

2014

Interim Report

Financial Figures

in € m

	1.1.2014 – 30.6.2014	1.1.2013 – 30.6.2013
New commitments		
Assets		
Real estate financing	256	133
Capital markets business	0	0
Liabilities		
Mortgage Pfandbriefe	50	23
Public-sector Pfandbriefe	0	0
Other bonds	0	10
Other liabilities	225	360
Results		
Result after taxes	-25.9	-19.5

	30.6.2014	31.12.2013
Portfolio		
Assets		
Real estate financing	1,232	1,092
Capital markets business	8,416	9,462
Liabilities		
Mortgage Pfandbriefe	563	522
Public-sector Pfandbriefe	3,176	3,529
Other bonds	10	10
Other liabilities	1,046	1,220
Total assets	10,889	11,919
Equity capital*		
Equity base		
Core tier 1 capital	233	258
Additional core capital	0	0
Supplementary capital	42	60
Regulatory ratios		
Core tier 1 capital ratio	11.6%	13.2%
Core capital ratio	11.6%	13.2%
Total capital ratio	13.7%	16.2%

* After consideration of the annual/half-year result;
31.12.2013 calculated in accordance with the German Solvency Regulation valid at that time.

Content

Interim Management Report	4
Market Developments	5
Business Development	7
Risk and Outlook Report	10
Interim Financial Statements	13
Balance Sheet	14
Income Statement	16
Notes (Condensed)	17
Responsibility Statement	19
Imprint	20

Interim Management Report

Market Developments

Macroeconomic Environment

The capital markets have been calmer since the conditional bond purchase program (Outright Monetary Transactions, OMT) of the European Central Bank (ECB) was announced in mid-2012. This ongoing positive market sentiment has led to further declines in yields of peripheral European sovereign bonds in the first half of 2014. Increasingly, market participants are focusing on economic improvements in the European Union (EU), whereas the macroeconomic challenges of individual EU countries have receded into the background. At a political level, some have already proclaimed the end of the sovereign debt crisis. However, there is an increasing number of critical voices warning of new bubbles in the equity and real estate markets.

Against the background of an expansionary monetary policy, the crisis countries achieved a successful return to the financial markets. Yields have fallen to levels which even the most optimistic analysts considered unlikely until recently. Calls for relaxation of austerity in Europe have thus been getting louder, even though some countries still require substantial reform. More flexible labor markets, later retirement and reduced government spending are still too low on the agenda of some European governments. Although Germany's present economic success is to some extent founded on this agenda, in the opinion of many economic experts, its current reforms are now taking the country down a different path. This could harm not only Germany's political credibility in relation to European partners but also its appeal as a business location in the long term.

The capital markets reacted with relief to the outcome of the European elections. Although there was a swing to the right, it was milder than suspected. Still, the election result and the low voter turnout reflect the continuing alienation between the political class and European citizens.

In contrast to the positive sentiment in the capital markets, low rates of real economic growth and high unemployment persist in some countries, particularly in southern Europe. The European Commission forecasts an economic growth in Europe of 1.2% of gross domestic product this year and 1.5% in 2015 – rates unlikely to improve the situation to any significant degree. The ECB is therefore trying to support the economy by encouraging lending. As well as a negative deposit rate, a key element of the stimulus decided in July 2014 is a conditional long-term refinancing program (Targeted Long-Term Refinancing Operations, TLTRO),

which makes an additional € 1.0 bn available to banks, encouraging them to lend to corporate customers. The Spanish and Italian markets in particular should benefit from this measure. These countries' banks should also favour this, as the refinancing of existing loans will be less expensive.

Having dominated the headlines with negative news for a prolonged period, it is all the more pleasing that developments in Ireland, Spain and Portugal have been largely positive during the year so far. Portugal was the next country after Ireland to make a full-scale return to the capital markets. Thanks to far-reaching reforms, the fiscal data are now showing early stages of recovery. In Spain, the banking sector has stabilized and the economy is recovering. Not only is the country benefiting from a better external environment, but the reforms of recent years are also having an impact, particularly on the labor market. Risk premiums for sovereign bonds of most EU peripheral countries developed positively in the first half of 2014, by which point spreads of five-year Spanish Credit Default Swaps (CDS) had fallen to 66 bp. At the beginning of 2014, they stood at 148 bp, and at year-end 2012 they were around 295 bp. By the end of June 2014, spreads of five-year CDS on Portuguese and Irish government bonds had fallen to around 164 bp and 46 bp respectively, after 337 bp and 115 bp at the start of the year. At the end of 2012, Portuguese CDS spreads stood at 448 bp and those of Ireland at 218 bp. This reflects the success of these countries in tackling the crisis.

The performance of France, a core European country, remains a difficult issue. Although the crisis has not reached southern European proportions, the country's economy is steadily being eroded by its refusal to embrace reforms. However, policy-makers now, reluctantly, appear to be rethinking their stance. Italy has long suffered from the failures of its political elites, but further change at the centre of government could herald the beginning of a new political culture. With Matteo Renzi as the new Prime Minister, the country has a chance of developing a political and social momentum that might spur the implementation of urgently needed cultural and economic reforms. It remains to be seen whether the Prime Minister can meet public expectations, by delivering successful economic policies and results. However, the first major reforms have already been introduced. Yields on ten-year Italian government bonds have fallen from 412 bp at the end of 2013 to 285 bp. At year-end 2012, they stood at 450 bp.

The Austrian Hypo Alpe Adria bank was at the center of attention in the first half of 2014. The government averted a collapse of the bank, but passed a special law obliging

subordinated creditors and Bayerische Landesbank, as the former owner, to contribute to the restructuring. Above all, the retrospective termination of governmental guarantees caused profound dismay among affected investors. The dispute is to continue in the courts. A bad bank will be established, after which Hypo Alpe Adria will be wound up in an orderly fashion.

Financial institutions are increasingly preoccupied with regulatory issues and their implementation. Rising costs will negatively impact profitability, particularly among smaller banks.

Relevant Real Estate Markets

By the end of the first half of 2014, the largely positive forecasts for European real estate markets announced at the beginning of this year had been achieved.

The German commercial investment market proved very buoyant during the first two quarters of 2014. With a total transaction volume of around € 17.3 bn, the third-best half-year result of all time was achieved. After a record volume of € 10.3 bn in the first quarter of 2014 (+45% versus Q1 2013) – only the year 2007 got off to a stronger start – the transaction volume fell slightly in the second quarter, but remained at a high level. The significant rise in transaction volume is due, in particular, to secondary locations and smaller towns and cities; volumes increased only moderately in the “big six” German cities. The most popular asset class remains office properties, recording an investment volume of € 6.1 bn (35.5% of total volume), with retail properties in second place at around € 5.0 bn (29.1%). Logistics investments continued to grow their share, accounting for 12.3% of total volume in the first half of 2014. After German investors having dominated market activity significantly in recent years, foreign investors came to the fore in 2014, with their market share rising to 48.0% by the end of June 2014. Steady interest from domestic and foreign investors in German commercial real estate will drive transaction volumes in the coming quarters as well. It is clear that the € 30 bn mark will easily be surpassed in the full year of 2014, and the previous year’s volume exceeded considerably.

The German residential real estate market enjoyed the best ever start to the year. A record-breaking result was achieved in the first quarter of 2014 due to three large-scale transactions. Transaction volume in larger residential properties amounted to just over € 5.1 bn, exceeding the comparable quarter of the previous year by around 179% and the long-term average by 115%. Despite a lower volume in the second quarter of only € 1.9 bn due to a lack of supply, the transaction volume of around € 7.0 bn recorded in the first half of 2014 is 16% higher than the figure for the same period of

the previous year. This was also the second best result ever recorded for the first six months of a year. The outlook for the residential market remains positive and demand is likely to remain undiminished for the rest of the year, particularly in the small-scale and mid-market segments.

The French commercial real estate market appears to be doing better than expected based on the somewhat muted positive outlook announced at the beginning of 2014. After a transaction volume of € 4.1 bn in the first quarter of 2014 on a similar level to the previous year’s first quarter, a record € 8.2 bn was achieved in the second quarter of 2014, resulting in a total transaction volume of € 12.3 bn in the first half of the year. The most attractive location continues to be Île-de-France (the “Greater Paris” region), accounting for around 76% of transaction volume. The most popular asset class remains office properties with a share of 53.3%. Transaction volume in the French commercial real estate market for the full year 2014 seems set to surpass last year’s volume, despite France’s currently poor economic situation. One reason is easier access to financing.

In the Netherlands, the recovery of the broader economy and of the commercial real estate market continues. Total investment in office, industrial and retail properties rose in Q2 2014 for the fifth consecutive quarter, indicating a structural recovery. After a transaction volume of € 1.3 bn in the first quarter of 2014, driven in particular by the retail sector, and an even stronger second quarter, a total volume of around € 4 bn was achieved in the first half-year. Investor interest in the residential investment market increased significantly in 2013 and remains buoyant. Transaction volume in this segment reached € 500 m up to mid-May 2014. The Dutch real estate investment market as a whole is forecast to continue growing over the further course of the year. A particularly high level of interest is currently apparent among foreign investors, who already accounted for 60% of all real estate transactions in the first half of 2014.

In Spain as well, the country’s general economic recovery of recent months is having a positive effect on its commercial real estate market, which virtually ceased to exist during the crisis years. Demand for commercial premises and the volume of investment in commercial real estate are currently growing at moderate rates. There is lively interest from international investors in particular. According to current forecasts, transaction volume in Spain will reach at least € 2.2 bn in 2014 as a whole, while the total volume in 2013 was € 1.2 bn.

Business Development

Real Estate Financing

In the first half of 2014, Düsseldorfer Hypothekbank remained open for direct credit inquiries from institutional investors active in the real estate market, but also continues to work with German and international market participants (such as syndication desks, originators and partner banks). The Bank's business and risk strategy focuses on large-volume commercial real estate financing in Germany and metropolitan areas of selected core markets in other European countries. The emphasis is on markets that demonstrate a high level of transparency and professionalism, but no currency risk. Hence, the strategic focus is on the Netherlands and France. The Bank is also open to selected financing operations in Spain.

New commitments rose significantly compared with the prior year period, from € 132.5 m to € 255.8 m, of which € 24.0 m relates to prolongations. In the first half of 2014, new commitments consisted primarily of commercial financing in Germany and the Netherlands.

At 30 June 2014, the entire real estate loan portfolio including mortgage-backed securities (MBS) stood at € 1.2 bn (at the exchange rates prevailing on the balance sheet date), € 139.5 m higher than the figure as at 31 December 2013 (€ 1.1 bn). The growth in business volume in the real estate loan portfolio was mainly the result of new commitments. The positive effect generated by new commitments was partly offset by regularly scheduled principal repayments and divestments. US loans and the MBS portfolio were scaled back further through active portfolio management in accordance with the business strategy. As at the reporting date, these were reduced by € 49.2 m to € 137.3 m and by € 9.1 m to € 57.5 m respectively. The MBS portfolio consists entirely of standard, single-step pass-through structures. The receivables underlying the portfolio serve exclusively to finance real estate located in western Europe.

As at 30 June 2014, domestic loans made up 45.3% of the portfolio (31 December 2013: 46.3%). Credit extended to borrowers in other countries thus accounted for 54.7% (31 December 2013: 53.7%). The composition of the loan book by property use also remained fairly constant compared with year-end 2013, though there was a slight shift in the relative proportions: the share of residential real estate grew to 31.7% (31 December 2013: 22.6%), while the share of commercial real estate fell to 68.3% (31 December 2013: 77.4%).

Capital Markets Portfolio

The strategic reduction of the capital markets portfolio has been continued as planned in the first half of 2014. Besides scheduled maturities, a limited number of securities were sold that were no longer considered to be part of the Bank's core business according to its strategy. Due to increased political uncertainty, exposure to the Hungarian government (€ 35.0 m) was fully divested in April 2014 by way of an asset swap. Düsseldorfer Hypothekbank is not affected by the haircut on subordinated bonds of Hypo Alpe Adria. The portfolio consists exclusively of bonds in the "senior unsecured" category. The exposure is closely monitored by the risk management. Overall, the capital markets portfolio declined by € 1.0 bn to € 8.4 bn in the period under review due to maturities and the active reduction of risk assets.

The "Capital markets business" segment of Düsseldorfer Hypothekbank consists of the sub-portfolios "Public-sector lending (ordinary cover)", "Substitute cover business" and business "Not eligible as cover".

The "Public-sector lending" sub-portfolio, which declined to € 6.4 bn (31 December 2013: € 7.2 bn), accounted for 75.5% (31 December 2013: 76.4%) of the capital markets business. This includes all receivables that qualify as ordinary cover for Public-sector Pfandbriefe under the German Pfandbrief Act (Pfandbriefgesetz or "PfandBG").

The "Substitute cover business" sub-portfolio, which consists of all securities claims from financial institutions (bank bonds) that are eligible as substitute cover under PfandBG, remains at € 0.5 bn (31 December 2013: € 0.6 bn), representing 6.6% (31 December 2013: 6.4%) of the capital markets business.

The "Not eligible as cover" sub-portfolio, which contains all securities claims that cannot be used as ordinary or substitute cover, decreased to € 1.5 bn (31 December 2013: € 1.7 bn).

Development of Earnings

The Bank's earnings in the first half of 2014 were once again depressed by actions taken in previous years (up to and including 2007). The first signs of improvement are apparent due to the strengthened focus on new commitments in real estate financing in recent months and repayment of the bond guaranteed by the German Financial Markets Stabilization Fund (Sonderfonds Finanzmarktstabilisierung or "SoFFin") last year.

While overall net interest income as at 30 June 2013 (€ 23.4 m) was positively influenced by non-recurring effects, net interest income as at 30 June 2014 (€ -23.3 m) included hardly any non-recurring effects (€ 0.1 m). Current net interest income thus improved by € 14.4 m.

Net commission income, at € 1.6 m, is positive for the first time since the strategic reorganization of 2011 and is € 9.4 m higher than in the previous year (€ -7.8 m). This is essentially because the Bank no longer has to pay guarantee commissions associated with the SoFFin-guarantees. In addition, (net) commission income from real estate financing business in the first half of 2014 was € 2.2 m and thus € 1.1 m higher than in the comparable period last year. General administrative expenses amounted to € 12.4 m, an increase of € 1.4 m on the previous year's figure of € 11.0 m. Personnel expenses increased, largely due to the expansion of human resources in the real estate financing business, by € 1.0 m to € 3.6 m, and other administrative expenses by € 0.4 m to € 8.8 m.

Depreciation on tangible and intangible assets, at € 0.2 m, was unchanged versus the previous year's level.

The valuation result as at 30 June 2014 totaled € 7.7 m, representing a significant improvement on the comparable period last year (€ -24.8 m). Whereas in the previous year the valuation result – in a mirror image of net interest income – was impacted by mainly negative non-recurring effects resulting from the redemption of own issues (€ -35.4 m), in the reporting period it is affected essentially by net divestment gains on securities in connection with the restructuring and risk reduction in the capital markets portfolio. The overall valuation result consists of the valuation result in real estate business amounting to € -0.1 m (30 June 2013: € -1.1 m) and that of the capital markets business amounting to € 7.8 m (30 June 2013: € -23.7 m).

Based on the loss-free valuation as at 30 June 2014 pursuant to IDW RS BFA 3/2012, an accounting standard promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer), there is no requirement for a provision in this respect.

The segment result calculated by the Bank breaks down operations into the segment "Real estate financing", composed of the sub-portfolios "Mortgage loan business" and "MBS", and the segment "Capital markets business", composed of the sub-portfolios "Public-sector lending (ordinary cover)", "Substitute cover" and business that is "Not eligible for cover". After allocating their share of administrative expenses on the basis of imputed assumptions and offsetting the valuation result, the real estate financing segment had a pre-tax profit of € 4.3 m (30 June 2013: € 0.8 m), while the capital markets business posted a loss of € -24.6 m (30 June 2013: € -12.8 m). The pre-tax result of other activities amounted to € -5.6 m (30 June 2013: € -7.7 m).

Total Assets and Own Funds

Total assets were reduced by a further € 1.0 bn to € 10.9 bn in the first half of 2014, largely owing to maturities.

On the assets side of the balance sheet, "Bonds and other fixed-interest securities" declined considerably from € 7.4 bn to € 6.7 bn. Besides maturities, the decline is attributable – as in the previous year – to the continued implementation of the strategic decision to scale back the securities portfolio. "Receivables from banks" decreased by € 0.2 bn to € 2.4 bn, while "Receivables from customers" remained at the same level of € 1.8 bn.

In line with the decrease in assets, "Liabilities to banks" declined by € 0.4 bn to € 4.2 bn and "Liabilities to customers" by € 0.6 bn to € 5.9 bn. "Securitized liabilities", on the other hand, remained at the previous year's low level (€ 0.4 bn).

Equity capital pursuant to the Capital Requirements Regulation for Credit Institutions (Regulation (EU) No. 575/2013, CRR) as at 30 June 2014, taking the semi-annual result into account, was € 275.0 m. Of this amount, € 233.4 m related to core capital and € 41.6 m to supplementary capital. This resulted in a regulatory core tier 1 capital ratio as well as a core capital ratio of 11.6% and a total capital ratio of 13.7% as at the reporting date.

Derivative Portfolio

As at the reporting date, the Bank held a portfolio of derivative financial instruments with a nominal volume of € 13.8 bn (31 December 2013: € 17.6 bn), consisting of interest swaps with a nominal volume of € 13.3 bn and cross-currency swaps with a nominal volume of € 0.5 bn. Overall, the market value of the derivative portfolio totaled € -0.8 bn as at the reporting date. The considerable decline in the portfolio of € 3.8 bn was primarily due to the scheduled maturity of commitments and the early closing of swaps as part of the active restructuring of the portfolio.

Funding and Liquidity

The Bank was again able to successfully obtain funding and secure sufficient liquidity in the first half of 2014. Mortgage Pfandbriefe totaling € 50.0 m were issued in the reporting period (prior year period: € 23.0 m). In view of the strategy of scaling back public-sector financing, no Public-sector Pfandbriefe (€ 0.0 m) were issued. Since June 2012, the Bank has had an issuance program endorsed by the Commission de Surveillance du Secteur Financier (CSSF, Luxembourg) for both secured and unsecured bearer bonds and thus has the option of issuing ECB-eligible Pfandbriefe. This program is updated annually, most recently on 20 June 2014. Further very important sources of refinancing in the reporting period were fixed-term deposits and the issue of short-term promissory notes as customer or bank deposits. Other important methods of obtaining liquidity remained the open market business with the ECB and Eurex repo trading. The liquidity ratio of 1.3 as at 30 June 2014 exceeded the statutory minimum of 1.0.

On 28 February 2014, FitchRatings confirmed Düsseldorf Hypothekenbank's issuer rating for long-term unsecured liabilities at BBB- with a stable outlook. The support rating remained unchanged at 2; the viability rating was upgraded two notches from c to ccc. Against the background of EU reforms and the consequently assumed reduced willingness and ability of European countries to adopt support measures for financial institutions, Fitch intends to adjust the ratings of issuers in its rating universe, presumably in 2015. In March 2014, Fitch therefore lowered the outlook to negative for the Long-Term Issuer Default Rating of the majority of German issuers, including Düsseldorf Hypothekenbank.

Risk and Outlook Report

Risk Report

The Bank continued to consistently develop its risk management system during the first half of 2014. Consequently, in order to meet the increased regulatory requirements on capital adequacy, there will be greater emphasis on the balance sheet-oriented going-concern approach. Under this approach to measuring risk, besides detailed limitation of the individual risks, the models for determining risk-bearing capacity and the risk calculations were also optimized. The different risks are now monitored and controlled within the comprehensive risk management system – defined in the risk strategy for 2014 – under both going-concern approaches (balance-sheet- and present-value-oriented) with a strict limit structure.

During the first half of 2014, the Bank continued the restructuring process and actively drove forward the risk reduction in the capital markets business while taking into account the impact on earnings and risk-covering potential. In view of this active and – due to maturities – passive portfolio reduction with essentially stable ratings in the securities portfolio, both risk exposure and credit risk values decreased noticeably. In the first half of 2014, alongside the credit risks stemming from peripheral countries of the euro zone, attention also focused on developments in the Austrian banking and capital market sector.

In real estate financing business, the positive trend of new commitments continued, leading to an increased risk exposure. In view of stricter credit quality requirements for new commitments, risk increased to a disproportionately smaller extent.

Market risks entered into are actively controlled and kept at a low level.

Limits under the balance-sheet-oriented approach to measuring risk were adhered to at all times and only moderately utilized. Risk limits in the present value risk-bearing capacity calculation continued to be exceeded, as was also the case at the end of 2013. In this context, the first positive effects of the acquisition of new commitments on risk-bearing capacity were still more than offset by negative effects due to the Bank's restructuring.

In order to calculate the quantitative impact of the significant risk types, the Bank uses well-known and established models that are regularly reviewed and adapted to current regulatory requirements. In addition, to determine the interest rate risk under the balance sheet-oriented going-concern approach, a scenario model based on the net interest income forecast has been introduced, replacing the present value-oriented Value at Risk approach previously used to measure risk. To measure operational risk, at the beginning of 2014 the Bank switched to a maximum value approach based on the loss database, replacing the basic indicator approach formerly used to calculate internal risk.

Capital Market and MBS Exposure in Peripheral European Countries

The Bank's total exposure, including MBS, in the European crisis countries (Italy, Ireland, Portugal, Spain and Slovenia) totaled € 3.3 bn as at 30 June 2014 (31 December 2013: € 3.5 bn, including Hungary). Portfolio reductions are attributable to maturities and, to a lesser extent, sales. Due to increased political risks, exposure to Hungary was fully eliminated in April 2014 by way of an asset swap and replaced by Portuguese sovereign bonds with the same nominal volume. The asset swap commenced in 2013 from Spanish Cédulas and multi-Cédulas to sovereign bonds from Spain and Italy was completed in early 2014. This explains a € 75 m increase in the nominal volume of exposure to the Spanish sovereign in comparison to 31 December 2013. [C1]

Peripheral Exposure

in Mio. €

	Banks	Sovereigns	Sub-sovereigns	MBS	Total 30.6.2014	Total 31.12.2013
Ireland	45				45	45
Italy	113	537	707	27	1,384	1,482
Portugal	48	315		12	375	356
Slovenia	15	65			80	80
Spain	441	375	638	9	1,463	1,479
Hungary		0			0	35
Total	662	1,292	1,345	48	3,347	3,477

Report on Outlook

This report contains forward-looking statements relating to Düsseldorf Hypothekenbank's future business development and the results of operations, which are based on current plans, estimates, forecasts and expectations. These statements contain risks and uncertainties. There are numerous factors impacting the Bank's business that are largely beyond its own control. In particular, these factors include economic developments, the state of the financial markets and possible loan defaults. Actual events and developments may differ materially from those expressed or implied by these forward-looking statements. They are therefore only valid at the time of their publication. The Bank assumes no obligation to update these forward-looking statements in view of new information or unexpected events.

In the first half of 2014, Düsseldorf Hypothekenbank took advantage of favorable conditions on the German and Dutch real estate financing markets to nearly double the volume of new commitments in this segment compared with the same period last year. The Bank was able to improve current net interest income by expanding the portfolio while at the same time generating attractive margins. The intensity of competition and economic developments in the respective target markets will remain the principal drivers of development of new real estate financing business in the second half of 2014. The planned expansion of real estate financing in Spanish prime locations offers new revenue and yield potential. Enlargement of the workforce, together with the optimization of processes in real estate financing, will also support the planned expansion of real estate financing business in the second half of 2014. A possible deterioration of the economic situation of single commitments could generate risks

and a consequent need for write-downs in the real estate loan portfolio.

Further recovery of the capital markets in the second half of the year would favor the planned active reduction of non-strategic securities in the capital market segment, as well as an active reduction of the derivatives portfolio. Portfolio shifts through reduction of certain commitments in favor of lower-risk exposures offer the opportunity to mitigate adverse trends. Risks derive from economic, political and regulatory developments that could affect the solvency and willingness to pay of issuers (national and regional governments and banks) in the Bank's portfolio. Furthermore, changes to the rating methodology by rating agencies can affect the valuation of Düsseldorf Hypothekenbank and its portfolio.

The funding situation continues to depend on developments in the money and capital markets. Opportunities result from the ECB's expansionary monetary policy and the reputation of the Pfandbrief as a proven investment product. The emergence of new risks, particularly in the financial sector, due to economic, political and regulatory developments, may lead to market uncertainty.

The opportunities and risks as well as the forecasted development of Düsseldorf Hypothekenbank's earnings, financial and assets position described in the 2013 Annual Report apply to the second half of 2014 as well. With adequate liquidity and capital resources and the risk provisions that have been created, the Bank considers itself to be in a position to cope with market uncertainties.

Interim Financial Statements

Balance Sheet

Assets
in € k

			30.6.2014	31.12.2013
Cash reserve			17,296	100,493
of which: with Deutsche Bundesbank	(17,294)			(100,492)
Receivables from banks				
Public-sector loans		1,099,247		1,315,464
Other receivables		1,272,303	2,371,550	1,291,993
Receivables from customers				
Mortgage loans		1,139,753		991,762
Public-sector loans		642,053		826,085
Other receivables		68	1,781,874	80
Bonds and other fixed income securities				
Bonds and notes of public-sector issuers	3,303,113			3,441,991
of other issuers	3,398,304	6,701,417		3,935,217
Own debt instruments		0	6,701,417	0
Shares and other variable-yield securities			204	214
Participating interests			2,494	2,494
Intangible assets			1,022	1,206
of which: purchased licenses, industrial property rights, similar rights and values as well as licenses for such rights and values	(1,022)			(1,206)
Tangible assets			441	478
Other assets			1,287	1,554
Deferred items				
from issuing and lending business		5,503		6,389
Other		6,208	11,711	3,589
Total assets			10,889,296	11,919,009

Balance Sheet

Liabilities
in € k

		30.6.2014	31.12.2013
Liabilities to banks			
Registered Mortgage Pfandbriefe issued	60,511		66,693
Registered Public-sector Pfandbriefe issued	98,709		97,535
Other liabilities	4,051,071	4,210,291	4,450,639
Liabilities to customers			
Registered Mortgage Pfandbriefe issued	349,609		353,865
Registered Public-sector Pfandbriefe issued	2,881,007		3,209,586
Savings deposits	1		1
Other liabilities	2,657,856	5,888,473	2,940,990
Securitized liabilities			
Bonds issued			
Mortgage Pfandbriefe	161,117		110,268
Public-Sector Pfandbriefe	260,469		296,505
Other bonds	10,085	431,671	10,185
Other liabilities		26,666	21,867
Deferred items			
from issuing and lending business	872		1,057
Other	1,517	2,389	1,728
Provisions			
Tax provisions	0		0
Other provisions	2,311	2,311	2,581
Subordinated liabilities			
Fund for general banking risks		30,000	30,000
Capital			
Subscribed capital	361,000		361,000
Silent partnerships	362,412		362,412
Capital reserve			
Revenue reserve	48,893		48,893
Balance sheet loss	-567,772	204,533	-541,907
Total liabilities		10,889,296	11,919,009
Contingent liabilities			
Liabilities from guarantees and indemnity agreements		24	24
Other commitments			
Irrevocable loan commitments		236,582	309,598

			30.6.2014	30.6.2013
Interest income				
from lending and money market transactions	271,649			550,834
from fixed-income securities and debt register claims	111,975	383,624		122,469
Interest paid		-406,909	-23,285	-649,913
Income				
from shares and other variable-yield securities		0		0
from participating interests		13	13	13
Commission income		2,578		1,131
Commission paid		-937	1,641	-8,918
Other operating income			744	2,977
General administrative expenses				
Staff expenses				
Wages and salaries	-3,085			-2,281
Compulsory social security contributions and expenses for pensions and other staff benefits	-467	-3,552		-347
Other administrative expenses		-8,799	-12,351	-8,398
Depreciation and valuation adjustments of intangible and tangible assets			-221	-178
Other operating expenses			-49	-2,297
Depreciation and valuation adjustments				
of receivables and certain securities as well as allocations to provisions for possible loan losses			0	-29,298
of participating interests, shareholdings in affiliated companies and securities treated as fixed assets			0	0
Income from write-ups				
to receivables and certain securities as well as the reversal of provisions for possible loan losses			668	0
to participating interests, shareholdings in affiliated companies and securities treated as fixed assets			6,976	4,499
Operating result			-25,864	-19,707
Result before taxes			-25,864	-19,707
Tax from income and earnings			0	45
Other taxes, not included under other operating expenses			-1	173
Net result			-25,865	-19,489
Retained loss brought forward			-541,907	-496,874
Balance sheet loss			-567,772	-516,363

Notes (Condensed)

Accounting and Valuation Principles

These interim financial statements as at 30 June 2014 were prepared in accordance with Section 37 w (3) and (4) of the German Securities Trading Act (Wertpapierhandelsgesetz) and the applicable provisions of the German Commercial Code (Handelsgesetzbuch or "HGB") and the Bank Accounting Directive (Verordnung über die Rechnungslegung von Kreditinstituten). In addition, compliance with the provisions of the German Public Limited Companies Act (Aktiengesetz) and the PfandBG has also been ensured.

The same accounting and valuation methods were applied in these interim financial statements as in the Bank's annual financial statements as at 31 December 2013.

The interim financial statements were not audited in accordance with Section 317 HGB, nor were they reviewed by the auditors.

Significant Changes to the Balance Sheet in Comparison with 2013

Receivables from Banks and Customers

Total receivables from banks and customers decreased by 6.1% compared with 31 December 2013 because of scheduled maturities and early repayments. The figure was increased by disbursements in real estate financing.

Bonds and Other Fixed-interest Securities

Compared with the position as at 31 December 2013, the portfolio of third-party bonds is 9.2% lower, essentially due to maturities. These include securities with a carrying amount of € 2.5 bn which have a far value, as at the balance sheet date, that is € 243.5 m below their carrying amount due to price fluctuations in the capital markets.

Liabilities to Banks and Customers, and Securitised Liabilities

Liabilities to banks and customers as well as securitized liabilities declined by a total of 8.7% compared with 31 December 2013 due to maturities.

Other Liabilities

Other liabilities amount to € 26.7 m. The reason for the increase compared with the previous year is primarily a balancing item for foreign currency conversion resulting from the conversion of financial instruments denominated in foreign currency at the ECB's reference rate as at the balance sheet date.

Subordinated Liabilities

No subordinated liabilities were issued during the reporting period. The decrease compared with the comparable period last year is due to maturities.

Significant Changes to the Income Statement in Comparison with the First Half of 2013

Net Interest and Commission Income

Compared with the same period last year, net interest income decreased from € 23.4 m to € -23.3 m. In particular, the positive non-recurring effects in the previous year from financial derivatives, mainly due to swap closings related to hedge positions, thereby producing contrary effects in the valuation result, were negligible in the reporting period (€ -0.4 m). The current net interest income of the portfolio adjusted for non-recurring effects remains negative (€ -23.4 m) due to measures from prior years that had a negative impact on earnings, but improved by a significant € 14.4 m thanks to restructuring measures in the capital markets business together with new real estate loan commitments.

Net commission income increased by a total of € 9.4 m compared with the prior year period. This is primarily because the last SoFFin-guaranteed bond subject to commission was repaid as planned in December 2013. In addition, (net) commission income from real estate financing business in the first half of 2014 was € 2.2 m, € 1.1 m higher than in the comparable period last year.

General Administrative Expenses

The € 1.3 m increase in general administrative expenses compared with the prior year is largely due to personnel expenses, which rose by € 1.0 m as a result of new hirings.

Other Operating Result

The other operating result was unchanged compared with the previous year at € 0.7 m, but unlike in the previous year it does not include rental income from bailout purchases, because the underlying properties were sold in the previous year. This also explains the decline in other operating expenses, since operating costs were no longer incurred for these properties.

Valuation Result

The Bank posted a gain of € 7.7 m in its valuation result for the reporting period (30 June 2013: € -24.8 m), essentially as a result of net income from the sale of securities amounting to € 7.9 m. In contrast to the previous year, there were no negative impacts to earnings resulting from the redemption of own issues (30 June 2013: € -35.4 m).

Half-Year Result

Net loss after taxes is € -25.9 m (30 June 2013: € -19.5 m).

Responsibility Statement

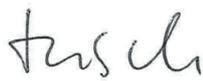
To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, we confirm that these interim financial statements give a true and fair view of the net assets, financial and earnings position of the Bank, and provide a fair review of the development and performance of the business and the position of the Bank, together with a description of the principle opportunities and risks associated with the expected development of the Bank in the remaining months of the financial year.

Düsseldorf, August 2014

Düsseldorfer Hypothekenbank AG
Management Board



Dr. Christian Freiherr von Villiez



Dr. Marcus Tusch

Imprint

Editor

Düsseldorfer Hypothekenbank AG
Berliner Allee 41
40212 Düsseldorf
duesshyp@duesshyp.de
www.duesshyp.de
HRB Düsseldorf Nr. 35004

Contact

Corporate Communication & Human Resources
Barbara Hugo-Dilworth
T: +49 211 86 720 106
F: +49 211 86 720 271
E: barbara.hugo-dilworth@duesshyp.de

Layout and Conceptual Design

Amt für Gestaltung, Berlin
Goss + Partner, Köln

The binding version of this Interim Report
is the German "Halbjahresbericht 2014" of
Düsseldorfer Hypothekenbank AG.

