Semi-Annual Report 2011

DEXIA KOMMUNALBANK DEUTSCHLAND AG

DEXIA

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DEXIA KOMMUNALBANK DEUTSCHLAND AG AT A GLANCE

KEY BALANCE SHEET FIGURES (IN MILLION EUR)

	Dec. 31, 2010	June 30, 2011
Assets		
Loans to the public sector	23,561.2	23,275.3
Other receivables due from banks and customers	6,625.4	6,164.5
Securities	17,943.2	16,984.1
Liabilities		
Pfandbriefe	34,919.0	34,558.7
Other liabilities due to banks and customers	12,056.8	10,517.6
Equity	531.9	832.2
BALANCE SHEET TOTAL	**48,694.6**	**46,928.3**

CAPITAL RATIOS IN %

	Dec. 31, 2010	June 30, 2011
Core capital ratio	16.4	23.8
Total capital ratio	22.8	29.3

KEY INCOME STATEMENT FIGURES (IN MILLION EUR)

	June 30, 2010	June 30, 2011
Interest and commission income	17.9	13.6
Administrative expenses (incl. depreciation)	-9.4	-9.2
Risk provisioning	-8.5	-10.4
Operational result	0.4	0.4
Net income	0.2	0.3

OTHER DISCLOSURES

	June 30, 2010	June 30, 2011
Employees (average)	84	83
Cost-Income Ratio	52.4 %	67.9 %

PROFILE OF THE DEXIA GROUP

Dexia is a European banking group, with 35,200 members of staff and core shareholders' equity of 19.2 billion EUR as of December 31, 2010. The Group principally carries out its activities in Belgium, Luxembourg, France and Turkey.

The Dexia share is listed on Euronext Brussels and Paris and the Luxembourg Stock Exchange, and is included in the BEL20, reference index of the Brussels Stock Exchange, and the Dow Jones EuroStoxx Banks.

Dexia 2014: A Retail Bank Serving 10 Million Customers

The Dexia Group has posted clear strategic ambitions for 2014 and fixed as objectives

- to complete its financial restructuring, giving precedence to income from its commercial franchises;
- to consolidate and to develop its strong commercial franchises, refocusing its business line portfolio on retail and commercial banking, and tapping growth opportunities offered by the retail market in Turkey;
- to adopt an optimal operational model, supported by the search for synergies and efficiency gains.

This return to the essentials resulting from the Group's strategic repositioning is reflected in Dexia's values, whereby members of staff share three aims: respect, excellence and agility.

Business Lines

Retail and Commercial Banking

Dexia offers a wide range of retail, commercial and private banking services to over 8 million customers.

Dexia ranks among the three largest banks in Belgium and Luxembourg. In Belgium, Dexia serves its 4 million customers through a network of approximately 850 branches. The Luxembourg operation is the international wealth management centre within the Group; it also covers the country with a nationwide network of branches. Dexia also holds a strong position in Turkey, through DenizBank, which currently stands in sixth position among privately-held banks and serves its customers through a nationwide network of some 500 branches. Besides the retail and commercial banking activities, DenizBank is a fully-fledged bank, with a significant corporate activity and offers its clients asset management services and insurance products.

The Group aims to continue developing its commercial franchises in Belgium and Luxembourg and to capture the significant growth potential of Turkey. The objective is to increase the proportion of income from its retail and commercial banking activities (approximately 60 % of the Group's total income, including 29 % from Turkey) and to achieve a client base of 10 million (of 4 million in Belgium and Luxembourg, 6 million in Turkey) by 2014.

Public and Wholesale Banking

Dexia plays a major role in the financing of local facilities and infrastructures, the health and social housing sectors and the social economy, principally in Belgium and France.

Dexia is also active

- in the field of project finance, adopting a selective approach and in sectors such as infrastructures and renewable energies, both in Europe and North America;
- in the field of corporate banking in Belgium, where Dexia focuses on medium-sized corporates, while maintaining a selective presence with large corporates.

In addition, with Dexia Kommunalbank Deutschland, the Group has an active player in the Pfandbriefe market.

Close to its clients and fully in tune with their requirements, Dexia is constantly developing and widening its range of products and services. The aim is to go well beyond the role of specialist lender, offering business line clients integrated solutions (treasury management, budget optimisation, IT solutions and so on) most suited to their needs.

DEXIA GROUP KEY FIGURES AS OF DEC. 31, 2010

Balance sheet total	566.7 billion EUR
Net income	723 million EUR
Earnings per share	0.39 EUR
Tier 1 ratio	13.1 %

Asset Management and Services

This business line consists of three activities, asset management, investor services and insurance, characterised by an attractive growth outlook based on diversified clientele and a strong collaboration with the Group's other commercial franchises.

With 86.4 billion EUR in assets under management as of December 31, 2010, Dexia Asset Management is the Group's asset management centre. Its four management centres, in Belgium, France, Luxembourg and Australia, serve a broad client base.

The investor services business is conducted by RBC Dexia Investor Services, a joint venture with Royal Bank of Canada, which offers its expertise in global custody, fund and pension administration and shareholder services to institutions all around the world. Total assets under administration amounted to 2,101 billion EUR as of December 31, 2010.

Dexia's insurance activities are mainly concentrated on the Belgian and Luxembourg markets. The Group offers a complete range of life and non-life insurance products to retail, commercial and private banking clients as well as to Dexia's public and semi-public clients, through a banking-insurance approach and through a network of tied agents.

Ratings

The Dexia Group's three main entities active on the capital markets – Dexia Bank Belgium, Dexia Crédit Local and Dexia Banque Internationale in Luxembourg – are rated A (negative outlook) by Standard & Poor's, A3 (stable outlook) by Moody's and A+ (stable outlook) by Fitch.

Three Dexia Group subsidiaries (Dexia Municipal Agency, Dexia Kommunalbank Deutschland and Dexia LDG Banque) issue AAA-rated covered bonds.

EXECUTIVE BODIES OF THE BANK

Supervisory Board

Stéphane Vermeire *(Chairman)*
Head of Public & Wholesale Banking International
Member of the Management Board of Dexia Crédit Local
Dexia Crédit Local

Marc Buckens *(Deputy Chairman)*
(until July 31, 2011)
Head of the Financial Management Department
Dexia SA

Stéphane Magnan
(since August 2, 2011)
Head of Local Financial Markets
Member of the Management Board of Dexia Crédit Local
Dexia Crédit Local

Nikola Bilandzija
(until March 17, 2011)
Bank employee

Norbert Drews
(since March 17, 2011)
Bank employee

François Laugier
Chief Financial Officer
Member of the Management Board of Dexia Crédit Local
Dexia Crédit Local

Nico Picard
Managing Director, Head of Controlling and Financial Planning
Dexia Banque Internationale à Luxembourg

Berko Töpfer
(since March 17, 2011)
Bank employee

Management Board

Friedrich Munsberg
Chairman

Laurent Fritsch

Wilfried Wouters

Trustees

Josef Baiz
Management Board Member (ret.)

Werner Graf
Bundesbank Division Head (ret.)

Victor von Bothmer
Attorney

INTERIM MANAGEMENT REPORT AS OF JUNE 30, 2011

GENERAL ECONOMIC CONDITIONS

Economic momentum slowed in the second quarter (2011 Q2) following the strong upswing in the first quarter of the current year.

The eurozone countries exceeded analysts' expectations with a 0.8 % rise in the real gross domestic product (GDP) (2010 Q4: +0.3 %). This result was mainly due to increases in gross investments (+2.1 %) and government spending (+0.8 %), while private consumption remained unchanged at the previous year's level (+0.3 %). No GDP figures were published for 2011 Q2 until the reporting date. However, the latest economic data and early indicators point towards the eurozone growth trend having consolidated in 2011 Q2. The European Commission's published "Economic Sentiment Indicator Eurozone", reaching its peak since the start of the financial crisis at 108.0 points in February 2011, fell to 105.4 points in June 2011. This was due to the prolongation of the euro debt crisis, the continuing high commodity prices, and finally, the effects of the Japanese earthquake.

Germany's economic development in the reporting period followed a similar path, although at a much higher level. In 2011 Q1, real GDP growth increased to 1.5 %, following growth of 0.4 % in 2010 Q4, making it the first time that the real GDP level seen before the crisis at the beginning of 2008 was exceeded. Economic development in Germany was also mainly driven by increases in gross investments (+5.0 %) and government spending (+1.3 %). Germany's key economic barometer, the IFO index, expects this trend to slow somewhat, even though it will remain at a high level; the index fell slightly in the second quarter from 115.0 points (March 2011) to 114.5 points (June 2011).

Once again, economic developments were overshadowed by the euro sovereign debt crisis. The resolutions passed by the EU summit on March 24/25, 2011 to increase the European Financial Stability Facility (EFSF) to 440 billion EUR and the establishment of the European Stability Mechanism (ESM) as a long-term rescue fund with a volume of 700 billion EUR only contributed to calm the markets for a short period of time. Portugal made an official request for financial aid to the European Union on April 7, 2011, the third eurozone country to do so after Greece and Ireland. The situation was aggravated by a series of rating downgrades for the above-mentioned countries during the course of the first half of 2011 (2011 H1). The ongoing investor uncertainty was highlighted in the development of the average premiums for five-year credit default swaps on Greek, Irish and Portuguese government bonds, which rose from 705 bp at the beginning of the year to 1,136 bp as of June 30, 2011.

Inflation and Monetary Policy

Inflation among eurozone countries clearly trended upwards. The Harmonised Index of Consumer Prices exceeded the ECB's target in December 2010 with a reading of 2.2 % and it rose almost continuously in the reporting period to 2.7 % (June 2011). Energy prices, followed at a distance by food prices, were the main drivers of this rise. The German consumer price index was slightly under the eurozone level with 1.9 % reported in December 2010 and 2.4 % reported in June 2011.

The ECB kept the refi rate unchanged since May 7, 2009, it raised the refinancing rate from 1.0 % to 1.25 % on April 7, 2011 when it explained that it was determined to tighten the "accommodative" interest rate policy as needed. At the press conference following the ECB's meeting on June 9, 2011, ECB President Trichet underlined the ECB's "strong vigilance" towards inflation risks, using this wording to signal a rise in the base rate at the ECB's next meeting.

Given the ECB's clearly communicated willingness to increase the refi rate, the 3-month Euribor rose almost continuously from 1.001 % at the beginning of the year to 1.547 % at the end of the first half of the year. The yield for ten-year (two-year) German government bonds reached a high of 3.49 % (2.18 %) in April, but fell to 2.92 % (1.65 %) at mid-year driven by the worsening euro debt crisis and rattled investors' flight to quality in investments with highest credit ratings.

The euro, which was quoted at 1.3351 USD at the beginning of the year, profited from the increased money market rates. It reached its high for the first half of the year of 1.4841 USD in April and closed on June 30, 2011 at 1.4493 USD.

Development of the Covered Bond and Pfandbrief Markets

The trend towards an increased use of covered bonds by credit institutions observed in the previous year, continued in the first half of 2011. Benchmark covered bonds with a nominal value of 161 billion EUR were sold, of which 138 billion were denominated in euros (previous year: 114 billion EUR). This corresponds to estimates of approximately 70 % of the benchmark volume expected to be placed in all of 2011. These were mainly issued by banks from the economically stronger eurozone countries.

New issues of German Pfandbriefe rose by 13.5 % as of May 31, 2011 (more up-to-date figures are not yet available) to 40.6 billion EUR year-on-year. This figure includes 19.5 billion EUR (+7.0 %) public Pfandbriefe and 21.1 billion EUR (+20.2 %) mortgage Pfandbriefe. Total Pfandbrief outstanding as of May 31, 2011 was reduced by 3.0 % to 620.9 billion EUR since the end of 2010 due to the 5.8 % decrease in outstanding public Pfandbriefe to 388.3 billion EUR, while the total of mortgage Pfandbriefe rose by 2.1 % to 232.6 billion EUR.

According to figures from the Association of German Pfandbrief Banks (vdp), the average credit margin for German Pfandbriefe against swaps (6-months Euribor) widened marginally during the course of the first half of the year; public Pfandbriefe with a ten-year (five-year) maturity from 21.4 bp (13.1 bp) to 23.9 bp (15.6 bp) and mortgage Pfandbriefe with a ten-year (five-year) maturity from 28.1 bp (20.2 bp) to 30.9 bp (23.2 bp).

NEW LENDING AND FUNDING

As in the previous year, Dexia Kommunalbank Deutschland focused its new lending in the first half of 2011 on the acquisition of selected public finance transactions from other Dexia Group companies (Group Asset Purchasing Programme) and on their long-term funding with public Pfandbrief issues.

At the same time preparatory measures were taken to restart lending to German municipalities in the second half of 2011. This marks the end of the temporary suspension of domestic lending activities after the bank decided in 2009 to interrupt its own acquisition activities to support Dexia Group's consolidation efforts within the framework of the transformation plan agreed with the European Commission.

Dexia Kommunalbank Deutschland has focused on lending to German municipalities ever since it was founded. The Bank counts more than 1,000 German municipalities, with loans of approximately 9.7 billion EUR, in its customer base.

Dexia Kommunalbank Deutschland's future new lending will be focusing on two sales channels

- new lending (loans and other financial services) to German municipalities that it originates itself and
- the acquisition of municipal loans originated by Group companies predominantly in the French and Belgian core markets.

Dexia Kommunalbank Deutschland thus acts as a pure municipal financing institution; the acquisition of public sector bonds is not part of the Bank's core business (only for liquidity and cover pool management purposes).

New lending

As part of its Group Asset Purchasing Programme, Dexia Kommunalbank Deutschland selected a portfolio of municipal loans with a total volume of 576.1 million EUR (June 30, 2010: 1,228.4 million EUR) from the pool of assets offered for acquisition by Group companies, of which 363.4 million EUR were loans to Belgian municipalities and 212.7 million EUR loans to municipalities in Sweden and Finland *(see page 11)*.

All loans were acquired after applying the regular credit approval and analysis process

- Only receivables that meet the strict requirements of the German Pfandbrief Act (PfandBG) for the eligibility to public Pfandbrief issues were selected.
- Additional qualitative and quantitative criteria also have to be met (structure limits by rating classes, limits for receivables with a non-investment grade rating, limits for concentration risks, limits for foreign currency risks etc.), which the Bank has established for the management of its cover pool and some of which go significantly beyond the restrictions imposed by the German Pfandbrief Act (PfandBG).

The total acquired volume of 576.1 million EUR is distributed across 33 individual debtors. The average receivable per individual debtor amounts to 17.5 million EUR. All transactions were concluded at current market prices.

The aim for the second half of the year is to continue the Group Asset Purchasing Programme with the acquisition of French and Belgian municipal loans.

Pfandbriefe and other funding

For the purpose of long-term refinancing of the lending business, Dexia Kommunalbank Deutschland issued new public Pfandbriefe and certificates of indebtness (Schuldscheindarlehen) for a total volume of 2,650.0 million EUR (June 30, 2010: 4,079.5 million EUR). Public Pfandbrief issues account for 95.3 % of this volume.

The Bank successfully issued two Jumbo-Pfandbriefe in January and in May amounting to 1 billion EUR each. Furthermore, additional Pfandbrief transactions totalling 451.5 million EUR were issued as registered or bearer bonds, meeting investor demand for individually tailored and secure investments. This allowed the Bank's full year budgeted refinancing needs to be largely covered by the middle of the year. Almost all of the funds raised in the first half of the year accounted for traditional fixed- and variable-interest instruments.

Together, the portfolio of public Pfandbriefe plus the senior unsecured bearer bonds and certificates of indebtness (Schuldscheindarlehen) decreased to 35,763.8 million EUR as of June 30, 2011 (December 31, 2010: 36,216.0 million EUR). Buyback transactions within market regulating operations had a nominal value of 0.4 million EUR as of June 30, 2011.

A total of 9 issues with an overall volume of 2,165.0 million EUR were listed on the Berlin Stock Exchange in the first half of 2011.

On July 13, 2011 Standard & Poor's confirmed the AAA rating for Dexia Kommunalbank Deutschland's public Pfandbriefe with a stable outlook. The rating was first published in January 1998. In its analysis, the rating agency highlights the high strategic importance of Dexia Kommunalbank Deutschland AG (core entity) for the Dexia Group and emphasises the good credit quality of the well-diversified cover pool assets as well as the balanced maturity profile of cover pool assets and Pfandbriefe.

The Bank has further expanded its position in the deposit business with municipalities and other customers. Non-bank deposits amounted to 2.1 billion EUR as of June 30, 2011. This success is due to a wide range of deposit products at fair market rates. In addition to the classic deposit offerings (Dexia Classic), overnight deposits (Dexia Treasury+) and certificates of indebtness (Dexia Schuldschein), Dexia Kommunalbank Deutschland has recently started offering a deposit product linked to the 3-month Euribor with step up margins and quarterly creditor termination rights (Dexia Flexi+).

EVOLUTIONOF NEW BUSINESS (IN MILLION EUR)	June 30, 2010	June 30, 2011
Belgian regions and communes	682.7	363.4
Swedish regions and communes	0.0	157.6
Finnish regions and communes	0.0	55.1
Spanish communes and public covered bonds through reverse repo-transactions	545.7	0.0
TOTAL	**1,228.4**	**576.1**

DEVELOPMENT OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

Assets

Total assets fell slightly by 1.8 billion EUR or 3.6 % to 46.9 billion EUR compared to the end of the previous year.

Other receivables due from banks fell by 0.4 billion EUR to 5.8 billion EUR as a result of the maturity of reverse repo-transactions and lower cash collateral payments.

The purchase of cover pool-eligible assets of 0.6 billion EUR could not offset these maturities, resulting in municipal loans falling from 20,892.9 million EUR as of December 31, 2010 to 20,621.0 million EUR.

Bonds and notes outstanding declined to approximately 1.0 billion EUR compared to the end of the previous year due to maturities and sales.

Short-term funds from banks in the form of time deposits and repo-transactions decreased by 3.4 billion EUR on the reporting date compared to the end of 2010 and were only partially replaced by tender transactions with the Deutsche Bundesbank.

Other liabilities due to customers increased by approximately 1.2 billion EUR compared to the end of the previous year due to the expansion of time deposits from municipalities and other customers in the first half of 2011.

DEVELOPMENT OF KEY BALANCE SHEET ITEMS (IN MILLION EUR)

	DEC. 31, 2010	June 30, 2011
Due from banks		
Loans to the public sector	2,668.4	2,654.3
Other receivables	6,224.7	5,787.8
Due from customers		
Loans to the public sector	20,892.9	20,621.0
Other receivables	400.8	376.6
Bonds and notes		
Public-sector issuers	10,012.5	9,656.7
Other issuers	7,916.7	7,320.9
Due to banks		
Registered public Pfandbriefe	1,252.2	1,239.9
Other liabilities	9,633.3	6,875.0
Due to customers		
Registered public Pfandbriefe	17,674.5	17,507.6
Other liabilities	2,423.4	3,642.6
Securitised liabilities		
Public Pfandbriefe	15,992.3	15,811.2
Equity	531.9	832.2
BALANCE SHEET TOTAL	**48,694.6**	**46,928.3**

The total amount of bearer Pfandbriefe remained almost unchanged compared to the end of the previous year as the amount of maturing Pfandbriefe was almost offset by new Pfandbrief issuance of 2.3 billion EUR.

The core capital increase of 300.0 million EUR finalised on June 15, 2011 led to a significant rise in reported equity to 832.2 million EUR.

Results of operations

Net interest income and commission income

Net interest income totalled 14.7 million EUR in the first half of 2011 and was below the previous year's result (18.9 million EUR).

This figure is comprised to a significant extent of negative earnings from the early termination of derivatives with negative present values, which reduce the interest charges to be incurred in the following years and thereby strengthen the Bank's net asset value. These derivatives were terminated due to

- the sale of securities within portfolio management activities,
- the return of repurchased own Pfandbrief issues to the trustee before maturity,
- the selective reduction of the existing derivative portfolio by dissolving transactions with off-setting hedge effects.

The partially compensating results from the sale of securities are contained in the result from financial investments or in risk provisioning. Net commission income remained at the same level compared to the first half of 2010 at 1.2 million EUR.

Administrative expenses

Total administrative costs fell by 1.8 % or 0.2 million EUR in the first half of 2011 to 9.2 million EUR compared to the previous year.

Personnel expenses remained constant, while operating expenditures were reduced as planned by 0.2 million EUR to 5.7 million EUR.

Level and development of risk provisioning

Risk provisioning comprises all recognisable and latent risks in the lending business and the securities held as current assets, as well as the gains and losses from cross compensation pursuant to Section 340 f (3) of the German Commercial Code (HGB). Net risk provisioning of 10.4 million EUR for the first half of 2011 is slightly above the level for the previous year (June 30, 2010: 8.5 million EUR).

In addition to write-downs to the lower of cost or market of securities, which were caused by widening credit spreads, the item also contains losses from the return of repurchased own Pfandbrief issues to the trustee, which will shore up the Bank's future net interest income.

To a minor extent, risk provisioning also includes income from the receipt of written-off claims (2.3 million EUR) from the classic mortgage loan business, which has been abandoned in the meantime.

Result from financial investments

The result from financial investments includes gains incurred upon the sale of long-term securities (Wertpapiere des Anlagevermögens). There were no extraordinary write-downs on the exposure to Greek government bonds held in the asset ledger (Anlagebuch) after Dexia Crédit Local, which owns 100 % of the shares in Dexia Kommunalbank Deutschland, fully guaranteed this exposure. The guarantee covers interest rate and principal payments from all Greek government bonds *(see Risk Report on page 18 for more details)*.

Operating result before tax

The operating result for the year remained at the same level of the first half of 2010 at 0.4 million EUR.

Equity and equity ratio (leverage ratio)

A 150.0 million EUR capital increase was finalised in June, 2011 at a 200 % issue rate, which resulted in 300 million EUR being added to the core capital.

Capital was increased due to the Dexia Group's efforts to bring the equity capitalisation of its entities licensed to issue covered

DEVELOPMENT OF KEY INCOME STATEMENT ITEMS (IN MILLION EUR)

	June 30, 2010	June 30, 2011
Interest income	1,263.2	1,663.9
Interest expenses	-1,244.3	-1,649.2
Net interest income	18.9	14.7
Net commission income	-1.0	-1.2
Interest and commission income	17.9	13.6
Personnel expenses	-3.5	-3.5
Other administrative expenses (incl. depreciation and amortization)	-5.9	-5.7
Partial operating profit	8.5	4.4
Total other operating income and expenses	-0.1	0.1
Risk provisioning	-8.5	-10.4
Result from financial investments	0.4	6.4
Operating result	0.4	0.4
Tax expense	-0.1	-0.1
NET INCOME	**0.2**	**0.3**

bonds to a uniform level. In addition, this is a key step on the path to bring the Bank's equity ratio (leverage ratio) in line with the level stipulated in the future by Basel III.

In simplified terms, the leverage ratio is a non-risk based debt ceiling that restricts a bank's business volume to 33.3-times its core capital (tier 1 capital according to the new Basel III definition). Hence, the core capital has to be at least 3 % of the business volume. All institutions must publish their leverage ratios from 2015 on. The possible effects will be assessed and the calculation method may be adjusted by the Basel Committee during a test phase until 2017. The Committee will then rule on the mandatory introduction of a leverage ratio as of January 1, 2018 based on the results of the assessment.

The above-mentioned capital increase improved Dexia Kommunalbank Deutschland's modified equity ratio pursuant to Section 24 (1) No. 16 as well as Section 24 (1a) No. 5 of the German Banking Act (KWG) as of June 30, 2011 from 1.09 % to 1.77 % while the leverage (total assets in relation to core capital) fell from 91.7 to 56.5.

The 2010 net income of 0.8 million EUR was transferred to retained earnings. The item to be deducted pursuant to Section 10 (2a) of the German Banking Act (KWG) decreased by 2.1 million EUR. The maturity of profit participation capital and subordinated liabilities and the partial loss of eligibility of subordinated liabilities due to residual maturities having fallen below two years decreased the Bank's equity by 12.0 million EUR.

In total, the Bank's equity increased by 39.7 % (290.9 million EUR) as of June 30, 2011 to 1,024.1 million EUR (December 31,

2010: 733.2 million EUR).
The capital increase improved Dexia Kommunalbank Deutschland's core capital ratio as of the reporting date from 16.4 % to 23.8 %, significantly higher than the legal requirements. At the same time, the total capital ratio rose from 22.8 % to 29.3 %.

Financial positions

Liquidity

Dexia Kommunalbank Deutschland's liquidity position was sufficient at all times during the reporting period.

The liquidity ratio was calculated on the basis of the German Liquidity Regulation (LiqV), which states that the ratio of the cash available in the first maturity bucket (from daily up to one month) to the callable payment obligations during the same period may not fall below 1. In its liquidity planning, Dexia Kommunalbank Deutschland factors in both the extent of the expected cash inflows and outflows and an adequate liquidity supply in the form of highly liquid assets.

During the reporting period, the liquidity ratio fluctuated between 1.06 (minimum) and 1.47 (maximum), averaging 1.17 *(see page 16)*.

Derivatives

The Bank uses derivatives to hedge against interest rate, foreign exchange rate and option risks.

At the end of the reporting period, the volume of interest rate swaps, cross-currency swaps and options amounts to 98.1 billion EUR (December 31, 2010: 89.7 billion EUR).

The credit equivalent amounts of the interest rate swaps and cross currency swaps in accordance with the market valuation method pursuant to Section 13 of the KWG amounted to 555.8 million EUR as of the balance sheet date (December 31, 2010: 657.2 million EUR).

Employees

Dedicated and competent employees are the most valuable asset of Dexia Kommunalbank Deutschland. The Management Board would like to take this opportunity to express its thanks and appreciation to all employees for their performance and motivation.

As of the end of the first half of 2011, the Bank employed a total of 83 people (December 31, 2010: 83).

DEVELOPMENT OF THE BANK'S EQUITY (IN MILLION EUR)

	Dec. 31, 2010	June 30, 2011
Subscribed capital	282.5	432.5
Reserves	248.6	399.4
Deduction item acc. to section 10 (2a) KWG	-5.1	-3.0
Profit participation capital	122.9	116.9
Subordinated liabilities	84.3	78.3
TOTAL	**733.2**	**1,024.1**
Core capital ratio	16.4	23.8
Total capital ratio	22.8	29.3

LIQUIDITY	Minimum	Maximum	Average
Liquidity ratio	1.06	1.47	1.17

DERIVATIVES (IN MILLION EUR)	Dec. 31, 2010	June 30, 2011
Interest rate and cross-currency swaps	89,436.1	97,960.2
of which EONIA	4,350.0	15,450.0
Options	290.0	187.0
TOTAL	**89,726.1**	**98,147.2**

RISK REPORT

Risk-bearing capacity

Dexia Kommunalbank Deutschland's measure of risk-bearing capacity is based on the ECAP model (ECAP = Economic Capital) used by the Dexia Group as a basis for a sound determination and assessment of all relevant risk types. The economic measurement of risk capital requirements is conducted using a portfolio approach which, assuming a time horizon of one year and a confidence level of 99.97 %, takes into account correlation and diversification effects between the individual risk categories.

ECAP established according to the logic of Dexia Group is complemented by the specifics of Dexia Kommunalbank Deutschland and accounting aspects according to the German Commercial Code (HGB) and then transformed into a second ratio, the earnings at risk (EaR), which also takes accounting aspects into consideration.

Neither the ECAP nor the EaR are allowed to exceed a threshold (limit) defined as a percentage of the risk-bearing capacity. Exceeding the limit, which is currently set at 75 %, results in the immediate notification of the Management Board and Supervisory Board. The limit was consistently met during the reporting period.

This risk measurement system is supplemented by stress tests that investigate the impact of economic stress scenarios on the balance sheet, risk-weighted assets and capital coefficients. Both, the ECAP / EaR and the stress tests are presented to the Management Board immediately after they are calculated. The risk-bearing capacity was assured for all scenarios that were examined.

Market risks

The avoidance of market risks is a key part of Dexia Kommunalbank Deutschland's business model. Interest rate risks are largely restricted by limits; foreign currency risks and open options are offset by micro hedges. Transactions associated with other market risks such as equity risks are not part of the Bank's scope of business.

The Bank calculates the following figures as key measures for the management of interest rate risk on a daily basis: interest sensitivity (BPV) and value at risk (VaR). The BPV describes the potential loss of the net present value of the overall interest bearing portfolio given a parallel rise of the yield curve by 100 bp or by 1 bp.

The value-at-risk method (VaR) provides the maximum anticipated loss of the overall interest bearing portfolio which may occur during a holding period of 10 days, based on a confidence level of 99 %. The Bank uses back testing to regularly review the forecast quality of the VaR model for all sub-portfolios. The occurred changes in NPV are compared with the calculated results based on the VaR model.During the reporting period, three outliers were identified for the overall portfolio (= 1.2 % in all cases), which were only slightly above the expected value, confirming the appropriateness of the VaR model.

As part of its asset/liability management, Dexia Kommunalbank Deutschland split its entire management portfolio in two: short-term "Cash and Liquidity Management" (CLM) and long-term "Local Balance Sheet Management" (Local BSM). The following overview shows the risk figures for both sub-portfolios.

Counterparty risks

In order to limit counterparty risks, the Management Board sets credit lines and credit competence rules for all counterparties in close cooperation with the Dexia Group. The credit line utilisation calculations are provided daily by Credit Risk Management and are monitored by the Back Office. The Management Board is notified immediately if any credit line is exceeded and a decision on the appropriate action is made.

UTILISATION OF OVERALL LIMIT

	Limit +/- 100 BPV (million EUR)	Limit VAR 99/10 (million EUR)
Cash Liquidity Management	15	2
Local Balance Sheet Management (BSM)	5	_

In addition, interest rate risks are limited by using maturity ranges.

VALUE-AT-RISK/BPV

		CLM	
	VaR (99 %, 10 days)	+100 BPV (million EUR)	-100 BPV (million EUR)
Ø Jan. – June/2011	0.4	4.5	-4.5
Min. 2011	0.0	-6.9	-13.9
Max. 2011	1.3	13.9	6.9
June 30, 2011	0.5	7.7	-7.7

VALUE-AT-RISK/BPV

		Local BSM	
	VaR (99 %, 10 days)	+100 BPV (million EUR)	-100 BPV (million EUR)
Ø Jan. – June/2011	0.6	-1.2	1.4
Min. 2011	0.3	-3.2	-1.1
Max. 2011	0.9	0.9	3.5
June 30, 2011	0.5	0.5	-0.5

An appropriate organisation and procedures established to manage credit risks comply qualitatively and quantitatively with the credit analysis as well as the credit processing requirements of Dexia Kommunalbank Deutschland's business segments. The documentation requirements set forth in Minimum Requirements for Risk Management (MaRisk) are complied with.

Within the Group Asset Purchasing Programme new assets are acquired after applying the regular credit approval and analysis process. Close cooperation with the credit risk competence centres of Dexia Group ensures the proper assessment of counterparty risks. The Management Board reaches purchase decisions based on this credit analysis.

There is an adequate risk classification system (ratings) for all customer groups. Portfolio management focuses primarily on regional diversification and rating-based management, given the structure of the existing transactions and the new realignment.

All bank and government bonds held by the Bank are held in the "run-off portfolio". The Bank does not invest in these products, existing exposures are reduced. A corresponding reduction concept exists pursuant to the MaRisk.

Credit exposure in selected European countries

The following table shows all of Dexia Kommunalbank Deutschland's nominal credit exposure to public authorities in the euro-countries Greece, Ireland, Italy, Portugal and Spain (as of June 30, 2011):

CREDIT EXPOSURE WITH PUBLIC AUTHORITIES IN SELECTED EUROPEAN COUNTRIES (IN MILLION EUR)

	Sovereign	Subsovereign authorities	Total	thereof in cover pool for public Pfandbriefe
Greece	1,200.0	0.0	1,200.0	0.0
Ireland	0.0	0.0	0.0	0.0
Italy	3,046.1	415.4	3,461.5	1,806.7
Portugal	455.0	125.0	580.0	300.0
Spain	18.7	125.5	144.2	144.2
TOTAL	4,719.8	665.9	5,385.7	2,250.9

The Bank's Greek exposure of 1,200.0 million EUR is allocated to assets and consists of loans granted to the Greek sovereign. 48.0 million EUR of this total exposure will mature before December 31, 2020.

The Bank's entire Greek exposure is fully guaranteed by Dexia Crédit Local, which holds 100 % of the shares in Dexia Kommunalbank Deutschland. The guarantee covers full and timely payment of all interest rate and principal amounts. No bonds were written-down given the guarantee and the guarantor's credit standing. Dexia Crédit Local is currently rated with a senior unsecured/long-term debt rating of "A negative outlook" (Standard & Poor's), "A3 stable outlook" (Moody's) and "A+ stable outlook" (Fitch).

The following table gives details on the Bank's Greek exposure:

EXPOSURE ON GREEK SOVEREIGN DEBT (IN MILLION EUR)

	Notional	Book Value	Market Value June 30, 2011	Market Value Dec. 31, 2010
Greece	1,200.0	1,201.3	627.4	680.6

Liquidity risks

Liquidity risk is understood as the danger that the Bank will be unable to fulfil its current and future payment obligations on time and in full.

Dexia Kommunalbank Deutschland is fully integrated into the central cash and liquidity management system of the Dexia Group. This integration in combination with the very high quality of the Bank's assets and large holdings of liquid and ECB-eligible securities lead to the fact that no liquidity shortages have been experienced at any time. In this context, the legally binding commitment of Dexia Crédit Local in the form of a letter of support to fully cover possible liquidity shortages of Dexia Kommunalbank Deutschland is also important.

A daily liquidity forecast is prepared as an important liquidity management tool, providing a projection of all cash in- and outflows over the next 180 days. The Bank's Market Risk Management also determines the short-term liquidity risks by comparing the defined liquidity reserve with the daily cumulative liquidity gaps for the following 30 days. An escalation process ensures that the Bank's Management Board is immediately informed in the event that a predefined limit is exceeded so that appropriate measures can be taken in time. In addition, a short-term (90 days) and a long-term (10 years) liquidity forecast are prepared each month.

Operational risks

The Bank defines operational risk as the risk of direct or indirect losses that are incurred as the result of the inadequacy or failure of internal procedures and systems or people, or as a result of external events, and have financial or non-financial consequences. This definition also includes reputation and legal risks, but excludes strategic risk.

Operational risks that arise must be reported to decision makers if these risks cause a gain or loss greater than 1,000 EUR (valid as of April 1, 2011). Risk events with material non-financial implications are also included in this definition. Department heads are required to notify the Operational Risk Management department, the responsible Management Board member and the Internal Audit department of the Bank immediately in case of any suspicion or factual occurrence of a risk event resulting in a loss or gain of more than 50,000 EUR or in greater non-financial implications.

Within the Bank's risk-bearing capacity concept operational risks are accounted for by applying the standard approach according to Basel II.

FORECAST

The euro debt crisis intensified again at the beginning of the second half of 2011. After market reactions had been concentrating on Greece, Ireland and Portugal so far, on July 11, 2011 capital markets focused on Italy, the third-largest eurozone country.

This was triggered by speculations on the resignation of Italy's Economic and Finance Minister Giulio Tremonti after political disagreements within the government, accompanied by disappointing economic data. The yield of ten-year Italian government bonds temporarily reached 6 %, while premiums for five-year Credit Default Swaps (5Y CDS) on Italian government bonds exceeded 300 bp, compared to one week before, when this figure was below 200 bp. The 5Y CDS rates in other countries hit by budget problems, such as Spain, were also affected. The CDS index SovX-Western Europe, which maps the credit risk of 15 Western European countries, reached a new high at 291 bp.

Pressure had already been put on policy makers to design a convincing concept to sustainably overcome the euro debt crisis following Portugal's downgrading (to Ba2) by Moody's on July 5, 2011. Moreover, the discussions on the type and extent of involvement by the private sector in solving the Greek crisis failed.

The heads of state of 17 eurozone countries finally came to an agreement on a rescue package to overcome the euro debt crisis at a special euro summit on July 22, 2011 in Brussels. The main aim was to head off the insolvency of Greece, which has accumulated debts of approximately 350 billion EUR. The main aspects of the rescue package are

- The eurozone countries and the IMF will provide Greece with funds of 109 billion EUR (funds that had not been paid out from the first aid package and new funds) as well as 12.6 billion EUR to finance a buyback programme for Greek government bonds.
- The maturities for existing loans to Greece will be extended. Interest rates on future state aid to Greece as well as Ireland and Portugal will be lowered to approximately 3.5 % while the maturities are extended from 15 years to 30 years.
- The ECB will ensure that Greek banks have continuing access to liquidity by providing guarantees. If required, Greek banks will receive sufficient funds to recapitalise.
- The scope of the European Financial Stability Facility (EFSF) will be expanded significantly. At the same time, the EFSF is expected to anticipatorily issue credit lines to other euro zone countries, which did not receive financial aids but which are facing refinancing problems, and will be allowed to purchase on the secondary market, in agreement with the ECB, bonds from countries affected by the euro debt crisis.
- The private finance sector is expected to contribute voluntary financial support of a net amount of 37 billion EUR.

As a result, the second euro rescue package should be acknowledged as progress in the eurozone countries' consolidation efforts. Unlike the first rescue package, a bundle of coordinated measures have been put together that should provide Greece with an opportunity to return to a stable financial situation in the medium term, without taking pressure off the country to implement financial and structural reforms. It also succeeded in harmonising the not-always-similar approaches of politicians, the ECB and the IMF to crisis management thereby sending a signal of unity and resolve.

It is evident that the rescue package will be accompanied by substantial execution risks. The measurable progress in debt consolidation and the implementation of structural reforms to improve economic efficiency of the affected euro zone countries is of great importance.

This is even more important because a degree of slowdown in economic activities can be seen worldwide, and not just in Europe. The ECB described the risks to economic growth in the eurozone in its Monthly Bulletin (July 2011) as "broadly balanced in an environment of elevated uncertainty". On the one hand, favourable business confidence could provide more support to domestic economic activity and higher foreign demand could also contribute more strongly to growth. On the other hand, downside risks relate to the ongoing tensions in some segments of the financial markets that may potentially spill over to the eurozone's real economy. Further downside risks are seen by the ECB in connection to a rise in energy prices, protectionist pressures and the possibility of a disorderly correction of global imbalances.

The ECB raised the base rate by 0.25 percentage points to 1.5 % on July 7, 2011. The official reason being to anchor medium-term inflation expectation below, although close to, the 2 % mark. The figures for eurozone consumer price development in July already show that a slowing inflation trend is looming. According to provisional estimates (flash estimate), the harmonised inflation rate fell to 2.5 % (following 2.7 % in June). The ECB believes that this figure will continue to remain clearly above 2 % in the coming months. We expect that, if at all, the ECB will again raise the base rate only once up to 1.75 % in the second half of the year.

The market for public Pfandbriefe will continue to retreat following the decline last year, although the pace will be slower. This is due to the fact that key market participants have withdrawn from public finance as part of restructuring measures or have significantly reduced their activities. This development provides Dexia Kommunalbank Deutschland with market opportunities. As the only remaining German bank to focus solely on municipal financing, it has many years of experience in this line of business and a favourable cost structure. The Bank has also access to the know-how and resources of the Dexia Group, which plays a leading role in municipal financing in France and Belgium.

Outlook

The forecast and other parts of the Semi-Annual Report contain future-oriented expectations and predictions. These are based on planning assumptions and estimates with regard to the business development and profitability of Dexia Kommunalbank Deutschland, and are subject to risks and uncertainty. Actual results may therefore deviate significantly from the currently expected values. Numerous factors beyond the control of the Bank also affect the business development and profitability of Dexia Kommunalbank Deutschland. Examples include changes in the general economic situation and developments in the national and international credit, securities and refinancing markets.

Dexia Kommunalbank Deutschland will again make an important contribution to the restructuring and consolidation of the Dexia Group in the second half of the current financial year, with the primary objective of reducing the dependency of the Group on short-term funding sources. As in the previous year, the Bank will focus on the purchase of high-quality public finance transactions from other Group companies and their long-term funding with public Pfandbrief issues.

The Bank will only select receivables from the pool of assets offered for acquisition by Group companies that meet the strict requirements of the German Pfandbrief Act with regard to the eligibility for the cover of public Pfandbriefe, and also comply with additional qualitative and quantitative criteria implemented by the Bank to manage its cover pool – some of which go significantly beyond the restrictions of the German Pfandbrief Act (PfandBG).

According to current plans, the receivables being selected will consist of municipal loans to debtors in Belgium and France. Buying receivables from debtors in the euro-countries Greece, Ireland, Italy, Portugal and Spain is not planned.

In addition, the preparations started in the first half of the year to resume lending to German municipalities will continue.

Following the end of the first half of the financial year, there are no apparent additional impairments in relation to special factors resulting from the default of borrowers from the public and the banking sectors. Nor do we anticipate any impairment on the remaining project finance and semi-public enterprise portfolios. As a result of rising government debt levels in many European countries, some countries may receive a rating downgrade, which could also reduce the average rating of Dexia Kommunalbank Deutschland's cover pool-eligible assets as a consequence.

The increase of core capital by 300 million EUR, which was finalised in June 2011, has sustainably strengthened Dexia Kommunalbank Deutschland's risk bearing capacity.

Due to Dexia Crédit Local's full guarantee and the guarantor's credit standing, there are no extraordinary write-downs on the Greek government bond exposure. The guarantee covers interest rate and principal payments from all Greek government bonds *(see Risk Report on page 18 for more details)*.

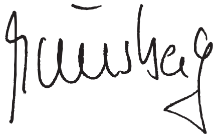
The Bank does not have receivables from Ireland in its portfolio. In the case of Portugal, the Bank believes that the country's credit standing will gradually improve after the approval of the aid package of 78 billion EUR agreed upon by the EU and the IMF in May 2011, so there is no concern of delayed payments or default.

Thanks to the high quality of its cover pool- and ECB-eligible assets, Dexia Kommunalbank Deutschland's liquidity position will continue to remain sufficient. The Bank benefits from the expansion of its deposit business with municipal and other customers. The close integration of Dexia Kommunalbank Deutschland into the cash and liquidity management system of Dexia Group also benefits the liquidity situation. Also of importance is the letter of support issued by Dexia Crédit Local on February 28th, 2011, legally obligating it to cover possible liquidity shortages of Dexia Kommunalbank Deutschland.

We are currently holding firm to the forecast for 2011 and beyond as published in the 2010 Annual Report, namely to generate net profits for the 2011 financial year in roughly the same amount as in the 2010 financial year. We also expect the Bank's income and expense structure to remain basically the same.

Berlin, August 2011
DEXIA KOMMUNALBANK DEUTSCHLAND AG

The Management Board



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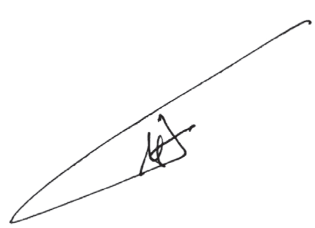


Fritsch

Wouters

INTERIM FINANCIAL STATEMENTS
AS OF JUNE 30, 2011

CONDENSED BALANCE SHEET

as of June 30, 2011

CONDENSED BALANCE SHEET AS OF JUNE 30, 2011 | ASSETS	EUR	EUR	EUR	31.12.2010 thousand EUR
Cash reserve				
a) Cash on hand		1,329.71		1
b) Balances with Central Banks		7,769,694.84		25,481
c) Postal bank balances		0.00	7,771,024.55	0
Public debt issue and bills eligible for refinancing with central banks				
a) Treasury bills and non-interest-bearing Treasury notes and similar public sector debt instruments				
b) Bills of exchange		0.00		0
		0.00	0.00	0
Due from banks				
a) Mortgage loans		0.00		0
b) Loans to the public sector		2,654,297,241.06		2,668,375
c) Other claims		5,787,836,135.84	8,442,133,376.90	6,224,650
Due from customers				
a) Mortgage loans		87,059,602.35		100,101
b) Loans to the public sector		20,620,983,821.21		20,892,870
c) Other claims		376,617,930.21	21,084,661,353.77	400,770
Bonds and other fixed interest securities				
a) Money market instruments				
aa) public sector issuers				0
ab) other issuers	0.00			0
b) Bonds and notes	0.00			
ba) public sector issuers				10,012,505
bb) other issuers	9,656,715,865.61	16,977,600,134.65		7,916,706
c) Own bonds	7,320,884,269.04	442,274.07	16,978,042,408.72	8,112
Shares and other variable interest-bearing securities			6,052,543.52	5,895
Trading portfolio		0	0.00	0
Investments			0.00	0
Investments in affiliates			0.00	0
Trust assets			0.00	0
Compensation receivables from public bodies including bonds arising from their exchange			0.00	0
Intangible assets				
a) Internally generated industrial property rights and similar rights and values		0		
b) Acquired concessions, industrial property rights and similar rights and values and licences in such rights and assets		1,958,236.72		2,970
c) Goodwill		0		
d) Payments in advance		0	1,958,236.72	
Tangible assets			5,445,976.38	5,520
Subscribed capital unpaid			0.00	0
Other assets			1,306,959.27	460
Accruals and deferrals				
a) From new issues and lendings		287,671,163.49		303,404
b) Other		113,222,693.07	400,893,856.56	126,742
Deferred tax assets			0.00	0
Surplus arising from offsetting			0.00	0
Deficit not covered by equity			0.00	0
TOTAL ASSETS			46,928,265,736.39	48,694,562

CONDENSED BALANCE SHEET AS OF JUNE 30, 2011
LIABILITIES AND EQUITY

	EUR	EUR	EUR	31.12.2010 thousand EUR
Due to banks				
a) Registered mortgage Pfandbriefe		0.00		0
b) Registered public Pfandbriefe		1,239,851,942.26		1,252,221
c) Other liabilities		6,875,008,545.45	8,114,860,487.71	9,633,304
Due to customers				
a) Registered mortgage Pfandbriefe		0.00		0
b) Registered public Pfandbriefe		17,507,570,277.84		17,674,502
c) Savings deposits				
ca) terminable within three months	0.00			0
cb) not terminable within three months	0.00	0.00		0
d) Other liabilities		3,642,609,030.16	21,150,179,308.00	2,423,446
Securitised liabilities				
a) Issued bonds				
aa) Mortgage Pfandbriefe	0.00			0
ab) Public Pfandbriefe	15,811,238,499.01			15,992,300
ac) other notes	30,043,316.07	15,841,281,815.08		30,466
b) Other securitised liabilities		0.00	15,841,281,815.08	0
Trading portfolio			0.00	0
Trust liabilities			0.00	0
Other liabilities			292,908,991.09	439,552
Accruals and deferrals				
a) From new issues and lendings		36,038,822.52		27,968
b) Other		420,116,297.49	456,155,120.01	432,572
Deferred tax liabilities			0.00	0
Provisions for liabilities				
a) Provisions for pensions and similar commitments		0.00		0
b) Tax provisions		0.00		1,189
c) Other provisions		7,367,148.23	7,367,148.23	6,871
Subordinated liabilities			106,000,000.00	106,000
Profit participation capital			127,284,000.00	142,284
Fund for general banking risks			0.00	0
Equity				
a) Subscribed capital		432,500,000.00		282,500
b) Capital reserve		348,684,911.98		198,685
c) Retained earnings				
ca) Statutory reserve	0.00			0
cb) Reserve for own shares in a controlled entity due to holding the shares' majority	0.00			0
cc) Reserves required by the Articles of Incorporation	0.00			0
cd) Other retained earnings	50,702,270.07	50,702,270.07		49,908
d) Net income		341,684.22	832,228,866.27	794
TOTAL LIABILITIES			46,928,265,736.39	48,694,562
Contingent liabilities				
a) Contingent liabilities from discounted bills of exchange		0.00		0
b) Liabilities from guarantees and indemnity agreements		100,778,978.71		103,331
c) Liability from assets pledged as collateral for third-party obligations		0.00	100,778,978.71	0
Other commitments				
a) Repurchase obligations from reverse repurchase agreements		0.00		0
b) Placement and underwriting commitments		0.00		0
c) Irreversible loan commitments		33,552,173.36	33,552,173.36	95,253

CONDENSED INCOME STATEMENT

for the period from January 1 to June 30, 2011

CONDENSED INCOME STATEMENT FOR THE PERIOD FROM JAN. 01 – JUNE 30 2011 | EXPENSES	EUR	EUR	EUR	01.01.–30.06.2010 thousand EUR
Interest expenses			1,649,183,726.05	1,244,253
Commission expenses			2,453,668.49	1,551
Net expenses from financial operations			0.00	0
General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	3,013,813.93			3,060
ab) Social security and other employee benefits costs	481,358.58	3,495,172.51		461
b) Other administrative expenses		4,441,018.47	7,936,190.98	4,511
Depreciation, amortization and write-downs of intangible and tangible assets			1,269,972.31	1,344
Other operating expenses			11,010.63	62
Depreciation and write-downs of claims and certain securities, allocation to provisions for possible loan losses			10,370,516.11	8,525
Depreciation and write-downs of participations, interests in affiliates and securities treated as fixed assets			0.00	0
Expenses from underwriting losses			0.00	0
Extraordinary expenses			0.00	0
Income taxes			57,956.83	105
Other taxes not reported under 'Other operating expenses'			8,278.53	8
Profits transferred on the basis of profit pooling, under a profit and loss transfer agreement or an agreement to transfer a portion of the profit/loss			0.00	0
Net income			341,684.22	246
TOTAL EXPENSES			1,671,633,004.15	1,264,126

CONDENSED INCOME STATEMENT FOR THE PERIOD FROM JAN. 01 – JUNE 30, 2011 | INCOME	EUR	EUR	01. 01.-30.06.2010 thousand EUR
Interest income from	1,399,194,442.52		1,127,907
a) Lending and money market transactions	264,719,522.42	1,663,913,964.94	135,252
b) Fixed-interest securities and debt register claims			
Current income from			
a) Shares and other non-fixed income securities	0.00		0
b) Participations	0.00		0
c) Investments in affiliated companies	0.00	0.00	0
Profits transferred on the basis of profit pooling, under a profit and loss transfer agreement or an agreement to transfer a portion of the profit/loss		0.00	0
Commission income		1,280,956.88	544
Net income from financial operations		0.00	0
Income from write-ups of claims and certain securities, reversal of provisions for possible loan losses		0.00	0
Income from write-ups to participations, investments in affiliates and securities treated as fixed assets		6,368,887.32	422
Other operating income		69,195.01	1
Extraordinary income		0.00	0
Income from underwriting of losses		0.00	0
Net loss for the year		0.00	0
TOTAL INCOME		1,671,633,004.15	1,264,126

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim financial statements as of June 30, 2011 have been prepared in accordance with Section 37w of the Securities Trading Act (Wertpapierhandelsgesetz, WpHG) and the provisions of the German Commercial Code (Handelsgesetzbuch, HGB), the German Stock Corporation Act (Aktiengesetz, AktG) and the German Pfandbrief Act (Pfandbriefgesetz, PfandBG) as well as the German Bank Accounting Regulations for Credit Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV). The Interim Report as of June 30, 2011 was prepared in accordance with the same accounting and valuation methods applied in the preparation of the annual financial statements as of December 31, 2010.

The interim management report provides an explanation of the material changes in the amounts reported in the condensed balance sheet and the condensed income statement as compared to the prior-period figures as well as of developments having taken place during the reporting period.

We have calculated our income tax burden on the basis of our current expectations for overall net profit for the year 2011. We based this on the current tax rates and brackets, factoring in the expected differences between the financial accounts and tax accounts. This tax rate was applied to the pre-tax profit recorded in the interim financial statements.

The interim financial statements and the interim management report as of June 30, 2011 were neither audited in accordance with Section 317 HGB nor reviewed by an auditor.

EXECUTIVE BODIES OF THE BANK

Supervisory Board

Stéphane Vermeire *(Chairman)*
Head of Public & Wholesale Banking International
Member of the Management Board of Dexia Crédit Local
Dexia Crédit Local

Marc Buckens *(Deputy Chairman)*
(until July 31, 2011)
Head of the Financial Management Department
Dexia SA

Stéphane Magnan
(since August 2, 2011)
Head of Local Financial Markets
Member of the Management Board of Dexia Crédit Local
Dexia Crédit Local

Nikola Bilandzija
(until March 17, 2011)
Bank employee

Norbert Drews
(since March 17, 2011)
Bank employee

François Laugier
Chief Financial Officer
Member of the Management Board of Dexia Crédit Local
Dexia Crédit Local

Nico Picard
Managing Director, Head of Controlling and Financial Planning
Dexia Banque Internationale à Luxembourg

Berko Töpfer
(since March 17, 2011)
Bank employee

Management Board

Friedrich Munsberg
Chairman

Laurent Fritsch

Wilfried Wouters

Trustees

Josef Baiz
Management Board Member (ret.)

Werner Graf
Bundesbank Division Head (ret.)

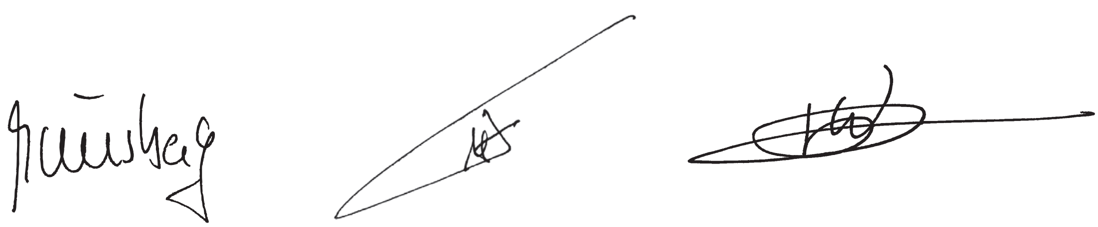
Victor von Bothmer
Attorney

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim financial statements give a true and fair view of the assets and liabilities, the financial position and the profitability of the company, and the interim management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company for the remaining months of the financial year.

Berlin, August 2011
DEXIA KOMMUNALBANK DEUTSCHLAND AG

The Management Board



Munsberg **Fritsch** **Wouters**

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DEXIA