
Interim Report

30 June 2006

Overview

Business development	1 Jan to 30 Jun 2006	6/12 of 2005	6/12 of 2004
	€ million	€ million	€ million
Real estate lending (incl. loan extensions)	2,131	2,089	1,667
Portfolio investment	1,157	884	483
Public-sector lending (incl. loan extensions)	6,376	5,106	5,532
Pfandbrief sales and other sources of refinancing	5,170	6,614	6,542
Balance sheet	30 Jun 2006	31 Dec 2005	31 Dec 2004
	€ million	€ million	€ million
Total assets	82,049	79,140	73,813
Mortgage loans	23,946	24,790	24,809
Loans to municipalities	43,497	41,833	39,379
Bonds and other fixed-income securities	67,183	66,789	60,477
Income statement	1 Jan to 30 Jun 2006	6/12 of 2005	6/12 of 2004
	€ million	€ million	€ million
Gross profit	154.7	144.9	166.9
Administrative expenses	87.5	88.9	91.3
Other operating expenses	12.2	2.3	1.3
Risk provisions/revaluation results	-46.6	-27.9	-36.2
Operating profit	8.4	25.8	39.4
Profit transfer	0.0	0.0	8.8

Ladies and Gentlemen, dear business associates,

The first six months of the 2006 financial year have been defined by further intensifying competition, particularly in real estate finance. Nevertheless, DG HYP succeeded in expanding new business and loan extensions across all business units overall. Earnings development in the period under review was characterised by a marked increase in gross income. The one-off effects generated within the scope of restructuring VR-Immobilien AG – which are mainly included in other operating expenses – were attributable in particular to the overall decline in operating profit.

Within this context, DG HYP initiated the restructuring of its distribution activities to the German cooperative banking sector in April 2006. A new Cooperative Sector Sales unit now provides the cooperative banks with permanent, qualified contacts who deal with all issues related to modern real estate finance. This overall one-stop client care and advisory service is a cornerstone of the strategic orientation of the real estate finance business unit, and embraces the entire range of services offered by the bank – from residential to commercial real estate finance, through local authority lending, to real estate credit portfolio management. DG HYP acts as a centre of competence for real estate finance within the German cooperative banking sector, where it provides a comprehensive service to all cooperative banks.

In the area of direct business with commercial real estate investors, DG HYP's market presence, which it has established through six Real Estate Centres in the core German market, has paid off. This step has allowed the bank to

further expand its commercial real estate finance business in the period under review.

Additionally, DG HYP further developed its portfolio management activities, acting as a buyer and seller of real estate loan portfolios. Following the successful sale of a portfolio of non-performing retail loans at the end of 2005, DG HYP went on to sell a portfolio of non-strategic commercial real estate loans totalling € 422 million in March 2006. This transaction allows the bank to continue pursuing its strategy of targeted diversification through active portfolio management. At the same time, DG HYP has successfully established itself as an advisor and service provider to third parties in this business area.

Key steps were also undertaken in the first half of 2006 to realign the credit risk strategies of the business units, and further optimise the credit processes – also against the background of implementing the Basel II framework. This was accompanied by a reduction in risk provisioning, in line with projections. DG HYP is therefore in an excellent position to progress further in real estate and public-sector finance, and to meet the challenges posed by a competitive environment.

*Deutsche Genossenschafts-Hypothekenbank AG
The Management Board*

Hamburg, August 2006

Residential Real Estate Finance

New business and loan extensions in Residential Real Estate Finance amounted to € 961 million in the period under review; this represents a slight decline compared with the pro-rata figure of the previous year (€ 987 million). The competitive situation in this business unit once again intensified sharply during the first half of 2006. Nevertheless, the attractive and flexible financing solutions offered by DG HYP have enabled it to carve out a successful position in the market.

One of the key factors to this success has been the new integrated advisory and customer care service offered via our Cooperative Sector Sales unit. This makes it possible for us to intensify our cooperation with the cooperative banks, and to enhance their market profile and competitive position in their respective region. At the same time, DG HYP continues to forge a successful partnership with Bausparkasse Schwäbisch Hall, thus exploiting the broad distribution power of the entire German cooperative banking sector.

Commercial Real Estate Finance

DG HYP continued to build on the success achieved in recent years of its Commercial Real Estate Finance business. New business and loan extensions reached € 1,170 million during the first half of 2006, which equates to a 6.2% increase over the pro-rata figure of the previous year (€ 1,102 million).

The main contributory factor to the strong growth has been the business generated by the well-established Real Estate Centres in the German core market. In order to achieve additional growth momentum from international business, DG HYP has realigned its credit strategy to focus on international loan syndication. Besides our

activities in France and Scandinavia, we are also concentrating on English-speaking countries; DG HYP has representative offices in London and New York.

Loans to local authorities

Business development in originated local authority lending was unchanged, owing to a high level of local authority finance requirements. New business and loan extensions as at the balance sheet date amounted to € 1,234 million, thus remaining high, albeit (as expected) below the pro-rata figure of the previous year (€ 1,594 million). Rising interest rates and the pre-emptive effects of the previous year, whereby many local authorities took advantage of attractive interest rates to secure favourable long-term funding through forward-starting loans, were the key factors impacting on business development in the first six months of the 2006 financial year. Taking into consideration the typical seasonal fluctuations in local authority lending, we expect this business will post stronger growth in the second half of the year.

Credit Treasury

The Credit Treasury business unit, which is responsible for transactions and services related to portfolio management at DG HYP, further increased transaction volumes on the credit and capital markets in the first six months of the 2006 financial year. At € 1,157 million, the volume of portfolio investments once again exceeded the previous year's high level. During the period under review, the bank disposed of a portfolio of non-strategic real estate loans totalling € 422 million.

Besides buying, selling, and hedging real estate loan portfolios, advisory services and arrangements for third parties are becoming increasingly important in the bank's

portfolio management franchise. We also saw dynamic growth in the services related to the servicing and placement of non-performing loans. In this context, DG HYP's wholly-owned subsidiary IMMOFORI Gesellschaft für Immobilien Forderungsinkasso mbH has successfully positioned itself not only with third parties, but also in the German cooperative banking sector, as a servicer and advisor for the realisation and sale of non-performing real estate loans.

Treasury

€ 5.2 billion in *Pfandbriefe* was issued within the scope of the bank's refinancing activities in the first half of 2006. Mortgage bonds (*Hypothekendarlehen*) accounted for € 0.8 billion of issues placed during the period under review, and public-sector covered bonds (*öffentliche Pfandbriefe*) for € 3.1 billion. Unsecured refinancing through bearer bonds and promissory notes accounted for € 1.3 billion.

Profit and loss account

DG HYP's earnings development in the first six months of the 2006 financial year was defined by an increase in gross income, from € 144.9 million to € 154.7 million. Net interest income was up by around 3%. The positive effect of new business development in recent years impacted significantly on operating results. The net commission result also improved in the period under review, from € -29.3 million (6/12 of 2005) to € -20.7 million. This improvement has been largely attributable to the considerably lower *Pfandbriefe* issuing requirements, compared with the same period of the previous year.

At € 87.5 million, administrative expenses in the period under review were down slightly on the pro-rata figure of

the previous year (€ 88.9 million). Owing to the restructuring of the distribution structure to the cooperative banking sector and the reintegration of specific IT application developments from VR Kreditwerk, we are forecasting administrative expenses for 2006 as a whole to be higher than in 2005. The increase in other operating expenses included one-off costs incurred in the course of the resizing of VR-Immobilien AG.

At € 41.8 million, loan loss provisions were down on the previous year (€ 49 million); this was accompanied by a considerable reduction in revaluation results.

Overall, the half-year operating profit of € 8.4 million was in line with our expectations.

Balance sheet development

DG HYP's total assets rose by € 2.9 billion during the period under review, to € 82.0 billion.

This development was marked by the expansion of the securities portfolio, which rose by € 3.8 billion to € 34.3 billion, whilst the volume of local authority lending remained constant. As a result of the sale of the loan portfolio in the first half of the year, together with ongoing redemption activity, the mortgage lending portfolio fell by € 0.9 billion, to € 23.7 billion.

The rise in liabilities was particularly evident in the liabilities to banks and customers item; these increased by a total of € 3.7 billion compared with the 31 December 2005 reporting date. The volume of securitised liabilities declined by € 1 billion compared with 31 December 2005, to € 51.8 billion. The creation of € 154 million in perpetual silent partnership contributions increased the bank's equity to € 1.6 billion.

Key business development figures

<u>New business</u>	1 Jan to 30 Jun 2006	6/12 of 2005	Change
	€ million	€ million	%
Real estate lending incl. loan extensions	2,131	2,089	2.0
Division of real estate lending between areas of business			
– Residential Real Estate Finance	961	987	–2.6
– Commercial Real Estate Finance	1,170	1,102	6.2
Portfolio investment	1,157	884	30.9
Public-sector lending incl. loan extensions	6,376	5,106	24.9
of which:			
Loans to local authorities	1,234	1,594	–22.6
Promissory note loans	881	911	–3.3
Securities eligible for inclusion as cover assets	4,261	2,601	63.8
<i>Pfandbrief</i> sales and other sources of refinancing	5,170	6,614	–21.8

Balance sheet as at 30 June 2006

Assets

	30 Jun 2006	31 Dec 2005	Change
	€ million	€ million	%
Loans and advances to banks	5,513	5,811	-5.1
of which:			
Mortgage loans	286	237	20.7
Loans to local authorities	4,517	4,609	-2.0
Loans and advances to customers	41,157	41,857	-1.7
of which:			
Mortgage loans	23,660	24,553	-3.6
Loans to local authorities	17,304	17,006	1.8
Bonds and other fixed-income securities	34,308	30,500	12.5
Other assets	1,071	972	10.2
Total assets	82,049	79,140	3.7

Balance sheet as at 30 June 2006

Liabilities and equity

	30 Jun 2006	31 Dec 2005	Change
	€ million	€ million	%
Liabilities to banks	13,723	11,272	21.7
of which:			
Registered covered bonds (<i>Pfandbriefe</i>)	5,025	4,908	2.4
Liabilities to customers	13,139	11,870	10.7
of which:			
Registered covered bonds (<i>Pfandbriefe</i>)	10,362	9,069	14.3
Certificated liabilities	51,796	52,812	-1.9
of which:			
Mortgage bonds (<i>Hypothekenpfandbriefe</i>)	13,909	14,344	-3.0
Public-sector covered securities (<i>öffentliche Pfandbriefe</i>)	33,159	33,472	-0.9
Subordinated liabilities	644	659	-2.3
Profit-participation certificates	154	154	0.0
Fund for general banking risks	2	24	-91.7
Equity	1,635	1,481	10.4
Other liabilities	956	868	10.1
Total liabilities and equity	82,049	79,140	3.7

Income statement

	1 Jan to 30 Jun 2006	6/12 of 2005	Change
	€ million	€ million	%
Net interest income	167.8	162.8	3.1
Net commission result	-20.7	-29.3	29.4
Other operating income	7.6	11.4	-33.3
Gross profit	154.7	144.9	6.8
Administrative expenses	87.5	88.9	-1.6
Other operating expenses	12.2	2.3	n/a
Operating profit excluding risk provisioning	55.0	53.7	2.4
Risk provisioning/revaluation results	-46.6	-27.9	-67.0
Operating profit	8.4	25.8	-67.4
Net extraordinary income/expenses	0.0	-0.7	n/a
Taxes	6.1	0.0	n/a
Partial profit transfer	24.4	19.6	24.5
Change in the fund for general banking risk	22.1	-5.5	n/a
Profit transfer	0.0	0.0	n/a

Average number of employees

	1 Jan to 30 Jun 2006	1 Jan to 30 Jun 2005
Total number of employees	594	579
of which:		
Full-time employees	555	544
Part-time employees*	39	35
Vocational trainees (not included in total)	20	21

*weighted in line with the hours worked

Management Board

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