
Interim financial report

30 June 2008

Overview

Business development	1 Jan to 30 Jun 2008	1 Jan to 30 Jun 2007	Change
	€ mn	€ mn	%
Commercial Real Estate Finance			
Germany (incl. PPP)	1,227.3	1,014.1	21.0
of which: Originated	1,126.6	824.0	36.7
of which: Intermediated by the Cooperative Financial Services Network	100.7	190.1	-47.0
International	382.6	389.0	-1.6
Total	1,609.9	1,403.1	14.7
Secondary market	197.3	839.3	-76.5
of which: Domestic syndications	197.3	0.0	n/a
of which: Portfolio investments	0.0	839.3	n/a
Public-sector lending*	1,980.3	4,643.8	-57.4
Originated loans to local authorities	562.9	1,322.1	-57.4
Special portfolio**	143.2	791.0	-81.9
Balance Sheet	30 Jun 2008	31 Dec 2007	Change
	€ mn	€ mn	%
Total assets	77,762	83,335	-6.7
Loans secured by property mortgages	21,788	22,499	-3.2
Mortgage-Backed Securities (MBS)	4,073	4,387	-7.2
Public-sector lending and loans to local authorities	44,484	47,775	-6.9
Covered bonds (Pfandbriefe) and other debt securities	64,013	67,496	-5.2
Profit and Loss Account	1 Jan to 30 Jun 2008	1 Jan to 30 Jun 2007	Change
	€ mn	€ mn	%
Gross profit	84.7	184.8	-54.2
Administrative expenses	61.1	87.6	-30.3
Revaluation results	-40.3	-28.9	39.4
Provisions for loan losses	30.7	37.1	-17.3
Operating profit	-47.4	31.2	n/a
Net extraordinary income/expenses	83.4	-	n/a
Profit transfer	0.0	0.0	0.0
Employees	30 Jun 2008	31 Dec 2007	Change
	Number of staff	Number of staff	%
Annual average (full-time equivalent)	492	576	-14.6
Vocational trainees	9	17	-47.1

* includes securities eligible as cover assets for public-sector covered bonds, and promissory note loans

** Real estate lending no longer in line with company strategy

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Ladies and Gentlemen, dear business associates,

The first half of 2008 has signalled the way ahead for DG HYP, whilst being marked by major and far-reaching changes.

Following the decision in autumn 2007 to realign DG HYP, the Bank has focused on commercial real estate lending, and local authority and public-sector financing. With effect from 1 January 2008, Bausparkasse Schwäbisch Hall assumed responsibility within the DZ BANK Group for residential real estate finance.

Despite what was a significant weakening in the commercial real estate market compared with the previous year, DG HYP was able to hold its own with regard to new commercial business. In terms of domestic business, we actually improved on our already good results from last year. As far as international business is concerned, our half-yearly result is at more or less the same level as for the same period of 2007. Overall, we are confident of being able to further increase our growth in commercial real estate finance over the second half of 2008. Furthermore, through cooperation projects with DZ BANK Polska and our Austrian partners – Volksbank AG and Volksbank International AG – we have also created the necessary framework for our market entry into Eastern Europe.

We have been able to implement the restructuring of DG HYP associated with the bank's realignment more quickly than expected. By 1 June 2008, the new organisational structure of DY HYP and key personnel changes were already in place.

The required reduction in staff numbers has already been implemented. By the year-end we expect the number of active employees to have fallen from 576 to our target level of 400. Whilst the reduction in staff has not been an

easy process, we have nevertheless been able to find a mutually acceptable solution for nearly all of the employees concerned. The vast majority of these employees have already found new jobs due to what is currently a very receptive labour market in Hamburg.

The changes in personnel and the rapid restructuring process are also reflected in a major fall in administrative expenses. Compared with the reference figure for 2006, we will already have reduced our administrative costs by more than 30% by the end of this year. We are working to consistently optimise our processes, structures and IT system with the aim of creating an ever more efficient and significantly less complex operation. In this way, we will create the necessary structural conditions for the future success of DG HYP as a streamlined and efficient commercial real estate bank.

We have also laid the foundation for future growth in our core segment – commercial real estate finance – and appointed new members of staff to fill key vacancies. Dr Georg Reutter joined the DG HYP Management Board at the beginning of August, and is responsible for the front-office side of the Domestic Direct Business/Cooperative Sector Sales and International and Secondary Market divisions, as well as for Treasury.

There will be two priorities over the next six months. Firstly, we will be doing everything within our power to expand our market position in the area of commercial real estate finance, thereby continuing down our successful path. At the same time, optimising our internal structures and processes will also remain a priority.

It is our firm belief that the results recorded during the first half of 2008 confirm that the bank has chosen the best route for its future success.

*Deutsche Genossenschafts-Hypothekenbank AG
The Management Board*

Hamburg, July 2008

Economic environment

The German economy began 2008 in buoyant mood following a good 2007. As the year progressed, however, this momentum also began to wane in Germany in response to the cooling of the economy in the US, due to the sub-prime crisis, major rises in energy costs worldwide, and growing inflation. Against this background, leading economic institutes have revised their GDP forecast slightly downwards, to just under 2% growth for 2008.

The German labour market visibly benefited from the economic recovery seen in previous years. The unemployment figures have fallen to around the 1.2 million mark since January 2006.

In light of the financial market crisis, real estate investments tailed off significantly during the first half of 2008. Market operators put the fall in volume at around 40% compared with the same period of last year. It is transactions involving large real estate portfolios in particular that are being hampered by the tense nature of the situation on the capital markets. Additionally, the equity backing required by those offering finance has been stepped up significantly again as a result of the sub-prime crisis.

From the perspective of real estate investors, however, Germany nevertheless remains one of the prime European locations in which to invest. According to the latest surveys, some two thirds of all foreign investors expect the investment environment in Germany to remain attractive. Indeed, this sentiment has also been confirmed by the first six months of this year, with international investors dominating investment activity on the German market.

Business development

Commercial Real Estate Finance

Against the background of the clear fall in market volume, commercial real estate finance – domestic, cooperative banking sector, and international – developed positively during the first half of 2008. New business and loan extensions recorded by DG HYP in Commercial Real Estate Finance, excluding secondary market business (portfolio investments and domestic syndicated business), at € 1,609.9 million as at 30 June 2008, was 14.7% up on the same period of the previous year (H1 2007: € 1,403.1 million).

This increase was based on a significant rise in domestic new business: at € 1,227.3 million, the lending volume for this segment rose by 21% year-on-year (H1 2007: € 1,014.1 million).

DG HYP conducts its domestic Commercial Real Estate Finance business through a decentralised set-up with six real estate centres in major cities, namely Hamburg, Berlin, Dusseldorf, Frankfurt, Stuttgart and Munich. Short decision-making channels, good networks on the market thanks to intensive contacts in cooperative banking sector and direct customer business, and a high level of market penetration ensure that DG HYP is a high-performance partner to both direct customers and to the German cooperative banks. DG HYP's finance business is focused on the core segments of office properties, residential construction and retail properties, alongside the specialist segments of hotels, social properties and logistics.

International business, where DG HYP is generally active through syndicated business, developed in a satisfactory manner during the first half of 2008 and, at € 382.6 million, was more or less on a par with the previous year's level. DG HYP has representative offices in New York and London, whilst its business in France and Scandinavia is dealt with through country desks. Plans are in place for

foreign activities to be expanded into Eastern Europe in the second half of 2008.

Due to the situation on the capital markets, DG HYP has not entered into any MBS investments during the period under review. As a result, DG HYP's secondary market business fell substantially, amounting to € 197.3 million as at the reporting date (a fall of 76.5% year-on-year).

Public finance and local authority lending

A conscious decision was made to purchase fewer promissory note loans and securities eligible as cover assets in light of the volatile state of the market and difficult refinancing conditions. Consequently, new business in the area of public finance as at the reporting date totalled € 1,980.3 million and was thus significantly down on the level of the previous year (€ 4,643.8 million).

The improved state of local authorities' budgets and our strategic focus on long-term financing with higher margins resulted in a significant reduction in our business involving originated local authority lending (direct financing of local authorities in Germany). New business and loan extensions totalled € 562.9 million as at the reporting date and were thus down 57.4% year-on-year. This development is partly attributable to the increased cost of short-term liquid assets (up to 12 months) on the money market compared against deposit-financed offers and also due in part to a drop of around 30% in the number of loan enquiries. The generally lower level of demand for local authority lending coincides with what remains intensive competition on the market.

In February 2008, DG HYP introduced a quality management system for the back-office functions of domestic local authority lending business. This system has been certified by TÜV SÜD, a renowned German quality auditing organisation. DG HYP is thus the first bank in

Germany to be certified in this area, thereby consolidating its leading market position in the area of local authority and public financing business.

Refinancing

As a result of giving up its retail franchise, and due to the restructuring of DG HYP, the issuing volume during the first half of the year, at € 4.7 billion, was lower than the € 4.9 billion recorded during the first six months of 2007. With the market environment remaining difficult due to the as yet unresolved sub-prime crisis, DG HYP issued covered bonds and registered securities with an aggregate volume of € 1.0 billion. Unsecured bearer bonds and promissory notes with a volume of € 3.7 billion were issued during the same period.

Financial Situation and Results of Operations

Profit and loss account

DG HYP's earnings developed as planned over the first half of 2008, already pointing to the first successes of the new business model. At the same time, however, the half-year result has been influenced by extraordinary factors resulting from the crisis on the financial markets and knock-on effects of the bank's restructuring.

As expected, gross profit was down from € 184.8 million to € 84.7 million as a result. This decline was due to the fact that DG HYP, in line with its budget, did not conduct any structural measures during the period under review, which had stabilised net interest income during the first six months of the previous year. Corrected to take account of these extraordinary effects, net interest income as at 30 June 2008, totalling € 80.6 million and thus some 11% down year on year, was in line with our expectations.

At the same time, net commission result improved by € 18.4 million year-on-year from € -19.1 million to € -0.7 million. This reflects the key effects of our new business model. Whilst commission expenses for the arrangement of private real estate finance ceased to be incurred with the abolition of the relevant division, there was a rise in commission income generated by the issuing of guarantees and service fees in the core area of commercial real estate finance. Furthermore, issue commissions were down due to the lower requirement for refinancing.

Administrative expenses, at € 61.1 million during the reporting period, were 30.3% down on the previous year's figure of € 87.6 million. This fall can be attributed to our consistent restructuring and redimensioning of DG HYP.

Our prudent risk policy provides the foundation for the further reduction of provisions for loan losses. The downward trend of the past few years was successfully

maintained. Provisions for loans losses fell from € 37.1 million in the first half of 2007 to € 30.7 million for the first six months of 2008. The ongoing financial market crisis however, also generated temporary revaluation losses of € 30.6 million during the first half of 2008 with regard to securities held in the liquidity reserve.

Additionally, payment defaults were recorded as a result of the ratings of two MBS papers held as investment securities being downgraded. This required long-term write-downs of € 10.3 million for these securities.

Net extraordinary income/expenses, in addition to expected restructuring costs in the area of personnel, also includes a contribution to income from DZ BANK, with the result that the interim result after taxes and partial profit transfers is balanced.

Balance sheet development

Reflecting the changes to the bank's business model, DG HYP's total assets fell as planned during the reporting period, down by € 5.5 billion to € 77.8 billion. Whilst the Commercial Real Estate Finance portfolio expanded, the portfolio of mortgage loans decreased in size by a total of € 0.7 billion to € 21.8 billion, mainly due to extraordinary redemptions in line with the bank's strategy in private real estate lending. At the same time, the portfolio of originated local authority loans fell by € 0.5 billion compared with 31 December 2007, due to the good liquidity situation of many public budgets. The securities portfolio was reduced by € 1.5 billion to € 32.7 billion.

On the liabilities side, the volume of Pfandbriefe and other bonds outstanding fell by € 3.5 billion in line with the development on the assets side. Equity capital fell by € 154 million due to the scheduled maturity of silent partnership contributions.

Report on material events after the reporting date

No events occurred between 1 January and 31 July 2008 that would have had a material impact on our results for the first six months of 2008.

Report on opportunities and risks

The restructuring of DG HYP is progressing well with the new organisational structure being implemented with effect from 1 June 2008 as scheduled. As part of the process of implementing the bank's new strategy, all options for pooling resources, generating synergies and tapping the potential of regional markets have been examined.

The way in which business has developed over the first half of 2008 has confirmed that we are well positioned on both the German and the international market with classic real estate finance instruments. Against this background, we expect new loan business and loan extensions to rise during the second half of the year in Commercial Real Estate Finance, despite the fall in market volume recorded over the first six months. By realigning DG HYP as a specialist in the commercial real estate lending business, we have laid the foundation for future growth.

Demand for finance from public-sector entities will remain muted throughout the rest of 2008 due to the good liquidity situation in the public sector. In terms of local authority financing business, we will therefore not match last year's result.

The current financial markets crisis will represent a challenge over the remaining months of the year, and indeed into the following year. With this in mind, we have created a high level of transparency with regard to our portfolio of mortgage-backed securities (MBS). All of our investments are monitored using a sophisticated risk management system, and are subject to regular individual analysis and comprehensive stress testing.

We expect to be able to achieve our income targets for 2008 in our operational business. Nevertheless, the impact of DG HYP's restructuring process – which is proceeding on schedule – and of the financial market crisis will still require a contribution to income from DZ BANK. We therefore expect our net income for the year as a whole to be balanced.

Interim Financial Statements

Condensed balance sheet

Assets

	30 Jun 2008	31 Dec 2007	Change
	€ mn	€ mn	%
Cash funds	57	33	72.7
Loans and advances to banks	4,526	7,175	-36.9
Loans secured by property mortgages	144	159	-9.4
Loans to local authorities	3,393	4,320	-21.5
Other loans and advances	989	2,696	-63.3
Loans and advances to customers	39,438	40,763	-3.3
Loans secured by property mortgages	21,644	22,340	-3.1
Loans to local authorities	17,078	17,817	-4.1
Other loans and advances	716	606	18.2
Bonds and other fixed-income securities	32,700	34,203	-4.4
Bonds and debt securities	32,393	33,835	-4.3
Public-sector issuers	14,101	16,322	-13.6
Other issuers	18,292	17,513	4.4
Own bonds issued	307	368	-16.6
Equities and other non-fixed-income securities	2	2	0.0
Participations	1	1	0.0
Investments in affiliated companies	2	2	0.0
Trust assets	720	685	5.1
Intangible fixed assets	9	10	-10.0
Tangible fixed assets	2	3	-33.3
Other assets	117	268	-56.3
Prepaid expenses	188	190	-1.1
Total assets	77,762	83,335	-6.7

Interim Financial Statements

Condensed balance sheet

Liabilities and equity

	30 Jun 2008	31 Dec 2007	Change
	€ mn	€ mn	%
Liabilities to banks	9,844	11,930	-17.5
Registered mortgage bonds	711	785	-9.4
Registered public-sector covered bonds	2,078	2,550	-18.5
Other liabilities	7,055	8,595	-17.9
Liabilities to customers	16,905	17,128	-1.3
Registered mortgage bonds	2,536	2,685	-5.5
Registered public-sector covered bonds	11,367	11,126	2.2
Other liabilities	3,002	3,317	-9.5
Securitised liabilities	47,321	50,350	-6.0
Mortgage bonds	10,518	12,431	-15.4
Public-sector covered securities	27,515	30,686	-10.3
Other debt securities	9,288	7,233	28.4
Trust liabilities	720	685	5.1
Other liabilities	83	119	-30.3
Deferred income	127	130	-2.3
Provisions	123	114	7.9
Subordinated liabilities	682	732	-6.8
Profit-participation certificates	110	146	-24.7
Equity capital	1,847	2,001	-7.7
Total equity and liabilities	77,762	83,335	-6.7
Contingent liabilities	1,255	1,575	-20.3
Other commitments	2,119	2,068	2.5

Condensed profit and loss account

	1 Jan to 30 Jun 2008	1.1. to 30 Jun 2007	Change
	€ mn	€ mn	%
Interest income	1,900.3	2,060.7	-7.8
Interest expenses	1,819.7	1,862.4	-2.3
Net interest income	80.6	198.3	-59.4
Commission income	13.3	11.1	19.8
Commission expense	14.0	30.2	-53.6
Net commission result	-0.7	-19.1	-96.3
Other operating income	4.8	5.6	-14.3
Gross profit	84.7	184.8	-54.2
Administrative expenses	61.1	87.6	-30.3
General administrative expenses			
Personnel expenses	22.3	29.3	-23.9
Other administrative expenses	35.8	53.0	-32.5
Amortisation/depreciation and write-downs of intangible and tangible fixed assets	2.0	4.2	-52.4
Other operating expenses	1.0	1.1	-9.1
Amortisation/depreciation and write-downs of receivables and specific securities, as well as additions to loan loss provisions <i>of which: Provisions for loan losses</i>	61.3 30.7	64.1 37.1	-4.4 -17.3
Write-downs on participations interests in affiliated companies and securities held as fixed assets	9.7	1.5	n/a
Expenses for losses assumed under profit-transfer and similar agreements	0.0	0.4	-100.0
Profit from ordinary activities	-47.4	31.2	n/a
Extraordinary income	95.0	-	n/a
Extraordinary expenses	11.6	-	n/a
Net extraordinary income/expenses	83.4	-	n/a
Taxes on income	1.1	-7.1	n/a
Other taxes	0.0	0.0	0.0
Profits transferred under partial profit transfer agreements	34.9	38.3	-8.9
Net profit	0.0	0.0	0.0

Selected explanatory notes to the financial statements

The interim financial statements of DG HYP as at 30 June 2008 have been prepared in accordance with the same accounting policies as the previous annual financial statements of DG HYP as at 31 December 2007.

Responsibility Statement

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

Hamburg, 31 July 2008

Deutsche Genossenschafts-Hypothekenbank
Aktiengesellschaft

Macke

Salber

We have changed the frequency of financial reporting to semi-annual publication, in accordance with the German Act for the Implementation of the Transparency Directive (*Transparenzrichtlinie-Umsetzungsgesetz – "TUG"*). The next disclosure required under the German Securities Trading Act (*Wertpapierhandelsgesetz – "WpHG"*) will be produced within the scope of the annual report for the 2008 financial year.

The following is an English translation of the Review Report, which has been prepared on the basis of the German language version of the Interim Condensed Financial Statements and the Interim Management Report. The translation of the Interim Condensed Financial Statements, the Interim Management Report, and the Review Report are provided for convenience; the respective German versions shall be exclusively valid for all purposes.

REVIEW REPORT

To Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft, Hamburg

We have reviewed the interim condensed financial statements, comprising the condensed balance sheet, the condensed income statement and the condensed notes, and the interim management report of Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft, Hamburg, for the period from 1 January 2008 to 30 June 2008, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] applicable to interim management reports is the responsibility of the Company’s management. Our responsibility is to issue an attestation on the interim condensed financial statements and the interim management report based on our review.

We conducted our review of the interim condensed financial statements and the interim management report in accordance with German generally accepted standards for the review 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 review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed financial statements are not prepared, in all material respects, in accordance with German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with the provisions of German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports.

Hamburg, 8 August 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Bühring
Wirtschaftsprüfer
[German Public Auditor]

Kaltschmidt
Wirtschaftsprüfer
[German Public Auditor]

DG HYP Contacts and Office Addresses

Management Board

Hans-Theo Macke (Chairman)
Dr Georg Reutter (since 01 Aug 2008)
Manfred Salber

Chairman of the Supervisory Board

Dr Thomas Duhnkrack

Deutsche Genossenschafts-Hypothekenbank AG

20095 Hamburg, Germany
Rosenstraße 2
PO Box 10 14 46
20009 Hamburg, Germany
Telephone +49 40 3334-0
Fax +49 40 3334-1111
Internet: www.dghyp.de

Real Estate Centres for commercial investors

DG HYP Berlin Real Estate Centre
Pariser Platz 3
10117 Berlin, Germany
Telephone +49 30 31993-51 01
Fax +49 30 31993-50 60

DG HYP Hamburg Real Estate Centre
Rosenstraße 2
20095 Hamburg, Germany
Telephone +49 40 3334-3778
Fax +49 40 3334-1102

DG HYP Dusseldorf Real Estate Centre
Ludwig-Erhard-Allee 9
40227 Dusseldorf, Germany
Telephone +49 211 220499-10
Fax +49 211 220499-40

DG HYP Munich Real Estate Centre
Türkenstraße 16
80333 Munich, Germany
Telephone +49 89 512676 -10
Fax +49 89 512676-30

DG HYP Frankfurt Real Estate Centre
CITY HAUS I, Platz der Republik 6
60325 Frankfurt / Main, Germany
Telephone +49 69 750676-21
Fax +49 69 750676-99

DG HYP Stuttgart Real Estate Centre
Heilbronner Straße 41
70191 Stuttgart, Germany
Telephone +49 711 120938-11
Fax +49 711 120938-30

Representative offices

DG HYP London Representative Office
10 Aldersgate Street
London EC1A 4HJ
United Kingdom
Phone +44 20 7776-7612
Fax +44 20 7776-7630

DG HYP New York Representative Office
375 Park Avenue, Suite 2603
New York NY 10152
USA
Telephone +1 212 796-4301
Fax +1 212 796-4313

Our Investors Relations team will be pleased to answer any questions regarding our interim financial report:

*Telephone +49 40 3334-2423
Fax: +49 (40) 3334-7822423*

E-mail: ir@dghyp.de



Member of the
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DG HYP. The innovative real estate bank.