

Annual Report

2008

DEXIA KOMMUNALBANK
DEUTSCHLAND AG

DEXIA

Annual Report

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DEXIA KOMMUNALBANK DEUTSCHLAND AG

AT A GLANCE

TOTAL ASSETS AND LIABILITIES (IN EUR MILLION)

	31.12.2007	31.12.2008
Assets		
Loans to the public sector	24.509,1	23.940,5
Other claims from banks and customers	3.253,9	5.184,7
Securities	17.712,6	19.339,0
Liabilities		
Pfandbriefe	35.989,2	37.306,2
Other liabilities to banks and customers	9.443,4	10.776,6
Liable equity capital	546,9	538,0

INCOME STATEMENT (IN EUR THOUSAND)

	31.12.2007	31.12.2008
Interest and commission income	65.438,0	79.971,0
Administrative expenses (incl. depreciation)	-18.001,0	-22.081,0
Risk provisioning	-33.355,0	-54.670,0
Net income	10.200,0	440,0

OTHER DISCLOSURES

	31.12.2007	31.12.2008
Employees (average)	92,0	110,0
Cost-income-ratio	27,5%	27,6%

DEVELOPMENT OF THE BANK OVER A FIVE-YEAR PERIOD (IN EUR THOUSAND)

	2004	2005	2006	2007	2008
Interest and commission income	63.815	64.437	62.300	65.438	79.971
Partial operating profit	49.276	49.271	45.782	47.437	57.890
Operating result	22.720	23.816	31.089	16.968	3.024
Net income for the fiscal year	12.700	17.000	19.000	10.200	440
BALANCE SHEET TOTAL (IN EUR MILLION)	32.849	35.050	39.223	45.693	48.969

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PROFILE OF THE DEXIA GROUP

Dexia is a European bank which employs 36,760 people and had EUR 17.5 billion in net equity as of December 31, 2008. The Dexia Group's activities focus on the one hand on public and wholesale banking, offering public sector clients a wide range of competitive banking and financial services, while European retail and commercial clients – primarily in Belgium, Luxembourg and Turkey – form another of the Bank's core segments.

Segments

Public and Wholesale Banking

In light of the current market situation, the Dexia Group is planning to realign the activities of its Public and Wholesale Banking segment on the basis of the Transformation Plan announced in November 2008. Going forward, the Bank will focus in particular on markets where its strong business franchise is met with the prospect of profitable growth and long-term funding opportunities.

In regional terms, Public and Wholesale Banking will center its attention on France, Belgium, Luxembourg, Italy and the Iberian peninsula. Dexia will continue to maintain its presence in the German, Japanese and Swiss markets, accelerating its funding activities in these countries. In contrast, the Bank plans to significantly reduce its activities in the United Kingdom and the US.

The ongoing financial crisis affects neither the ratings nor the financial needs of our clients. In its core markets, Dexia remains a major financial services provider for municipal and infrastructure financing, as well as for financing in the public health care and social housing sectors.

Dexia is able to maintain this position by enhancing its existing product and service portfolio. This strategy – which has already been largely implemented in Belgium – will enable Dexia to refine its existing role as a product specialist and to offer a broader, better product range to a wider client base.

Retail and Commercial Banking

Dexia is one of the top three retail and commercial banks in Belgium and Luxembourg, and enjoys an excellent position in Turkey and Slovakia, as well. Dexia offers more than six million retail and commercial clients a wide range of financial products and services, and insurance products.

The Retail and Commercial Banking segment also comprises Asset Management and Investor Services activities. Dexia Asset Management oversaw a portfolio amounting to approximately EUR 79.0 billion as of December 31, 2008.

The Bank's Investor Services activities are conducted by RBC Dexia Investor Services. As a joint venture between the Royal Bank of Canada and Dexia, RBC Dexia Investor Services offers its expertise in global custody services, pension (fund) administration and shareholder services around the world. As of December 31, 2008, the Bank managed approximately USD 1.9 trillion in assets under custody.

Ratings

The three core companies of the Dexia Group – Dexia Bank Belgium, Dexia Crédit Local and Dexia Banque Internationale in Luxembourg – were rated AA- (Fitch), A1 (Moody's) and A (Standard and Poor's). Three of Dexia's European subsidiaries have issued secured bonds with a rating of AAA.

KEY FIGURES OF THE DEXIA GROUP AS OF DECEMBER 31, 2008*

Balance sheet total	651 Mrd. EUR
Net income - Group share	-3.326 Mio. EUR
Earnings per share	-2,54 EUR
Tier-1-ratio	10,6 %

* as of 26.02.2009

EXECUTIVE BODIES OF THE BANK

Supervisory Board

Stéphane Vermeire

(seit 17.02.2009)

*Head of Public & Wholesale Banking – International
Member of the Management Board of Dexia Crédit Local
Dexia SA
Chairman*

François Durollet

(until February 17, 2009)

*Deputy Executive Vice President Public Finance
Head of Public Finance Network & FSA Department
Dexia SA
Chairman*

Claude Schon

*Head of Group Treasury
Member of the Treasury & Financial Markets
Management Committee
Dexia SA
Deputy Chairman*

Hans Handschuh

Bank employee

Jean Le Naour

*Head of Finance, Operations and IT Department
Member of the Management Board of Dexia Crédit Local
Dexia Crédit Local*

Sascha Riegenring

Bank employee

Xavier Rojo

*Senior Vice President
Innovation & Financial Engineering – Public Finance Division
Dexia SA*

Management Board

Giselbert Behr

Chairman

Dr. Wolfgang Eickhoff

(since October 1, 2008)

Patrick Giacobbi

(until September 30, 2008)

Wilfried Wouters

Executive Vice Presidents

Frank P. Hahn

Dr. Wolfgang Eickhoff

(since October 1, 2008)

Ulrich Hetmank

(until June 30, 2008)

Trustees

Josef Baiz

Banker (ret.)

Werner Graf

*Bundesbank Division Head (ret.)
(since June 1, 2008)*

Victor von Bothmer

*Attorney at law
(since August 1, 2008)*

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board performed its duties according to the law, the statutes and its standing procedures, and monitored the work of the Management board of the Bank on an ongoing basis. It obtained regular information from the Management Board relating to business policy, fundamental issues relating to management, the position of the Bank and key business transactions, and discussed these with the Management Board. Business transactions requiring the consent of the Supervisory Board were reviewed, discussed with the Management Board and approved by virtue of Supervisory Board resolutions. There were frequent discussions as well as five meetings with detailed reports presented in both verbal and written form.

2008 Annual financial statements

The annual financial statements and the management report for the 2008 fiscal year were audited, within the accounting system, by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, who had been appointed as auditor by the Annual Shareholder's Meeting. They stated in their confirmed audit report that the bookkeeping system and the annual financial statements provide a true and fair view of the net assets, financial position and results of operations, and that the management report is consistent with the annual financial statements. The Supervisory Board approved the findings of the audit.

Based on the findings of its subsequent review of the annual financial statements, the management report and the proposal for the distribution of net retained profits, the Supervisory Board concluded that there were no objections to be raised. The Supervisory Board issued its approval of the management report and the annual financial statements as of December 31, 2008 submitted by the Management Board. The annual financial statements are therefore adopted. The Supervisory Board approves the proposal of the Management Board for appropriation of net retained profits.

The Management Board has submitted the report on relations to affiliated companies to the Supervisory Board pursuant to § 312 German Stock Corporation Act (AktG). The Supervisory Board approved the report of the Management Board and the findings of the audit with no reservations.

In 2007, the Bank continued to expand its traditional municipal client base to include municipal corporates (kommunalnahe Unternehmen, „KNU“) that are organized under private law and active in the classical public utilities sectors, the purchase of re-

ceivables from public-sector entities, and project financing. In 2008, the Bank successfully rounded off this expansion by fully integrating a Project Financing team into its procedural and organizational structure. The Project Financing team was successful in closing transactions as lead arranger in 2008. Despite the difficult market environment in the wake of the sub-prime crisis, DKD continued to fund itself long-term, essentially using public Pfandbriefe in 2008.

At no time has DKD held positions, either directly or indirectly, in the sub-prime market through special purpose vehicles or structured investment vehicles.

Changes in the composition of the Supervisory Board

On September 30, 2008, Mr. Patrick Giacobbi left the Management Board following the expiry of his term of office. His duties were transferred to Dr. Wolfgang Eickhoff, who was appointed to the Management Board with effect from October 1, 2008. The Supervisory Board thanks Mr. Patrick Giacobbi for his years of commitment as member of the Management Board and his ever-constructive collaboration with the Supervisory Board.

The Supervisory Board would like to express its gratitude and appreciation to all members of staff and the Management Board for their excellent work in 2008.

Paris, April 2009

The Supervisory Board

Stéphane Vermeire

Chairman of the Supervisory Board

REPORT OF THE MANAGEMENT BOARD

MANAGEMENT REPORT

■ GENERAL ECONOMIC CONDITIONS IN 2008

The global economy was marked by considerable turbulence in 2008. The general economy has been impacted by financial sector turmoil in a way previously not considered possible. This was especially evident in the collapse of the investment bank Lehman Brothers Inc., which triggered shock waves around the globe. In order to better understand the events of 2008, the year should be broken down into two phases: the PRE- and POST-Lehman-era.

Given the noticeable dislocation on the money and capital markets, it is probably accurate to view the final quarter of 2008 as one of the most turbulent and volatile in capital market history. During this period, stock prices around the world tumbled more than 40%, several asset classes became completely illiquid, the credit market was severely disrupted and the interbank and bond markets came to a virtually complete standstill.

Development in the economic regions

Although over the course of the first half of 2008 there was still hope that high demand for commodities proving the strength on the part of the emerging economies (China, India) could shore up faltering economic development in Europe and the US, the reality of the second half of 2008 was instead a global slip towards recession. This led to a sharp downturn in the gross domestic product of all industrialized nations, leaving consumer as well as industrial confidence badly shaken.

This caused consumer demand to slip, which in turn brought down consumer price indices around the world. The consequence of this was considerably lower inflation readings. Although the ECB increased its key interest rates in July 2008 in the hope of avoiding secondary effects, the Harmonized Index of Consumer Prices (HICP) unexpectedly plummeted below the ECB's 2% price stability target in the second half of 2008. To offer support to ailing economies, many central banks around the world lowered their key interest rates drastically, with some lowering their rates to near-zero. Since the traditional monetary measures proved insufficient to counter the financial crisis,

the central banks also made credit facilities available in amounts previously unheard of, with their balance sheets ballooning accordingly.

As a consequence, the currencies of some countries were faced with high devaluation pressure. A devaluation of national currency used to represent a real option for propping up the economies of many European countries. However, this option is not available to the Euro zone countries. It is against this backdrop that critical voices have increasingly expressed doubts about the organization and structure of the European Monetary Union.

Many analysts consider the sustained decline of real estate prices first observed in the US to have triggered the financial crisis, which pushed the US economy into a recessionary vortex first, followed by the United Kingdom, and finally Europe. The impacts of the financial crisis on national economies became apparent after German and British banks in particular transitioned to restrictive lending policies in the wake of large-scale impairments. This, together with a considerable drop in foreign demand, cumulated in an economic slowdown in Europe, followed by a sinking inflation rate.

Used as an early warning indicator, the Purchasing Managers Index (PMI) clearly mirrors this recessionary spiral. Although the service sector had proven to be relatively resistant during the early stages of the economic slowdown, by December 2008 the manufacturing industry's PMI had fallen year-on-year from 52.8 to 33.9 points in Europe and from 50.7 to 32.4 in the US.

Moreover, industrial production in the Euro zone dropped year-on-year by a total of 7.7% in 2008. The decline in exports in December 2008 was relatively significant, particularly in Germany, which registered a 10.6% drop.

In similar fashion, consumer demand fell sharply on both sides of the Atlantic. Given the constant stream of negative reports from the financial and the real economy, it seems unlikely that macro-economic indicators will find firm footing for the time being.

ECB monetary policy

Compared to other central banks, the European Central Bank was slow in reacting to the impacts of the financial crisis. In keeping with its mission, the primary aim of the ECB's defensive interest rate strategy was to ensure price stability. However, this came at the expense of an interest rate policy that would stimulate more growth.

Rising consumer prices, for example due to the massive spike in the price of crude oil – which peaked at USD 140 per barrel at the beginning of July 2008 – caused the ECB to increase its key interest rates by a whopping 25 bp on July 3, 2008. However, markedly lower inflation and the absence of the dreaded secondary effects led the ECB to lower its key rates by a total of 175 bp in three steps to 2.5% over the fourth quarter of 2008.

In Q3 2008, the ECB's Governing Council decided to perform its weekly main refinancing operations on the basis of volume tenders with full allotment at the interest rate for main refinancing operations. At the same time, it expanded the scope of eligible assets. Both decisions were intended to provide banks with sufficient liquidity despite the failure of the interbank and capital markets.

Development of the capital markets

As funds from private investors and existing shareholders were no longer adequate to meet the increased capital requirements brought about for many banks by their massive write-offs, several European governments stepped in to perform this task. After receiving substantial capital injections, many major banks – particularly in the United Kingdom – are now at least partially in government ownership. While the ECB has been constantly pumping funds into banks, the debate as to whether governments should buy up toxic assets, or establish a „bad bank“ to separately manage them, continues unabated.

The differing monetary policies of the central banks, and their related interest rate decision, have shaped the development of yield curves in the US and in Europe. However, the failure of the interbank market was the main factor leading both central banks to dramatically cut their key rates, albeit at different times.

Already at the beginning of 2008, the spread between the Fed's 2-year and 10-year swap rate was 90 bp. An impending aggressive interest rate cut by the Fed gave rise to expectations of an increasingly steeper curve. A similar development was also expected for the euro swap curve. However, from late May 2008,

anticipations of a key interest rate hike based on the ECB's restrictive interest rate policy have resulted in a permanently inverse interest rate structure with a delta of up to -60 bp.

During the POST-Lehman era, the spread between the 2-year and 10-year US swap curves narrowed from 187 bp to 108 bp. This convergent trend in the US yield curve was further accelerated by the debate as to whether the Fed should purchase long-term Treasury bonds, thereby further increasing the monetary volume. In Europe, the ECB Governing Council's decision to lower the key interest rate caused the euro swap curve to steepen by 106 bp at the end of the year.

Moreover, the volume of government bonds issued was expected to increase in Europe. This expectation led to the winding-up of existing interest rate positions, further increasing the pressure on the long end of the interest curve. Nonetheless, the interest rate had reached a historical low.

Covered bonds in 2008

Given the rising number of issuers, paired with fewer investors and lower demand, as well as an expected flight to government-guaranteed bonds, the market for covered bonds was characterized in 2008 by markedly fiercer competition. When assessing the development of the market, particular attention should be paid to government-guaranteed bank bonds, a new securities class that emerged as a consequence of government measures designed to increase liquidity. These bonds will continue to bear a noticeable influence on the covered bond market in the future.

So far, the market for covered jumbo bonds has proven relatively resilient over the entire course of the financial crisis. Particularly in the PRE-Lehman-era, there were windows of opportunity for issuing covered bonds. Nonetheless, the jumbo issue volume fell in 2008 to a total of EUR 96 billion, compared with a volume of EUR 162 billion in the previous year.

In particular, the absence of market making and the relative lack of fungibility weighed on the issue of covered bonds in 2008. Furthermore, investors were increasingly turning their focus to more fungible government-backed bank bonds in the interest of avoiding risk and enhancing liquidity. In accordance with the Solvency Directive, the risk weighting of such bonds was between 0% for Europe and 20% for the US, depending on the guarantor.

Pressure on issue spreads for covered bonds already increased considerably during the PRE-Lehman-era. This resulted in significant spread premiums for new issues, particularly for issuers of covered securities with less strict legal frameworks from markets other than the core markets like Germany and France. During the remainder of the year, issue spreads differed noticeably in relation to the issuer and the country of origin. At the same time, new covered bonds issuers were offered the opportunity to tap into new markets, for example by issuing Greek covered bonds.

The absence of a liquid secondary market spawned the return of market players to primary jumbo issues while demand for private placements fell. At the same time, investor preferences evolved from a no longer investment decisions based on the product, but instead driven by the issuer's credit quality. The large market uniformity for covered bond products gave way to a more differentiated, credit driven approach.

The Pfandbrief market in 2008

Parallel to the completion of the draft version of the revised new German Pfandbrief Act at the end of 2008, the debate concerning the underlying business model of the Pfandbrief banks intensified.

However, with regard to the Pfandbrief's systemic importance, the German government underscored that the Pfandbrief is „already protected by virtue of the special statutory provisions in Germany“ and that the German government would continue to ensure that it would remain so in the future. Given the extraordinarily high ratings of the assets in the Pfandbrief's cover pool, a direct government guarantee was not and is not considered necessary, in contrast to other countries such as Ireland, Sweden and the UK. However, this government commitment to support the Pfandbrief did nothing to stop the erosion of the Pfandbrief market in Q4 2008.

Mortgage Pfandbrief margins widened even more dramatically than those for public Pfandbriefe. This development was attributable primarily to the market's doubts with regard to the valuation of the real estate offered as collateral.

Despite the more difficult capital market environment, DKD was able to complete its planned funding program in 2008 in full by issuing public Pfandbriefe. Two successful jumbo issues with two-year and ten-year maturities, respectively, as well as the increase of existing issues, made it possible for DKD to successfully reach its planned Pfandbrief issue volume by the end of

September 2008. The difficult funding environment meant that hardly any new business was generated after October 2008.

On December 17, 2008, the Luxembourg regulatory body approved DKD's issuing prospectus. DKD was hence in compliance as of January 1, 2009 with the statutory requirements of the German Securities Prospectus Act (WpPG) from which it was exempt until December 31, 2008 under § 31 (2) WpPG.

Executive bodies

Tasks and responsibilities

The tasks and responsibilities of the Supervisory Board, consisting of four representatives of the Dexia Group and two representatives of DKD's employees as well as the tasks and responsibilities of the Management Board, are described and documented in full within the organizational rules and regulations (Articles of Incorporation, schedule of responsibilities of the Management Board, rules of procedure of the Supervisory Board and rules of procedure of the Management Board, organization instructions for the individual business Segments). There is no overlapping of responsibilities.

Management Board

The Management Board of DKD develops the strategy of the bank and is responsible for organization of business operations as well as due and proper steering and monitoring of risks. The framework required for this is defined by targets, strategies and standards as well as by the authorization of limit structures and individual limits. The Management Board reports regularly and fully to the Supervisory Board to enable it to assess and monitor the bank.

Supervisory Board

The Supervisory Board meets quarterly and analyzes the strategy and development of the bank. The Audit Committee, the Personnel Committee and the Credit Committee have specific areas of responsibility.

■ THE TRANSFORMATION PROCESS OF THE DEXIA GROUP

On November 14, 2008, Dexia SA announced its Transformation Plan, which outlined the realignment of the Dexia Group's business model. This realignment is intended to reorganize in particular the Dexia Group's international market and trading activities. Going forward, the Dexia Group intends to sharpen its focus on the core segments of Public, Retail and Commercial Banking in selected countries. This realignment of business activities is expected to be accompanied by a program to reduce costs over the long term.

The Transformation Plan's impact on DKD has yet to be spelled out in greater detail. However, a EUR 2.5 million provision for restructuring costs was recognized in the 2008 annual financial statements as a precaution. The measures of the Dexia Group's Transformation Plan pertaining to DKD are expected to be fleshed out at the beginning of 2009. For more information on this topic, please refer to the report on post-balance sheet date events.

■ NEW LENDING AND FUNDING

Volatile market environment in public sector lending

The relatively upbeat economic situation during previous years led to an increase in supplementary tax receipts by most municipalities in 2008. This generally resulted in a more relaxed budget situation, enabling municipalities not only to continue paying down debt, but also to increase their investment activities. Hence, municipal demand for loans declined in 2008 overall.

Competition in the area of municipal lending by non-public banks grew markedly more fierce as a result of the sharp increase in funding costs and the considerable expansion of certain development bank activities into the public sector.

Municipal lending margins did not develop evenly across the board during the fiscal year. Although the drying-up of the interbank and bond markets resulted in a considerable drop in liquidity, particularly from Q4 in 2008 onwards, this was not reflected per se in rising margins, for example for short-term lending. Margins could be seen to increase on the market only for individual transactions. In our view, this trend was caused by the fact that public banks and development banks had large liquidity holdings and were looking for secure investment opportunities for these holdings.

Given this tense situation on the money and capital markets, DKD adjusted its financing business in line with the funding options. By contrast, DKD's interest management business benefited from the flattening interest curve and expanded during the year. Overall, DKD was able to hold its ground in this competitive environment, given the circumstances. In the year under review, classic municipal loan commitments including short-term lending declined to EUR 3,045.0 million (2007: EUR 9,450.3 million). By contrast, a considerably higher amount of bonds to serve as cover were acquired. In 2008, new lending amounted to EUR 3,522.3 million – of which EUR 1,000.0 million for issues by Dexia Crédit Local – as compared with EUR 830.5 million during the previous year.

After disbursements of EUR 6,856.6 million and divestures of EUR 5,658.4 million, the volume suitable for the cover pool of public Pfandbriefe, excluding accrued interest, increased by 4.8% since December 31, 2007 to EUR 42,255.8 million.

Our branch office in Frankfurt am Main focuses on granting and structuring short-term and municipal loans, among other things, to cities, administrative districts, local authorities and local authority associations in Germany, as well as structuring the interest rates for such loans. Against the backdrop of the developments described above, it provided EUR 2.7 billion in loan commitments during the year under review (2007: EUR 8.3 billion) to the original municipal financing market, which remained fiercely competitive.

When structuring its loan and securities portfolios the Bank used the rating criteria it had obtained from internal and external analyses. As a result, a greater amount of public-sector bonds was acquired in 2008 than in 2007. All in all, the gross volume of new municipal lending business (municipal loans including bonds to serve as cover for public Pfandbriefe) is divided up into the individual borrower categories as follows: *Development of new lending (in EUR million)*

In addition to offering municipal lending, DKD finances municipal corporates providing public services (utilities) – including those not providing any municipal guarantee, and provides project financing. In 2008, new loan commitments amounted to EUR 0.2 billion (2007: EUR 0.6 billion). This figure also includes mortgage loans to local authority housing associations.

Pfandbriefe and other funding

For the purpose of long-term refinancing of the lending business, the Bank's new issuance totaled a volume of EUR 8,307.1 million (2007: EUR 6,114.6 million) in the year under review. For a long time, the Pfandbrief successfully held its ground during the spreading financial crisis triggered by the sub-prime crisis. During the first half of 2008, the Bank issued its first new jumbo Pfandbrief since 2004 for EUR 2,750.0 million and increased existing issue by EUR 750.0 million.

However, the total loss of confidence in the interbank markets in the wake of the bankruptcy of the fourth-largest investment bank in the US, Lehman Brothers Inc., also had detrimental effects on the Pfandbrief. The spreads of Pfandbriefe outstanding widened considerably, and there were significant spread differences between individual issuers. It was only possible to issue tailor-made Pfandbriefe on the private placement market. The successful placements during the first three quarters enabled the Bank to secure its liquidity.

Development of initial placement (bearer and registered instruments) (in EUR million)

The primary long-term refinancing instrument remained the public Pfandbrief, with a share of 99% of the instruments. Uncollateralized loans accounted for 1%. The newly placed refinancing funds consisted to approximately 95% of classic, fixed-interest instruments or floaters and up to 5% of structured issues.

Given its funding structure described above, which is essentially based on long-term refinancing through public Pfandbriefe, DKD required only slight short-term liquidity, which in view of the increased rates of interest in the money market and the (interbank) liquidity squeeze in the wake of the sub-prime crisis had tended to become more expensive.

All in all, the portfolio of public Pfandbriefe plus the uncovered other bonds and borrower's note loans increased to EUR 38,902.9 million at the end of the year (2007: EUR 37,777.0 million). Our own debt securities acquired due to market-regulating operations had a nominal value of EUR 9.3 million as of December 31, 2008 (2007: EUR 13.2 million).

We launched a total of 49 issues (2007: 38) on the Berlin Stock Exchange, where DKD is one of the largest issuers, with a total volume of EUR 9,297.1 million (2007: 2,633.4 million).

The AAA rating for public Pfandbriefe awarded by Standard & Poor's in January of 1998 for the first time was, as in the previous years, reconfirmed in January 2009.

DEVELOPMENT OF NEW LENDING (IN EUR MILLION)

	2007	2008
Countries*	34,0	639,5
German Federal States (Länder)	2.196,0	2.170,2
Cities and municipalities	7.412,5	1.673,3
Banks	319,1	1.772,4
Other	319,2	311,9
TOTAL	10.280,8	6.567,3

* including the Federal Government's special funds

DEVELOPMENT OF INITIAL PLACEMENT (BEARER AND REGISTERED INSTRUMENTS) (IN EUR MILLION)					
	2004	2005	2006	2007	2008
Public Pfandbriefe	12.386,9	12.752,8	9.811,5	6.039,6	8.238,1
Other bonds*	18,0	27,0	0,0	20,0	0,0
Borrowing*	137,1	94,6	139,8	55,0	69,0
TOTAL	12.542,0	12.874,4	9.951,3	6.114,6	8.307,1

* including subordination agreements

Mortgage loans

The remaining portfolio of classic mortgage loans was further reduced by EUR 2.5 million to EUR 12.8 million net.

Compulsory measures

During the year under review there were two forced sales which had not been completed by the end of the year. This is of no further relevance to any assessment of the exposures in question.

■ DEVELOPMENT OF ASSETS, FINANCIAL POSITION AND PROFIT SITUATION

The 2008 balance sheet and income statement provided a mixed picture for the year. On the one hand, DKD enjoys a solid capital base and sufficient liquidity. On the other hand, the global financial crisis, the credit market upheavals and the associated widening of the credit spread have left their mark on the Bank's balance sheet.

Since December 31, 2007, balance sheet total increased by EUR 2.8 billion, or 6.0%, to EUR 49.0 billion. Granted cash collateral and reverse repos each increased by approximately EUR 0.9 billion.

Furthermore, the purchase of bonds from public issuers and banks – both roughly evenly weighted – led to an increase since December 31, 2007 in the amount reported on the balance sheet by EUR 1.6 billion to a total of EUR 19.3 billion. In 2008 the Bank transferred securities with a nominal amount of EUR 12.0 billion from the liquidity reserve portfolio to the fixed assets; the assets transferred to the portfolio have an investment grade rating calculated internally according to the Basel-II regulations. The rationale of the transfers is the intention of the bank to hold these securities to maturity and thus to earn steady interest income.

The Bank secures its funding primarily by issuing public Pfandbriefe. Since the end of the previous year, this balance sheet items increased by EUR 1.3 billion to EUR 37.3 billion. Furthermore, the Bank increasingly secured funding through time deposits. As of the balance sheet date, these had increased by EUR 3.1 billion year-on-year, thus outstripping repos, which declined by EUR 1.8 billion during the same period.

The internal ratings of the bonds and debt securities with a nominal amount of EUR 9.8 billion, which were issued by other banks and are held in the Bank's portfolio as of December 31, 2008, are as follows

DEVELOPMENT OF KEY BALANCE SHEET ITEMS (IN EUR MILLION)

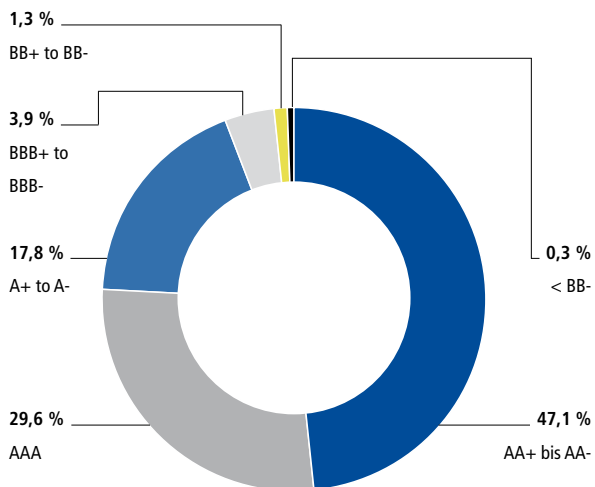
	31.12.2007	31.12.2008
Due from banks		
Loans to the public sector	3.429,7	3.458,1
Other claims	2.838,3	4.694,5
Due from customers		
Loans to the public sector	21.079,4	20.482,4
Other claims	280,7	368,9
Bonds and notes		
Public-sector issuers	7.707,0	8.802,1
Other issuers	9.991,9	10.525,2
Due to banks		
Registered public Pfandbriefe	1.479,3	1.607,1
Other liabilities	7.259,4	8.782,6
Due to customers		
Registered public Pfandbriefe	15.707,4	16.170,5
Other liabilities	2.095,4	1.986,5
Securitized liabilities		
Public Pfandbriefe	18.802,5	19.528,6
Equity capital	295,1	290,5
BALANCE SHEET TOTAL	46.214,9	48.969,2

From a risk standpoint, we continue to consider this rating structure balanced. Nonetheless, the rating-linked credit spreads of a large number of banks have widened considerably in the wake of the developments on the global financial markets in 2008.

At no time DKD was and is either directly or indirectly committed in the sub-prime market through special purpose vehicles or structured investment vehicles.

The crisis of confidence on the global financial markets triggered by the sub-prime crisis early on in the second half of 2007 continued to grow in 2008, reaching an initial climax with the collapse of Lehman Brothers Inc. Given the difficult market conditions, the Bank was not able to meet its original targets in 2008.

INTERNAL RATING ACCORDING TO BASEL II (AIRBA*)



*Advanced Internal Rating Based Approach

DEVELOPMENT OF KEY INCOME STATEMENT ITEMS (IN EUR MILLION)

	31.12.2007	31.12.2008
Interest income	5.365,2	5.780,5
Interest expenses	-5.297,2	-5.699,9
Net interest income	68,0	80,6
Net commission income	-2,6	-0,6
Interest and commission income	65,4	80,0
Personnel expenses	-8,4	-9,6
Other administrative expenses (incl. Depreciation of intangible and tangible assets)	-9,6	-12,4
Partial operating profit	47,4	57,9
Total other operating income and expenses	0,1	0,0
Risk provisioning	-33,4	-54,7
Result of financial investments	2,7	-0,2
Operating result before tax	16,9	3,0
Extraordinary expenses	0,0	-2,5
Tax expense	-6,7	-0,1
NET INCOME	10,2	0,4

Net interest income and commission income

Net interest income increased year-on-year by 18.4% to EUR 80.6 million. This increase is solely attributable to non-recurring items under Q3 net interest income as a result of reversals recognized in relation to the insolvency of Lehman Brothers Bankhaus AG. The derivatives that were unwound were replaced with equivalent derivatives with other counterparties. Upfront payments were recognized under interest expenses for the remainder of the term of the derivatives. Moreover, margin pressure was palpable on the most fiercely competitive market of local authority finance, as was the loss of confidence triggered by the financial market crisis and the associated rise in the cost of funding. Without these

non-recurring items, net interest income for 2008 would have decreased by approximately 8%.

The increase in commission income is attributable to provisions realized in connection with loan disbursements in the Project Financing segment.

Administrative expenses

General operating expenses rose as expected by a total of EUR 4.1 million to EUR 22.1 million. Of this amount, EUR 1.2 million was attributable to personnel expenses, which increased primarily as a result of recruitment of new front and back office staff in the areas of lending to municipal corporates and project financing. The other administrative expenses including depreciation of tangible assets and amortization of intangible assets increased by EUR 2.8 million or 29.2% to EUR 12.4 million. This increase is primarily attributable to consulting and project costs that were incurred in connection with the implementation of statutory, regulatory and Dexia Group requirements.

Level and development of risk provisioning

Risk provisioning comprises all recognizable 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 increased in the past year by 63.8% to EUR 54.7 million (2007: EUR 33.4 million). It primarily includes provisions made according to the lower of cost or market principle in the securities business, which were recognized in response to widening credit spreads. This also affected the portfolios of underlyings which are micro hedged against interest rate risks via interest swaps.

Roughly three-quarters of the write-downs recognized relate to defaults on bonds issued by Icelandic banks, as well as to participation certificates issued by Hypo Real Estate. The original planning assumptions did not account for these special factors, which caused risk provisioning to skyrocket during the third quarter of the year under review. In addition, the financial market crisis generally led to a further widening of spreads for virtually every issuer. These write-downs relate to temporary impairment losses rather than permanent defaults. After cross compensation, these charges were offset slightly by profits on sales.

Result of financial investments

The EUR 0.2 million loss of financial investments includes losses incurred through the maturity of long-term securities. No write-downs were required for permanent impairment of long-term securities.

Operating result before tax

Profit before tax was reduced to EUR 3.0 million (2007: EUR 16.9 million) due to a substantial increase (by 82.2%) in risk provisions.

Extraordinary expenses

At EUR 2.5 million, extraordinary expenses included all expenses incurred directly in relation to the planned restructuring measures in the core segments and the far-reaching activities planned for the Financing municipal corporates/ Project Financing segments. These expenses relate to costs for human resources measures and additional expenses incurred in the course of the restructuring, for which a provision has been recognized.

Net income

In 2008, net income declined by 95.7% from EUR 10.2 million in the previous year to EUR 0.4 million as a result of the charges described.

Equity capital

The Bank's capital declined by a total of EUR 8.9 million in the reporting year. It amounted to EUR 538.0 million as of December 31, 2008 (2007: 546.9 million). EUR 5.2 million was transferred to retained earnings in 2008. The item to be deducted pursuant to Section 10 (2a) of the German Banking Act (KWG) increased by EUR 2.8 million. The partial loss of eligibility of subordinated liabilities due to residual terms having fallen below two years decreased the Bank's capital by EUR 11.3 million. Subordinated funds were not replaced in 2008 as the evolution of corresponding spread did not allow a refunding at attractive conditions.

In 2008 the Bank again carried capital substantially above legal requirements. As of the balance sheet date, the Bank's capital backing of risk-weighted assets amounted to 16.4% and was again significantly above the minimum requirement of 8.0% set forth under § 10 (1) sentence 9 KWG and defined in the German Solvability Regulation (SolvV) with effect from January 1, 2008.

Liquidity

In 2008 the liquidity ratio was calculated on the basis of the German Liquidity Regulation (LiqV), which was also applicable with effect from January 1, 2008 pursuant to § 10 (1) sentence 9 KWG. This regulation states that the ratio of the cash available in the first maturity range (from daily up to 1 month) to the callable payment obligations during the same period may not fall below 1. In its liquidity planning, DKD factors in both the extent of the expected cash inflows and outflows and an adequate liquidity supply in the form of highly liquid assets.

Relations to affiliated companies

The Management Board's report on relations to affiliated companies pursuant to § 312 of the German Stock Corporation Act (AktG) ends with the following Statement:

"In each of the legal transactions listed in the Board's report on relations to affiliated companies, our Company received

appropriate consideration and was not placed at any disadvantage by the measures listed in the report taken or omitted. This assessment is based on the conditions known to us at the time of the events subject to a reporting requirement."

Derivatives

The Bank uses derivatives as auxiliary transactions in accordance with the German Pfandbrief Act (PfandBG) to hedge against interest rate and foreign exchange risks.

In a year-on-year comparison, the volume of interest rate and cross currency swaps and options was as follows at the end of the year:

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

	2004	2005	2006	2007	2008
Subscribed capital	162,5	162,5	162,5	162,5	162,5
Reserves	108,7	111,4	114,8	122,4	127,6
Deduction item acc. to § 10 (2a) KWG	-3,0	-2,0	-2,6	-5,3	-8,1
Profit participation capital	126,1	126,1	125,5	140,6	140,6
Subordinated liabilities	134,1	135,3	136,0	126,7	115,4
Tier 3 capital	0,5	0,0	0,0	0,0	0,0
TOTAL	528,9	533,2	536,2	546,9	538,0

DEVELOPMENT OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS LIQUIDITY

	Minimum	Maximum	Average
Liquidity ratio	1.07 (November 2008)	2.33 (September 2008)	1,72

The credit equivalent amounts of the interest rate and cross currency swaps in accordance with the market valuation method pursuant to § 13 of the KWG was EUR 378.0 million as of the balance sheet date (2007: EUR 535.1 million).

Subsequent events

Subsequent events of particular relevance are described in the report on post-balance sheet date events.

Employees

At the end of 2008, the Bank employed a total of 111 people (2007: 99), of which 106 are actively employed (2007: 97). 25 employees work at the Frankfurt am Main Office (2007:23).

For our employees, the Bank's activities in the previous year represented extraordinary challenges in the form of numerous projects, not least due to the difficult market conditions described. We wish to express our gratitude and appreciation to all employees for their extraordinary efforts and their commitment.

DERIVATIVES		
in EUR million	31.12.2007	31.12.2008
Interest rate and cross-currency swaps	118.595,1	109.380,4
of which EONIA	27.270,0	20.000,0
Options	756,3	481,0

■ RISK REPORT

Risk environmentThe sub-prime crisis and the ensuing financial market turmoil have shown the importance of professional limitation and steering of bank risks. Effective risk management means identifying all material risks, independently measuring and assessing such risks against a framework of shifting macro-economic and portfolio-specific conditions, and steering these risks in line with a risk strategy set forth by the Bank that appropriately weighs risk versus return based on its findings and estimates.

For this purpose, the Management Board defines the Bank's risk policy on the basis of legal and regulatory provisions. The risk profile is strictly geared towards the Bank's capacity to carry and sustain risk. The predominant focus of the risk policy is on a return on the capital invested that is commensurate with the risks taken, and on the enhancement of the Company's value in line with the current difficult market environment. The objectives are set in the annual income and risk budgeting process.

Responsibility for setting risk strategy, which is derived from DKD's business strategy, for due and proper organization and monitoring of the risk elements of all business associated with risk is taken by the Management Board. Risk limiting systems have been put in place for the individual risk categories (counterparty risks, market risks, liquidity risks and operational risks) in close cooperation with the parent Company, Dexia Crédit Local, Paris.

The risk guidelines and structures are set out in the Risk Handbook, which is available to all employees via the Bank's intranet. It forms the basis of uniform handling of and internal communication on all significant types of risks, enabling goal-oriented handling of risks by DKD.

Concept of risk-bearing capacity

A top-down approach is used to properly capture and map all relevant, quantifiable risks and interpret them in terms of the Bank's risk-bearing capacity. The objective of this assessment is to identify the potential unforeseen losses that can be covered by the Bank's capital without severely impairing its business activities. A loss ceiling is set by the Management Board for market, counterparty, liquidity and operational risks to be entered into. These are based on the individual pre-risk results and the budgeted risk provisioning. The Management Board is responsible for allocating the individual kinds of risks across the aggregate risk limit. Taking the loss ceiling as a limit, a split of 30%-70%-0% is applied for the counterparty, market and liquidity risks. Operational risks are accounted for using worst-case scenarios, in keeping with the standard approach pursuant to Basel II. The individual risk categories are based on the following quantification methods:

CONCEPT OF RISK-BEARING CAPACITY		
	Normal scenario	Extreme scenario
Market risk	Primarily write-downs of securities held as current assets plus risk of overnight deterioration (95% confidence level)	Primarily write-downs of securities held as current assets plus risk of overnight deterioration. (2 x doubled max. swing of past 2 years)
Counterparty risk	Credit risk (exposure x PD x LGD)	Credit risk (Ratings downgrade of entire portfolio by two notches)
Liquidity risk	Due to high quality of assets not included in ability to carry and sustain risk; but included daily in the separate liquidity limits	See normal scenario
Operational risk	Not included	Basis Indicator Approach pursuant to Basel II

UTILIZATION OF OVERALL LIMIT	
	Utilization of overall limit
Ø 2008	36,8
31.12.2008	4,0

Concept of risk-bearing capacity

The average and 2008 year-end utilizations of the ability to carry and sustain risks under normal scenario were as follows:

If critical limit reserves arise, the Management Board decides on steps to be taken. Factoring in the time-based probabilities of risks occurring, a decision is made on whether to adjust the limits permanently or temporarily, or whether measures are to be adopted to decrease risks immediately.

Risk management system

DKD has an extensive risk control and risk management system (identifying, recording, measuring, analyzing and assessing risks and monitoring ongoing risks) that is constantly being improved. It provides decision-makers with the information they need actively manage risks. All matters relating to the regulatory requirements (MaRisk, Basel II) are managed, organized and coordinated for all risk categories.

Centralization of the core risk management and risk control functions ensures evidence of DKD's risk exposure and a uniform appraisal of risks and their quantification. Risk control has responsibility for the individual methods of measuring, including the (further) development of suitable models, and for reporting to the Management Board, the Supervisory Board and the Group parent company. The Internal Audit Department provides support for the review of the business processes, as well as the effectiveness and appropriateness of the risk management and control systems as defined by MaRisk. Process and risk audits are planned on the basis of a risk matrix. The Value at Risk (VaR) calculated serves as a basis for setting the audit intervals. The risk matrix is updated regularly. The auditors report their findings and recommendations directly to the Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board.

A clear organizational and functional separation is ensured between risk identification, capturing, analysis and assessment on the one hand and active risk management on the part of asset-liability management on the other hand.

At the same time, the risks specific to the Pfandbrief business and its cover pool pursuant to § 27 PfandBG are presented separately. The Bank takes deferments of stocks on a monthly basis for both the cover pool and the bonds outstanding in order to quantify interest rate, counterparty, currency and liquidity risks.

Market risks

One focus of risk management and monitoring is on the market risk, inherent in volatile markets. Of relevance for DKD here are essentially interest rate risks. Foreign currency risks are basically eliminated by hedging.

Management uses two risk ratios based on market values – basis point value (BPV or PV01) and value at risk (VaR) – to manage interest rate risks. BPV describes the potential loss of the net present value of the overall portfolio given a parallel shift in interest rates at all maturities by 100 bp. PV01 describes the potential loss given a 1 bp shift per defined maturity range.

The value-at-risk method (VaR) provides the maximum anticipated loss which may occur in normal market conditions during a pre-defined holding period, based on a given probability. The Bank calculates VaR on a daily basis, in particular based on a 99% confidence level and a ten-day holding period.

Depending on whether long-term trends are to be followed in terms of interest strategy or if short-term market conditions are to be exploited, DKD had set up different sub-portfolios with their own limits. During the course of the year, it was decided to combine the ALM long-term and ALM short-term limits into a cash liquidity management (CLM) limit of EUR 10.0 million. The interest sensitivity of the credit spreads is measured daily and reported to decision makers. No separate limiting takes place.

Based on the above assumptions, the position as of December 31, 2008 was as follows:

	Limit +/- 100 BPV (EUR million)	Limit VAR 99/10 (EUR million)
Cash Liquidity Management	10	2

VALUE-AT-RISK/BPV	CLM		
	VaR (99%, 10 days)	+ 100 BPV (EUR million)	-100 BPV (EUR million)
Avg. 2008	1,0	-0,4	0,5
Min. 2008	0,3	-8,7	-10,7
Max. 2008	2,1	10,6	9,8
30.12.2008	0,5	0,3	-0,4

CREDIT SPREAD SENSITIVITIES TO INTEREST RATE MOVEMENTS		
	+ 100 BPV (EUR million)	-100 BPV (EUR million)
Avg. 2008	-19,4	22,1
Min. 2008	-22,1	19,5
Max. 2008	-17,2	25,3
30.12.2008	-21,1	24,1

The ALM (Asset/Liability Management) Committee of DKD is responsible for strategic management of interest risk on the basis of the CLM portfolio. The members of the Committee set the tactical asset allocation (utilization, maturities etc.) at their monthly meetings.

Using back testing, DKD reviewed the forecast quality of the VaR models for all sub-portfolios in the year under review. The changes in NPV that actually occurred were compared with the results of calculations based on the VaR model.

The four outliers established for the overall portfolio (= 1.6% of cases) are just short of the anticipated value, hence constituting a very good result.

In addition to risk measurement, stress tests are necessary in order to analyze the impacts of extraordinary market situations. The Bank uses the following scenarios to carry out the stress tests:

- a. Parallel shift by +/- 250 bp
- b. September 11, 2001: change in curve by the percentage change in the interest level from September 11 to September 12, 2001
- c. Reversal of the market interest curve by -5.4 bp around the 5-year point

At the same time, derivative financial instruments are used to actively hedge risks. Interest swaps are used for both micro and macro hedge relationships. Options serve exclusively to hedge underlying transactions.

The management receives a daily risk report on developments relating to market risk, limit utilization and the results of back testing, as well as on the Bank's overall performance.

While the credit spreads continued to narrow slightly in the first half of 2008, there was a clear shift when the crisis on the financial markets occurred. On the one hand, the credit spreads for private borrowers (in particular banks) widened appreciably; on the other, the credit spreads for public sector borrowers remained virtually unchanged. On the German market the „flight to quality,“ driven by liquidity, led to a further narrowing of the credit spreads for public-sector borrowers, as well as for short-term public Pfandbriefe.

The valuation gains and losses arising from changes in the credit spreads are measured by the Bank on a regular basis. The market data used for credit spreads is updated on a quarterly basis.

The valuation and market risk systems appropriately factor on the impacts of the changing market environment. These systems were upgraded during the course of the year, providing an adequate risk picture at all times.

Counterparty risks

In order to limit counterparty risks, the Management Board sets clear credit lines and credit delegations for all contracting parties in close cooperation with the Dexia Group.

DKD has at its disposal a dynamic system for granting credit lines to German public corporations and public law institutions for public sector lending. Per-capita debt and the ratio of the

overall debt of the corporation in question to the average overall debt in the relevant category are the key criteria for establishing the maximum credit line to be accepted by the Bank.

The detailed credit line utilization calculations are provided daily by Risk Management/Control and are monitored by the back office function. The Management Board is notified immediately if any credit line is exceeded, and a decision on the appropriate steps is made.

The necessary organizational and procedural requirements have been established, enabling the Bank to provide financing to municipally owned corporates providing public services (utilities) – including those not providing any municipal guarantee, to conduct public-private partnership (PPP) transactions and to enter into the project financing business. This primarily consists of credit analyses and their subsequent implementation and processing. The basis of this activity is formed by the credit risk strategy, the principles for management of credit risks, the credit regulations and rating procedures for assessing the credit risk of counterparties. The management reporting system provides the Management Board with regular information on the relevant portfolio structure.

With regard to counterparty risk, procedures are in place to ensure functional and disciplinary separation of commercial activity (front office) and credit analysis (back office) at all levels.

The counterparty risk calculated by credit risk in cases of normal as well as extreme market conditions – together with the relevant market and liquidity risks – is counted towards a maximum loss limit determined on the basis of the Bank's current profitability, its hidden reserves and its net equity.

In addition to measuring direct counterparty risks (credit risks), the Bank also assesses the risk of full or partial non-performance by the counterparty (replacement risk). After individual transaction risks are identified, all existing default risks are consolidated and measured based on counterparty or borrower.

In close cooperation with the Dexia Group, DKD allowed for the above developments by first freezing lines of credit granted to banks and then subjecting all such portfolios to a more detailed critical review.

Liquidity risks

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

In view of the liquidity crisis on the international money markets, the Dexia Group has stepped up internal liquidity management. DKD is fully integrated into this System. Given the excellent quality of DKD's assets, it always holds a large volume of ECB-eligible bonds. That fact, coupled with the Group-wide liquidity management system, meant that DKD was not exposed to any liquidity squeezes at any time.

In order to guarantee liquidity at any time, a liquidity forecast is prepared daily containing an overview of maximum cash outflows for the next 90 days. Each day, Risk Management/Control identifies the cumulative mismatched liquidity positions for one day, two days and one week, and matches them against defined limits. The Management Board receives daily updates on the utilization of this liquidity limit in a summary risk report. In addition, funding matrixes provide a medium and long-term view of the Bank's liquidity. In a special report, the mismatched medium-term liquidity positions (up to one year) are compared with the available liquidity reserves in the form of ECB-eligible bonds. The ratio calculated in the year under review was well below 100%.

The situation on the money and capital markets took a dramatic turn for the worse as the sub-prime crisis evolved into the current systematic financial crisis in the wake of the collapse of Lehman Brothers Inc. Both the interbank market and the bond market came to virtual standstill. Eonia-Euribor spreads widened considerably.

Very faint signs of recovery have since appeared on the horizon in Europe following the adoption of various financial sector bailout packages.

Operational risks

The Bank defines operational risk as the risk of a direct or indirect loss caused by human conduct, procedural or control systems weaknesses, technical failures, catastrophes or external influences. These also include legal risks and risks to reputation. The latter can arise from an unexpected change in legislation, unfavorable contractual terms or (potential) legal disputes with third parties. Measures such as the integration of customer complaint management, the implementation of an anti-corruption guideline and a specific code of conduct for both internal and external relationships contribute to a significant reduction in risks to the Bank's reputation. Controls are also in place at different levels to limit operational risks. Technical and organizational measures have been put in place in the area of IT infrastructure and organizational procedures in particular to limit

and avoid risks. Emergency plans and a catalogue of measures have been drawn up; they are set out in a manual for emergencies that is available on the intranet.

As part of contingency planning, the Bank has also set up a recovery center so that business operations can still be carried out in crisis situations. This contingency planning primarily concentrates on areas that are not directly in the Bank's sphere of influence and contains scenarios and possible solutions situations in which the Bank building at Charlotenstrasse 82 in Berlin either cannot be used at all or only to a very limited extent. The aim of this plan is to ensure that the Bank's core operations can still be carried out. The priority of individual emergency procedures depends on the relevant risk situation.

Apart from this, DKD's operational risk correspondent compiles on a monthly basis a record of losses that have occurred due to operational risks at departmental level. Where losses have occurred, the parties involved are asked to analyze the procedures in question, to put a figure to the loss and to develop proposals for avoidance of such losses in future. The risks that have occurred are discussed with the Management Board at quarterly meetings of the Operational Incidents Committee. These meetings are followed by a report to the Group parent for the purpose of setting up a loss database for operational risks.

In order to identify and assess operational risks, procedures were set in place at the end of 2007 to map operational risks as part of the Dexia Group's Risk & Control Self-Assessment Program (RCSA). The objective was to identify operating risks inherent in the individual processes each year and to facilitate the necessary adjustments to the relevant processes.

The Group-wide methodology for calculating risk was modified over the course of 2008, leading to the agreement to postpone the risk inventory until early 2009. However, certain market events caused DKD to perform an analysis of potential fraud in Treasury and Financial Markets (TFM). This analysis did not lead to the discovery of any irregularities.

Since Q1 2008, extreme exposure to operational risks has been calculated towards the Bank's potential risk-bearing capacity using the Basel II standardized approach (previously: Basic Indicator Approach).

A suitable human resources development plan has been drawn up to ensure that all employees in the various departments always have the necessary qualifications.

Information management

All risk-related information is recorded centrally by Risk Management/Control, processed systematically to provide special reports and made available to the relevant decision makers once a day (if necessary more than once a day). Employees requiring such information also have access to the results of the analyses through the IT System. A functioning, targeted information flow tailored to meet recipients' needs ensures that DKD employees have a high level of risk awareness and have been appropriately sensitized.

Basel II

DKD is fully integrated into the Dexia Group's Basel II Project Group. The objective of the project is to develop a uniform procedure within the Group to quantify counterparty and operational risks on the basis of the Advanced Internal Rating Based Approach (AIRBA) and the Standardized Approach for operational risks.

Since March 31, 2008, DKD uses AIRBA to file SolvV reports. Exceptions to this are German regional authorities for which the permanent partial-use is applied in the standardized approach.

In order to receive the full degree of cover under AIRBA, internal ratings systems were developed in 2008 with the Group for public satellites (public institutions and corporations) and other satellites (municipal corporates). The tool for public satellites was already successfully tested in 2008 and validated by the Dexia Group. The approval and introduction of both ratings systems is slated for 2010.

■ TRADING BOOK

The Bank has been a trading book institution since January 1, 2004 and meets the full requirements for trading book institutions. There has been no activity in 2008 due to uncertainties on the markets.

■ REPORT ON POST-BALANCE SHEET DATE EVENTS

The restructuring of the Dexia Group's business segments under the aegis of the transformation process is currently in the planning stage. This process will also necessitate a change in DKD's business model. Going forward, DKD intends to focus primarily

on the secondary market municipal business, particularly on the eligible international public finance business. The plan is therefore to suspend DKD's primary German commercial business at the municipal and federal state level, and to close its Frankfurt am Main offices. We will retain our core competencies of municipal financing and purchasing receivables from public-sector entities in Germany. On the other hand, the Project Financing segment will be bundled with the center of competence in Paris. The measures of the transformation process will give rise to procedural, organizational and staff adjustments over the remaining course of the year.

Based on a prioritization of the international markets, DKD will continue to acquire assets for the cover pool. DKD will remain a major issuer of public Pfandbriefe.

The Chairman of the Supervisory Board, Mr. François Durollet, resigned his office at the Supervisory Board meeting on February 17, 2009. Mr. Stéphane Vermeire was elected to the Supervisory Board of the Bank by the extraordinary Shareholder's Meeting held on that same day. The Supervisory Board subsequently elected Mr. Stéphane Vermeire as Chairman of the Supervisory Board and its committees.

No further events of material significance occurred during the period from January 1, 2009 to March 9, 2009.

■ FORECAST

As in the previous year, the financial crisis and its impacts on the real economy will continue to dominate the economic developments for 2009. Despite the seemingly self-reinforcing downwards spiral of bad news on the economic front nowadays, the world economy could experience a slight stabilization during the second half of 2009. This would primarily come courtesy of economic stimulus packages, the effects of which the real economy is expected to eventually feel over the course of the year.

Nonetheless, the vast majority of current economic indicators point to a deep recession in 2009. Although the US economy grew by 1.3% in 2008, growth is expected to stall out at 0% this year. Following 1% GDP growth in 2008, the outlook for Europe is even less rosy for 2009, with GDP expected to contract by 0.5%. Given this backdrop, the passage of economic stimulus packages by governments around the world and the coordinated interest rate policies of the central banks will play a crucial role in swiftly bringing about an improvement in the economic situation.

Thanks in large part to a consistently high level of consumer demand, past recessionary phases – such as the one following the events of September 11, 2001 – were overcome in a relatively short amount of time, particularly in the US. Given the current decline in consumer spending, it is therefore important to stimulate consumer confidence by means of employment programs and tax cuts, while keeping interest rates low. However, based on the sharp increase in US unemployment figures and an expected surge of some 3 million more job-seekers, the unemployment rate is expected to climb to approximately 8% in 2009. Moreover, in the past decade a sizeable portion of income available to households had been generated by stock market profits and real estate gains, particularly in the US. As stock indices are expected to tumble a further 25% in 2009, these asset components will not be available to households for some time. It is for this reason that the economic stimulus packages already adopted, as well as those in the pipeline, will play a pivotal role in shoring up the US economy.

The financial crisis will provide the impetus for the passage of tougher regulatory requirements and standards. This, together with the necessary reduction in total assets and liabilities on their balance sheets, will lead banks to adopt considerably more restrictive risk policies. It will only be possible to avoid the risk of a further credit crunch if governments buy up „toxic“ securities.

Under such negative general conditions, the conventional interest rate policies of the central banks have proven ineffective thus far. What is needed instead is a monetary policy of quantitative easing and a bolstering of the economy through an increase in the amount of available liquidity. We believe that the ECB is likely to reduce its key rates further below the current level of 1.5%.

A slump in demand for goods and falling commodity prices will significantly limit the risk of inflation. While a negative inflation rate of as much as -0.5% is expected for the US, the inflation rate in Europe is expected to reach approximately 1%. Crude oil prices will remain far below the record level of USD 140 reached in July 2008, and are likely to trend between USD 25 and USD 35 over the course of the year.

Going forward, the high costs of government bailouts, guarantees and economic stimulus packages will drastically reduce room for government spending in both Europe and the US, and will weigh down heavily on their budgets. As a consequence, it can be expected that the Maastricht stability criteria will be softened or temporarily suspended in Europe. The rising burden of debt will lead to increased skepticism of the solvency of weaker

states, which will in turn lead to further increases in government bond spreads in general.

As a result, the widening of the spreads already observed in this key market segment in 2008 will also trigger a re-evaluation of risks in other securities classes. Against this backdrop, considerable pressure can be expected on country and government ratings, which will result in swap spreads to widen further.

The impacts of the financial crisis will affect DKD's net income for the year in 2009. Issuing new Pfandbriefe will be challenging in fiscal year 2009, particularly given the uncertainty as to the level of appropriate new issue spreads. Although the net volume of the DKD Pfandbriefe to be replaced is limited to some EUR 3 billion, we generally expect the costs of refinancing to increase.

We remain confident that the Pfandbrief will continue to represent an attractive investment alternative thanks to its quality as a highly secure investment form. Compared especially to Bund and Länder bonds, the Pfandbrief offers compelling spreads, particularly for maturities of longer than five years. The anticipated normalization of the yield curve to a delta of approximately 150 bp between the 2-year and 10-year euro swap rate is expected to boost demand for long-term investment opportunities among investors with a long-term investment horizon, such as insurance companies, etc.

In 2009, the amendment of the German Pfandbrief Act will further strengthen the Pfandbrief's position as a secure premium product. Particularly the proposed rise of the legally required liquidity and transparency requirements for the Pfandbrief will meet the needs of many investors left rattled by the financial market crisis. We are therefore convinced that the German Pfandbrief will continue to expand its role as a leading covered bond, and will remain a safe haven for all investors.

The assets held by DKD meet the criteria for eligibility for the cover pool to the highest degree possible and are therefore also ECB-eligible. DKD is neither directly nor indirectly invested in financial vehicles such as ABS, MBS, CDOs or CDS, nor will it be in the future. In addition, the extraordinarily high quality of its assets guarantees DKD the option of creating additional liquidity by depositing eligible securities with the Bundesbank. Given the lasting crisis of confidence on the interbank market, we do not expect that the ECB will limit its tender volumes in 2009.

The consequences of the bankruptcy of the investment bank Lehman Brothers Inc. are likely to include stricter and more consistent regulatory supervision of the financial sector. No further financial sector bankruptcies are expected, at least not while

governments are granting guaranties and designing measures to increase liquidity. Thanks to the high overall quality of our cover pool-eligible assets, we are confident that in 2009 we will not be forced to recognize impairments in the same magnitude as recognized in 2008.

Given the current performance of financials on the stock market, it would appear that the need for further write-offs by banks is already being anticipated, for example on retail and commercial client loan portfolios. DKD is not active in these segments.

Asset margins are already increasing faster in other European countries than in Germany. As an integral part of the Dexia Group, DKD can tap into the international high-margin, cover pool-eligible lending business generated by other members of the Dexia Group. Going forward, this will have a supporting effect on DKD's earnings position.

This forecast and portions of the annual report contain expectations and predictions made on the basis of budget assumptions and estimates relating to the development of the Bank's business and income. By their nature, these assumptions and estimates are subject to uncertainties; consequently, actual results may differ from forecasted results. These risks are very real and must be taken into account, particularly in light of the enduring crisis on the financial and capital markets.

Naturally, both the further development of the economy and on the credit and capital markets will influence DKD's operating results considerably in the coming years.

The ability to cope with the lasting difficulties in the financial sector and to move past the crisis of confidence on the banking market, as well as the swift impact of government stimulus and bailout plans, which go hand-in-hand with an upturn in the real economy, will be the critical success factors for economic recovery in 2009 and 2010.

Against the backdrop of DKD's modified business model and due to rising refinancing costs, we expect our net interest income (before special factors) to decline overall in fiscal year 2009. Net interest income could possibly find firmer ground in 2010, as we expect to gain greater access to the higher-margin international municipal lending business in cooperation with the Dexia Group, while therefore diversifying our cover pool assets at the same time. Furthermore, we anticipate lower administrative expenses in 2009 as a result of the restructuring measures initiated.

The development of credit spreads will also significantly affect the Bank's development. Given the factors discussed in the forecast report we expect a short-term correction, followed in the medium term by a stagnation at historic high margins for government bonds. We therefore generally expect required risk provisioning to decrease in 2009 and subsequent years. However, it is extremely difficult to forecast such a development.

Our forecast for 2009 is a slight increase in net profit for the fiscal year, although this will be highly dependent on the planned restructuring of the business model. Provided the general conditions are positive, we expect our net profit to increase slowly but steadily over the medium term once the transformation process has been completed. In connection with the anticipated cost synergies, the internationalization of our cover pool will pave the way for a lasting improvement of our earnings position over the medium term.

Thanks to the high quality of DKD's cover pool- and ECB-eligible assets, its liquidity position will again remain adequate this year. Furthermore, DKD's close integration into the Dexia Group's cash and liquidity management system, as well as the provision of a liquidity support letter by Dexia Crédit Local in which the parent company confirms to cover possible liquidity squeezes, are also beneficial to our liquidity position.

Berlin, March 09, 2009

DEXIA KOMMUNALBANK DEUTSCHLAND AG

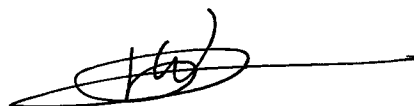
The Management Board



Behr



Eickhoff



Wouters

ANNUAL FINANCIAL STATEMENTS

2008

BALANCE SHEET

as of December 31, 2008

BALANCE SHEET AS OF DECEMBER 31, 2008 ASSETS		EUR	EUR	EUR	PREVIOUS YEAR EUR thousand
Cash reserve					
a) Cash on hand			3.073,77		4
b) Balances with central banks			78.573.852,36		139.968
including: with Deutsche Bundesbank	78.573.852,36				(139.968)
c) Postal bank balances		0,00		78.576.926,13	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			0,00		0
including: refinancable with Deutsche Bundesbank	0,00				(0)
b) Bills of exchange			0,00	0,00	(0)
including: refinancable with Deutsche Bundesbank	0,00				
Due from banks					
a) Mortgage loans			0,00		0
b) Loans to the public sector		3.458.090.402,25			3.429.677
c) Other claims		4.694.484.793,00		8.152.575.195,28	2.838.330
including: payable on demand	1.852.643.929,69				(924.409)
collateralized by securities	0,00				(0)
Due from customers					
a) Mortgage loans		121.328.591,32			134.851
b) Loans to the public sector		20.482.411.066,25			21.079.403
c) Other claims		368.878.316,92		20.972.617.974,49	280.659
including: collateralized by securities	0,00				0
Bonds and other fixed interest securities					
a) Money market instruments					
aa) public-sector issuers	0,00				0
including: refinancable with Deutsche Bundesbank	0,00				(0)
ab) other issuers	0,00				0
including: refinancable with Deutsche Bundesbank	0,00		0,00		0
b) Bonds and notes					
ba) public-sector issuers	8.803.980.719,41				7.707.004
including: refinancable with Deutsche Bundesbank	6.834.543.807,71				(6.830.869)
bb) other issuers	10.525.845.749,69	19.329.826.469,10			9.991.920
including: refinancable with Deutsche Bundesbank	8.821.974.666,69				(9.502.701)
c) Own bonds		9.198.104,53		19.339.024.573,63	13.664
Nominal amount	9.254.000,00				(13.204)
Shares and other variable interest-bearing securities				6.418.000,01	20.996
Investments					
including: investments in banks	0,00			0,00	0
Investments in affiliates					
including: investments in banks	0,00			0,00	0
Trust assets					
including: trust loans	0,00			0,00	0
Compensation receivables from public bodies including bonds arising from their exchange				0,00	0
Intangible assets				6.676.495,93	4.464
Tangible assets				10.867.143,09	11.240
Subscribed capital unpaid					
including: called-up	0,00			0,00	0
Own shares or capital					
Nominal amount:	0,00			0,00	0
Other assets				6.994.606,49	153.813
Tax accruals				30.151,45	6
Accruals and deferrals					
a) From new issues and lendings		270.906.539,61			348.260
b) Other		124.530.513,04		395.437.052,65	60.619
Deficit not covered by equity				0,00	0
TOTAL ASSETS				48.969.218.119,12	46.214.878

BALANCE SHEET AS OF DECEMBER 31, 2008 LIABILITIES		EUR	EUR	EUR	PREVIOUS YEAR EUR thousand
Due to banks					
a) Registered mortgage Pfandbriefe		0,00			0
b) Registered public Pfandbriefe		1.607.129.785,91			1.479.259
c) Other liabilities		<u>8.782.610.867,50</u>		<u>10.389.740.653,41</u>	7.259.373
including: payable on demand	234.014.389,78				(36.822)
registered mortgage Pfandbriefe pledged to lenders for the collateralization of loans	0,00				(0)
registered public Pfandbriefe pledged to lenders for the collateralization of loans	0,00				(0)
Due to customers					
a) Registered mortgage Pfandbriefe		0,00			0
b) Registered public Pfandbriefe		16.170.481.071,76			15.707.413
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		<u>1.986.522.388,86</u>		<u>18.157.003.460,62</u>	2.095.365
including: payable on demand	49.861.385,66				(3.561)
registered mortgage Pfandbriefe pledged to lenders for the collateralization of loans	0,00				(0)
registered public Pfandbriefe pledged to lenders for the collateralization of loans	28.887.991,28				(39.114)
Securitized liabilities					
a) Issued bonds					
aa) Mortgage Pfandbriefe		0,00			0
ab) Public Pfandbriefe	19.528.564.057,51	19.602.950.946,26			18.802.531
ac) other	74.386.888,75				88.641
b) Other securitized liabilities		0,00		<u>19.602.950.946,26</u>	0
including: money market instruments	0,00				(0)
Trust liabilities					
including: trust loans	0,00			0,00	(0)
Other liabilities					
				49.449.299,10	17.448
Accruals and deferrals					
a) From new issues and lendings		18.544.612,84			18.617
b) Other		151.613.272,04		<u>170.157.884,88</u>	106.697
Provisions for liabilities					
a) Provisions for pensions and similar commitments		368.876,00			221
b) Tax provisions		0,00			2.084
c) Other provisions		7.427.366,38		<u>7.796.242,38</u>	4.249
Special reserve item					
				0,00	0
Subordinated liabilities					
				131.499.999,97	131.500
Profit participation capital					
including: maturing within two years	27.827.464,55			<u>170.111.464,54</u>	206.413
					(64.129)
Fund for general banking risks					
				0,00	0
Equity capital					
a) Subscribed capital		162.500.000,00			162.500
b) Capital reserve		78.684.911,98			78.685
c) Retained earnings					
ca) Statutory reserve	0,00				0
cb) Reserve for own shares	0,00				0
cc) Reserves required by Articles of Incorporation	0,00				0
cd) Other retained earnings	48.883.440,78	48.883.440,78			43.683
d) Net income		<u>439.815,18</u>		<u>290.508.167,94</u>	10.200
TOTAL LIABILITIES				48.969.218.119,12	46.214.878
Contingent liabilities					
a) Contingent liabilities from discounted bills of exchange		0,00			0
b) Liabilities from guarantees and indemnity agreements		122.109.733,43			112.477
c) Liability from assets pledged as collateral for third-party obligations		0,00		<u>122.109.733,43</u>	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		693.706.089,01		<u>693.706.089,01</u>	1.115.533

INCOME STATEMENT

for the period from January 1 to December 31, 2008

INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2008 EXPENSES				EUR	EUR	EUR	PREVIOUS YEAR EUR thousand
Interest expenses						5.699.929.112,16	5.297.167
Commission expenses						4.386.085,12	3.672
Net expenses from financial operations						0,00	0
General administrative expenses							
a)	Personnel expenses	8.326.219,30					7.132
aa)	Wages and salaries						
ab)	Social security and other employee benefits including: pensions	1.310.549,77	9.636.769,07				1.307 (409)
b)	Other administrative expenses		10.441.657,06			20.078.426,13	8.043
Depreciation and write-downs of intangible and tangible assets						2.001.876,92	1.519
Other operating expenses						189.724,00	305
Depreciation and write-downs of claims and certain securities, allocation to provisions for possible loan losses						54.669.605,64	33.355
Depreciation and write-downs of participations, interests in affiliates and securities treated as fixed assets						212.390,71	0
Expenses from underwriting losses						0,00	0
Transfer special reserve item						0,00	0
Extraordinary expenses						2.500.000,00	0
Income Taxes						64.903,20	6.743
Other taxes not reported under 'Other operating expenses'						19.709,25	25
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						439.815,18	10.200
TOTAL EXPENDITURE						5.784.491.648,31	5.369.467

INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2008 INCOME	EUR	EUR	EUR	PREVIOUS YEAR EUR thousand
Interest income from				
a) Lending and money market transactions	4.804.056.492,49			4.552.886
b) Fixed-interest securities and Debt Register claims	976.422.661,25	5.780.479.153,74		812.326
Current income from				
a) Shares and other non-fixed income	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			3.806.684,43	1.065
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			0,00	2.732
Other operating income			205.810,14	458
Income from retransfer from special reserve item			0,00	0
Extraordinary income			0,00	0
Income from underwriting of losses			0,00	0
Net loss for the year			0,00	0
TOTAL INCOME		5.784.491.648,31		5.369.467
Net income for the fiscal year			439.815,18	10.200
Profit carried forward from the previous year			0,00	0
			439.815,18	10.200
Withdrawals from capital reserves			0,00	0
			439.815,18	10.200
Withdrawals from retained earnings			0,00	0
			439.815,18	10.200
Withdrawals from profit participation capital			0,00	0
			439.815,18	10.200
Transfers to retained earnings				
a) to the statutory reserve				0
b) to the reserve for treasury shares	0,00			0
c) to the reserves required by the Articles of Incorporation	0,00	0,00		0
d) to other retained earnings	0,00	439.815,18		0
	<u>0,00</u>			10.200
Replenishment of profit-participation certificates			0,00	0
NET INCOME		439.815,18		10.200

NOTES TO THE ACCOUNTS

■ PRINCIPLES

Principles of accounting, valuation and translation

The annual financial statements have been drawn up in accordance with the pertinent provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG) and the German Pfandbrief Act (PfandBG) as well as the German Accounting Regulations for Credit Institutions (RechKredV).

Receivables and other assets have been reported at their nominal amount including accrued interest. The differences between amount advanced and nominal amount are carried as accruals and deferrals. All recognizable individual risks have been provided for by the formation of specific value adjustments. In addition general provisions exist for mortgage lending area.

The securities allocated to the financial assets are valued according to the moderate lower of cost or market principle. Premiums and discounts are amortized over the maturity of the securities and offset against the interest income.

Taking the hedging instruments into consideration, the securities of the liquidity reserve are valued according to the strict lower of cost or market principle at the average value calculated continually or, if applicable, the lower current market price on the balance sheet date taking the requirement to reverse write-downs where the reasons for them no longer exist. If no liquid prices for securities were available from external suppliers of market data as of the balance sheet date, the market values of the securities were calculated using own valuation models. These valuation models are standard market discounted cash flow models, and issuer- and asset class-specific interest curves and risk premiums (credit spreads) are explicit taken into consideration. In the cases of fixed interest instruments that constitute a micro-hedge relationship with an interest rate swap, the unhedged credit risk is also provided for according to the strict lower of cost or market principle taking the requirement to reverse write-downs where the reasons for them no longer exist. Premiums and discounts are amortized in the interest income over the maturity of the securities in accordance with the outstanding capital.

Interest income and expenses of the hedging swap transactions are offset against the interest income and expenses of the under-

lying and hence the net interest income of the hedge is reported under the relevant item in the profit and loss account.

Intangible and tangible assets are in accordance with the useful life reported at acquisition costs decreased by planned straight-line depreciation. Apart from planned depreciation, the Bank uses the alternative treatment pursuant to § 6 (2) of the German Income Tax Act (EStG) for low value assets.

In the case of deferred taxes, tax accruals and deferrals item is reported pursuant to § 274 HGB.

Securities transferred in connection with repurchase agreements, together with their financial return, are recognized in the assets side of the balance sheet and valued according to the category to which the securities originally belonged. At the same time, a liability is recognized in the amount of the agreed-upon repurchase amount. The difference between the repurchase amount and the amount received is reported under deferred items section and taken into account on a pro-rata basis for interest calculations. Securities pertaining to reverse repos are not reported in the balance sheet. The amount paid for the securities received is recognized as a claim on the repo seller. The premiums on repo transactions are recognized as accruals and deferrals on a pro rata basis over the maturity of the transaction.

Liabilities are reported at the redemption amount including accrued interest. The difference between the nominal amount and the amount advanced is recognized to the accruals and deferrals item. Provisions for taxes, uncertain liabilities and anticipated losses from pending transactions were recognized amounting of expected availment.

Pension provisions were recognized at their net present value calculated pursuant to actuarial principles with the application of a discount rated of 6 %. The Heubeck 2005 G mortality tables published by Prof. Klaus Heubeck formed the basis for the calculation. Pension commitments are covered by reinsurance coverage of the equivalent amount.

Premiums received from commitments from options sales for swaptions are reported as other liabilities and recognized at the maturity of the option. Premiums received and paid out in relation to swaps and interest limitation agreements are reported as

prepaid expenses or deferred income, respectively, and are recognized on a pro rata basis in interest income and expense.

Foreign currency transactions were translated into euros. Assets and liabilities denominated in foreign currencies are fully hedged individually through separate hedging transactions and are translated at the exchange rate prevailing on the balance sheet date.

Derivatives in a micro hedge relationship are not measured separately.

Derivative components of underlying transactions and other derivatives also are not measured separately because they are used solely as hedging instruments in overall portfolio management.

■ NOTES ON THE BALANCE SHEET

Breakdown according to maturities

BREAKDOWN ACCORDING TO RESIDUAL MATURITIES (IN EUR MILLION)			
	Receivables from banks		Receivables from clients
Up to three months	3.147,2		36,1
Between 3 months and 1 year	596,9		735,8
Between 1 year and 5 years	1.589,9		3.735,2
Over 5 years	1.298,2		16.155,6
Interest	1.520,4		309,9
TOTAL	8.152,6		20.972,6

	Liabilities to banks	Liabilities to clients	Other securitized liabilities
Up to three months	3.922,1	132,4	-
Between 3 months and 1 year	2.349,2	259,6	-
Between 1 year and 5 years	1.387,1	2.386,9	-
Over 5 years	1.347,9	14.975,2	-
Interest	1.383,4	402,9	-
TOTAL	10.389,7	18.157,0	-

	Notes and other fixed interest securities	Notes issued
Due the following year	1.819,9	3.950,2

Liabilities due to banks are collateralized by securities with a value of EUR 3,186.5 million in open market operations and repurchase agreements.

There was no write-down to the lower value in the case of securities forming part of the fixed assets with a book value of EUR 8,448.5 million and a current market value of EUR 7,829.1 million. No lasting decrease in value has occurred, as this is a question of price fluctuations that will in all probability have been evened out when the securities mature.

Other assets

Other assets primarily relate to EUR 6.3 million in refund claims from the Tax Office for Incorporated Bodies (Finanzamt für Körperschaften).

Shares and other variable-interest securities contain subordinated assets amounting to EUR 6.4 million.

Tangible assets

Tangible assets consists of land and buildings used in the context of our own activities with a value of EUR 9.4 million and fixtures, operating and office equipment amounting to EUR 1.4 million.

DUE FROM/ TO AFFILIATES/PARTICIPATIONS (IN EUR MILLION)	DUE FROM/ TO AFFILIATES/PARTICIPATIONS (IN EUR MILLION)		
	Total	Including from/to affiliated companies	Including from/to other long-term investees and investors
Due from banks	8.152,6	542,6	-
Due from customers	20.972,6	-	-
Bonds and other fixed interest securities	19.339,0	1.481,4	-
Due to banks	10.389,7	3.255,4	-
Due to customers	18.157,0	-	-
Securitized liabilities	19.603,0	126,9	-
Subordinated liabilities	131,5	74,4	-

NEGOTIABLE SECURITIES (IN EUR MILLION)					Volume negotiable securities not measured at the lower of cost or market
	Total	Negotiable	Listed	Not listed	
Notes and other fixed interest securities	19.339,0	19.339,0	16.950,1	2.388,9	8.448,5
Shares and other variable interest-bearing securities	6,4	6,4	6,4	-	-

STATEMENT OF CHANGES IN FIXED ASSETS (IN EUR MILLION)			
	Intangible assets	Tangible assets	Long-term securities
Costs brought forward to Jan. 1, 2008	18,8	15,8	3.393,8
Additions during the fiscal year	3,6	0,2	11.900,2*
Disposals during the fiscal year	0,0	0,5	595,8
Depreciation and amortization, cumulative	15,7	4,7	67,8
Residual book value as of Dec. 31, 2008	6,7	10,9	14.630,4
Residual book value as of Dec. 31, 2007	4,5	11,2	3.388,5
Deprecation and amortization during the fiscal year	1,4	0,6	-1,9

* Additions relate in full to the reclassification of current assets as fixed assets.

Deferred tax assets

We recognized deferred tax assets in accordance with § 274 HGB for the expected tax relief arising from the differences in measurement approaches between the financial accounts and tax accounts for premiums from stand-ready obligations for swap-tions.

The assets include foreign currency items with an equivalent value of EUR 2,199.5 million and liabilities of EUR 973.0 million.

Other liabilities

Other liabilities primarily consist of unrealized losses from specially covered forward exchange transactions (EUR 34.6 million) and accrued interest from subordinated liabilities (EUR 3.2 million) and from profit participation capital (EUR 10.7 million).

Subordinated liabilities

In the event of the bankruptcy or liquidation of the Bank, subordinated liabilities are only paid back after all preferential creditors have been satisfied. There is no possibility of early repayment. Interest expenses for all subordinated liabilities amount to EUR 6.8 million.

With nominal amounts of EUR 18.0 million and EUR 40.0 million, respectively, two issues exceeded 10% of the total amount of the subordinated liabilities (EUR 131.5 million). Their coupons are 5.5% and 4.96%, respectively; the issues will mature in 2010 and 2016, respectively.

ACCRUALS AND DEFERRALS (ASSETS)

in EUR million

Issuing discount from bonds	121,1
Premium on receivables	149,8

ISSUING AND LENDING BUSINESS TOTAL**270,9****ACCRUALS AND DEFERRALS (LIABILITIES)**

in EUR million

Discount from receivables	7,9
Premium on bonds	10,6

ISSUING AND LENDING BUSINESS TOTAL**18,5****PROFIT PARTICIPATION CAPITAL**

	Principal amount (in EUR million)	Interest rate in %	Repayment of capital
Issue year 1998	10,2	6,63	2009
Issue year 1998	4,6	6,63	2009
Issue year 1999	13,0	variabel	2009
Issue year 2001	3,5	6,97	2012
Issue year 2001	15,0	6,40	2011
Issue year 2002	1,0	6,60	2013
Issue year 2002	5,0	variabel	2013
Issue year 2003	10,0	6,45	2014
Issue year 2003	10,0	6,52	2014
Issue year 2003	20,0	6,25	2014
Issue year 2006	10,0	5,08	2017
Issue year 2006	4,0	5,08	2017
Issue year 2006	22,0	4,88	2017
Issue year 2007	10,0	5,57	2018
Issue year 2007	10,0	5,57	2018
Issue year 2007	21,8	5,63	2018

Profit participation capital

EUR 140.6 million of the profit participation capital totaling EUR 170.1 million is stipulated as liable equity capital in accordance with § 10 (5) of the German Banking Act (KWG). Bearers of profit participation certificates receive an annual preferential dividend, which is based on the interest rate set forth in the respective terms and conditions. EUR 11.1 million was distributed as profit participation capital.

Subscribed capital

Subscribed capital again amounted to EUR 162.5 million. It is divided into 162,500,000 registered shares of EUR 1.00 each with restricted transferability.

Capital reserve and retained earnings

The capital reserve was EUR 78.7 million as of December 31, 2008. Retained earnings amounted to EUR 48.9 million after the addition of EUR 5.2 million.

Other commitments

The irreversible loan commitments relate entirely to other surties in sub-item 1b) and in sub-item 2c) to municipal lending amounting to EUR 506.2 million, mortgage loans of EUR 37.7 million and loans to municipal corporations amounting to EUR 149.8 million.

Repurchase transactions

The assets sold on the basis of a repurchase agreement had a book value of EUR 1,613.8 million.

NOTES ON THE PROFIT AND LOSS ACCOUNT

Personnel expenses

The personnel expenses for the year under review amounted to EUR 9.6 million. This includes the full salaries of the members of the Management Board amounting to EUR 1.0 million. The members of the Supervisory Board were not remunerated.

Auditor fees

Other administrative expenses include the following auditor's fees: *Other administrative expenses include the following auditor's fees*

Other income/expenses

Other operating income consists primarily of EUR 0.1 million in reinsurance claims, and was offset by other operating expenses, which primarily consisted of EUR 0.2 million in insurance premiums.

OTHER ADMINISTRATIVE EXPENSES INCLUDE THE FOLLOWING

Fees (in EUR million)

Audit of annual financial statements	0,3
Tax consulting	0,0
Other confirmations and evaluations	0,0
Other services	0,0
TOTAL	0,3

Risk provisioning

The full compensation option in accordance with § 340 f (3) HGB was used for risk provisioning. The balance reported is the result of offsetting the expense items „Depreciation and write-downs of claims and certain securities, allocation to provisions for possible loan losses“ against the income items „Write-ups to claims and certain securities as well as from the reversal of provisions for possible loan losses“.

Extraordinary expenses

In 2008, extraordinary expenses were incurred primarily as a result of the restructuring of the Bank's business activities in the domains of public financing/municipal lending and financing municipal corporations, as well as the sweeping discontinuation of the Project Financing segment and the costs incurred in relation to the associated human resources measures, for which a provision has been recognized.

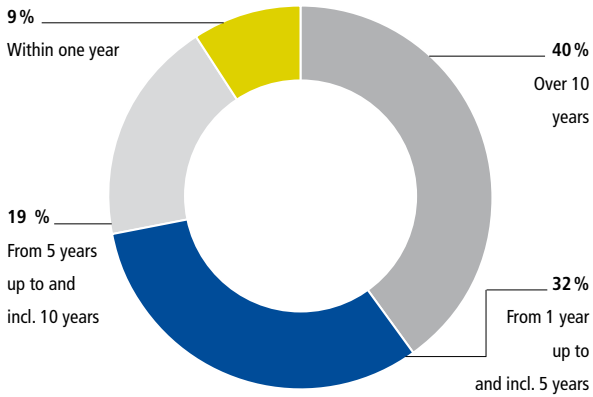
Income Taxes

EUR 24 thousand in deferred tax assets were reversed during the year. Income taxes relate in their entirety to ordinary business activities.

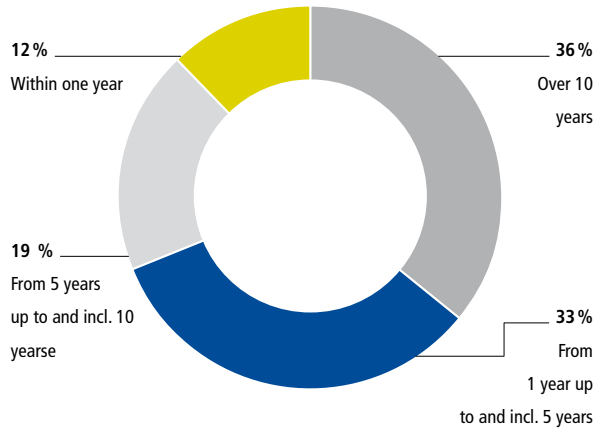
Other disclosures

TOTAL VOLUME OF PFANDBRIEFE IN CIRCULATION (IN EUR MILLION)	Principal amount 31.12.2007	Principal amount 31.12.2008	Present value 31.12.2007	Present value 31.12.2008	Risk adjusted present value 31.12.2007	Risk adjusted present value 31.12.2008
Public Pfandbriefe	32.624,7	36.724,1	31.668,2	37.730,1	30.220,8	34.797,6
Cover pool	34.380,0	38.474,8	35.244,8	42.940,8	33.731,4	38.898,7
including: derivatives	0,0	0,0	0,0	0,0	0,0	0,0
SURPLUS COVER	1.755,4	1.750,7	3.576,6	5.210,7	3.510,6	4.101,1

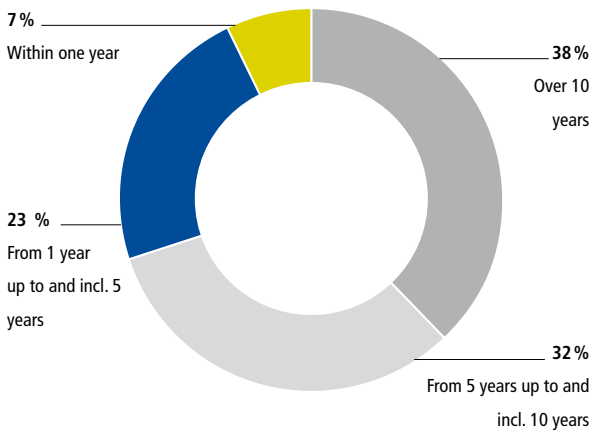
MATURITY STRUCTURE OF PUBLIC PFANDBRIEFE IN CIRCULATION AS OF DEC. 31, 2007



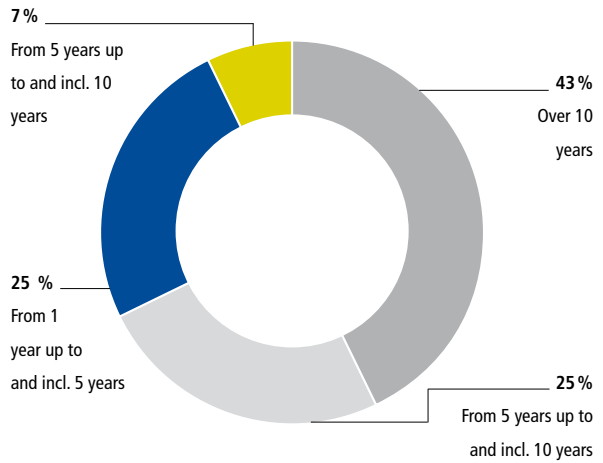
MATURITY STRUCTURE OF PUBLIC PFANDBRIEFE IN CIRCULATION AS OF DEC. 31, 2008



MATURITY STRUCTURE OF COVER POOL OF PUBLIC PFANDBRIEFE IN CIRCULATION AS OF DEC. 31, 2007



MATURITY STRUCTURE OF COVER POOL OF PUBLIC PFANDBRIEFE IN CIRCULATION AS OF DEC. 31, 2008



CLAIMS USED TO COVER PUBLIC PFANDBRIEFE (IN EUR MILLION)

	Country		Regional authorities		Local authorities		Other debtors	
	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008
Belgium			45,0	45,0			175,0	175,0
Bulgaria	0,0	5,0						
Denmark							65,0	65,0
Germany	152,3	51,1	9.813,1	10.890,4	9.711,3	9.431,3	8.325,1	9.198,6
Finland							20,0	20,0
France					12,7	12,7	288,1	868,3
Greece	317,0	848,0						
International institutions							405,3	405,3
Ireland							200,0	50,0
Iceland	10,0						10,0	
Italy	345,1	1.150,9		7,8			121,7	125,8
Japan	382,3	497,6		5,0				
Canada					67,1	50,8		
Lithuania	25,0	25,0						
Luxembourg							30,0	30,0
Netherlands							126,4	151,0
Norway							100,0	65,0
Austria	58,0	75,2	1.008,9	999,4			799,6	875,7
Poland	143,0	270,0						
Portugal		125,0	275,0	275,0				
Romania		40,0						
Switzerland			90,6	100,9			60,4	67,3
Slovenia		10,0						
Spain					2,0	2,0	615,2	310,2
Czech Republic	35,0	225,0						
Hungary	209,3	267,9						
United Kingdom							195,0	255,0
USA			61,1	279,1	18,6	62,5	20,0	20,0
Cyprus	40,0	40,0						

No payments on the cover pool for the public Pfandbriefe are overdue by more than 90 days.

Interest-driven forward transactions

The following interest-driven forward transactions had yet to be settled as of the balance sheet date: forward transactions with borrower's note loans, interest rate swaps, interest currency swaps, commitments from option sales of interest rate swaps, calls, interest rate cap agreements, borrower's note loans with call options, Pfandbrief issues with call options. In all cases the aforementioned transactions are OTC products.

Volume in the derivatives business by residual maturity (in EUR million)

The Bank's swap counterparties consist exclusively of first-class banking groups from OECD member states who are hence also suitable credit institutions within the meaning of § 5 (3) No. 1 of the German Pfandbrief Act (PfandbG). Counterparty risk for the interest rate swaps is calculated on the basis of the market valuation method.

The net EUR 2.9 billion negative fair value (excluding accrued interest) of the derivatives is offset by positive hidden reserves of more than EUR 2.9 billion in the carrying amounts of the balance sheet items Due from banks, Due from customers, Securities, Due to banks, Due to customers and Securitized liabilities. The total book value of the derivatives (excluding accrued interest) is EUR -57.8 million.

The present value of the derivatives is calculated on the basis of zero bond discount factors and the future cash flows on the basis of the fair value method. The arbitrage-free zero bond discount factors are calculated each business day using the current mid swap interest curve. Highly structured derivatives for which no measurement model existed as of December 31, 2008 were measured using the floating leg. There was no trading activity in derivatives.

Loans to members of the Management Board or the Supervisory Board

No loans or advances were granted to any member of the Management Board or the Supervisory Board as of balance sheet date.

Number of employees

The Bank employed an annual average of 110 people. Of these, 58 fell under the collective wage agreement and 52 received separately negotiated salaries.

Group affiliation

Dexia Kommunalbank Deutschland AG is an associated company of Dexia Crédit Local SA, Paris, and Dexia SA, Brussels in whose consolidated financial statements its annual financial statements are included. These are filed with the commercial register in Paris and Brussels, respectively.

VOLUME IN THE DERIVATIVES BUSINESS BY RESIDUAL MATURITY (IN EUR MILLION)	Nominal volumes				Market values		
	Within 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Total
Interest rate swaps	28.032,1	23.623,4	54.838,3	106.493,8	1.797,1	-4.351,8	-2.554,7
Cross-currency swaps	132,7	544,2	2.209,8	2.886,6	157,0	-545,6	-388,6
Options	88,0	303,0	90,0	481,0	0,0	-1,7	-1,7
TOTAL	28.252,8	24.470,5	57.138,16	109.861,4	1.954,1	-4.899,1	-2.945,0

Supervisory Board

Stéphane Vermeire

(since February 17, 2009)

Member of the Management Board of Dexia Crédit Local

Head of Public & Wholesale Banking – International

Dexia SA

François Durollet

(until February 17, 2009)

Deputy Executive Vice President Public Finance

Head of Public Finance Network & FSA Department

Dexia SA

Chairman

Claude Schon

Head of Group Treasury

Member of the Treasury & Financial Markets

Management Committee

Dexia SA

Deputy Chairman

Hans Handschuh

Bank employee

Jean Le Naour

Head of Finance, Operations and IT Department

Member of the Management Board of Dexia Crédit Local

Dexia Crédit Local

Sascha Riegenring

Bank employee

Xavier Rojo

Senior Vice President

Innovation & Financial Engineering - Public Finance Division

Dexia SA

Management Board

Giselbert Behr

Banker (Bankkaufmann)

Chairman

Wolfgang Eickhoff

Attorney

(since October 1, 2008)

Patrick Giacobbi

Engineer (Diplom-Ingenieur)

(until September 30, 2008)

Wilfried Wouters

Banker (Bankkaufmann)

RESPONSIBILITY STATEMENT OF THE MANAGEMENT BOARD

We certify that to the best of our knowledge the annual financial statements were prepared in accordance with German principles of due and proper accounting and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company. We also certify that to the best of our knowledge the development and result of business activities are presented in the Status report in such a way that a true and fair view is portrayed and that the significant opportunities and risks according to § 289 (1) sentence 4 HGB are described.

Berlin, March 09, 2009

DEXIA KOMMUNALBANK DEUTSCHLAND AG


The Management Board



Behr



Eickhoff



Wouters

AUDITORS' REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Dexia Kommunalbank Deutschland AG, Berlin, for the business year from January 1 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplemental provisions of the Articles of Association are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of Dexia Kommunalbank Deutschland AG, Berlin, comply with the legal requirements and the supplemental provisions of the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Berlin, March 09, 2009

Deloitte & Touche GmbH

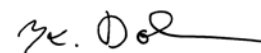
Wirtschaftsprüfungsgesellschaft



Katrin Rohmann

Wirtschaftsprüferin

(German public accountant)



Karin Dohm

Wirtschaftsprüferin

(German public accountant)

FURTHER EXPLANATORY REMARKS

DEVELOPMENT OF ASSET STRUCTURE (IN EUR MILLION)			
	2008	2008 in %	2007 in %
Due from banks			
b) Loans to the public sector	3.458,1	7,1	7,4
c) Other claims	4.694,5	9,6	6,1
Due from customers			
a) Mortgage loans	121,3	0,2	0,3
b) Loans to the public sector	20.482,4	41,8	45,6
c) Other claims	368,9	0,8	0,6
Bonds and other fixed interest securities			
b) Bonds and notes	19.329,8	39,5	38,3
c) Own bonds	9,3		0,0
Other assets	504,9	1,0	1,6
TOTAL ASSETS	48.969,2	100,0	100,0

DEVELOPMENT OF LIABILITY STRUCTURE (IN EUR MILLION)			
	2008	2008 in %	2007 in %
Due to banks			
b) Registered Pfandbriefe	1.607,1	3,3	3,2
c) Other liabilities	8.782,6	17,9	15,7
Due to customers			
b) Registered Pfandbriefe	16.170,5	33,0	34,0
c) Other liabilities	1.988,5	4,1	4,5
Securitized liabilities			
ab)Public Pfandbriefe	19.528,6	39,9	40,7
ac) other	74,4	0,2	0,2
Subordinated liabilities	131,5	0,3	0,3
Profit participation capital	170,1	0,3	0,4
Equity capital			
a) Subscribed capital	162,5	0,3	0,4
b), c) Reserves	127,6	0,3	0,3
d) Net income	0,4	0,0	0,0
Other liabilities	225,4	0,5	0,3
TOTAL LIABILITIES	48.969,2	100,0	100,0

PROFIT AND LOSS ACCOUNT/STATEMENT OF OPERATING RESULTS				
(IN EUR THOUSAND)				
	2007	2008	Change	Change in %
Interest income	5.365.212	5.780.479		
Interest expenses	5.297.167	5.699.929		
Net interest income	68.045	80.550	12.505	18
Commission income	-2.607	-579		
Interest and commission income	65.438	79.971	14.533	22
Net income from financial transactions	0	0		
Personnel expenses	8.439	9.637		
Other administrative expenses	8.043	10.442		
Depreciations of tangible and intangible assets	1.519	2.002		
Partial operating profit	47.437	57.890	10.453	22
Other operating income/expenses	153	16		
Risk provisioning	-33.355	-54.670		
Result of investment securities	2.732	-212		
Operating result	16.968	3.024	-13.944	-82
Extraordinary expenses	0	-2.500		
NET INCOME	10.200	440	-9.760	-96

■ PUBLISHER'S DETAILS

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