypo and NORD/LB.

Over the previous year, the ongoing crisis on the shipping markets has led to a gradual increase in non-performing credit portfolios as well as a strong need for risk provisions with a corresponding adverse impact on the regulatory capital ratios of NORD/LB and the NORD/LB Group. Similar trends also contributed to the significant annual losses at NORD/LB level in 2018. As a consequence of this, NORD/LB no longer complies with regulatory capital ratios as at 31 December 2018 and in the first half of 2019.

In order to reduce non-performing ship finance portfolios and create the basis for measures to strengthen capital ratios, NORD/LB and its owners as well as Deutsche Sparkassen- und Giroverband e.V. (DSGV) agreed by way of a notarised basic agreement dated 21 June 2019 to take measures for capital strengthening and reorientation of NORD/LB. Cornerstones of this agreement are a capital increase of around € 2.8 billion in exchange for cash deposits and capital substitution measures with a CET1 equivalent of around € 0.8 billion. This is intended to steel NORD/LB for further increasing regulatory requirements and shore up its crisis resilience and competitiveness in the long term. Alongside reducing non-performing credit portfolios, the measures for realigning the NORD/LB business model envisage an extensive transformation of individual business areas and subsidiaries of NORD/LB and Group over the coming years.

Until the capital strengthening exercise is performed, there will be a shortfall of the regulatory minimum capital quotas at the NORD/LB and NORD/LB Group level. NORD/LB has notified the banking supervisory authority accordingly.

NORD/LB's capital and business plan for 2019 to 2024 takes into account the capital contribution described, the capital substitution measures and the realignment of the business model. NORD/LB's capital and business plan is currently being approved by the banking supervisory authority and, from the perspective of state aid, the European Commission. NORD/LB assumes that the capital ratios will bounce back in future and will satisfy all regulatory requirements when the measures included for capital strengthening and realignment of the business model are implemented.

Due to the dependencies of NORD/LB set out above, there is significant uncertainty surrounding the continuation of the business activity of Deutsche Hypo. The assumption of a continuation of business activity (going concern) for accounting and valuation purposes and the survival of Deutsche Hypo is dependent on the survival of NORD/LB. The survival of NORD/LB in turn faces significant uncertainty and is premised in particular on

- the capital strengthening measures agreed under the basic agreement dated 21 June 2019 at NORD/LB level being implemented, completed and approved by all relevant stakeholders, in particular the regional parliaments of Lower Saxony and Saxony-Anhalt as well as the Deutscher Sparkassen- und Giroverband e.V., enabling renewed compliance of the capital ratios and buffers and thresholds required under regulatory law,
- banking regulation authorities, in particular the European Central Bank, the German Federal Institute for the Supervision of Financial Services and the Deutsche Bundesbank, tolerating a shortfall of the regulatory minimum capital quotas up to the point of the completion of the intended measures for capital strengthening at NORD/LB level,
- all official approvals required for implementation, in particular from the EU Commission and the relevant banking regulation authority, being granted and
- the realignment of the business model and the intended restructuring measures are implemented as planned.

If the intended capital strengthening measures at NORD/LB level are not performed as planned, the outcome may be the winding up of NORD/LB. This eventuality or a rating downgrade or other adverse developments may trigger significant outflows of short-term funds, fundamentally limiting the funding options for NORD/LB.

A successful implementation of the realignment of the NORD/LB business model also presupposes the requisite acceptance by the market participants and other relevant stakeholders.

A winding up of NORD/LB could result in a winding up or a sale of Deutsche Hypo. Such a situation or a rating downgrade of NORD/LB or other adverse developments may fundamentally limit the funding options of Deutsche Hypo.

Notes on the balance sheet

Receivables from financial institutions

in € thousands	30.06.2019	31.12.2018
Breakdown of residual maturities		
due daily	882,487	679,162
up to three months	31,090	105,530
between three months and one year	286,325	152,074
between one year and five years	94,258	10,218
more than five years	115,565	200,565
proportionate interest in total	133,057	155,547
Balance sheet item	1,542,782	1,303,096

Receivables from customers

in € thousands	30.06.2019	31.12.2018
Breakdown of residual maturities		
up to three months	390,439	337,861
between three months and one year	1,489,551	1,436,555
between one year and five years	6,477,606	6,188,673
more than five years	6,392,700	6,781,288
proportionate interest in total	53,059	75,174
Balance sheet item	14,803,355	14,819,551

Bonds and other fixed income securities

in € thousands	30.06.2019	31.12.2018
Balance sheet item	4,287,965	4,763,483
due in the following year	1,173,824	1,024,112
of which not valued at the lower of cost or market value*)	134,607	308,702
fair value of securities not valued at lower of cost or market value	102,607	270,199

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

Other assets

in € thousands	30.06.2019	31.12.2018
Balance sheet item	136,458	121,790
of which adjustment items from foreign currencies	135,781	120,633

Liabilities to financial institutions

in € thousands	30.06.2019	31.12.2018
Breakdown of residual maturities		
due daily	315,564	324,473
up to three months	569,328	971,519
between three months and one year	465,686	1,042,068
between one year and five years	229,857	194,653
more than five years	405,986	411,908
proportionate interest in total	134,690	168,727
Balance sheet item	2,121,111	3,113,348

Liabilities to customers

in € thousands	30.06.2019	31.12.2018
Breakdown of residual maturities		
due daily	1,340	8,747
up to three months	350,580	414,799
between three months and one year	1,043,500	1,123,150
between one year and five years	2,430,420	2,192,091
more than five years	3,227,081	3,470,219
proportionate interest in total	84,927	111,319
Balance sheet item	7,137,848	7,320,325

Securitised liabilities

in € thousands	30.06.2019	31.12.2018
Balance sheet item	10,085,560	9,182,968
due in the following year	2,182,809	1,548,162

Other liabilities

in € thousands	30.06.2019	31.12.2018
Balance sheet item	88,145	83,447
of which adjustment items from foreign currencies	70,497	67,297
of which pro-rata interest on subordinated liabilities	9,505	10,986

Provisions

Provisions increased to € 133.4 million compared to 31 December 2018 (2018: € 100.8 million). This was primarily due to accounting for the profit and loss transfer of € 32.0 million, which had not been carried out as at 30 June 2019, in other provisions.

Contingent liabilities and other obligations

in € thousands	30.06.2019	31.12.2018
Liabilities arising from sureties and guarantee agreements	**368,311**	**462,220**
of which total return swaps	135,220	134,346
of which sureties in the mortgage business	233,091	327,874

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 liabilities 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 without accrued interest calculated using an evaluation model (mainly discounted cash-flow model) on the basis of parameters observable on the market (yield curves, forex rates etc.). The figures determined in this way are summarised in the following tables by product category.

30.06.2019	Nominal amount	Market value	
in € millions		positive	negative
Currency-related transactions	576	14	– 0
Interest rate-related transactions	34,119	1,536	– 1,993
Interest rate and currency related transactions	2,387	133	– 203
Total	**37,082**	**1,683**	**– 2,196**

31.12.2018	Nominal amount	Market value	
in € millions		positive	negative
Currency-related transactions	688	7	2
Interest rate-related transactions	34,095	1,193	1,528
Interest rate and currency related transactions	2,202	128	184
Total	**36,985**	**1,329**	**1,714**

Notes on the income statement

Other operating income

in € thousands (1 January - 30 June)	2019	2018
Income statement item	**7,096**	**1,745**
of which income from the release of provisions	6,944	761
of which reimbursement of expenses	2	524
of which interest rebates from taxes	0	267

Other operating expenses

in € thousands (1 January - 30 June)	2019	2018
Income statement item	**4,133**	**3,385**
of which expenses from the discounting of provisions (including interest rate effects from the discounting of provisions)	3,772	3,123

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

	2019	2018
Female employees	188	190
Male employees	233	240
Total	**421**	**430**

Hanover, 21 August 2019

The Board of Managing Directors

Barthauer

Rehfus

REVIEW REPORT

To Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover

We have reviewed the interim financial statements of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover – 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), Hanover, for the period from 1 January to 30 June 2019 that are part of the semi annual report according to § 115 WpHG ["German Securities Trading Act"]. The preparation of the 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 interim financial statements and on the interim management report based on our review.

We performed our review of the 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 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 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.

Without qualifying this opinion, we refer to the statements in the interim management report in the section "dependencies of Deutsche Hypo on NORD/LB" and in the condensed notes in the section "statements on the continuation of business activities". There it is stated by the legal representatives that the assumption of a continuation of business activity (going concern) for accounting and valuation purposes and the survival of Deutsche Hypo is dependent on the survival of NORD/LB.

The survival of NORD/LB in turn faces significant uncertainty and is premised in particular on

- the capital strengthening measures agreed under the basic agreement dated 21 June 2019 at NORD/LB level being implemented, completed and approved by all relevant stakeholders, in particular the regional parliaments of Lower Saxony and Saxony-Anhalt as well as the Deutscher Sparkassen- und Giroverband e.V., enabling renewed compliance of the capital ratios and buffers and thresholds required under regulatory law,
- banking regulation authorities, in particular the European Central Bank, the German Federal Institute for the Supervision of Financial Services and the Deutsche Bundesbank, tolerating a shortfall of the regulatory minimum capital quotas up to the point of the completion of the intended measures for capital strengthening at NORD/LB level,
- all official approvals required for implementation, in particular from the EU Commission and the relevant banking regulation authority, being granted and
- the realignment of the business model and the intended restructuring measures are implemented as planned.

If the intended capital strengthening measures at NORD/LB level are not performed as planned, the outcome may be the winding up of NORD/LB. This eventuality or a rating downgrade or other adverse developments may trigger significant outflows of short-term funds, fundamentally limiting the funding options for NORD/LB.

A successful implementation of the realignment of the NORD/LB business model also presupposes the requisite acceptance by the market participants and other relevant stakeholders.

A winding up of NORD/LB could result in a winding up or a sale of Deutsche Hypothekenbank (Actien-Gesellschaft). Such a situation or a rating downgrade of NORD/LB or other adverse developments may fundamentally limit the funding options of Deutsche Hypothekenbank (Actien-Gesellschaft).

As explained in the statements in the interim management report in the section "dependencies of Deutsche Hypo on NORD/LB" and in the condensed notes in the section "statements on the continuation of business activities", this points to the existence of a material uncertainty which may cast significant doubt on the ability of the bank to continue its business activities and represents a risk jeopardising the continued existence of the bank within the meaning of Art. 322 (2) sent. 3 HGB. Our audit opinions have not been modified with regard to this matter.

Hanover, 21 August 2019

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 in the rest of the financial year.”

Hanover, 21 August 2019

The Board of Managing Directors

Barthauer Rehfus

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