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VR-Immobilien AG

Interim Report

30 September 2005

Member of the Cooperative Financial Services Network

Deutsche Genossenschafts-Hypothekenbank DG HYP

DG HYP. The innovative real estate bank.

Overview

Business development	1 Jan to 30 Sep 2005	9/12 of 2004	9/12 of 2003
	€ million	€ million	€ million
Real estate lending (incl. loan extensions)	2,849	2,501	2,863
Public-sector lending (incl. loan extensions)	7,547	8,298	5,217
MBS purchases	957	724	699
***Pfandbrief* sales and other sources of refinancing**	9,613	9,813	7,410

Balance sheet	30 Sep 2005	31 Dec 2004	31 Dec 2003
	€ million	€ million	€ million
Total assets	77,401	73,813	69,097
Mortgage loans	24,974	24,809	24,779
Loans to municipalities	41,260	39,379	37,584
Bonds and other fixed-income securities	63,959	60,477	55,071

Income statement	1 Jan to 30 Sep 2005	9/12 of 2004	9/12 of 2003
	€ million	€ million	€ million
Gross profit	209.4	250.2	221.4
Administrative expenses	131.0	136.9	141.4
Risk provisions/revaluation results	–38.6	–54.2	–68.1
Operating profit	39.8	59.1	11.9
Earnings retention/profit transfer	8.1	13.1	13.1

Ladies and Gentlemen, dear business associates,

DG HYP's new business and loan extensions in the third quarter of the 2005 financial year continued on the positive note that was already evident at the end of the first half of the year. The bank thus managed to stand its ground in a difficult market environment.

The unchanged economic climate remains defined by muted demand on the domestic real estate markets, and intense competition amongst providers of finance. Nevertheless, we have seen a recovery in the real estate markets in individual regions and sectors, as well as lively interest from international financial investors in German real estate.

During the period under review (1 January – 30 September 2005), DG HYP achieved notable growth in business over the corresponding period a year ago, particularly in residential real estate financing and local authority lending. Successful cooperation with our distribution partners in the German cooperative banking sector was one of the factors that contributed to this achievement. Business development in commercial real estate financing was stable compared with the pro-rata figure of the previous year.

Operating profit during the period under review amounted to € 39.8 million (9/12 of 2004: € 59.1 million, of which real estate disposals accounted for € 20.6 million in the other operating income) which, after the first nine months of our financial year, is in line with our projections.

The Supervisory Board of DG HYP appointed Mr. Hans-Theo Macke as Chairman of the Management Board in September 2005, with effect from 1 January 2006.

Mr. Macke, who is currently Chairman of the Management Board of Westerwald Bank eG, will succeed Dr. Wolf Schumacher, who was at the bank's helm until the end of March 2005. Mr. Macke intends to focus in particular on fostering cooperation and boosting the further development of joint business interests with partners in the German cooperative banking sector.

Deutsche Genossenschafts-Hypothekenbank AG
The Management Board

Hamburg, November 2005

Residential Real Estate Finance keeps the momentum

The uptrend in residential real estate finance has continued into the third quarter of the current financial year. New business and loan extensions amounted to € 1,385 million during the period under review; this corresponds to a 31.3% increase over the pro-rata figure of the previous year (€ 1,055 million).

Transactions intermediated by the cooperative banks, as well as by Bausparkasse Schwäbisch Hall, contributed to this positive business development. This highlights the fact that DG HYP is firmly enshrined within the cooperative banking sector: it also demonstrates the successful development of VR-Immobilien AG's business model.

Stable business development in Commercial Real Estate Finance

New business and loan extensions in Commercial Real Estate Finance totalled € 1,464 million after the first nine months of the current financial year, showing stable development in comparison with the pro-rata figure of the previous year (€ 1,446 million).

DG HYP's Real Estate Centres in Germany – which achieved growth of 28.4%, mostly in new business originated directly – made a significant contribution to business development. International business contributed 6.8%. Loan extensions, on the other hand, were down – in line with expectations. Notwithstanding the difficult environment, DG HYP therefore continued to further expand its activities in domestic commercial real estate finance.

Strong growth in local authority lending

Business development in originated local authority lending was unchanged, owing to high finance requirements of the domestic public sector. Additionally, the local authorities took advantage of attractive interest rates in order to secure long-term finance.

New business and loan extensions rose accordingly, recording a significant jump of 46.4% to € 2,267 million over the figure of € 1,549 million for the pro-rata figure of the previous year. This is a very welcome result, especially given the positive margin development in local authority lending. DG HYP has further expanded its market position for local authority finance, in cooperation with the cooperative banks.

Real Estate Credit Treasury raises MBS investment volume

The Real Estate Credit Treasury division, which is responsible for active portfolio management at DG HYP, further expanded investment in structured credit products during the period under review. New MBS purchases of € 957 million were up significantly on the amount of € 724 million (9/12 of 2004).

IMMOFORI Gesellschaft für Immobilien Forderungsinkasso mbH, a wholly-owned DG HYP subsidiary, was established at the beginning of the year as a servicer of non-performing loan portfolios. It secured its market entry through a series of initial advisory mandates, as well as providing a servicing facility to a third-party portfolio; it is now set to expand. DG HYP has thus further broadened the range of services it offers in the active management of real estate credit portfolios.

Successful funding activities by Treasury

With an aggregate issuing volume of € 9.6 billion, DG HYP has established a strong presence on the capital markets during the course of the 2005 financial year. The successful placing of two jumbo Pfandbrief issues totalling € 4.5 billion largely secured the bank's refinancing requirements already in the first half of the year. The second issue is the first dual-tranche jumbo – a parallel issue with five- and ten-year tranches – in the history of the *Pfandbrief* market. Third quarter issuance focused on the specific demands of domestic and international investors.

Mortgage bonds (*Hypothekenpfandbriefe*) accounted for € 1.3 billion of issues placed, public-sector covered securities (*öffentliche Pfandbriefe*) for € 7.3 billion, and unsecured refinancing for € 1 billion.

Income statement

DG HYP's operating profit was € 39.8 million for the first nine months of the 2005 financial year (9/12 of 2004: € 59.1 million), in line with our expectations.

Net interest income of € 246.1 million, which was down slightly on the pro-rata figure of the previous year (€ 249.8 million), remains burdened by the effects of maturities of existing high-margin exposures. Naturally, the positive effects of new business development on net interest income will not be felt in full for some years yet. The decline in the net commission result (from € –30.0 million to € –45.5 million) was due to the increase in new business intermediated by the cooperative banking sector, and to considerably higher new Jumbo *Pfandbrief* issuance. Other operating income in 2004 was defined above all by capital gains on the sale of the bank's office

buildings in Hamburg and Berlin. At € 8.8 million, the figure is lower than the pro-rata figure of 2004 (€ 30.4 million), and is in line with our expectations.

The consistent and continued restructuring of the IT systems, and further cost reductions, have allowed DG HYP to reduce administrative expenses further, to € 131.0 million (9/12 of 2004: € 136.9 million). Risk provisioning/revaluation results amounted to € –38.6 million (9/12 of 2004: € –54.2 million).

We expect the earnings development witnessed for the period under review to continue for the financial year 2005 as a whole.

Balance sheet development

DG HYP's total assets rose by € 3.6 billion during the period under review, to € 77.4 billion.

This development was marked by the expansion of the securities portfolio, by € 3.7 billion to € 29 billion, whilst the volume of local authority lending remained constant. The mortgage lending portfolio was up slightly, to € 24.7 billion, compared with the figure as at 31 December 2004.

Developments on the liabilities side of the balance sheet were driven by the large supply of new issues during the period under review. Accordingly, the volume of certificated liabilities rose by € 3.1 billion compared with the figure as at 31 December 2004, to € 50.6 billion.

Key business development figures

New business	1 Jan to 30 Sep 2005	9/12 of 2004	Change
	€ million	€ million	%
Real estate lending incl. loan extensions	**2,849**	**2,501**	**13.9**
Division of real estate lending between areas of business			
– Residential Real Estate Finance	1,385	1,055	31.3
– Commercial Real Estate Finance	1,464	1,446	1.2
MBS purchases	**957**	**724**	**32.2**
Public-sector lending incl. loan extensions	**7,547**	**8,298**	**–9.1**
of which:			
Loans to local authorities	2,267	1,549	46.4
Promissory note loans	1,686	528	219.3
Public-sector issues	3,594	6,221	–42.2
***Pfandbrief* sales and other sources of refinancing**	**9,613**	**9,813**	**–2.0**

Balance sheet as at 30 September 2005

Assets

	30 Sep 2005	31 Dec 2004	Change
	€ million	€ million	%
Loans and advances to banks	**5,630**	**5,628**	**0.0**
of which:			
Mortgage loans	241	224	7.6
Loans to local authorities	4,645	4,843	–4.1
Loans and advances to customers	**41,810**	**42,006**	**–0.5**
of which:			
Mortgage loans	24,733	24,585	0.6
Loans to local authorities	16,837	16,800	0.2
Bonds and other fixed-income securities	**29,043**	**25,294**	**14.8**
Other assets	**918**	**885**	**3.7**
Total assets	**77,401**	**73,813**	**4.9**

Balance sheet as at 30 September 2005

Liabilities and equity

	30 Sep 2005	31 Dec 2004	Change
	€ million	€ million	%
Liabilities to banks	**12,085**	**11,567**	**4.5**
of which:			
Registered covered bonds *(Pfandbriefe)*	4,276	3,965	7.8
Liabilities to customers	**11,900**	**11,924**	**–0.2**
of which:			
Registered covered bonds *(Pfandbriefe)*	9,126	8,989	1.5
Certificated liabilities	**50,557**	**47,523**	**6.4**
of which:			
Mortgage bonds *(Hypothekenpfandbriefe)*	14,431	14,502	–0.5
Public-sector covered securities *(öffentliche Pfandbriefe)*	31,209	28,151	10.9
Subordinated liabilities	**562**	**620**	**–9.4**
Profit-participation certificates	**154**	**154**	**0.0**
Fund for general banking risks	**13**	**13**	**0.0**
Equity	**1,309**	**1,271**	**3.0**
Other liabilities	**821**	**741**	**10.8**
Total liabilities and equity	**77,401**	**73,813**	**4.9**

Income statement

	1 Jan to 30 Sep 2005	9/12 of 2004	Change
	€ million	€ million	%
Net interest income	**246.1**	**249.8**	**–1.5**
Net commission result	**–45.5**	**–30.0**	**–51.7**
Other operating income	8.8	30.4	–71.1
Gross profit	**209.4**	**250.2**	**–16.3**
Administrative expenses	131.0	136.9	–4.3
Operating profit excluding risk provisioning	**78.4**	**113.3**	**–30.8**
Risk provisioning/revaluation results	–38.6	–54.2	28.8
Operating profit	**39.8**	**59.1**	**–32.7**
Net extraordinary income/expenses	**–0.7**	**–3.3**	**78.8**
Taxes	0.4	13.9	–97.1
Partial profit transfer	30.6	28.8	6.3
Earnings retention/profit transfer	**8.1**	**13.1**	**–38.2**

Staff numbers*

	1 Jan to 30 Sep 2005	1 Jan to 30 Sep 2004
Average number of staff	**633**	**634**
	(603)	(604)
of which:		
Part-time employees	64	63
Vocational trainees	21	19

* Numbers in brackets are weighted according to hours worked

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