

Interim Report

30 September 2006

Overview

Business development	1 Jan to 30 Sep 2006	9/12 of 2005	9/12 of 2004
	€ million	€ million	€ million
New Business	13,801	12,119	11,523
Real estate lending (incl. loan extensions)	3,070	3,133	2,501
Portfolio investment	2,227	1,326	724
Public-sector lending (incl. loan extensions)	8,504	7,660	8,298
Pfandbrief sales and other sources of refinancing	8,320	9,921	9,813
Balance sheet	30 Sep 2006	31 Dec 2005	31 Dec 2004
	€ million	€ million	€ million
Total assets	84,654	79,140	73,813
Mortgage loans	23,825	24,790	24,809
MBS	4,703	3,396	2,216
Loans to municipalities	44,407	41,833	39,379
Bonds and other fixed-income securities	69,205	66,789	60,477
Income statement	1 Jan to 30 Sep 2006	9/12 of 2005	9/12 of 2004
	€ million	€ million	€ million
Gross profit	227.3	217.4	250.2
Administrative expenses	134.3	133.5	135.0
Other operating expenses	12.5	3.4	1.9
Revaluation result	0.9	31.5	30.5
Loan loss provisioning	-62.6	-73.5	-84.7
Operating profit	18.8	38.5	59.1
Profit transfer	0.0	0.0	13.1

Ladies and Gentlemen, dear business associates,

The first nine months of the 2006 financial year have been defined by ongoing intensification of competition in real estate finance. Nevertheless, DG HYP has succeeded in further expanding new business and loan extensions across all business units, improving on the high level of the pro-rata figure of the previous year. The rise in international business has also been one of the main factors contributing to this positive business development.

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 one of the factors responsible for an overall decline in operating profit, however.

Business development during the period under review has been particularly marked by the growing pressure of competition in private real estate finance. Direct banks and internet-based providers in particular are increasingly going on the offensive, with intensive marketing and attractive product offers in a bid to win customers in the German banking market. With this in mind, DG HYP has come up with strategic initiatives to strengthen the market position of the German cooperative banking sector in this area of business. These encompass a standardised 'lighthouse product' and innovative special products due to be launched on the market shortly. Our aim is to generate real impetus as a means of strengthening the bond with cooperative bank customers in the central core business segment of residential real estate finance, and as a means of expanding the market share of the cooperative banks.

Over the past few months our advisory activities with regard to active real estate credit portfolio management have developed in a very gratifying manner. In the cooperative banking sector in particular, there is increasing interest in sales of real estate financings and the capital market-oriented placement of real estate credit risks.

Additionally, key steps were undertaken during the period under review to realign the credit risk strategies of the business units, and further optimise the credit processes – also as part of implementation of the Basel II framework. Against this background, a tangible reduction in loan loss provisioning compared with the previous year was made possible.

All in all, 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, November 2006

Residential Real Estate Finance

New business and loan extensions in Residential Real Estate Finance amounted to € 1,340 million as at 30 September 2006; this represents a decline compared with the high pro-rata figure for the previous year (€ 1,480 million).

DG HYP is firmly enshrined in the German cooperative banking sector; the extensive presence of some 1,300 cooperative banks (*Volksbanken und Raiffeisenbanken*) throughout Germany, with more than 30 million customers, represents the fundamental basis of our commercial success in retail business. With the new strategic product initiatives developed by DG HYP in this line of business, we are well placed, together with the cooperative banks, to take on and to successfully overcome the strong competition in private real estate finance.

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 € 1,730 million during the first nine months of 2006, which is up on the pro-rata figure for 2005 (€ 1,653 million).

DG HYP has thus succeeded in successfully positioning itself on the market with its decentralised structure of six Real Estate Centres in Germany's main financial cities. Furthermore, foreign business – with the focus on international loan syndication – is increasingly contributing to the positive development of Commercial Real Estate Finance. Foreign finance as a proportion of new business rose from 6% for 9/12 of 2005, to 17% during the first nine months of 2006.

Loans to local authorities and public-sector lending

New business and loan extensions with regard to originated loans to local authorities amounted to € 1,904 million at the reporting date. Although this is still a high figure, it is, as expected, down on the pro-rata figure for the previous year (€ 2,392 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 during the first nine months of the 2006 financial year. Taking into consideration the typical seasonal fluctuations in local authority lending, we expect to be able to record a rise in business towards the year-end.

With regard to promissory note loans and securities eligible for inclusion as cover assets, new business was up 25 %, resulting in an overall rise of 11 % to € 8,504 million (€ 7,660 million) in the volume of public-sector finance and originated local authority lending.

Credit Treasury

The Credit Treasury business unit, which is responsible for transactions and services related to active portfolio management at DG HYP, further increased transaction volumes on the credit and capital markets in the first nine months of the 2006 financial year. At € 2,227 million, the volume of portfolio investments once again exceeded the previous year's high level. At the same time, following the successful sale of a portfolio of non-performing retail loans in 2005, DG HYP went on to sell a portfolio of non-strategic commercial real estate loans totalling € 422 million, in March 2006.

Transactions in non-performing loans (NPL) are currently developing in a promising manner. In cooperation with IMMOFORI Gesellschaft für Immobilien Forderungsinkasso mbH, DG HYP supported more than thirty cooperative banks with a standardised process for the sale of terminated loans during the period under review. Additionally, DG HYP also offers individually tailored placement solutions and advisory services for portfolios of a sufficient size and structure. In light of the keen interest within the cooperative banking sector, this is also an area in which continued dynamic growth is expected.

Treasury

Refinancing volume in the first nine months of the year amounted to € 8.3 billion. Mortgage bonds (*Hypothekendarlehenbriefe*) accounted for € 1.3 billion of issues placed during the period under review, and public-sector covered bonds (*öffentliche Darlehenbriefe*) for € 5.0 billion. Unsecured refinancing through bearer bonds and promissory notes accounted for € 2.0 billion.

Profit and loss account

DG HYP's earnings development in the first nine months of the 2006 financial year was defined by an increase in gross income, from € 217.4 million to € 227.3 million, and by a rise in net interest income. The net commission result improved in the period under review, from € -43.9 million (9/12 of 2005) to € -30.5 million. This can be primarily attributed to a rise in commission income from advisory services in the field of Credit Treasury, and to lower commission expenses relating to *Darlehenbrief* sales.

At € 134.3 million, administrative expenses during the period under review were up slightly on the pro-rata figure for the previous year (€ 133.5 million). This was

due to the reorganisation of the distribution structure for the cooperative banking sector, and the reintegration of specific IT application developments from VR Kreditwerk AG. The increase in other operating expenses is attributable to one-off costs incurred in the course of the resizing of VR-Immobilien AG.

Loan loss provisioning, at € –62.6 million, was marked down on the previous year's level (€ –73.5 million). The revaluation result amounted to € 0.9 million (€ 31.5 million).

Overall, the operating profit, at € 18.8 million, was in line with our expectations.

Balance sheet development

DG HYP's total assets rose by € 5.5 billion during the period under review, to € 84.7 billion.

This development was marked by the expansion of the securities portfolio, which rose by € 6.0 billion to € 36.5 billion, whilst the volume of local authority lending remained constant. As a result of the sale of the loan portfolio in March 2006, together with ongoing redemption activity, the size of the mortgage lending portfolio fell by € 1.0 billion, to € 23.8 billion.

The rise in liabilities was particularly evident in the liabilities to banks and customers item; these increased by a total of € 5.0 billion compared with the 31 December 2005 reporting date. 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 Sep 2006	9/12 of 2005	Change
	€ million	€ million	%
Real estate lending incl. loan extensions	3,070	3,133	-2.0
Division of real estate lending between areas of business			
– Residential Real Estate Finance	1,340	1,480	-9.5
– Commercial Real Estate Finance	1,730	1,653	4.7
Portfolio investment	2,227	1,326	67.9
Public-sector lending incl. loan extensions	8,504	7,660	11.0
of which:			
Loans to local authorities	1,904	2,392	-20.4
Promissory note loans	942	1,367	-31.1
Securities eligible for inclusion as cover assets	5,658	3,901	45.0
<i>Pfandbrief</i> sales and other sources of refinancing	8,320	9,921	-16.1

Balance sheet as at 30 September 2006

Assets

	30 Sep 2006	31 Dec 2005	Change
	€ million	€ million	%
Loans and advances to banks	5,893	5,811	1.4
of which:			
Mortgage loans	249	237	5.1
Loans to local authorities	4,462	4,609	-3.2
Loans and advances to customers	41,131	41,857	-1.7
of which:			
Mortgage loans	23,576	24,553	-4.0
Loans to local authorities	17,322	17,006	1.9
Bonds and other fixed-income securities	36,533	30,500	19.8
Other assets	1,097	972	12.9
Total assets	84,654	79,140	7.0

Balance sheet as at 30 September 2006

Liabilities and equity

	30 Sep 2006	31 Dec 2005	Change
	€ million	€ million	%
Liabilities to banks	14,227	11,272	26.2
of which:			
Registered covered bonds (<i>Pfandbriefe</i>)	4,982	4,908	1.5
Liabilities to customers	13,871	11,870	16.9
of which:			
Registered covered bonds (<i>Pfandbriefe</i>)	11,100	9,069	22.4
Certificated liabilities	53,123	52,812	0.6
of which:			
Mortgage bonds (<i>Hypothekenpfandbriefe</i>)	14,390	14,344	0.3
Public-sector covered securities (<i>öffentliche Pfandbriefe</i>)	33,609	33,472	0.4
Subordinated liabilities	644	659	-2.3
Profit-participation certificates	154	154	0.0
Fund for general banking risks	0	24	n/a
Equity	1,635	1,481	10.4
Other liabilities	1,000	868	15.2
Total liabilities and equity	84,654	79,140	7.0

Income statement

	1 Jan to 30 Sep 2006	9/12 of 2005	Change
	€ million	€ million	%
Net interest income	247.5	244.2	1.4
Net commission result	-30.5	-43.9	30.5
Other operating income	10.3	17.1	-39.8
Gross profit	227.3	217.4	4.6
Administrative expenses	134.3	133.5	0.6
Other operating expenses	12.5	3.4	n/a
Operating profit excluding risk provisioning	80.5	80.5	0.0
Revaluation result	0.9	31.5	-97.1
Loan loss provisioning	-62.6	-73.5	14.8
Operating profit	18.8	38.5	-51.2
Net extraordinary income/expenses	0.0	-1.0	n/a
Taxes	6.2	0.0	n/a
Partial profit transfer	36.7	29.3	25.3
Change in the fund for general banking risk	24.1	-8.2	n/a
Profit transfer	0.0	0.0	n/a

Average number of employees

	1 Jan to 30 Sep 2006	1 Jan to 30 Sep 2005
Total number of employees	595	582
of which:		
Full-time employees	556	548
Part-time employees*	39	34
Vocational trainees (not included in total)	21	21

*weighted in line with the hours worked

Management Board

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