

Deutsche Hypo

ANNUAL REPORT
2007

KEY FIGURES →

DEUTSCHE HYPO AT A GLANCE

	2007 € millions	2006 € millions	Change %
Business progress figures			
Mortgage loans	2,693	2,188	23.1
Capital market transactions	4,735	4,267	11.0
of which public-sector loans	2,124	1,744	21.8
Loan drawdowns	6,816	6,363	7.1
Initial bond sales	5,965	7,720	- 22.7
Balance Sheet figures			
Mortgage loans (including interest)	8,544	8,274	3.3
Public-sector loans (including interest)	12,071	13,103	- 7.9
Securities	12,067	11,290	6.9
Borrowed funds	34,203	33,567	1.9
Equity (excluding distributable profits)	834	831	0.4
of which core capital	496	479	3.5
Total assets	35,430	34,717	2.1
Profit and Loss Account figures			
Net interest and commission income	111.9	109.1	2.6
Administrative expenses including depreciation allowance	35.7	36.0	- 0.8
Result from ordinary business activity	49.3	51.5	- 4.3
Net income for the year	36.7	39.1	- 6.1
Other information			
Dividend per unit share (in €) *)	1.10	11.00	-
Special dividend per unit share (in €)	-	3.00	-
Share price as at year-end (in €)	36.00	325.00	10.8
Return on equity before tax **)	11.2 %	12.3 %	-
Cost/income ratio	31.9 %	33.0 %	-
Core capital ratio	5.5 %	5.5 %	-

*) After share split on 1:10 basis.

***) Basis: average equity

	2007		2006	
Rating	S & P	Moody's	S & P	Moody's
Public Pfandbriefe	AAA	Aaa	AAA	Aaa
Mortgage Pfandbriefe	-	Aaa	-	Aaa
Long-term liabilities	-	A2	-	A2
	since 27/02/08 Aa3			

2005 € millions	2004 € millions	2003 € millions	2002 € millions	2001 € millions	2000 € millions	1999 € millions	1998 € millions
1,231	1,014	1,259	1,965	1,808	1,416	1,474	992
4,554	6,629	7,019	2,344	2,801	1,930	3,732	3,429
1,900	2,321	4,401	1,673	1,706	1,425	2,459	1,883
5,755	7,694	8,061	4,348	4,592	3,368	5,242	4,476
10,015	13,000	10,378	5,160	5,608	3,270	4,802	4,198
7,890	8,459	8,766	8,600	7,642	6,615	5,882	5,002
13,941	14,796	14,673	12,559	12,565	12,194	12,296	11,362
9,415	9,045	5,702	4,051	4,006	3,434	3,196	2,364
32,141	32,956	30,328	25,181	24,273	22,245	21,378	18,984
797	783	712	656	561	472	421	401
457	440	422	389	309	271	221	209
33,164	33,896	31,222	26,043	25,046	22,951	21,990	19,542
104.5	100.7	99.2	92.7	92.2	92.4	93.0	88.8
32.7	30.5	32.5	30.8	28.8	26.5	27.4	28.8
48.6	47.8	47.3	43.3	46.1	51.5	47.4	41.8
32.7	30.5	33.1	28.4	30.12	32.13	21.2	18.05
11.00	11.00	11.00	10.00	10.00	9.00	9.00	8.69
-	-	-	-	-	-	26.70	-
302.00	337.52	285.00	259.00	282.50	214.00	277.00	255.65
12.1 %	12.4 %	12.9 %	15.6 %	19.3 %	22.9 %	22.4 %	20.6 %
31.3 %	30.3 %	32.8 %	33.2 %	31.2 %	28.7 %	29.5 %	32.4 %
6.0 %	5.9 %	5.6 %	5.3 %	5.0 %	5.1 %	4.9 %	5.0 %

S&P Moody's		S&P Moody's		S&P Moody's		S&P Moody's		S&P Moody's		S&P	S&P	S&P
AAA	Aaa	AAA	Aaa	AAA	Aaa	AAA	Aaa	AAA	Aaa	AAA	AAA	AAA
-	Aaa	-	Aaa	-	Aaa	-	Aaa	-	Aaa	-	-	-
-	Aa3	-	Aa3 ^{*)}	-	Aa3	-	Aa3	-	Aa3	-	-	-

*) Outlook „negative“

Benedikt von Abendroth, Alois Algermissen, Pascale Angelopoulos, Wolfgang Aust, Volker Basler, Susie Bassett, Christopher Batke, Andre Baule, Jürgen Becksvoort, Ulrike Behnsen, Marco Bertram, Wouter de Bever, Heike Bien, Gunter Bierwisch, Dieter Bläck, Joachim Bloß, Martina Blum, Jürgen Bode, Klaus-Werner Börner, Marianne Böx, Stefanie Bormann, Wolfgang Breitung, Brigitte Brenning, Jochen Bucek, Jens Bütehorn, Edith Burmeister, Wolf-Günther Burucker, José Luis Calderón Martínez, Juan Manuel Casas Guillen, Melanie Cholewa, Ursula Czech, Dennis Dasselaar, Ulrich Deppe, Anke Dieckmann, Hergen Dieckmann, Frank Dittmann, Reinhard Drexler, Beate Droste, Jürgen Eckert, Iris Kerstin Ewert, Tobias Faust, Frederik Felden, Christian Fischer, Eric Mark Fowell, Jörg Franz, Oliver Frerking, Andreas Froebus, Christian Gail, Julio Garcia Garcia, Michael Gehrig, Melanie Geldmacher, Christoph Gennrich, Elke Görg, Olga Gomez Rodriguez, Jutta Graf-Frieling, Jürgen Grieger, Detlev Grote, Cristina Guilherme, Dieter Haasemann, Ralf Hagendorff, Anne-Kathrin Haidt, Burghard Hanke, Tina Hartmann, Iris Hauser, Brigitte Heep, Albrecht Heinecke, Joachim Heinrich, Markus Heinzl, Janos Hielscher, Ralf Hinrichs, Achim von Hoegen, Heinrich Hoffmeyer, Helmut Hornung, Gertraud Hutterer, Axel Intemann, Peter Jabs, Anna-Dorothea Jäger, Thorsteinn Jonsson, Georg Kaisler, Dirk Kallikat, Christina Kanning, **The staff of Deutsche Hypo ...** Gudrun Karges, Kerstin Kelm, Dorothea Kind, Ruth Kirchstein, Claudia Kirsch, **... the basis of our success** Andreas Kirschner, Jürgen Klebe, Gerald Kölle, Helmut Kördel, Heiko Kollmann, Jutta Carola Kopp, Renate Koppitz, Gabriele Kornweih, Stefan Kriegs, Ulrich Krogmeier, Elke Kücken, Roger Kücken, Frank Kühne, Silke Kues, Marcel Kujawski, Eike Oliver Laase, Bernd Lademann, Thomas Lang, Sascha Langeheine, Christian Lau, Annemarie Leeuwen, Dr. Pia Leipertz, Gerhard Lieske, Veit Look, Walter Love, Alexander Ludwig, Karin Ludwig, Hans-Joachim Luther, Dörte Mamber-Pierstorff, Manfred Matthies, Albrecht Mayer, Uwe Menninger, Karen Mergelsberg, José Ignacio Merinero Muñoz, Eleonore Meyer, Jens Meyer, Elly Möller, Irina Monsler, Jürgen Morr, Frank Müller, Michael Müller, Brigitte Müller-Bühren, Dirk Neugebauer, Evelin Neuhäuser, Josef Niehoff, Michael Niemeyer, Markus Nitsche, Ralf Obst, Lorenz Ostermeyer, Wolfgang Overkamp, Jan Christoph Paape, Rainer Passiel, Andreas Peter, Meike Peter, Gudrun Pösger, Andreas Pohl, Arne Preuß, Martin Priesnitz, Jörg Quentin, Uwe Radloff, Iris Reese, Andreas Rehfus, Gisela Reinecke, Tanja Riesenbeck, Stefan Roggelin, Sebastian Rudolph, Regina Rüter, Jens-Oliver Ruff, Petra Ruff, Monika Rust, Stefan Ryll, Elke Schäper, Katharina Schauer, Veronika Schindler, Andreas Schlüter, Elena Schnar, Dirk Schönfeld, Erik Schramm, Wiebke Schramm, Matthias Schroff, Anke Schuchhardt, Heike Schünemann, Ulf Schuhmacher, Dr. Olav Selke, Fredrik Serck, Kristof Sidorowicz, Britta Siedentopf, Petra Söfker, Mirko Sommer, Sascha Sonntag, Thomas Staats, Karl H. Stein, Thomas Stoklas, Mathias Stolte, Gabriele Strienke, Bianca Ströhla, Christiane Terlunen, Ella Teschmit, Martina Teutloff, Bettina Thiedtke, Regina Thomalla, Manja Vogel, Carina Vondran, Dr. Wulfgar Wagener, Hans-Ernst Warczok, Sabine Watermann, Paul Weber, Angelika Wellmann, Aenne Wendeling, Ansgar Werner, Simone Wilhelms, Dirk Wilke, Bärbel Willert, Immo Willner, Bernd Wißmach, Renate Wittkowski, Dirk Wömpner, Frank Wolff, Christopher J. Woodard, Michael Woodgate, Anita Wrosch, Martina Wulschläger, Olivier Zapf, Frank Zimmermann, Jörg Zimmermann.

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LETTER TO OUR SHAREHOLDERS

Dear Shareholders,
Dear Sir or Madam,

There can barely have been another year in history so marked by negative reports from the financial sector as 2007. So it is more important and gratifying than ever that we, as a mortgage bank, have not only held our course through stormy seas, but in doing so have even grown successfully. During the financial year, we succeeded in achieving good new business growth in the area of international commercial real estate financing, which, with the highest ever level of new business in Deutsche Hypo's history, exceeded the previous record of 2006.

Naturally, we have not been completely unaffected by the turmoil on the financial markets. The breadth and depth of these developments, which nobody could have foreseen before the start of the year, have been and remain far too great for us to escape entirely unscathed. Consequently, in various sections of this Annual Report we have taken time to report on the effects of this crisis on our operations. In these sections we report that while Deutsche Hypo was not affected to a significant extent, thanks to its robust business model, we were still not able to evade the direct effects of the crisis on issuing business and on the value of our securities and ABS portfolios.



from left: Jürgen Grieger, Andreas Pohl, Andreas Rehfus, Jürgen Morr

Ultimately and unsurprisingly, there was an effect on our result, which did not suffer disproportionately, but has come away a little bruised. The major figures for the 2007 financial year at Deutsche Hypo, in comparison with the previous year, are as follows:

- New mortgage business once again improved on the very good result of the previous year, and rose by over 23 % to some € 2.7 billion.
- We achieved a slight increase in new capital market business, which, at around € 4.7 billion, was almost € 500 million up on the previous year.
- Net interest and commission income was up 2.6 % to € 111.9 million.
- There was also a gratifying development in the cost/income ratio, which was reduced from 33.0 % to 31.9 %.
- The risk result, at € 25.4 million, was 9.5 % higher than the previous year. Worthy of note is the risk result for credit business contained within this overall result. During the year under review this developed very positively, and, at € 12.4 million, is significantly below the already low figure from the previous year of € 18.7 million. The fact that the overall risk result is higher than last year's value can obviously be explained by the confidence crisis in the international capital markets. Price falls on the national and international bond markets meant that Deutsche Hypo was also forced to write down securities held in the liquidity reserve, with a negative effect on the risk provisioning result and thus the Bank's result overall. The risk result from the liquidity reserve was therefore € 13.0 million during the year under review (previous year: € 4.5 million).

- These developments naturally also affected our result from ordinary business activity which fell by 4.3 % to € 49.3 million. The result after tax fell from € 39.1 million to € 36.7 million.

The final act of an eventful financial year was certainly one of importance for the Bank. The change in shareholder at Deutsche Hypo initiated by the submission of a voluntary public takeover bid by NORD/LB was completed, with the latter holding around 98.4 % of the shares in Deutsche Hypo when the offer expired.

While this transaction inevitably represents a break in the history of the bank, it also offers opportunities for the logical refinement of our business model. The business focus and skills of the two banks are an ideal complement to each other.

For this reason, together with the Supervisory Board of the Bank, we welcome this takeover. We firmly believe that cooperation between the "Real Estate Banking" arm of NORD/LB and Deutsche Hypo will result in a powerful presence on the commercial real estate market that will allow the well-established name of Deutsche Hypo and its history of success to carry on under the umbrella of NORD/LB.

Looking forward to the current 2008 financial year, we believe that the difficult market environment will continue to hold us in suspense for some time to come. While our commercial real estate financing business has already been characterised by a prudent and risk-aware lending policy, we will maintain this course given the predominating con-

ditions. In terms of the present, we have to accept that we will only be able to return to the good

results of the past if the crisis on the financial and real estate markets does not escalate further.

Interest rate trends
vs. DAX und CDAX Bank Index

30.05.1997 = 100; Month-End Values



We would be delighted to welcome you to Deutsche Hypo's 125th Annual General Meeting on 21 May 2008 in the Ludwig Erhard Haus in

Berlin, where we will be able to report on the past financial year and outline the business prospects that lie ahead.

Yours faithfully

AGENDA FOR THE ANNUAL GENERAL MEETING

.. AGENDA

for the 125th Ordinary General Meeting
of the shareholders of
Deutsche Hypothekenbank (Actien-Gesellschaft)

on 21 May 2008, at 11 a.m.
at Ludwig Erhard Haus Berlin
Fasanenstr. 85
10623 Berlin

1. Presentation and review of the audited Annual Accounts as at 31 December 2007, the Management Report for the 2007 financial year, the Explanatory Report on the information required in accordance with Section 289, paragraph 4 of the German Commercial Code, the Report of the Supervisory Board and the proposal regarding the appropriation of profit
2. Resolution on the appropriation of profit
3. Resolution on the approval of the actions of the Board of Managing Directors for the 2007 financial year
4. Resolution on the approval of the actions of the Supervisory Board for the 2007 financial year
5. Revision of Articles of Association with regard to remuneration of Supervisory Board
6. Election of members of the Supervisory Board
7. Election of auditor for the 2008 financial year

The Deutsche Hypo share
is identified as follows:
Security code no. (WKN): 804200
ISIN: DE0008042003

THE SUPERVISORY BOARD AND ITS COMMITTEES

Alexander Stuhlmann
Düsseldorf
Chairman of the Board
of Management of
WestLB AG
– **Chairman** –
since 16 May 2007
to 15 February 2008

Wolfgang Hollender
Wedemark
Member (retired)
of the Board of
Managing Directors of
Deutsche
Hypotheckenbank
(Actien-Gesellschaft)
– **Chairman** –
to 16 May 2007

Eckhard Forst
Hanover
Member of the Board of
Management of
Norddeutsche
Landesbank
Girozentrale
– **Chairman** –
since 16 February 2008

Dietmar Schmid
Member of the Board of
Managing Directors of
BHF-BANK AG
– **Vice Chairman** –
to 15 February 2008

Dr. Gunter Dunkel
Hanover
Vice-Chairman of the
Board of Management
of Norddeutsche
Landesbank
Girozentrale
– **Vice Chairman** –
since 16 February 2008

Jochen Döhle
Hamburg
Personally liable partner
of PETER DÖHLE
Schiffahrts-KG
to 15 February 2008

Reinhard Drexler
Hanover
Bank employee

Michael Gehrig
Hanover
Bank employee
since 14 June 2007

Ralf Hinrichs
Hanover
Bank employee
to 17 May 2007

Friedrich Carl Janssen
Cologne
Personally liable partner
of Sal. Oppenheim jr. &
Cie. KGaA

Jürgen Kösters
Hanover
Member of the Board of
Management of
Norddeutsche Landesbank
Girozentrale
since 16 February 2008

Joachim Olearius
Hamburg
Executive Manager of
M. M. Warburg & CO
Kommanditgesellschaft
auf Aktien
to 15 February 2008

Dr. Hannes Rehm
Hanover
Chairman of the Board of
Management of
Norddeutsche Landesbank
Girozentrale
since 16 February 2008

Dr. Johannes-Jörg Riegler
Member of the Board of
Management of
Norddeutsche Landesbank
Girozentrale
since 16 February 2008

Max Warburg
Hamburg
Personally liable partner of
M. M. Warburg & CO
Kommanditgesellschaft
auf Aktien
to 15 February 2008

Frank Wolff
Hanover
Bank employee

Lending Committee

since 18 February 2008

Alexander Stuhlmann
– Chairman –
from 16 May 2007
to 15 February 2008

Dr. Johannes-Jörg Riegler
– Chairman –

Wolfgang Hollender
– Chairman –
to 16 May 2007

Eckhard Forst

Friedrich Carl Janssen

Friedrich Carl Janssen

Max Warburg
to 15 February 2008

Dr. Gunter Dunkel
– Substitute member –

Jochen Döhle
– Substitute member –
to 15 February 2008

Personnel Committee

since 18 February 2008

Alexander Stuhlmann
– Chairman –
from 16 May 2007
to 15 February 2008

Eckhard Forst
– Chairman –

Wolfgang Hollender
– Chairman –
to 16 May 2007

Dr. Gunter Dunkel

Dietmar Schmid
– Vice-Chairman –
to 15 February 2008

Dr. Hannes Rehm

Max Warburg
to 15 February 2008

Jürgen Kösters
– Substitute member –

Joachim Olearius
– Substitute member –
to 15 February 2008

Audit Committee

since 18 February 2008

Friedrich Carl Janssen
– Chairman –

Jürgen Kösters
– Chairman –

Joachim Olearius
to 15 February 2008

Friedrich Carl Janssen

Frank Wolff

Frank Wolff

Jochen Döhle
– Substitute member –
to 15 February 2008

Dr. Gunter Dunkel
– Substitute member –

Appointments Committee

since 18 February 2008

Dietmar Schmid
– Chairman –
to 15 February 2008

Dr. Hannes Rehm
– Chairman –

Jochen Döhle
to 15 February 2008

Eckhard Forst

Max Warburg
to 15 February 2008

Jürgen Kösters

Joachim Olearius
– Substitute member –
to 15 February 2008

Dr. Gunter Dunkel
– Substitute member –

MANAGEMENT

.. BOARD OF MANAGING DIRECTORS

Jürgen Grieger
Hanover

Jürgen Morr
Hanover

Andreas Pohl
Hanover
since 1 March 2008

Andreas Rehfus
Hanover
since 1 July 2007

Thomas Frhr. v. Tucher
Hanover
to 30 June 2007

.. EXECUTIVE MANAGERS

Michael Müller

Andreas Rehfus
to 30 June 2007

.. DEPARTMENTAL MANAGERS

Volker Basler
Gunter Bierwisch
Joachim Bloß
Markus Heinzl

Albrecht Mayer
Uwe Menninger
Markus Nitsche
Wolfgang Overkamp

Jörg Quentin
Dirk Schönfeld
Thomas Staats
Dr. Wulfgar Wagener
Paul Weber

PUBLIC TRUSTEES

Dr. Gunther Krajewski
Hanover
Retired Assistant Director
– Trustee –

Wolfdietrich Kühne
Hanover
Degree in business
– Deputy Trustee –

REPORT OF THE BOARD OF MANAGING DIRECTORS

•• THE GENERAL ECONOMIC ENVIRONMENT

•• GLOBAL ECONOMIC SITUATION

It seemed inevitable that the US real estate crisis, the ensuing turbulence on the financial markets, interest rate hikes in Europe and Japan and, finally, the dizzy heights reached by energy prices would hit the global economy hard in 2007. However, sustained by the strong growth dynamism of the first half-year, the world economy was able to withstand the negative factors and record a total growth figure of around 5 % for the year as a whole, in a renewed demonstration of its robust state of health. Once again the biggest contribution to growth came from the emerging markets of Asia, led by China, but also those of Latin America. Economic prospects clouded over during the second half of the year in the wake of the turbulence on the financial markets with numerous leading indicators predicting only very moderate growth for the industrialised countries. Yet there was no change to the basically robust state of the economy in the industrialised countries. In many cases, the central banks adopted a wait-and-see approach, abstaining from any further key rate rises. The Fed cut its key refinancing rate from 5.25 % to 4.25 % in several stages to counter any impairment of the US economy as a result of the mortgage crisis, whilst the ECB, after two interest

rate hikes of 50 basis points each, left its key rate unchanged at 4 % during the second half of the year in view of the threat of inflation.

•• THE SUBPRIME CRISIS AND ITS IMPACT

The shockwaves on the global financial markets can be traced to a local trigger, namely the crisis on the subprime market, the US retail market for real estate financing aimed at borrowers with a poor credit rating. This market segment was the first to suffer from rising interest rates and falling house prices in the USA. An increasing number of borrowers struggled with their repayments until, ultimately, the number of loan defaults and house repossessions began to rise dramatically.

The fact that a global financial crisis was able to arise from a national real estate crisis can be explained by the fact that, for many years and up until spring 2007, it was common practice for the financings concerned to be parcelled up and pooled in the form of bonds, a practice that had also proved successful. Many of these bonds – known as “mortgage-backed securities” or MBS – were secured by mortgage loan claims, in other words these very subprime loans, and were then traded on the international financial market. This was also the case with many asset backed bonds, securities based on a complete mix of underlying asset classes and referred to as “asset-backed

securities" or ABS. These papers are typically divided up into tranches, based on claims that represent varying levels of risk. Depending on the extent of the risk, the tranches are given different ratings. Overall, these papers have a highly complex structure and, in the case of many stocks, it could not have been possible to verify the risk level of various market participants directly as the underlying transactions were not always identifiable. Inaccurate valuations of the quality of these papers were made not just by investors but also, more importantly, by the rating agencies.

The hurried downgrading of ratings in response to the difficult situation in the US affected first of all those tranches that were based on loans extended to borrowers with poor credit ratings. As a result, it was not just these papers but the MBS market as a whole that suffered at times dramatic price losses.

Much more serious, however – and far more important as a factor in the financial market and banking crisis – was the liquidity crisis that ensued. Banks were no longer willing to lend money to each other. The uncertainty surrounding the extent and impacts on banks' balance sheets was too great, and the subsequent liquidity crisis proceeded to spread to all bond products issued by banks. The crisis had the entire banking sector in its grip, and the extremely difficult and expensive refinancing conditions were ultimately to be felt by everyone down to the bank customers.

•• **ECONOMIC ENVIRONMENT IN OUR TARGET PROPERTY MARKETS**

•• **GERMANY**

The German economy had a year of high growth in 2007, with a 2.5 % increase in gross domestic product, thereby clearly exceeding the expectations published back at the beginning of the year, most of which were below the 2 % mark. The highest employment figures since reunification, at just under 40 million, were a particularly gratifying development. The factors responsible for the growth spurt were, once again, exports and a strong rise in investments across the economy as a whole, whilst consumption levels failed to make the hoped-for contribution. This was certainly due to the rise in value-added tax, which was increased by three percentage points, but also, to a much greater extent, to the strong rises in energy and food prices recorded in 2007, accompanied by what remained a weak development in net wages and in households' disposable incomes. Construction investment only increased by 2 %, not least due to the rise in value-added tax and the abolition of the subsidies available for home ownership (Eigenheimzulage).

Towards the end of 2007, however, the German economy began to falter slightly, and estimates for the fourth quarter assume that the turbulence on the financial markets, fears over a possible recession in the USA and the strength of the euro will have weighed down on the German economy.

The recovery on the commercial property markets already in evidence in Germany in 2006 continued in 2007. In the key German office property markets,

vacancy rates continued to fall, with a growth in rents also recorded in many locations in 2007. Frankfurt am Main boasts the highest rent levels, at € 33.50/m²/month, followed by Munich at € 29.50/m²/month, Düsseldorf and Hamburg at € 21.50/m²/month and Berlin at € 20.50/m²/month.

In the area of logistics properties, Germany is by far the largest market in Europe, accounting for 290 million m², and is the primary sales market for commercial enterprises. The expansion of the EU meant that Germany was also able in the year under review to further consolidate its position as a hub, particularly for East/West links, thanks to its excellent transport infrastructure and well-established information and communication network. Companies in the transport and warehousing sector, accounting for 44%, made up the lion's share of demand, followed by industry and trade, accounting for 21 % and 11 % respectively. Most large-scale leases were arranged in the Rhine/Main area of Germany. The cities of Hamburg (2.9 million m²) and Frankfurt (2.8 million m²) are home to the largest stocks of logistics premises, followed by the Ruhr region and Berlin in third and fourth places respectively.

In the retail sector, 2007 was another year in which the market for owner-managed specialist businesses grew ever smaller, with large-scale national and international clothes retailers dominating the prime locations, alongside the major brands' flagship stores. Although the volume of sales only grew modestly, the expansion of retail space continued. The average shopping centre area per member of the population is significantly higher in eastern Germany than in western Germany, where large parts of the existing stock is now outdated. Consequently, most of the expansion is taking place in western

Germany. The highest retail rents in prime locations, as in previous years, were achieved in Munich, at € 250/m²/month, followed by Frankfurt at € 230 /m²/month, Stuttgart at € 220 €/m²/month and Hamburg at € 210/m²/month. The biggest increase during the current year was recorded in Berlin. Top rents there rose by 11 % to € 200/m²/month, which meant that the German capital matched its record high of 2001.

•• EUROPE

If the first signs of a lull in the **British** economy had not already been evident back at the beginning of 2007, the ongoing market turbulence that started in August made it clear that there had been a turnaround in the UK. Weakening house prices, which had tripled over the previous ten years, are threatening to tumble, which could unsettle consumers and impede growth. The most recent reaction to this development was the Bank of England's decision to cut key rates to 5.5 % in December 2007. The OECD expects GDP growth to be only 1.7 %. The key factor for the UK economy will be the extent to which the credit crisis filters through to consumer confidence, as consumer spending continued to be the key driver of growth in 2007. Nevertheless, the situation in the UK differs from the situations in other strongly consumer-dependent economies in one key respect: any weakening of growth would begin from a high starting point.

This high level is just as characteristic of the office market in the world's second-largest financial centre after New York, namely London. The Greater London office market, with a total surface area of

some 30 million m², is obviously at the centre of any analysis of the UK commercial property market and it is a market segment in which, in turn, the financial sector sets the pace and rhythm of the market dynamic.

The continued high level of demand from the financial service-providers dominated market events in the West End as well as in the City and Docklands. Following in second place were the advisory service-providers, followed by public administration. The vacancy rate in Central London in the middle of the year was almost unchanged at 6.7 %, whilst the vacancy rate in the City rose to 10.5 % (2006: almost 9 %) due to the high volume of new builds in 2005 and 2006 and the resulting increase in available premises. In the West End, however, the vacancy rate fell from 5 % to 4.2 %. In terms of rent levels, London continues to head the European rankings of the most expensive office locations. In the West End, top rents rose to € 1,481/m²/year. Top rents in the City were slightly above € 1,000/m²/year.

The impact of the financial market crisis represented a significant uncertainty factor in the assessment of future market development. The steep rise in top rents in 2008 to date will probably not be maintained, and the high increase in properties, particularly in the City segment, will also force the total vacancy rate up slightly.

In **France**, President Sarkozy, in office since May 2007, has announced numerous reforms, all of which have heeded the factor that ideally supports the French economy, namely consumer spending. The first such law was a comprehensive piece of

legislation to boost purchasing power. Together with the income tax reform adopted back in early 2007, the conscious aim is to promote private consumption and the construction industry. However, these measures are placing a burden on state coffers, with a budget deficit that looks set to last until 2012, even according to the new government's plans. This means that, despite the healthy state of the economy, the budget deficit for 2007 and 2008 will only be slightly below the Maastricht criterion.

In terms of the real estate markets, attention has focused on Paris and île-de-France, despite the presence of important regional markets. By way of comparison, whilst the fifteen most important regional locations in France represent a total area of around 24 million m², the region of île-de-France accounts for some 49 million m² on its own, and therefore has access to one of the largest stocks of office premises anywhere in Europe.

The top rents for offices in prime city-centre locations reached levels of in excess of € 780/m²/year in 2007. In La Défense, there was a rise to € 530/m²/year.

The volume of new construction work increased dramatically in 2007, with a slight rise in vacancy rates expected in the medium term. At the same time, the strong demand for high-quality premises in good locations led to a shortage of space in this segment, which will further support top end rents.

The economic growth trend in **Spain** is on the verge of a turnaround. Whilst plentiful transfer payments from the EU, historically low real rates of interest and an enormous increase in employment

have contributed to rapid economic expansion over recent years, particularly in the construction industry, the more restrictive monetary policy being pursued by the ECB is now having a negative effect, particularly on construction activity, consumer spending and investment in plant and machinery, forcing the Spanish to come to terms with rising unemployment and higher living costs for the first time in many years. The strong rise in interest rates due to the US subprime crisis is placing additional pressure on what are highly indebted households and companies.

The real estate markets in the two major Spanish metropolises still appeared to be relatively unimpressed by the threat of hardship in 2007, once again recording good results. Property turnover in Madrid in the first three quarters amounted to 515,000 m², which represented a strong year-on-year rise of 32 %. Rent levels at the top end rose by just under 19 % to € 456/m²/year. In the fourth quarter, however, falling employment figures in the services sector started to have an impact, with the first signs emerging of a weakening in demand. At the same time, there was a strong expansion of available space in the market, which will result in rising vacancy rates and reduced rent growth over the next few periods. In Barcelona, the average leased area increased further. Demand came primarily from service-providers, technology companies and industry. During the first half-year the vacancy rate fell slightly to 4.6 %, with a subsequent rise to 5.5 % in the third quarter. Construction activity continued to develop as strongly, primarily in the form of speculative building projects. The highest rent rose during the first three quarters by a total of 4 % to € 312/m²/year, with even higher levels also being recorded here and there.

The **Netherlands** enjoyed a phase of continuity in 2007, as the strong economic growth of a good 2.9 % achieved in 2006 was maintained. For 2007 as a whole, a similarly high result is expected, which will therefore be above the average for the eurozone. The Netherlands profited directly from the upturn experienced by its biggest trading partner, Germany. Worldwide, only the economic links between the USA and Canada are more intensive than the ties between Germany and the Netherlands. Dutch exports to Germany account for around one quarter of the Netherlands' total exports.

Due to the favourable development on the labour market and equity market, 2007 saw a tangible revival of consumer spending and therefore retail sales. The Netherlands constitutes a services-based society the two main pillars of which are transport (logistics) and financial services, both of which are an expression of the country's role as a gateway to Europe and were able to grow further in 2007.

The Dutch office market recorded a gratifying performance in the first half of 2007. Property turnover increased by 41 % compared with the previous year, to a total of 1.2 million m². Demand picked up on the back of the good state of the economy in the Netherlands. The average vacancy rate was around 14 %, with premises in the size range of 1,000 to 5,000 m² being the main category to stand empty. The average rent for all Dutch office markets was stuck at the level of € 140/m²/year during the first half of 2007. The highest rents of up to € 350/m²/year were recorded in the area around Schiphol Airport on the outskirts of Amsterdam. With a top level of

€ 190/m²/year, Rotterdam was the least expensive location in the Netherlands.

The Dutch retail and logistics markets developed well during the past year. It was logistics properties in particular that were able to profit from the further increase in investor confidence in a country that ranks among Europe's leading logistics markets. This is expected to generate a further need for warehousing premises in future.

•• USA

The subprime crisis, record write-downs by US commercial banks, a weak US dollar, fears of recession and the ongoing issue of the Iraq war – the headlines emanating from the USA in 2007 were almost without exception negative for the rest of the world, whilst the impact on other segments of the US economy was unexpectedly dramatic. Reports emerged in the second half of 2007 of high numbers of payment defaults on car loans, credit cards and consumer loans. The final act in this tragedy was played out by the retail sector, which was forced to report on disappointing business over the festive period, with business as slow as it had been for five years. These developments were not without consequences for the labour market either. In December 2007 the jobless figures gathered pace to rise from 4.7 % to in excess of 5 %. Not least the sobering employment figures were seen by many market participants as proof that they were witnessing more than a temporary slide in the US economy and that the probability of a real recession had tangibly increased. Whether the US economy is

indeed grinding to a halt after many boom years depends, once again, however, on US consumers, since it is their spending that has lent the economy the greatest support over recent years. And this is where the US appears to be caught in a vicious circle. To date, Americans have been able to finance their buying habits using loans based on the ongoing rises in the book value of their homes. The subprime crisis has put an end to that, however, and it is still too early to make a reliable assessment of the actual impact it will have.

There was renewed evidence on the US real estate markets in 2007 that private housing construction and the commercial property market rarely move in tandem. The office property market was again able to put in a positive performance in 2007, with demand for office premises proving very brisk due to the strong rise in the number of office employees over the year as a whole. New building activity increased as many investors launched new projects in response to falling vacancy levels and rising rents. A high level of liquidity and commitment from investors, with a large measure of borrowed capital as leverage, enabled purchase prices to soar. From the end of 2007 at the latest the picture began to change, as doubts about the economic situation, reduced liquidity, greater risk awareness and tighter investment conditions from the investors' perspective already began to leave their mark. The supply and demand situation is such that rising vacancy levels and a reaction in terms of rent levels can be expected. Despite this cooling, the US office market is in a healthy state overall and offers sustained growth potential to those investors who are not compelled to base their calculations on the huge rent increases of the past one-and-a-half years.

In principle, despite what has become a difficult market situation, prime properties in preferred locations in the USA can hold their own across all segments of the real estate market, with growth in rental prices that is as robust as ever, positive growth expectations, high transaction volumes and at least stable purchase prices. This trend will, in our view, continue with regard to the prime locations in the USA, albeit slightly less strongly. It therefore remains Deutsche Hypo's strategy to only commit to those locations after careful consideration of the relevant influencing factors.

.. CAPITAL MARKET DEVELOPMENT

The year 2007 was dominated by the global financial crisis as described above. What began as an initial liquidity shortage in two funds, had by April escalated into a serious problem for the global financial system.

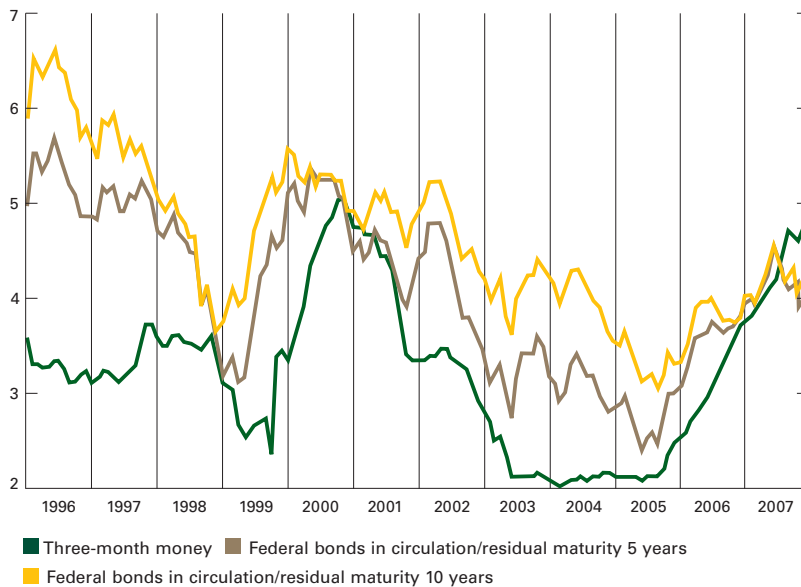
For years, liquidity on the capital markets was on the increase and the resulting demand for investments meant that risk premiums grew smaller and smaller. There was talk of a type of inflation on capital investments. During this process, too little attention was paid to the risks inherent to certain forms of investment. The outbreak of a crisis led to a radical revaluation, which inevitably involved major price falls. Mortgage-backed securities (MBS) were the hardest hit, alongside products derived from these papers, namely CDOs. With all investors, and banks in particular, having to revalue their portfolios, profits collapsed on a major scale as of the third quarter of 2007, which, in turn, impacted on the valuation of bonds issued by

banks. These came under pressure and the entire process began to pick up speed.

So what was the impact of the financial crisis and global economy on the capital markets? The easiest aspect to explain is the performance of the US dollar. Due to falling interest rates in the USA, the dollar has shown a tendency to lose ground against the euro. The European single currency rose from 1.30 USD in January to just under 1.50 USD by the year-end. Share prices reached their highest level mid-year, with the DAX at 8,105 points. The financial market crisis then sent prices spiralling downwards. The interest rate markets also reflected the events of the year. Starting 2007 at just under 4.0 %, the yield on 10-year federal loans had risen to around 4.7 % by early July against the background of positive economic development. Investors' increasing risk aversion then saw yields on first-class government bonds fall significantly to 4.1 % by the beginning of September. Expectations of high inflation in the eurozone then generated uncertainty, however. Inflation rates of more than 3 % meant that interest rates at the long end were able to rise back up to 4.3 %.

The year as a whole was marked by major fluctuations on the interest rate front. The difficult situation facing banks seriously unsettled market participants' nerves. Liquidity became expensive, leading to high money market rates. The interbank rate for 3-month money rose from 3.72 % in January to 4.95 % in December. The Federal Reserve then duly embarked on a significant reduction of key rates in an attempt to stabilise the markets. By the end of the year there was still no clear picture as to how things were likely to subsequently develop on the capital markets.

Interest rate trends from 1996 to 2007 (in %)



.. THE PFANDBRIEF — RELIABLE REFINANCING AND A SOUGHT-AFTER INVESTMENT

The drying up of the market for mortgage-backed securities (MBS) as described above and the increased premiums demanded by investors for unsecured bank bonds since the “subprime virus” began to spread are also making it difficult for German credit institutions to access capital or are making capital significantly more expensive.

However, the situation faced by Pfandbrief issuers differs substantially from that facing other banks. Pfandbrief issuers always have access to the capital market on the basis of favourable conditions, since the particular security offered by Pfandbriefe

and their high market penetration make them a safe haven for investors even in times of turbulence on the markets.

Pfandbriefe have an immaculate credit history. Since the entry into force of the Mortgage Bank Act over 100 years ago, this being the predecessor to the Pfandbrief Act, there has not been a single recorded case of a Pfandbrief defaulting. In view of the recognised standing of Pfandbriefe, both in Germany and abroad, issuers are also able to obtain liquidity in difficult times, unlike in the case of mortgage-backed securities. The Pfandbrief market as the “market of last resort” mobilises liquidity where it would otherwise not be available or only be available on the basis of much less favourable conditions.

In addition to their benchmark issues from € 1 billion upwards (jumbo Pfandbriefe), the Pfandbrief banks also issue traditional bearer and registered Pfandbriefe on a large scale, which are always in high demand among investors. The strong roots and long-established Pfandbrief tradition among buyers from the insurance sector, banks, pension funds and investment funds on the German market ensure that this is the case. During the period from August to December 2007 alone – in other words, following the onset of the subprime crisis – the Pfandbrief banks raised € 50 billion on the market with traditional bearer Pfandbrief products and registered papers. Together with jumbo issues and top-ups, the total amount was € 58 billion.

What is noticeable is that the refinancing costs over this period scarcely increased compared with the first seven months of 2007. Pfandbriefe were traded at the average of all maturities under Euribor, whilst securitisations and some foreign products similar to Pfandbriefe (covered bonds) had to put up with spreads of between 20 and 40 basis points.

All of this is the result of the statutory quality requirements, the disciplined and investor-friendly issuing behaviour of the Pfandbrief banks and the unique market and product service provided by the issuing houses, which combine their strengths into a joint association.

The Pfandbrief Act offers Pfandbrief investors a very tightly woven safety net. The principle of investor protection is the guiding principle behind the statutory basis for the issuing of Pfandbriefe. Only those credit institutions that meet the strict

requirements of a Pfandbrief licence are entitled to issue this type of instrument. The outstanding mortgage, ship and public Pfandbriefe must be covered by mortgage, ship and public-sector loans in at least the same amount. These cover assets are recorded in separate registers. In the event of an issuer becoming insolvent, the claims of the Pfandbrief creditors have a preferential right to the cover assets entered in the cover registers. Pfandbrief business is subject to particular supervision by BaFin, the state supervisory body. In addition to ongoing supervision in accordance with the Banking Act, a dedicated Pfandbrief department monitors adherence to the terms of the Pfandbrief Act. The obligation to report key figures relating to the cover assets on a quarterly basis means that their composition is transparent and can be tracked over time. The standardisation introduced as a result of the Pfandbrief Act caused the Pfandbrief market to achieve a depth, which, valued at around € 890 billion as at December 2007, was only exceeded by the government bond market.

The stock of residential cover assets from the USA, at the time of the onset of the subprime crisis, was € 200 million or approximately 0.01 % of all of the cover assets for mortgage Pfandbriefe. The high credit standards of the Pfandbrief Act means that low quality credits did not find their way into the cover assets of Pfandbrief issuers. In the case of mortgage loans, only 60 % of the conservatively estimated lending value of the financed property is eligible for use as cover and can be refinanced through the Pfandbrief. The issuers must, when faced with a threat of price falls, verify whether the value of the real estate and ships in question are affected.

In the case of state financing, strict selection criteria apply to the long-term value of the cover assets. Claims against public debtors from the European Union, the EEA states, the USA, Canada, Japan and Switzerland can only be used as cover in the absence of any doubt as to the state's liability for the claims.

•• RESULT

The Pfandbrief market is open to issuers even in times of general distortions on the lending and capital markets. The strict credit standards of the Pfandbrief Act prevent subprime loans from finding their way into the cover assets of Pfandbrief issuers.

Thanks to its quality standards as imposed by law, its transparency and its well developed market structure, the Pfandbrief has become an internationally sought-after capital market product with a sales volume of close to € 900 billion. It is the benchmark for an independent European covered bond market with an outstanding volume of close to € 2 trillion.

MANAGEMENT REPORT

.. BUSINESS PERFORMANCE

Deutsche Hypo's 136th financial year was its most successful year ever in one of its two core areas of business, namely commercial real estate finance. The volume of new business reached a new record level, coinciding with a reduced risk provisioning requirement. As a result, mortgage business also performed very positively.

The gratifying level of growth in new mortgage business could not be matched in terms of the overall result due to the confidence crisis on the international capital markets. Originally triggered by the US subprime crisis, this crisis had a – in some cases lasting – negative impact on the functioning of the capital markets, leading to price falls across practically all of the bond markets.

Despite only holding a comparatively small amount of ABS and exclusively acquiring securities with good ratings, Deutsche Hypo was also forced to implement write-downs.

Securities that Deutsche Hypo intends holding until maturity are allocated to fixed assets, as the Bank does not engage in any trading with such stocks. They are carried at historical cost in the balance sheet, provided that any impairment of value is not considered to be long-term.

In light of the above, and in view of the special situation on the capital markets and the very positive way in which mortgage business developed, we regard

Deutsche Hypo's result as satisfactory despite the fall in the pre-tax result compared with the previous year. The Bank's business performance can be broken down as follows:

- .. Net interest and commission income increased by € 2.8 million to € 111.9 million (previous year: € 109.1 million). This corresponds to a rise of 2.6 %.
- .. Administrative expenses fell slightly by € 0.3 million to € 35.7 million (- 0.8 %). Whilst personnel expenses fell, there was a rise in other administrative expenses, primarily due to the rise in the business volume. The cost/income ratio improved from 33 % to 31.9 %, still well below the industry average (as at September 2007, average for mortgage banks in the Association of German Pfandbrief Banks).
- .. Risk provisioning rose by € 2.2 million year-on-year to € 25.4 million (+ 9.5 %). The main factor behind this increase was the rise in write-downs on securities held in the liquidity reserve following the general turbulence on the capital markets. The fact that the need for risk provisioning in mortgage business was gratifyingly low was not enough to fully offset this increase. The provisions made for risk provide sufficient cover for all discernible risks.
- .. The result from financial investments was also hit by events on the capital markets, with a negative performance of - € 1.3 million compared with the previous year (+ € 0.3 million).
- .. On balance, the result from ordinary business activity fell by € 2.2 million to € 49.3 million (- 4.3 %). Net income for the year was € 36.7 million (- 6.1 %).

- The volume of new commitments in mortgage lending business, at € 2,693 million, marked a new all-time high for the Bank, clearly exceeding the previous year's volume by € 505 million (+ 23.1 %). This increase was attributable to foreign activities (focus on USA) with regard to which new business worth € 751 million was concluded, whilst the volume of new domestic business fell by € 246 million.
- In terms of capital market transactions, the volume of commitments grew by € 468 million to € 4,735 million (+ 11 %).

• MORTGAGE LOAN BUSINESS

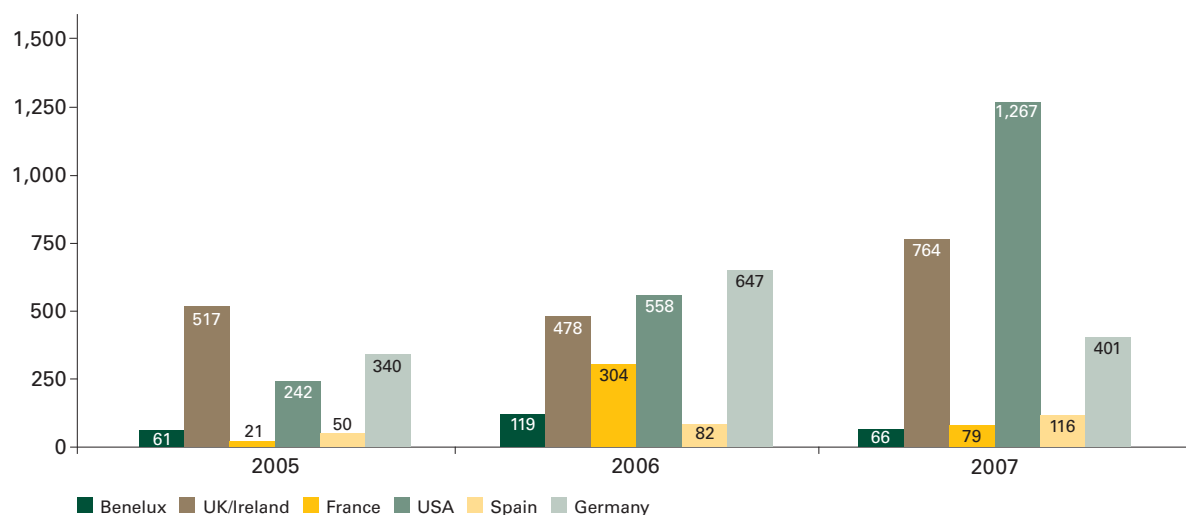
• NEW MORTGAGE BUSINESS

New mortgage loan commitments amounted to € 2,693 million, thereby exceeding the previous year's result by 23.1 %.

Growth was primarily recorded with regard to foreign mortgage business, which rose by € 751 million in absolute terms (+ 49 %) and reached a new all-time high of € 2,292 million. In contrast, new domestic business fell by € 246 million to € 401 million.

The differing developments in the volume of new commitments in the individual target markets is the result of Deutsche Hypo's consistent implementation of its business strategy, namely acquiring real estate financing with a basically low risk profile at attractive margins. Foreign markets offered better business opportunities than Germany in terms of

New business by region (in € millions)



achieving this profile, which had a corresponding influence on the distribution of new financing commitments.

The rise in the volume of new business was primarily supported by US business, which grew by € 709 million to total € 1,267 million.

Despite the problem situation in the subprime market, we basically continue to view the real estate market in the **USA** in a positive light, given that the real estate financings included in our business model are not directly linked to the subprime segment. As in the past, potential indirect effects on the economy as a whole and on real estate prices are incorporated into our risk assessment with regard to the selective granting of credit. Characteristic of our commitments in the USA to date is the very low average "Mortgage-lending-value"-figure of the portfolio in this target market, at 75.1 %, which corresponds to a low average loan-to-value of 56.3 %.

Furthermore, we are continuing with our strategic approach of operating primarily in the form of syndicated financings with experienced banking partners so that the level of risk is maintained at a manageable level. We are also adhering to our concept of focusing on senior tranches, which are the first-rate financing segments of large-scale finance deals. Even if real estate prices fall, this type of finance guarantees sustained security cover.

New business in the **UK**, after a slight decline in 2006, rose strongly again in 2007, up by € 286 million. The total volume was € 764 million (+ 60 %), which also includes a finance deal in Ireland worth € 21.5 million.

In **Spain**, meanwhile, new business rose by € 34 million to € 116 million. This corresponds to a rise of 41 %. We are confident of being able to achieve further increases in this market.

The volume of new business fell in the **Netherlands**, amounting to € 66 million. In response to this development, we stepped up our sales capacity during the second half of 2007.

New commitments in **France** totalled € 79 million, and were thus € 225 million down on the high level recorded in 2006. It is our view that the French market only offered limited business opportunities during the past financial year in light of our target risk/reward profile.

Of the total new business, € 426 million related to financings for residential property, which represented a fall of € 48 million. Commercial property accounted for € 2,267 million, an increase of € 553 million.

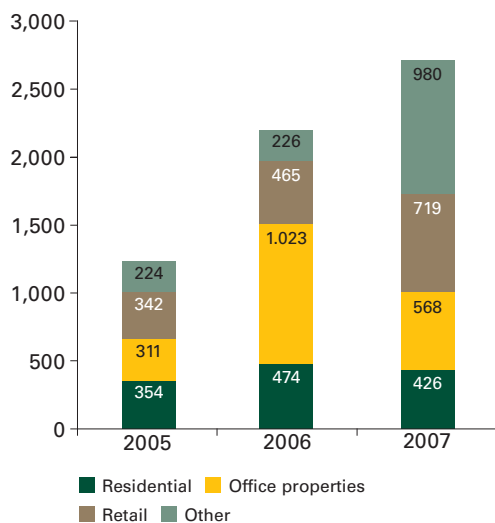
In the commercial sector, new business focused once again on office and retail properties, accounting for € 1,287 million (previous year: € 1,488 million). Unlike in the previous year, however, more retail properties than office properties were financed during the period under review.

Commitments relating to retail properties rose by € 254 million to € 719 million.

A fall of € 455 million to € 568 million was recorded with regard to the financing of office properties, although the € 1,023 million recorded during the previous year was an all-time high.

A strong increase was recorded with regard to financing commitments for other properties, such as hotels and logistics buildings. These grew by € 754 million to total € 980 million.

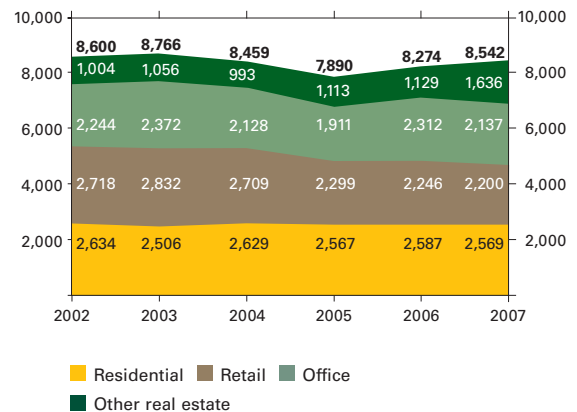
New business by property type (in € millions)



MORTGAGE LOAN PORTFOLIO

The mortgage loan portfolio rose by € 268 million (= 3 %) from € 8,274 million to € 8,542 million, a rise that was attributable to strong new business in other properties (+ € 507 million). In terms of house-building and retail properties, moderate falls of € 18 million and € 46 million respectively were recorded in the portfolio. A clearer fall was recorded in the area of office real estate, which decreased by € 175 million.

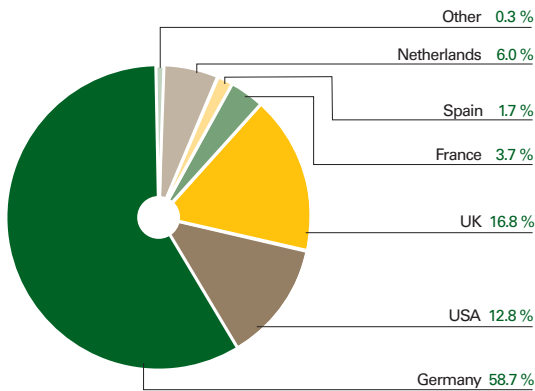
Development of mortgage loan portfolio (in € millions)



The development of the portfolio in Germany and abroad can be broken down as follows:

With regard to domestic business, the loan portfolio fell by € 473 million to € 5,015 million, whilst the mortgage portfolio relating to foreign business rose by € 742 million to € 3,527 million. Foreign loans therefore accounted for around 41 % of the total mortgage portfolio.

Allocation of mortgage portfolio of € 8.5 billion by country



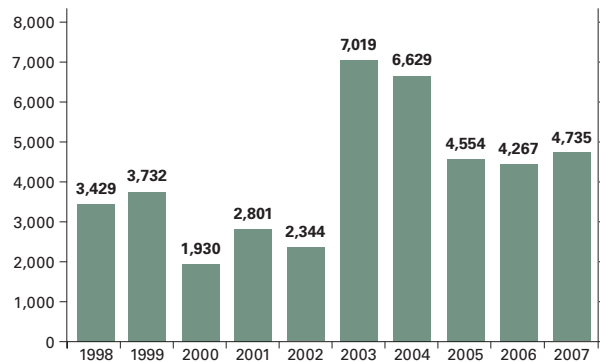
As in previous years, the way in which the portfolio developed was not constant but fluctuated over the course of the year in line with our customers' behaviour. However, we are assuming that this volatility caused by the subprime crisis in the US mortgage market and the resulting more restrictive lending policy on the part of credit institutions will ease. The following additional factors should, however, be noted when evaluating how the mortgage portfolio developed.

The exchange rate between the US dollar and the euro was marked by an ongoing loss of value in the US dollar during the year under review. Because our accounts are prepared in euros, the conversion, from a purely arithmetical point of view, results in a reduction in the portfolio. Given that we have hedged against this type of currency loss (cf. notes below on foreign currency risks), such conversion losses do not have a negative effect on the income statement.

Once again in the 2007 financial year we used our ongoing portfolio analysis to implement active measures to optimise our mortgage portfolio. The instruments used normally include placements in syndicated business, the targeted winding up of ailing commitments and, to a certain extent, a deliberate move away from commitments within the context of interest rate adjustments. These measures too had an impact on how the mortgage loan portfolio changed over the year. Overall, they served to improve the mortgage portfolio's risk structure.

♦ CAPITAL MARKET TRANSACTIONS

New capital market business (in € millions)

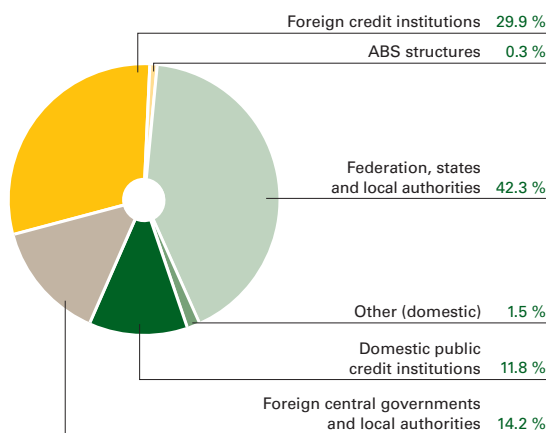


Our comparatively low refinancing costs meant that we were able to obtain good loan quality for our lending business. Compared with the previous year, Deutsche Hypo achieved a slight rise in the volume of new capital market business. At € 4,735 billion, new business was some € 0.5 billion up on the volume recorded at the 2006 year-end. This exceeded our expectations. The improved state of

the economy, combined with rising tax revenues, resulted in a clear reduction in the public sector's borrowing requirement. On this basis, we originally expected the level of new business to fall.

Nevertheless, the Federation, *Länder* and local authorities, together with their development banks, represented the biggest group of borrowers with regard to new business.

New capital market business
Total volume € 4,735 million

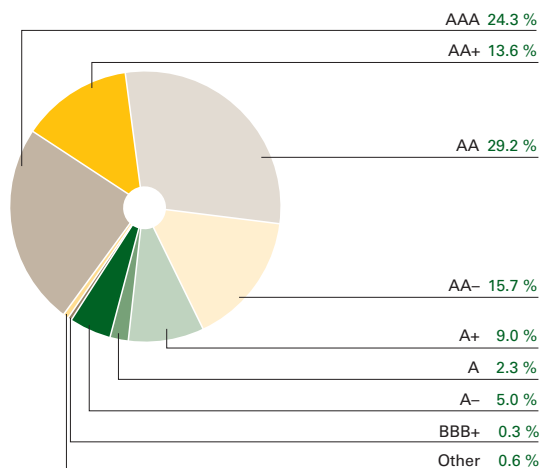


Up until the outbreak of the financial market crisis in the summer, bank bonds were acquired for the liquidity reserve. This area was then kept underweight with the negative development in credit premiums. Only very good ratings were purchased for higher premiums.

The trend in terms of the regional distribution of new business was slightly reversed compared with the previous year. Domestic business accounted for 56 % and foreign business for the remaining 44 %. In 2006, foreign activities were the bigger source of new business.

Our conservative approach to the issuing of credit to the public sector and to banks is once again evident this year from the ratings given to our cover pool. Nearly 25 % of the total volume has the highest rating of AAA. More than 58 % is rated as AA, with nearly all of the remainder of the portfolio being rated A. We believe that our approach has been confirmed as the right one in light of the turbulence on the credit markets, and we will continue to make quality our priority.

Public sector loan pool by rating class
Total volume € 19.7 billion



•• SECURITIES

The effects of the financial crisis are particularly evident from the highly volatile nature of securities prices.

Whilst the widening spreads across nearly all classes of securities offered attractive investment opportunities in good-quality securities, they also meant that portfolios lost value.

Frequently, the valuation reductions were not a reflex reaction to the poor credit standing or low quality of securities but to the lack of willingness on the part of investors to tie up additional capital.

Deutsche Hypo's securities portfolio is exclusively managed from a long-term perspective. There is no active trading with a view to generating profits in the short term.

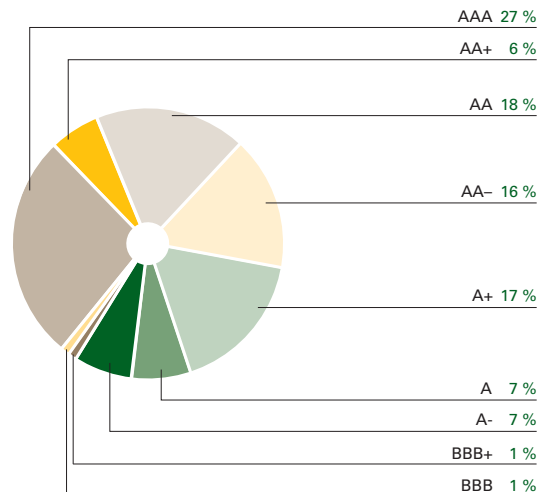
Securities held as current assets (€ 2.3 billion) are valued according to the strict principle of the lower of cost or market. This means that the valuation losses that occurred were reported in the income statement.

The securities held as fixed assets – after reallocations in the amount of € 1.5 billion – totalled € 9.6 billion and were primarily used as cover assets for our Pfandbriefe. The strict principle of the lower of cost or market does not apply to these securities. This means that a valuation is applied to these papers that could deviate from current stock market prices and could therefore be either higher or lower than the market price. Nevertheless, we have reviewed our papers held as fixed assets to check whether any write-down to market value is

required, which would be the case in the event of a serious and sustained influence on value. In fact, in the area of ABS held as fixed assets, there were two cases where write-downs were required.

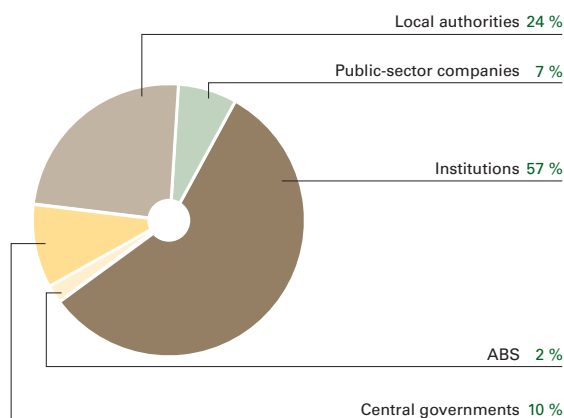
The generally high quality of the securities portfolio overall is evident from the good rating structure.

Securities portfolio by rating
Total volume € 11.9 billion (31.12.07)



The largest proportion of the securities portfolio relates to the strongly diversified segment of domestic and foreign banks. Given what remains the very good credit rating of banks, we do not envisage any fundamental risks to these papers at the current time. Overall, 97.8 % of the bank papers have a rating of A or higher and almost 67 % are rated AA or higher. Where these bank securities are also affected by falling prices, we judge this to be an overreaction on the part of the market.

Securities portfolio by borrower
Total volume € 11.9 billion (31.12.07)



Additionally, around 2 % of the Bank's securities portfolio comprises bonds in the form of asset-backed securities (ABS). After the onset of the subprime crisis in mid-2007 no new acquisitions were made. In line with the Bank's business strategy, only stocks with a minimum rating of A are purchased. These are underpinned with highly diversified real estate portfolios in the residential and commercial sectors, and serve to further diversify the property portfolio. The average rating is AA, with the main regional focuses on the UK and the USA.

In the case of ABS, a total of 23 issues worth € 57 million were affected by the negative developments in the US subprime market. One third were collateralised debt obligations (CDO) and two thirds were residential mortgage backed securities (RMBS), both of which are types of ABS.

Careful risk selection and the treatment of these papers as real estate risk mean that the impact on the Bank's income statement was limited. Two

CDO/SIVs, which were originally rated AAA, defaulted as a result of market-value triggers and were completely written off, whilst two further papers were written down due to their credit rating. Overall, valuation adjustments with an effect on the result amounted to € 15.7 million. No further credit default risks are currently discernible in this portfolio. Appropriate processes were installed in the Bank to guarantee timely monitoring of the changes in value of these stocks.

Attention will focus on the further development in the first two quarters of 2008 when the low-interest period commonly found at the beginning of a mortgage's term comes to an end in the case of many US mortgages. The necessary interest rate adjustments together with falling house prices and reduced repayment instalments could lead to higher losses.

The external ratings are more or less constant. In 2007 one of three rating agencies downgraded its rating for four securitisation tranches, without, however, straying outside investment grade.

However, all of the securities held as fixed assets, in the amount of € 9.6 billion, are currently being subject to an up-to-date valuation. The general benchmark used is market price. Only in those cases where the restricting functioning of the market limits the availability of market prices are model prices applied. Taking into account the relevant hedging instruments, the result of this valuation is, on balance, hidden accounting losses of € 29.7 million.

REFINANCING

The year 2007 was increasingly dominated by risk aversion on the part of institutional investors, together with a leaning towards high-quality assets with good credit ratings. In this context, bank bonds have been subject and indeed are still subject to a significant widening of spreads. This is why international investors continue to have a high level of confidence in the German Pfandbrief. In contrast, the credit premiums on other covered bonds (particularly structured covered bonds) in their capacity as rival products, widened considerably in parts. Interest in issues with a good credit rating increased significantly, with the result that Deutsche Hypo issues enjoyed a stable level of demand at all times. This spread advantage remains one of the key components of the Bank's income. Deutsche Hypo was, like others, unable to escape the widening of spreads with regard to uncovered bonds but was, however, less strongly affected than the majority of its competitors.

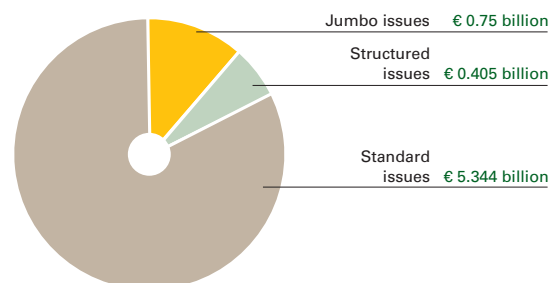
The total issue volume, at € 6.5 billion, was below the previous year's figure of € 8.0 billion, with € 2.7 billion relating to Pfandbrief products. Successful issuing activity continued in 2007 in the jumbo segment, with four increases totalling € 750 million. There were no new issues. In the case of all jumbo increases, as in the case of smaller, tailored issues, Deutsche Hypo was again able to profit from its first-rate standing as an issuer.

As well as traditional issuing activities and the issuing of registered stocks (registered Pfandbriefe and borrowers' notes), issues were also placed in the context of debt issuance programmes totalling € 1.2 billion, which were aimed

primarily at foreign investors. Whilst the registered stocks continued to be in strong demand from the German insurance industry, the jumbo issues and DIPs were placed internationally to a large extent. Thus Deutsche Hypo's visibility was maintained at a high level. It is now the case that the Bank's issues are targeted by major capital depositories with international operations and central banks. The prominent composition of the dealer syndicate for the DIP and the resulting multiplier effect made a major contribution in this regard.

The proportion of structured refinancing – in other words, issues with interest rate structure components – declined in 2007 due to what remained a flat yield curve. Nevertheless, Deutsche Hypo succeeded in placing most of its Pfandbriefe at conditions that were well below those experienced by the competition. These comfortable refinancing conditions continue to provide us with a significant competitive advantage. With this in mind, Deutsche Hypo will be continuing to pursue its strategy of meeting individual investor requirements in the form of customised issues, ensuring that, in future, the Bank can continue to offer the range of products that investors expect and take up, whilst at the same time positioning itself with regard to new products and product variants.

Breakdown of issue volume of € 6.5 billion



.. SECONDARY MARKET ACTIVITIES

This year our active measures to regulate the price of our own securities were used to regulate bonds with a nominal volume of € 678 million (previous year: € 1.25 billion), thereby providing the secondary market liquidity that investors both value and demand. Measures to regulate the price of our outstanding jumbo Pfandbrief issues – with a volume of € 8.875 billion – continued to be guaranteed, on the basis of contractual arrangements, by

the corresponding syndicate bank partners, the only exception being during the temporary suspension of interbank market making.

In terms of our portfolio of own securities, early redemptions during the year under review realised profits of € 0.6 million (previous year: - € 1.4 million).

The nominal value of our own portfolio as at the year-end was € 182.2 million (previous year: € 153.8 million).

.. RATING

Deutsche Hypo rating

	Public Pfandbriefe	Mortgage Pfandbriefe	Short-term liabilities	Long-term liabilities	Financial strength
Standard & Poor's	AAA	-	-	-	-
Moody's	Aaa	Aaa	Prime-1	A2	C
	-	-	-	since 27/02/2008: Aa3	since 27/02/2008: C-

The very good ratings enjoyed by our Pfandbriefe – AAA in all cases – remained unchanged in 2007. Moody's Investors Service has also confirmed the Bank's rating of A2 and Prime-1 for long and short-term (unsecured) liabilities.

In conjunction with the intended acquisition by NORD/LB of a majority of share in Deutsche Hypothekenbank, Moody's informed the Bank

that it is placing Deutsche Hypo's rating for long-term (unsecured) liabilities on the watchlist for a possible upgrade.

This upgrading was duly carried out by Moody's on 27 February 2008, with Deutsche Hypo being given the rating Aa3. Moody's has also changed the financial strength rating to C-, which corresponds to the financial strength rating of NORD/LB.

NET PRESENT VALUE COVER

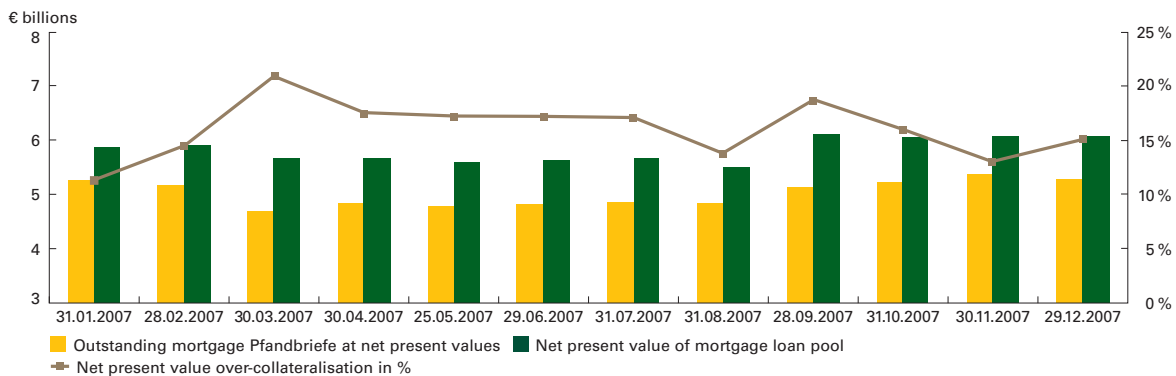
Pursuant to the Pfandbrief Net Present Value Regulation (PfandBarwertV) of 14 July 2005, Pfandbrief banks are obliged to ensure that outstanding Pfandbriefe are covered on a net present value basis at all times with an over-collateralisation of 2 % per category (mortgage and public). The Pfandbrief bank must additionally ensure that the net present value cover in accordance with Section 4, para. 2, first sentence of the Pfandbrief Act is also maintained in the event of changes to interest or foreign exchange rates ("securing over-collateralisation"). For the purposes of calculating this securing over-collateralisation, Deutsche

Hypo carries out the stress tests as prescribed by the Regulation, with the minimum over-collateralisation of 2 % being maintained.

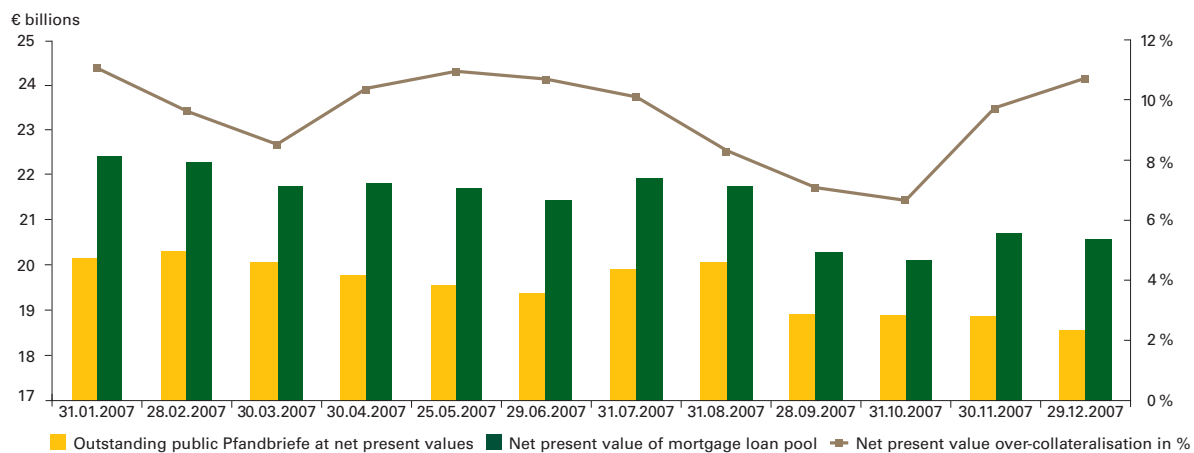
Deutsche Hypo met this requirement at all times throughout the year under review. As an average for the year, the over-collateralisation on a net present value basis was 16.06 % in the case of mortgage Pfandbriefe and 9.51 % in the case of public Pfandbriefe, and thus well above the minimum required.

For the first time in 2007, a total of 10 derivatives were included in the cover pool for mortgage Pfandbriefe and 8 derivatives in the public-sector cover pool.

Net present value over-collateralisation of mortgage Pfandbriefe (in € billions)



Net present value over-collateralisation of public Pfandbriefe (in € billions)



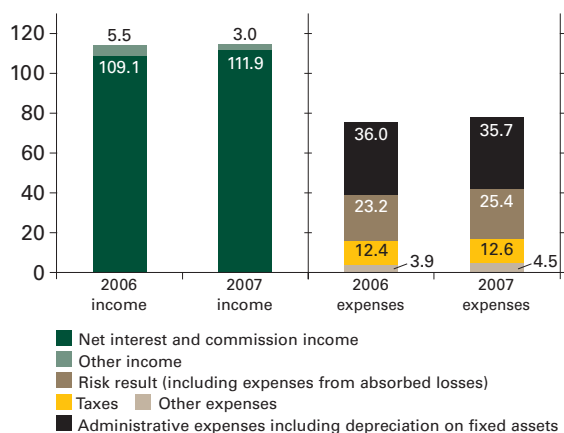
.. PROFIT SITUATION

.. SATISFACTORY INCOME SITUATION

Net interest and commission income rose during the 2007 financial year to approximately € 112 million. Particular emphasis should be placed on the positive development recorded in mortgage lending business, which was able to make a bigger contribution to profit in an environment that continued to be dominated by high pressure on margins. In foreign mortgage business in particular, Deutsche Hypo was able to realise its envisaged margins and expand its portfolio at the same time. The commission result also features a rise in income from foreign lending activities (USA and UK) on a large scale.

In terms of capital market business, the predominantly flat yield curve in 2007 was not conducive to the generation of income from maturity transformation. This meant that, despite successful margin business in this segment, there was no additional impetus lent to the growth in net interest and commission income.

Structure of income and expenses
(in € millions)



.. ADMINISTRATIVE EXPENSES

Administrative expenses were practically at the same level as in the previous year, at € 35.7 million (- 0.8 %). The reason for the slight fall was the one-off effects with regard to personnel expenses compared with the previous year (- 5.1 %). Other administrative expenses rose by 5.6 %, primarily as a result of the rise in new business.

The cost/income ratio fell to 31.9 % (previous year: 33.0 %), underlining the Bank's good cost/income ratio, including with regard to its competitors.

.. OTHER INCOME AND EXPENSES

On balance, other income and expenses amounted to - € 1.5 million. Allocations to risk provisioning during the 2007 financial year essentially offset income from the leasing of the Bank's own property.

The result from financial investments, which is also included in this figure, compared negatively with the previous year, at - € 1.3 million (+ € 0.3 million in 2006), and is the balance of write-downs on securities held as fixed assets and income from the sale of holdings, the realisation of which primarily resulted from lending business.

.. RISK PROVISIONING

The risk result, at € 25.4 million, was 9.5 % higher than the previous year.

A positive development was recorded in relation to the risk provisions for loan losses in the amount of € 12.4 million (previous year: € 18.7 million). The required level of provisioning was well below the already relatively low level of the previous year. This reflects both the good state of the economy in the real estate markets relevant to our operations and the result of our low-risk lending policy.

The risk result with regard to the liquidity reserve was crucially influenced during the past year by the ongoing crisis of confidence on the international capital markets. Price falls on the national and international bond markets meant that Deutsche Hypo was also forced to write down securities held in the liquidity reserve, with a negative effect on the risk provisioning result and thus the Bank's result. The risk result from the liquidity reserve was therefore € 13.0 million during the year under review (previous year: € 4.5 million).

.. RESULT FROM ORDINARY BUSINESS ACTIVITY

The result from ordinary business activity fell by € 2.2 million to € 49.3 million (- 4.3 %) during the reporting year, primarily due to the above factors relating to risk provisioning.

The return on equity before tax – based on average capital – was 11.2 % for the 2007 financial year (previous year: 12.3 %).

The result after taxes was € 36.7 million (- 6.1 %).

The tax ratio was slightly higher than in the previous year.

.. REPORT ON SUBSEQUENT EVENTS

There have been no events of particular significance following the end of the 2007 financial year likely to have a major impact on our business result for 2007.

.. PROPOSED APPROPRIATION OF PROFIT

The Board of Managing Directors and the Supervisory Board have decided to allocate € 12.0 million of the year's net income of € 36.7 million to the revenue reserves. This leaves distributable profits for the year of € 24.7 million.

The Board of Managing Directors and the Supervisory Board shall propose to the shareholders at the General Meeting that distributable profits for the year be used for a dividend of € 1.10 (prior to share split: € 11) and for a further allocation to other revenue reserves in the amount of € 9.9 million.

Based on the average share price for the year of € 32.79, payment of the dividend equates to an interest return of approximately 3.4 %.

.. DEVELOPMENT OF EQUITY CAPITAL

The allocation of € 5.3 million as resolved at the 2007 General Meeting and a prior allocation to the revenue reserves as decided by the Board of Managing Directors and Supervisory Board in the amount of € 12.0 million will raise the balance-sheet capital (excluding distributable profits) to € 496.4 million.

Subordinated liabilities were increased by € 6.6 million to € 229.3 million, of which € 222.1 million was included in the liable equity capital.

The participatory capital, after disposals due to maturity in the amount of € 51.1 million and additions from issuings in the amount of € 30.0 million, amounted to € 108.2 million as at the reporting date, of which € 97.8 million was included in the liable equity capital.

Equity capital as reported on the balance sheet (including participatory capital and subordinated liabilities) thus totalled € 859 million. The Bank's total equity ratio according to Principle I totalled 9.3 % excluding the provisional year-end allocation. The core capital ratio amounted to 5.5 %, as in the previous year, thereby clearly exceeding the minimum prescribed ratio of 4 %.

Due to the market distortions described above, it has not yet been possible to issue our planned hybrid bond. The significant widening of credit spreads in 2007 would have resulted in the need for an interest coupon outside the interest corridor approved by the Extraordinary General Meeting in November 2006. In the absence, for some time

now, of fair prices on what is an illiquid market, the possibility of issuing our hybrid bond depends on a positive change in the market environment.

.. RISK REPORT

.. CURRENT DEVELOPMENTS

In its Circular 5/2007 of 30 October 2007, the Federal Financial Supervisory Authority (BaFin) published an amendment to its Minimum Requirements for Risk Management (MaRisk). These changes entered into force with effect from 1 November 2007.

The changes mainly affect the implementation of the new outsourcing rules, most of which are incorporated under No. AT 9 of MaRisk.

Deutsche Hypo completed its implementation of the changes to MaRisk during the past financial year. The main adjustments required were the implementation of a new (in-house) set of rules on outsourcing and slight modifications to the Bank's business and risk strategy.

Additionally, the Bank reviewed its business and risk strategy overall, making any necessary adjustments, in line with the requirements of MaRisk. The Supervisory Board was duly briefed on this matter and involved in discussions. The strategy was modified with regard to the purchase of ABS structures, so that, in future, such transactions can only be entered into on a limited scale.

The Supervisory Board was also briefed on the Bank's risk situation in the form of quarterly risk reports.

It is the Bank's intention to apply the internal rating approach (IRB basis) to calculate the regulatory minimum capital requirements in accordance with the rules of the Solvency Regulation. The Bank therefore applied for a licence for the "commercial real estate customers" and "banks" rating procedures in 2007. The German Bundesbank has conducted an intensive study of these rating procedures. A final assessment has yet to be given, however, we expect to be granted permission in the 2008 financial year.

We regard the use of the IRB approach as an interim step en route to the advanced approach, which should follow over the next few years.

•• RISK MANAGEMENT SYSTEM

The basic features of the Bank's risk management system are unchanged.

The Board of Managing Directors bears overall responsibility for setting up and monitoring the risk management system, and is also responsible for stipulating risk strategy as part of the Bank's overall strategy. The risk profile and, in particular, the risk limits are derived from this strategy, with the limits being set by the Board of Managing Directors in liaison with the Supervisory Board. These limits restrict the business opportunities and thus the risk that the Bank is willing to enter into. The Bank's overall risk position is the subject

of regular monitoring. The maximum permitted framework is determined by the limits of risk-bearing capacity, which is reviewed on an ongoing basis in accordance with the terms of MaRisk.

The Supervisory Board is regularly briefed on the Bank's overall risk situation.

The Controlling and Credit Risk Controlling departments measure and monitor the individual risk types and operate independently of the front and back office operational areas. A detailed reporting system, comprising a reporting frequency ranging from daily to 3-monthly depending on risk type, enables the Board of Managing Directors to react to negative developments at any time and at short notice.

Additionally, pursuant to the terms of MaRisk, the Bank's risk-bearing capacity is permanently monitored. This is done by comparing the risks that have been assumed against the risk cover potential. Risk-bearing capacity was in place at all times during the year under review.

Over and above the provisions of MaRisk, according to Deutsche Hypo's internal view, risk-bearing capacity only exists if, in the event of all risks being realised, there remains a minimum level of equity sufficient to enable the Bank to continue with its business operations. This is guaranteed by limiting individual risks.

•• PRINCIPLE OF RISK-BASED BUSINESS POLICY

The aim of Deutsche Hypo's business and risk strategy is to make the Bank's basic strategic direction and risk philosophy transparent and verifiable. The 2007 financial year saw a continuation of the low-risk business policy of earlier years. Its requirements in terms of quality and risk diversification in the lending sector meant that the Bank was only moderately affected by the US subprime crisis. Furthermore, no risks emerged that would have led to significant negative effects for the Bank.

The foundation of the risk-oriented business policy lies in permanently improving the system used to measure and manage the risks facing the Bank as a whole. The loan portfolio model was developed in 2007. This uses in-house default and loss rates to calculate the expected loss and economic capital at portfolio level and at the level of individual borrowers. The economic capital is used to limit and budget the risk-weighted assets, while the expected loss provides information on any changes in loan quality, and enables conclusions to be drawn on how the income statement will develop. Both aspects are prerequisites for risk-oriented pricing. The consistent risk-oriented pricing implemented over past years with regard to our mortgage financing enable us to select credits in a risk-compatible manner and to achieve an appropriate level of profitability.

•• TYPES OF RISK

The following risk types are relevant to the Bank's commercial operations:

- Counterparty and loan default risk
- Market price risk
- Liquidity risk
- Operational risk

•• COUNTERPARTY RISK

Generally, counterparty risk is the risk of a loss of value or of receivables not being paid due to our customers facing payment problems or failing to comply in full or in part with other contractual obligations. The risk of a customer's credit standing deteriorating is also a form of counterparty risk.

Counterparty risk can be broken down into credit risk in the narrow sense, performance risk and country risk.

CREDIT RISK IN THE NARROW SENSE

Credit risk in the narrow sense encompasses the risk of the borrower being impaired or unable to pay and also, with regard to real estate finance, the risk of the security losing value.

Property financing segment

CREDIT APPROVAL

Even when awarding loans, the Bank is managing risk by its targeted selection of new business on the basis of sector and region. Loans are awarded on the basis of sound, clearly defined criteria. Responsibility for approving a loan is dependent on the risk assessment of the customer, carried out on the basis of a uniform in-house rating procedure. The real estate security is valued in cooperation with the Bank's own surveyors, whose expert report is used as a basis for the credit decision.

Additionally, the rating and the valuation of the security crucially determine the loan conditions, with the result that pricing is carried out on an individual and risk-oriented basis. In the case of higher-risk financing, depending on the rating class and value of the security, an independent quality management process is also incorporated into the decision-making process. As an additional aspect, experts from the Credit Risk Controlling department permanently monitor developments in the real estate markets, supporting the credit analysis and monitoring units with up-to-date information and individual reviews of the Bank's own real estate portfolio.

Limit system

The limit system forms the maximum credit framework for individual financings and the overall exposure, encompassing both borrowers and tenants. The limit itself is not volume-related but a risk-oriented variable, calculated from the size of the commitment, the quality of the real estate and the credit rating of the borrower. Further limits

also apply to individual properties and specific types of financing, each of which may not exceed a specific proportion of the total portfolio.

Market assessment using the traffic light model

The traffic light model means that a uniform business strategy can be applied across all of the Bank's departments. Using signals in the form of the traffic light colours green, amber and red depending on sector and region, the activities of the sales and lending units can be efficiently managed, and the findings from the sector reports and special investigations carried out by Credit Risk Controlling be easily transported. Categorisation on the basis of the traffic light model means that, within the context of the credit decision-making process, the quality requirements may be raised for a particular financing.

PORTFOLIO MONITORING

Regular monitoring of credit quality is an integral part of the early warning system, with the help of which any undesired portfolio developments and negative aspects of individual commitments can be picked up at an early stage. Any commitments that attract attention are immediately dealt with by risk management experts as part of a preventive approach.

The risk management team brings together both liquidation experts and credit specialists, so that any opportunities for the successful restructuring of the commitment in conjunction with our customers can be exploited, or, otherwise, the rapid

and successful forced disposal of a security can be achieved with the aim of improving the Bank's risk position to reduce and avoid potential losses.

In addition, the portfolio structure is reviewed on an ongoing basis against the background of risk-bearing capacity so that undesirable developments, such as risk concentration, can be detected at an early stage and controlled.

Capital market business segment

Our business with the public sector and also with banks is subject to similar procedures and methods as described above for real estate finance business. This area of business is permanently monitored as part of the ongoing measurement of counterparty default risk and also in the context of risk-bearing capacity. Due to the typically good ratings, this type of business presents a lower level of risk than real estate finance, i.e. the inherent default risk for this type of customer is a less important factor and has less of a negative impact on risk-bearing capacity.

Risk in the capital market business segment is controlled by means of a limit system. This includes general counterparty-related limits. Additionally, sub-limits are also stipulated for individual countries. As a general rule, an investment grade rating (or comparable internal rating) is required as a basic minimum for all new business. The average rating for claims included in the cover pool is AA.

This system continues to secure the high quality of new business, which, in turn, is an inviolable prerequisite for the high quality of the cover assets.

COVER PORTFOLIO

Deutsche Hypothekenbank is a Pfandbrief institution as defined in the German Pfandbrief Act, which entered into force on 19 July 2005. This Act, which has replaced the Mortgage Bank Act, guarantees that the high requirements made of Pfandbrief issues are upheld in future and thus that Pfandbrief institutions continue to enjoy favourable refinancing options and to have worldwide access to the capital markets.

According to the Pfandbrief Act, a Pfandbrief bank must have a suitable risk management system in place. This system must comprise the setting up of suitable rules and instruments to manage, monitor and control the risks for the cover assets and issuing business based on that cover pool. The system may form part of the bank's general risk management system.

We devote particular attention to the risk management of our Pfandbriefe and the underlying cover pools. Alongside permanent adherence to the cover principle and securing sufficient over-collateralisation at net present value (Section 4, para. 2 PfandBG), we regularly analyse the quality of the credit claims used as cover assets. This involves analysing ratings and cash flow structure and the ongoing monitoring of the value of the real estate security serving as collateral.

In addition to internal measures, our Pfandbriefe and the related cover assets are permanently monitored by the rating agencies on the basis of the detailed information submitted to them on a regular basis. The high quality of our Pfandbrief and the underlying credit assets serving as cover was again confirmed with the rating agencies awarding them the top ratings.

Reference should also be made to the extended information obligations based on the transparency provisions of Section 28 of the Pfandbrief Act. This information is published regularly on the Deutsche Hypo website and is also contained in the Notes for the 2007 financial year.

PERFORMANCE RISK

Performance risks arise whenever the performance and counter-performance are exchanged at different times during the settlement of a transaction.

This risk is not particularly relevant to Deutsche Hypo's business operations. Where necessary, limits are in place with regard to capital market and refinancing business. In the case of real estate finance, appropriate measures to secure the Bank's positions are in place in that lawyers are involved in the process, and insurance cover is arranged to cover damage caused by breach of trust.

SOVEREIGN RISK

Sovereign risks encompass all risks that the Bank could suffer a loss arising in connection with the award of credit to borrowers outside Germany and relating to the uncertainty surrounding the political, economic or social situation of another state. The Bank limits these sovereign risks by, for example, stipulating country limits based on individual states' ratings. The minimum acceptable rating is A.

•• MARKET PRICE RISK

Market price risk encompasses the general risk of changes in market prices and rates, leading to changes in the valuation of assets or liabilities or of derivatives used for security purposes and basically resulting in a profit or loss. A large part of our business is affected by this risk.

Two particular types of market risk are significant:

- Interest rate risk and
- currency risk.

Interest rate risk comprises two elements, general interest rate risk (market risk) and specific interest rate risk (spread risk). General interest rate risk comprises changes in value that arise due to general market movements for specific categories of transaction (e.g. interest rate hikes in general leading to price falls in the case of fixed-income securities).

Specific interest rate risk (spread risk), meanwhile, encompasses changes in value due to circumstances that are specific to an issuer, e.g. a deterioration in the rating of a given issuing house leading to price falls. In this case, however, assuming that market circumstances are otherwise unchanged, only the papers issued by the downgraded issuing house would be affected.

CURRENCY RISKS

Deutsche Hypo is only affected by currency risks to a minimal extent. Corresponding hedging transactions are concluded for business in foreign

currencies, thereby generally eliminating any currency risk. These transactions are the subject of micro-hedges with regard to both the capital and the interest. This guarantees maximum security.

GENERAL INTEREST RATE RISKS

These risks arise if the transactions on the assets side of the balance sheet are not refinanced on a term-congruent basis (i.e. with the same term structure). This approach offers additional income opportunities but also involves assuming risks, namely interest rate risks. Income opportunities may arise if, for example, market rates have fallen upon subsequent term-congruent refinancing, so that the lower interest rate level increases the bank's margin. Obviously, the reverse scenario could also occur. In this case, were market rates to rise, term-congruent refinancing would only be possible at worse conditions than originally calculated. This would reduce the margin or even eliminate it altogether.

The comprehensive influence of market/interest rate risk on our business obviously means that we devote particular attention to managing this risk. To do so, we make use of a sophisticated tool for observing and measuring risks.

As a general rule, interest rate risk management takes the form of macro-management. This means that the risks from individual transactions are grouped together according to their maturity and are subsequently managed using the corresponding hedging transactions.

Limits are also in place to restrict interest rate risk. If these limits are exceeded, counter-measures are immediately introduced so that the risk falls below the limits again.

In the context of Deutsche Hypo's risk-averse business policy, we have adopted a very reserved approach to interest rate risk, as has also been the case in previous years. It should also be noted that, due to the flat nature of the yield curve, there was little incentive to expand the interest rate risk, as the potential income that could have been generated would not have been sufficient to justify the risk.

Interest rate risk is monitored on an ongoing basis with the responsible member of the Board of Managing Directors receiving a daily report.

The following processes continue to be used:

- .. Basis-point-value method (100 bp)
- .. Value-at-risk-method
- .. Scenario analysis

The basis-point-value method simulates an interest rate rise of 100 bp by means of a parallel shift in the yield curve. The resulting changes in the present values of all balance sheet and also off-balance sheet positions indicate the level of interest rate risk.

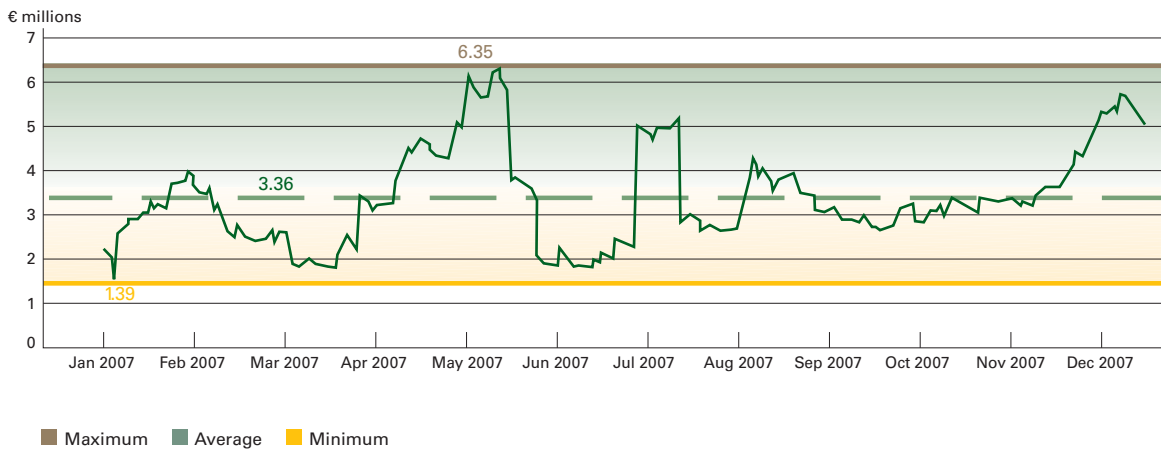
Basically, this process merely represents a scenario calculation (commonly used in the sector), simulating the (very unlikely) case of a 1 % increase in interest rates "overnight". Limits are then put in

place on the basis of this scenario and must not be exceeded. Combined with the very low likelihood of this scenario occurring in practice, this gives a relatively high level of security.

The value-at-risk method provides an estimate of the actual interest rate risk based on historical interest rate data and volatility patterns. The maximum potential loss based on a confidence level of 99 % and a holding period of 10 days is calculated.

As at 31 December 2007 the value-at-risk was € 5.1 million (previous year: € 2.2 million). The maximum value was € 6.4 million (previous year: € 6.7 million) and the lowest value was € 1.4 million (previous year: € 1.7 million). For the year as a whole, the average was € 3.4 million (previous year: € 4.0 million).

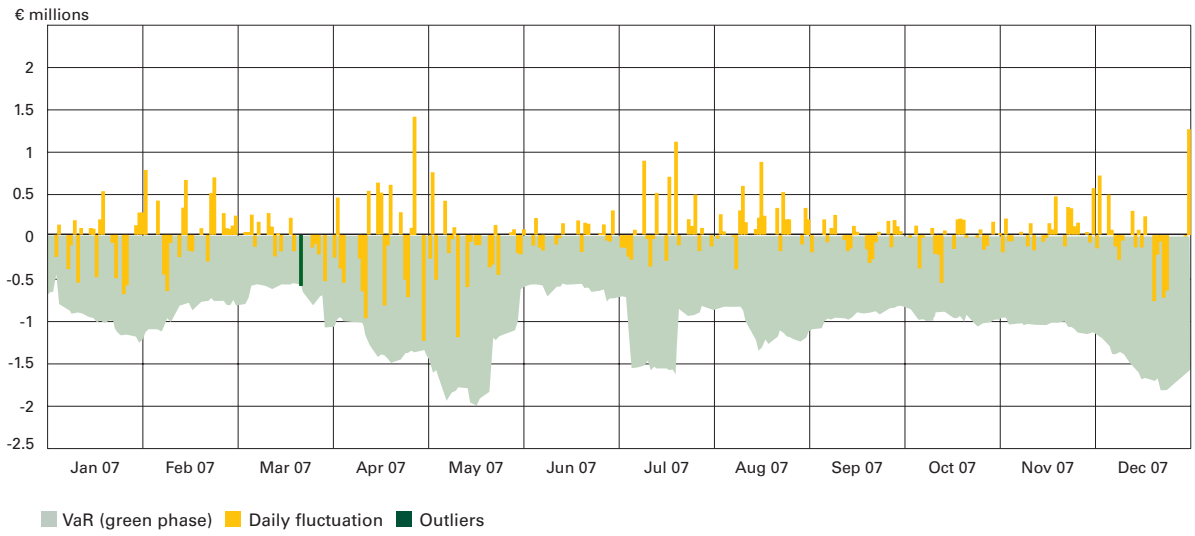
Value-at-risk 2007 (in Mio. €)



The forecasts from the value-at-risk calculations are then subjected to backtesting.

This involves a comparison of the actual changes in the cash value of the Bank's portfolio with the predicted changes. Backtesting has confirmed that the forecast values are actually observed in reality, as shown by the following graph.

The predicted value-at-risk values are shown in the green area below the X axis; the daily fluctuations in value that actually occurred in practice – with the exception of the outliers – do not fall below the forecast values. One outlier is within the band of statistical probability.



SPREAD RISK

Spread risk refers to the loss of value caused by changes in credit spreads. The credit spread is the difference between the yield structure curve of the security and the currency-specific swap curve without any credit spreads.

Factors that influence credit spreads include the credit standing of the issuer and also (to a greater extent) the general state of the market, particularly the supply and demand situation.

Spread risk is assessed using simulations. Standard scenarios are implemented for selected positions that are particularly significant. The main focus in these scenarios is on the impact on the current income situation.

Additional simulations are carried out in relation to the Bank's entire portfolio to measure the impact on the (net present value) overall position of the Bank.

The subprime crisis has led to spread risk and the analysis models used in this regard being scrutinised. Further improvements have been made so that, in future, a value-at-risk approach will also be used alongside scenario calculations.

LIQUIDITY RISK

Liquidity risks may arise if the Bank cannot meet its payment obligations on time or in the full amount, or if the required liquid assets can only be procured at elevated market prices. The supervisory

authorities have stipulated the regulatory requirements in terms of sufficient liquidity in the form of Principle II.

Deutsche Hypo met the requirements of Principle II without any problems throughout 2007. The Bank's liquidity ratio as at 31 December 2007 was 1.25 (previous year: 1.60). This means that short-term payment obligations were covered by incoming payments due in the short term by a factor of 1.25.

To monitor its short-term liquidity situation, the Bank prepares a daily liquidity status report giving a detailed breakdown of all incoming and outgoing payments over the next eighteen months. This evaluation is used for shorter-term drawing on liquidity. Long-term liquidity evaluations also exist, covering the entire period through to the maturity of all payment flows. These evaluations form the basis of long-term strategic liquidity planning.

The subprime crisis resulted in liquidity shortages in the banking sector. Against this background and as part of our liquidity management, we are analysing for an observation period of one year how and to what extent any liquidity gaps that emerge can be plugged using existing options for the procurement of liquidity. These instruments range from the utilisation of free tender volumes through to the issuing of covered and uncovered bonds. This analysis shows that the Bank's liquidity is guaranteed.

Additionally, the Bank practises a liquidity escalation procedure to cushion the negative effects caused by liquidity shortages.

• OPERATIONAL RISK

Operational risk refers to the risk of losses being incurred due to the unsuitability or failure of internal process or systems, due to human error or inadequacy, or as a result of external events.

Deutsche Hypo distinguishes between the following types of risk:

- Strategic risks
- Product and customer-related risks
- Organisational and business process-related risks
- Legal risks

Standardised reports and reporting channels guarantee that the risk situation is analysed permanently and regularly.

An annual inventory of all risks, prepared by the Bank's heads of department, lists all of the relevant risks. Information such as the potential amount of the damage, probability of occurrence, early-warning possibilities and measures to be taken in the event of damage occurring can be used to classify the resulting risk potential. In addition to regular reporting, the Board of Managing Directors is also briefed without delay on any acute change in the Bank's risk situation.

Contingency planning is permanently adjusted and improved in line with changes to business processes. In the event that Head Office can no longer be used, operations can be continued on a contingency basis with the necessary infrastructure and IT back-up from an alternative location.

Currently, there are no known risks representing a high potential threat to the Bank.

The Operational Risk Committee (ORC) also meets on a quarterly basis. This committee comprises the Board of Managing Directors of Deutsche Hypo and the heads of department responsible for risk management and internal audit. The meetings deal with a standardised report containing the following information:

- Reporting of any new cases of damage recorded in the database
- Status of current new product processes
- Status report on any significant Bank projects

Deutsche Hypo can state that it does not face any risks over and above the standard level of risk encountered within its field of business.

.. FORECAST

On 5 December 2007, Norddeutsche Landesbank – Girozentrale –, Hanover (“NORD/LB”) published the details of its voluntary, public takeover bid, offering to purchase from the shareholders of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover/Berlin (“Deutsche Hypo”) all bearer non-par value unit shares in Deutsche Hypo at an offer price of € 36.09 per share in cash. In its publication of 24 January 2008, NORD/LB stated that the total number of Deutsche Hypo shares held by NORD/LB by 23 January 2008, 6 pm CET, was 13,223,467. This equates to a share of 98.389 % of the share capital and voting rights of Deutsche Hypo. The name Deutsche Hypo will be retained and will be used for the joint group that in future will represent the entire market presence of the real estate banking division of what was previously Deutsche Hypo and the corresponding business division of NORD/LB. Deutsche Hypo is to represent the centre of excellence for real estate banking within the NORD/LB Group. The two areas of business of the “new” Deutsche Hypo will remain commercial real estate finance and capital market business.

The strategy to be pursued is expansion in the strategic area of real estate banking by means of organic growth whilst retaining the focus on selected customers, properties and markets. The plan is to consolidate the good competitive position held by Deutsche Hypo through the further bolstering of sales in Germany and abroad, thereby consistently increasing the long-term volume of new business.

The Supervisory Board and the Board of Managing Directors of Deutsche Hypo published a joint statement on 17 December 2007 to the effect that the takeover bid was unanimously welcomed. In light of statements made by NORD/LB in the offer document, the Board of Managing Directors and the Supervisory Board do not expect any key changes to the core business of Deutsche Hypo following the completion of the takeover bid and regard the implementation of the aims, strategies and intentions of NORD/LB in the offer documentation as positive overall for Deutsche Hypo. In a statement also published on 17 December 2007, the Works Council in principle welcomed the imminent takeover.

.. ECONOMY AND REAL ESTATE MARKETS

The subject dominating the global economic agenda in 2008 will again be the extent of the impact on the real economy of the credit crisis in evidence on the financial markets since the middle of 2007. Many leading indicators appear to show that global economic growth is being significantly hampered by the market turbulence. Numerous banks in the industrialised countries have already tightened up their lending criteria and conditions, both to corporate customers and to households. As a result, consumer spending – a key source of strength to German economic growth – will be significantly subdued. Many companies' willingness to invest is also set to decrease so that demand across the economy as a whole will fall. Many economists fear that, in the USA in particular, where thriving consumer spending has been the main driver of

growth over the past few years, the negative effects of the credit crunch on the private sector will make a recession increasingly likely, despite the fact that the downward movement could be slightly eased by the Federal Reserve's decision to cut interest rates – as already witnessed in January 2008 – and by the economic rescue programmes being implemented by the US government.

The credit crisis has not just left its mark in the USA. The impact has also been felt on the European commercial property markets. The fall of more than € 200 billion in the volume of transactions recorded in Europe as a whole in 2007 is already leading many market observers to assume that market yields will start rising again. Basically, the real estate markets are in a phase of transition: over the last few years, the globalisation of real estate capital and the high flow of liquidity, which led to surplus demand for real estate investments, caused purchase prices to grow at much higher rates than rents. This resulted in falling levels of initial net yields at the top end around the globe (yield compression). This trend will weaken significantly as of 2008. Prices on most of the office property markets will stagnate or fall. The already fully anticipated positive rent developments in many cases are only leaving scope for higher price offers at a few locations. Additionally, given the current situation on the financial markets, it must be assumed that security-oriented investors with an equity-intensive investment strategy will increasingly have their day on the real estate investment market, whilst those investors that have dominated the commercial property market over recent years with a high degree of borrowing will take more of a back seat.

Consequently, in terms of our real estate finance business, we anticipate a generally more reserved development in our target markets than was the case in 2007. We expect to see the described turn-arounds not just in the US real estate market which has been so severely affected by the sub-prime crisis but also, for example, on the Spanish real estate market.

However, in terms of our specific acquisition potential, we only attach a relatively low importance to the effects of these developments. In our capacity as a specialist financing institution, we are able to successfully pursue our strategy even in difficult times.

We expect the volume of new business to be around the level recorded in 2006. We also expect to see portfolio growth, as volatility with regard to the financing of real estate portfolios will, in our view, decline due to the more difficult situation that is generally anticipated on the real estate markets. It remains our aim, as before, to continue with the expansion of our mortgage lending business, thereby laying a solid foundation from which to generate income in the future.

The development of the risk result for credit is difficult to estimate against the background of weakening real estate markets. However, we expect the portfolio management measures implemented in the past to have a positive impact over a sustained period. Within the context of our planning, we expect the risk result for credit to be around the same level as that recorded over recent years.

Overall, we expect the earning power of our real estate financing business to be stable over the next year.

.. CAPITAL MARKET DEVELOPMENT

Capital market business will again be a difficult market segment in 2008. In particular, it is still too early to predict the final impact of the subprime crisis. The divergent scenarios – from a local and essentially contained impact through to widespread recession – are described below. Alongside interest rates, the issuing activity of the public sector will continue to have a concrete influence. We are basically positive in our assessment of the potential business opportunities for Deutsche Hypo. Our standing in the market is positively influenced by the very good rating enjoyed by our Pfandbriefe. Furthermore, we remain in a position to meet the individual interests of our investors through customised structured products. In terms of our planning, we expect new capital market business to make the same contribution to the overall result as in the previous year.

.. PROFIT POSITION

A planning model is used for the forecast. This incorporates estimates made on the basis of the information currently available to us. The assumptions and parameters incorporated into our planning model are also based on the latest information known to the Bank.

The profit prospects for 2008 will obviously be influenced to a key extent by the development of our two core areas of business, namely real estate financing and capital market business, as well as by refinancing business.

The described acquisition of Deutsche Hypo by NORD/LB will have an effect on our business performance. It is not possible to say at the current time how, in detail, Deutsche Hypothekbank will be integrated into the NORD/LB Group. It is therefore also not possible at the current time to reliably state how the integration will impact on Deutsche Hypothekbank's business performance. Consequently, quantifiable statements and valid assessments cannot yet be made, and all of the forecasts relate to the situation at Deutsche Hypo prior to the acquisition by NORD/LB.

To the extent that the current crisis on the financial and real estate markets does not escalate further, we expect the pre-tax result for 2008 to match the result recorded for 2007.

Given the robust character of our business model, and based on its careful and risk-aware development, we expect to be able to continue to operate successfully on the market in the medium term.

.. **INFORMATION REQUIRED IN ACCORDANCE WITH SECTION 289, PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE (HGB)**

The Bank's share capital amounts to € 80,640,000.00 and is divided into 13,440,000 unit shares.

The following companies hold more than 10 % of the voting rights in Deutsche Hypothekbank up to 8 January 2008:

- .. BHF-BANK Aktiengesellschaft, Frankfurt/Main,
- .. M.M. Warburg & CO Gruppe KGaA, Hamburg
- .. Döhle ICL Beteiligungsgesellschaft mbH, Hamburg

Since 8 January 2008, Norddeutsche Landesbank Girozentral, Hanover, has held a majority of the share capital of our company (97.612 %).

The members of the Board of Managing Directors are appointed in accordance with Sections 84 and 85 of the Joint Stock Companies Act (AktG) by the Supervisory Board or by court order and are removed from office in accordance with Section 84 AktG by the Supervisory Board, in conjunction with Section 24 (1) 1 and 2 and Section 36 of the Banking Act (KWG) in each case. No related provisions are contained in the Articles of Association in this regard. Changes to the articles of association are made, pursuant to Section 179 AktG by a resolution of the General Meeting, or – in the case of use being made as described in Section 4, second sentence of the Articles of Association of existing authorised capital – pursuant to Section 179 (1), second sen-

tence AktG by the Supervisory Board, as set out in Section 4, third sentence of the Articles of Association. Any change or addition to the Articles of Association affecting the wording only may be made by the Supervisory Board pursuant to Section 19, third sentence of the Articles of Association.

In accordance with Section 4, second sentence of the Articles of Association, the Board of Managing Directors, with the Supervisory Board's approval, may issue shares in exchange for cash contributions within the framework of the approved capital. A share buy-back by the Board of Managing Directors is permitted under Section 71 (1) 1, 2, 4 and 5 AktG.

.. REMUNERATION OF THE BOARD OF MANAGING DIRECTORS

Emoluments paid to the Board of Managing Directors for the 2007 financial year amounted to € 1,310.0 k. Of this total, fixed payments amounted to € 723.2 k, with the variable component comprising € 586.8 k.

The variable salary component is calculated on the basis of the annual accounts prepared in accordance with the German Commercial Code (HGB) using the following formula: Operating result before tax (in € millions) + return on equity (in %) + dividend x 10 (in euros). This total is then multiplied by the individual multipliers for each member of the Board of Managing Directors. The total multiplier for the incumbent Board of Managing Directors is 7,800.

The information required under Section 285, first sentence, point. 9 (a), fifth to ninth sentences HGB was not required in accordance with Section 286, paragraph 5 HGB.

Hanover, 27 February 2008

The Board of Managing Directors



Grieger



Morr



Rehfus

PERSONNEL REPORT

The 2007 financial year presented numerous challenges for the entire team at Deutsche Hypo. Thanks to responsible actions and a high degree of dedication, these challenges were overcome, with everyone contributing to what was a successful business result for 2007 overall.

Despite the subprime crisis and changes to Deutsche Hypo's shareholder structure, not to mention the increasing requirements of our discerning national and international customers, our employees displayed a high level of commitment in dealing successfully with these new challenges. All of the Bank's employees therefore deserve our special thanks and major recognition for their efforts.

For us, fostering and improving the skills and motivation levels of all of our employees remains the central focus of human capital management. Our fourth assessment centre session was successfully implemented, a measure used to recognise potential and then promote it in a targeted way. The financial management course designed to improve specialist skills was held for the third time, concluding in March 2008 with the final presentation.

In terms of language learning, the methods used include in-house seminars, courses at external language schools and, to an increasing extent, language training abroad. Our employees were able to improve their knowledge of English, French, Spanish and Dutch. Some 66 employees regularly attended language courses.

Good results were achieved by our young bank trainees who attended vocational training courses, which were generously supported by the Bank.

Three trainees were taken on in 2007 and have already been offered positions with the Bank.

The total number of employees (including the Board of Managing Directors and those on vocational training courses) rose to 215 (previous year: 211).

There was a positive development in the amount of working time lost through illness, which fell to 2.15 % (previous year: 2.3 %). The average age of Deutsche Hypo employees is 44.1 years (previous year: 44 years).

Four employees celebrated 25 years of service with Deutsche Hypothekbank, with three of their colleagues reaching 10 years' service. Our thanks go to all employees who celebrated such an anniversary for their loyalty towards the Bank.

We would also like to thank the Works Council for the good working relationship, which has been constructive and professional at all times.

CORPORATE GOVERNANCE REPORT

.. CORPORATE GOVERNANCE CODE

The Government Commission on the German Corporate Governance Code, at its plenary meeting of 14 June 2007 in Düsseldorf, agreed on changes to the Code. These were published in the electronic Federal Gazette on 20 July 2007 and thus entered into effect.

The main changes were the inclusion of two new recommendations and one new suggestion. The remaining changes relate to the clarification, simplification or abridging of the text.

The current version of the Corporate Governance code is available for consultation on the Deutsche Hypo website.

One of the changes required Deutsche Hypo to convene an Appointments Committee (Code No. 5.3.3). No such committee existed at the time of the Code being revised. At its meeting on 19 December 2007, the Supervisory Board formed an appointments committee and has thus taken account of this change to the Corporate Governance Code.

The other changes to the Code had no impact on the Bank, either relating to measures that had already been implemented or being irrelevant to Deutsche Hypo.

.. DECLARATION

The annual declaration required in accordance with Section 161 of the German Joint Stock Companies Act was issued by the Board of Managing Directors and the Supervisory Board on 19 December 2007 and may be consulted on the Deutsche Hypo website. It is worded as follows:

2007 Declaration of Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin with regard to the recommendations of the “Government Commission on the German Corporate Governance Code”

The Board of Managing Directors and the Supervisory Board of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover/Berlin hereby declare in accordance with Section 161 of the Joint Stock Corporation Act:

1. Deutsche Hypothekenbank (Actien-Gesellschaft) Hanover/Berlin, since its last declaration of 14 December 2006, has complied with the recommendations of the Government Commission on the German Corporate Governance Code of 12 June 2006 and as last amended on 14 June 2007 with the following exceptions:

- a) A D&O policy existed for the Board of Managing Directors and Supervisory Board without a suitable deductible (No. 3.8).

- b) The Board of Managing Directors did not have a chairperson or spokesperson (No. 4.2.1).
- c) The emoluments of the members of the Board of Managing Directors and Supervisory Board and the material content of commitments entered into in the event of the activity of Board members being terminated were not broken down in the Notes to the annual accounts (Nos. 4.2.4, 4.2.5 and 5.4.7).

2. Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover/Berlin shall adhere to the recommendations of the Government Commission on the German Corporate Governance Code as last amended on 14 June 2007 subject to the exceptions listed under 1.a) to 1.c).

Hanover, 19 December 2007

The Supervisory Board	The Board of Managing Directors
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NOTES

•• **Re. No. 3.8:**

This recommendation has not been adhered to in the past and will not be adhered to in future by Deutsche Hypothekenbank. The grounds for this are unchanged: for reasons of equal treatment, any deductible would have to be identical for all insured persons, whereas the principle of appropriateness would result in the deductible being set on the basis of the highest income and asset situations of the group of insured persons. As a result, this deductible would have a varying effect on the

members of the Board of Managing Directors and Supervisory Board depending on their personal economic circumstances. In the most extreme case, for example, those members of the Supervisory Board with lower net worth may find themselves in financial difficulties. Taking into account equal responsibilities, this would not appear to be a fair approach.

•• **Re. No. 4.2.1:**

We do not see the need for a Chairman or Speaker to be appointed. Our long-established practice of having a management board composed of equal-ranking members has proven its worth in the past. In light of the size of our company, we also regard this practice as an appropriate solution. The duties and responsibilities of the Members of the Board of Managing Directors are clearly laid out in the Rules of Procedure of the Board of Managing Directors and approved by the Supervisory Board. All major decisions are made by the entire Board of Managing Directors. This ensures that all of the members of the Board are behind all key company decisions.

•• **Re. Nos. 4.2.4, 4.2.5 and 5.4.7:**

The emoluments of the members of the Board of Managing Directors and Supervisory Board have not been listed for each individual member in the past. Similarly, Deutsche Hypothekenbank will not be complying with this recommendation in future:

The Extraordinary General Meeting of Deutsche Hypothekenbank held on 13 November 2006 passed a decision with the required majority in accordance with Section 286, para. 5 of the German Commercial Code (HGB) not to break down the emoluments paid to members of the Board of Managing Directors.

The emoluments paid to the members of the Supervisory Board are regulated in the Articles of Association of Deutsche Hypothekbank, which may be consulted on the Bank's website. The payment made to each member of the Supervisory Board can basically be derived from this. There is no obvious benefit to be gained from breaking down the amounts by individual member.

•• EMOLUMENTS OF THE MEMBERS OF THE BOARD OF MANAGING DIRECTORS

Emoluments paid to the Board of Managing Directors for the 2007 financial year amounted to € 1,310.0 k. Of this total, fixed payments amounted to € 723.2 k, with the variable component comprising € 586.8 k.

The variable salary component is calculated on the basis of the annual accounts prepared in accordance with the German Commercial Code (HGB) using the following formula:

Operating result before tax (in € millions) + return on equity (in %) + dividend x 10 (in euros).

This total is then multiplied by the individual multipliers for each member of the Board of Managing Directors.

The total multiplier for the incumbent Board of Managing Directors is 7,800.

Deutsche Hypothekbank does not have any form of share option programme.

•• EMOLUMENTS OF THE MEMBERS OF THE SUPERVISORY BOARD

The Supervisory Board received € 354 k (previous year: € 336 k), of which € 149 k (previous year: € 96 k) was paid as a fixed component (excluding turnover tax).

DEUTSCHE HYPO SUPPORTS MEDICAL RESEARCH

The roll of honour of eminent cancer research experts was extended to include two outstanding individuals this year. The board of the Johann Georg Zimmermann Association, composed of scientists from Hanover Medical School (MHH) and external experts, was presented with many worthy candidates for its Research Prize, awarded in recognition of the current scientific work of young, up-and-coming researchers, and for the Johann Georg Zimmermann Medal, awarded to individuals who have made a particularly outstanding achievement to the fight against cancer. The candidates were nominated by faculties of medicine in Germany, Austria and Switzerland.

Prof. Dr. Paul Kleihues, founding director of the Comprehensive Cancer Center at Freiburg University Clinic and latterly a fellow of the Wissenschaftskolleg in Berlin and Visiting Scientist at the National Cancer Institute in Bethesda, was the recipient of the Johann Georg Zimmermann Medal worth € 5,000. The board felt that Prof. Kleihues was a particularly exceptional candidate due to his pioneering role in many different areas of cancer research, continually developing and implementing new ideas, and lending particular impetus to international cancer epidemiology. The medal was awarded in recognition of his life's work at the international forefront of cancer epidemiology,



from left: Jürgen Morr, Prof. Dr. Simone Fulda,
Prof. Dr. Paul Kleihues, Prof. Dr. Dieter Bitter-Suermann

neuropathology and the fundamentals of the occurrence and development of cancer. More than practically any other scientist, Prof. Kleihues has succeeded in transposing his findings from the laboratory to oncological practice.

The recipient of the Research Prize, worth € 10,000, was Prof. Dr. Simone Fulda, a private lecturer at the University Children's Hospital at the University of Ulm. Prof. Dr. Fulda has made a key contribution to apoptosis, cytostatics and radiotherapy as an antiapoptosis mechanism in child tumours and leukaemias. Apoptosis is the process by which cells die a pre-programmed death. Prof. Dr. Fulda's particular area of research is the effectiveness of radiotherapies and cytostatics in the case of tumours in children and leukaemias. In her search for new ways of fighting cancer, she discovered the naturally occurring substance betulinic acid, derived from the bark of white birch trees as a possible cancer drug in the treatment of malignant brain tumours.

Deutsche Hypo will be continuing its commitment in this field over the next few years together with Hanover Medical School, encouraged by the again exceptionally gratifying response to the naming of the prize-winners and with a sense of responsibility for such an important issue to society as cancer research.

ANNUAL ACCOUNTS

.. **BALANCE SHEET AS AT 31 DECEMBER 2007**

.. **PROFIT AND LOSS ACCOUNT
FOR THE 2007 FINANCIAL YEAR**

.. **NOTES**

.. BALANCE SHEET

.. ASSETS

	Cf. Notes				31.12.2007	31.12.2006
	No.	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
1. Cash reserve						
a) cash and cash equivalents				31		
b) balances with central banks				<u>99,309</u>	99,340	221,335
of which:						
with Deutsche Bundesbank		99,309				(221,300)
3. Due from banks	1.					
a) mortgage loans				0		
b) loans to the public sector				4,609,464		
c) other claims				<u>1,346,451</u>	5,955,915	6,116,769
of which:						
payable on demand		609,662				(382,141)
collateralised against securities		0				(0)
4. Due from non-bank customers	1.					
a) mortgage loans				8,544,131		
b) loans to the public sector				7,461,202		
c) other claims				<u>103,290</u>	16,108,623	16,466,043
of which:						
collateralised against securities		0				(0)
5. Bonds and other fixed-income securities	3./6.					
b) bonds and debentures						
ba) from public issuers			5,033,759			
of which:						
eligible as collateral						
for advances from the Deutsche Bundesbank		3,432,024				(3,750,597)
bb) from other issuers			<u>7,033,244</u>	12,067,003		11,290,059
of which:						
eligible as collateral						
for advances from the Deutsche Bundesbank		6,223,406				(5,018,345)
c) own bonds				<u>183,433</u>		154,783
nominal amount		182,231			12,250,436	11,444,842
						(153,801)
6. Shares and other variable-yield securities	3.				167,217	230,977
7. Investments	41.				495,227	2,547
of which:						
in banks		0				(0)
in financial services institutions		0				(0)
8. Shares in affiliated companies	41.				199	198
of which:						
in banks		0				(0)
in financial services institutions		0				(0)
9. Trust assets	4.				6,117	6,343
of which:						
loans on a trust basis		6,117				(6,343)
11. Intangible assets	8.				524	650
12. Tangible fixed assets	9.				24,199	24,820
15. Other assets	11.				238,021	97,297
16. Deferred items	12.					
a) from issuing and lending business				79,280		
b) other deferred items				4,767	84,047	105,600
Total assets					35,429,865	34,717,421

	Cf. Notes No.	€ thousands	€ thousands	€ thousands	31.12.2007 € thousands	31.12.2006 € thousands
1. Due to banks	1.					
a) registered mortgage Pfandbriefe issued				166,462		
b) registered public Pfandbriefe issued				467,717		
c) other liabilities				<u>4,031,648</u>	4,665,827	3,891,303
of which:						
payable on demand		14,427				(27,938)
collateralised against securities delivered to lenders						
registered mortgage Pfandbriefe and registered public Pfandbriefe		0		0		(0)
				0		(2,556)
2. Due to non-bank customers	1.					
a) registered mortgage Pfandbriefe issued				1,358,356		
b) registered public Pfandbriefe issued				7,490,636		
d) other liabilities				<u>1,199,085</u>	10,048,077	9,421,642
of which:						
payable on demand		10,156				(10,370)
collateralised against securities delivered to lenders						
registered mortgage Pfandbriefe and registered public Pfandbriefe		0		0		(10,226)
				0		(0)
3. Bonded liabilities	1.					
a) bonds issued						
aa) mortgage Pfandbriefe				3,839,702		
ab) public Pfandbriefe				11,097,848		
ac) other bonds				<u>4,551,297</u>	19,488,847	20,254,463
4. Trust liabilities	4.				6,117	6,343
of which loans on a trust basis			6,117			(6,343)
5. Other liabilities	13.				220,608	141,306
6. Deferred items	12.					
a) from issuing and lending				72,777		
b) other				<u>27,304</u>	100,081	105,334
7. Provisions						
a) provisions for pensions and similar obligations				16,660		
b) tax provisions				9,868		
c) other provisions				<u>15,200</u>	41,728	41,810
9. Subordinated liabilities	14.				229,274	222,669
of which maturing in less than two years		11,248				(18,918)
10. Participatory capital	15.				108,226	129,355
of which maturing in less than two years		10,226				(51,129)
12. Equity						
a) subscribed capital	17.			80,640		80,640
capital held by silent partners	19.			44,000		44,000
b) capital reserve	20.			131,314		131,314
c) revenue reserves	20.					
ca) legal reserve			18,918			
cd) other revenue reserves			<u>221,508</u>	240,426		223,136
d) distributable profits				<u>24,700</u>		24,106
					521,080	503,196
Total liabilities					35,429,865	34,717,421
1. Contingent liabilities	21.					
b) liabilities from guarantees and indemnity contracts					661,423	23,389
2. Other obligations	22.					
c) irrevocable loan commitments					857,088	399,133

.. PROFIT AND LOSS ACCOUNT

	Cf. Notes No.	€ thousands	€ thousands	2007 € thousands	2006 € thousands
1. Interest income from					
a) lending and money market transactions		1,131,725			
b) fixed-income securities and government-inscribed debts		<u>547,783</u>	1,679,508		1,586,952
2. Interest expenses			<u>1,594,872</u>		<u>1,503,623</u>
				84,636	83,329
3. Current income from					
a) shares and other variable-yield securities			8,868		
b) investments			11,286		
c) shares in affiliated companies			<u>1,120</u>	21,274	24,634
5. Commission income			8,070		6,009
6. Commission expenditure			<u>2,095</u>		<u>4,896</u>
				5,975	1,113
8. Other operating income	34.			3,028	5,189
10. General administrative expenses					
a) personnel costs			15,070		
aa) wages and salaries					
ab) compulsory social insurance contributions for pensions and other employee benefits of which:		<u>4,452</u>	19,522		
for pensions € 2,245 k					(3,150)
b) other administrative expenses			<u>15,082</u>	34,604	34,857
11. Depreciation and write-downs on intangible and tangible fixed assets				1,102	1,136
12. Other operating expenses	35.			3,035	3,771
13. Write-down of and adjustments to claims and certain securities, allocations to provisions for possible loan losses				25,414	23,190
15. Write-down of and adjustments to Investments, shares in affiliated companies and securities treated as fixed assets	37.			1,306	0
16. Income of and adjustment to investments, shares in affiliated companies and securities treated as fixed assets				0	261
17. Absorbed losses				168	53
19. Result from ordinary business activity				49,284	51,519
23. Taxes on income and earnings	36.		12,525		12,359
24. Other taxes not posted under item 12			<u>59</u>	12,584	<u>54</u>
					12,413
27. Net income for the year				36,700	39,106
32. Allocation to revenue reserves					
d) to other revenue reserves				12,000	15,000
34. Distributable profits				24,700	24,106

.. NOTES

.. GENERAL INFORMATION

.. ACCOUNTING REGULATIONS

The annual accounts for the 2007 financial year have been prepared in accordance with the provisions of the German Commercial Code (HGB) in conjunction with the Ordinance on the Presentation of Accounts of German Banks (RechKredV) and with due adherence to the provisions of the German Joint Stock Companies Act (AktG).

.. ACCOUNTING AND VALUATION PRINCIPLES

The Bank's receivables are reported at their nominal value according to Section 340e, paragraph 2 of the Commercial Code (HGB). Any differences between the nominal value and the payout value are reported under deferred items, which are written back on a scheduled basis.

Appropriate valuation adjustments and provisions are set aside in relation to detectable individual risks. Account is taken of contingent risks in the form of a lump-sum valuation adjustment. Additionally, reserves have also been formed in accordance with Section 340f, paragraph 1 of the Commercial Code. The setoff opportunities provided under Section 340f, paragraph 3 of the Commercial Code have been utilised.

Securities held in the liquidity reserve are valued according to the strict principle of the lower of cost or market according to Section 253, para-

graph 3 of the Commercial Code, insofar as they are not included in separate valuation units. Securities in the liquidity reserve included in a valuation unit with a derivative are valued taking into account the market value of the derivative.

Securities held as fixed assets are valued at their depreciated historical costs. Such securities are written up or down on a straight line basis until they mature based on their nominal value. Where there is expected to be a long-term impairment, non-scheduled write-downs are posted in accordance with Section 253, paragraph 2, sentence 3 of the Commercial Code. Values are written back in cases where the reasons for a write-down cease to apply. No scheduled write-ups/write-downs to nominal value are carried out for these papers.

In application of Section 340c, paragraph 2 of HGB, the above expenses and income are balanced and reported under the result from financial investments.

The general benchmark used is market price. Only in those cases where the restricting functioning of the market restricts the availability of market prices are model prices applied. The calculation is based on quoted spreads and the current swap curve. The fair value of the US collateralised debt obligations (CDOs) held in the Deutsche Hypo portfolio is calculated using an in-house model, based primarily on the weighted average life of the respective CDO, the rating class of the underlying assets and the conservatively modified expected

loss for structured finance products as published by Moody's.

Investments and shares in affiliated companies are reported at their historical values, taking account of necessary write-downs and adhering to the requirement set out in commercial law that original values be reinstated.

Tangible assets and intangible fixed assets are carried at their historical cost and, where depreciable, taking account of write-downs.

Thus tangible assets and intangible fixed assets are carried at their historical cost minus straight-line scheduled depreciation over their estimated useful life. Minor-value assets are depreciated in accordance with Section 6, para. 2 of the German Income Tax Act (EStG).

The tax claim resulting from the amendment of Section 37 of the German Corporate Income Tax Act (KStG) as a result of the Act on fiscal measures to accompany the introduction of the European Company and the modification of other fiscal provisions (SEStEG) was reported at its present value applying a rate of interest of 3.9 %. The payout shall commence with effect from 2008 in ten equal annual instalments.

Debts are as a general rule carried as liabilities in their repayment amount. Any difference between the nominal value and payout amount is reported under deferred items, which are written back on a scheduled basis. Zerobonds are reported at the price of the issue plus a pro-rata amount of interest based on the issue yield.

Pension provisions are formed on the basis of an actuarial expert opinion according to the going concern method in accordance with Section 6a of the Income Tax Act, using the guide tables prepared by Prof. Dr. Klaus Heubeck. The discount rate is 6 %. Sufficient other provisions and tax provisions have been formed in line with the principle of cautious commercial assessment.

Contingent liabilities are carried at their nominal amount.

Close-out payments resulting from the early termination of swap transactions are shown under macro-hedges under interest income. In the case of micro-hedges, the close-out payments are posted as a corrective to the disposal results of the balance-sheet transactions. Micro and macro-hedges are reported separately as of 2007, thereby taking better account of the economic background to the transactions.

•• CURRENCY CONVERSION

The assets, debts and off-balance-sheet transactions denominated in foreign currencies are converted in line with the principles stipulated in Section 340h of the Commercial Code.

Fixed assets that are separately covered in the same currency are valued at their current cash price.

Current assets, forward deposits, borrowers' notes, swap transactions and all other balance sheet items and spot transactions are valued at their current cash price.

Current assets, insofar as they are separately covered by swap transactions, are valued at their cost/swap price. Forward transactions are valued using the split forward price method (swap price and forward margin), as they have been concluded to hedge interest-bearing items.

For the first time in 2006 the adjusting items created from valuing swap transactions at current rates were reported separately under other assets or other liabilities as appropriate.

The adjustment items for forward exchange transactions are balanced under other assets/other liabilities.

Expenses arising from currency conversion are included in the profit and loss account. Income resulting from currency conversion is only taken into account insofar as it is based on separately covered transactions. If no separate cover exists, but there is cover in the same currency, then income that balances out a temporary expense arising from the transactions serving as cover will be taken into account. In all other cases, income is not included in the profit and loss account.

All foreign exchange rates are calculated by and taken from the European System of Central Banks.

.. NOTES TO THE BALANCE SHEET

.. I. BREAKDOWN OF RESIDUAL MATURITIES (IN € THOUSANDS)

	2007	2006
Due from banks		
- up to three months	867,996	798,419
- between three months and one year	880,308	660,628
- between one and five years	2,432,202	2,966,827
- more than five years	935,133	864,430
- total pro-rata interest	840,276	826,465
Balance sheet value	5,955,915	6,116,769
Due from non-bank customers		
- up to three months	899,751	1,026,179
- between three months and one year	753,822	1,343,243
- between one and five years	4,847,914	4,492,029
- more than five years	9,375,197	9,364,877
- total pro-rata interest	231,889	239,654
	16,108,573	16,465,982
Claims without an agreed term	50	61
Balance sheet value	16,108,623	16,466,043
Bonds and other fixed-income securities		
- due in the following year	898,494	1,087,655
Due to banks		
- up to three months	2,522,819	1,559,921
- between three months and one year	444,967	280,900
- between one and five years	441,039	610,503
- more than five years	520,433	712,059
- total pro-rata interest	736,569	727,920
Balance sheet value	4,665,827	3,891,303
Due to non-bank customers		
- up to three months	239,145	136,629
- between three months and one year	376,905	152,936
- between one and five years	1,313,261	1,603,030
- more than five years	7,885,485	7,308,557
- total pro-rata interest	233,281	220,490
Balance sheet value	10,048,077	9,421,642
Bonded liabilities		
- due in the following year	4,492,516	5,602,274

•• 2. AMOUNT DUE FROM AND TO AFFILIATED AND ASSOCIATED COMPANIES (IN € THOUSANDS)

	Balance sheet amount		of which:			
	2007	2006	Affiliated companies		Associated companies	
			2007	2006	2007	2006
Due from banks	5,955,915	6,116,769	-	-	122	531
non-bank customers	16,108,623	16,466,043	8,505	9,445	10,966	12,988
of which: subordinated	421	950	421	950	-	-
Bonds and other fixed-income securities	12,250,436	11,444,842	-	-	-	-
Due to banks	4,665,827	3,891,303	-	-	170,004	57,900
non-bank customers	10,048,077	9,421,642	383	153	-	-
Bonded liabilities	19,488,848	20,254,463	-	-	-	-
Subordinated liabilities	229,274	222,669	-	-	-	-

•• 3. MARKETABLE SECURITIES AND HOLDINGS (IN € THOUSANDS)

	Balance sheet amount		of which:		of which:			
	2007	2006	marketable ¹⁾		quoted		not quoted	
			2007	2006	2007	2006	2007	2006
Bonds and other fixed-income securities	12,250,436	11,444,842	12,071,698	11,285,446	10,623,751	10,418,448	1,447,947	866,998
Shares and other variable-income securities	167,217	230,977	49,927	49,775	49,927	49,775	-	-
Investments	495,227	2,547	-	2	-	2	-	-
Shares in affiliated companies	199	198	-	-	-	-	-	-

¹⁾ excluding pro-rata interest

.. 4. TRUST ACTIVITIES (IN € THOUSANDS)

	Trust assets		Trust liabilities	
	2007	2006	2007	2006
Due from banks	-	-	-	-
Due from non-bank customers	6,117	6,343	-	-
Total assets	6,117	6,343	-	-
Due to banks	-	-	4	5
non-bank customers	-	-	6,113	6,338
Total liabilities	-	-	6,117	6,343

.. 5. ASSETS (IN € THOUSANDS)

	Acquisition and production costs	Additions financial year	Reclassifications	Disposals financial year	Write-ups (wu) or additions (a)		Write-downs (wd) or depreciations (d)		Residual book value 31.12.2007
					Previous years	Fiscal year	Previous years	Fiscal year	
							Additions (A) Disposals (Di)		
Securities held as fixed assets	8,383,678	2,537,710	-	1,209,047	10,441(wu)	4,007(wu)	89,023(wd)	5,412(d)	9,627,389
Shares and other variable-yield securities	-	49,925	2	-	-	-	-	-	49,927
Investments	2,602	495,150	-2	2,468**	20(a)	-	75(d)	-	495,227
Shares in affiliated companies	345	-	-	-	99(a)	1(a)	246(d)	-	199
Intangible fixed assets	6,655	176	-	-	692(a)	-	6,697(d)	302(A)	524
Tangible fixed assets	45,958	183*	-	435	2,580(a)	-	23,717(d)	800* (A) 430(Di)	24,199
Assets Total:	8,439,238	3,083,144	-	1,211,950	13,832	4,063	119,758	11,104	10,197,465

* of which minor-value assets totalling € 30 k (previous year: € 136 k)

** of which € 1,708 k under "Other assets"

6. SECURITIES HELD AS FIXED ASSETS

Under point 5 of Assets "Bonds and other fixed-income securities", securities with a volume of € 9,627.4 million (previous year: € 8,305.1 million) are, as resolved, treated as fixed assets and carried at historical cost. The result of write-ups/write-downs of – € 1,013 k (previous year: € 4,759 k) is recorded in the P&L item "Interest income from fixed-income securities and government-inscribed debts". During the financial year, non-scheduled write-downs in accordance with Section 253, paragraph 2, sentence 3 of the Commercial Code due to an expected long-term impairment of value were reported in the amount of – € 5,412 k (previous year: € 0) under the P&L item "Write-down of and adjustments to investments, shares in affiliated companies and securities treated as fixed assets".

Taking into account valuation units, there are hidden obligations in the amount of € 71.5 million (previous year: € 6.5 million) for the book values in the amount of € 3,377.6 million (previous year: € 2,471.8 million), alongside hidden reserves in the amount of € 41.8 million (previous year: € 21.0 million) for book values in the amount of € 6,249.8 million (previous year: 5,833.3 million). On balance, this gives hidden obligations of € 29.7 million.

The hidden obligations are due to changes in the market that have occurred. Write-downs were made with regard to ABS securities held as fixed assets. In the case of the other securities, the good credit rating indicates no fundamental risks.

These commercial papers, which should remain permanently in the Bank's possession, may for the greater part be used as cover for the issuance of public Pfandbriefe.

7. FINANCIAL INVESTMENTS

During the reporting year Deutsche Hypo acquired a 49.5 % stake in Corporate I SICAV, a Luxembourg investment company, as well as a 12.88 % holding in Risk Management Solutions GmbH, based in Cologne, Germany.

The HSBC Trinkaus Euro Value Bonds INKA fund with a book value of € 49.9 million (previous year: € 25.0 million) contains hidden obligations of € 2,192 k (previous year: € 0). No write-downs were implemented, as the fund is not allocated to fixed assets. The impairment of value can be attributed to the general change in the market in the securities sector.

The shares in Deutsche Börse AG, Frankfurt am Main (0.01%) have been reported since 2007 under "Shares and other variable-yield securities" (reported under Investments during the previous year).

The 5.5 % stake in INDUSTRIA Bau- und Vermietungsgesellschaft mbH, Frankfurt am Main was transferred in 2007 to "Other assets" (reported under Investments in the previous year).

The holdings in Ostseeklinik Poel GmbH & Co. KG and Ostseeklinik Poel Verwaltungs- und Beteiligungsgesellschaft mbH, both based in Kirchdorf, were sold.

The shares in the affiliated company Deutsche Hypo Immobilien GmbH, Hanover, were written up by € 1 k.

There were no write-downs relating to holdings during the year under review.

•• 8. INTANGIBLE FIXED ASSETS

Intangible fixed assets include other software licences acquired for a consideration. Additions in the amount of € 176 k (previous year: € 258 k) related to other software licences.

•• 9. TANGIBLE FIXED ASSETS

Tangible fixed assets include land and buildings used by the Bank worth € 11,280 k (previous year: € 11,693 k) and plant and equipment totalling € 776 k (previous year: € 906 k).

•• 10. OWN SHARES

During the period from May to October in the year under review we purchased 2,970 shares in 10 transactions at a price of € 91 k and offered these to our employees for purchase at € 77 k. The difference was borne by the Bank in accordance with Section 19a of the German Income Tax Act. At a nominal amount of € 17,820.00, the share of subscribed capital was 0.02 %. As at the balance sheet date, the Bank held none of its own shares in its portfolio.

•• 11. OTHER ASSETS

The adjusting items relating to foreign currency in the amount of € 206,259 k (previous year: € 70,368 k) and claims against the tax authorities in the amount of € 17,897 k (previous year: € 14,106 k) are the two largest entries in this item.

Direct debiting collections in the amount of € 6,436 k that have not been made were balanced out as at 2 January 2008.

Also included under this item is the surrender value of reinsurance policies in the amount of € 3,098 k (previous year: € 4,230 k), as well as due payments from derivatives in the amount of € 2,141 k (previous year: € 0 k).

•• 12. DEFERRED ITEMS (IN € MILLIONS)

	2007	2006
Assets		
Issuing discount from bonds	41.3	48.7
Premium on claims	38.0	51.4
Liabilities		
Discount from claims	41.1	42.0
Premium on bonds	30.0	37.9

•• 13. OTHER LIABILITIES

In addition to the adjusting items relating to foreign currency in the amount of € 154,437 k (previous year: € 128,786 k), this item also includes a participatory right that has fallen due in the amount of € 51,129 k (previous year: € 0).

This item also primarily includes pro-rata interest on participatory capital amounting to € 7.6 million (previous year: € 6.6 million) and pro-rata interest on subordinated liabilities amounting to € 5.7 million (previous year: € 5.1 million).

•• 14. SUBORDINATED LIABILITIES

Subordinated liabilities are subject to nominal rates of interest of between 4.00 % and 7.05 % and fall due from 2008 to 2027. Premature repayments and conversions are excluded.

Individual subordinated liabilities exceeding 10 % of the total amount posted amount to € 25 million in nominal terms at an interest rate of 6.25 %, due in 2011.

The liabilities reported correspond with the requirements of Section 10, paragraph 5a of the German Banking Act (KWG).

The sum of € 11.2 million will fall due within the next two years.

Expenses in the year under review amounted to € 13.4 million (previous year: € 12.9 million).

•• 15. PARTICIPATORY CAPITAL

The nominal value of the participatory capital is € 108.2 million. The participatory rights meet the requirements of Section 10, paragraph 5 of the German Banking Act (KWG). They are divided into 20,000 participation certificates with a nominal value of € 511.29 each, 68 participation certificates with a nominal value of € 1.0 million each and 2 participation certificates with a nominal value of € 15.0 million each. The term ends with effect from 31 December 2009 (nominal amount of € 10.2 million), 31 December 2016 (nominal amount of € 63.0 million), 29 June 2018 (nominal amount of € 30.0 million) and 31 December 2018 (nominal amount of € 5.0 million). The sum of € 10.2 million will fall due within the next two years.

•• 16. AUTHORISED PARTICIPATORY CAPITAL

As resolved by the General Meeting of 12 May 2005, the Board of Managing Directors may issue participatory rights as part of one or more issues with a total nominal value of € 100 million up until 12 May 2010. To date, € 58 million of this amount has been issued.

•• 17. SUBSCRIBED CAPITAL

The Bank's share capital amounts to € 80.64 million, divided among 13,440,000 unit shares.

•• 18. AUTHORISED CAPITAL

Pursuant to a resolution adopted at the Annual General Meeting of 12 May 2004, the Board of Managing Directors is authorised, until 16 May 2009 and with the approval of the Supervisory Board, to increase the Bank's share capital once or on several occasions but by no more than a total of € 30.0 million by issuing up to 5,000,000 new bearer shares (after 1:10 share split) in exchange for cash deposits in accordance with Section 202 et seq. of the Joint Stock Companies Act. This right was not exercised in the year under review.

•• 19. CAPITAL HELD BY SILENT PARTNERS

At the Bank's Extraordinary General Meeting held on 20 January 2000, it was decided to conclude agreements for setting up undisclosed partnerships. By 31 January 2000, cash contributions totalling € 44 million had been made. These contributions are subject to interest at the following rates: 8.10 % / 8.16 % or the 12-month EURIBOR + 2.6 percentage points. The term ends on 31 December 2011.

The contributions from silent partners are allocated to the Bank's liable equity capital in accordance with Section 10, para. 4 of the German Banking Act (KWG).

•• 20. RESERVES

Reserves in the financial year rose by € 17.3 million to € 371.7 million.

	Capital reserves (in € thousands)		Revenue reserves (in € thousands)	
	2007	2006	2007	2006
As at 1.1.	131,314	131,314	223,136	201,210
Allocation based on resolution of the Annual General Meeting of May 2007 (2006)	-	-	5,290	6,926
Allocation from net income for the year 2007 (2006)	-	-	12,000	15,000
As at 31.12.	131,314	131,314	240,426	223,136

•• 21. CONTINGENT LIABILITIES

The items posted are guarantee commitments and contingent liabilities relating to credit default swaps.

•• 22. OTHER OBLIGATIONS

Irrevocable loan commitments totalling € 875.1 million relate solely to mortgage loans (previous year: € 399.1 million).

23. FOREIGN-CURRENCY POSITIONS

The amounts posted in the balance sheet and denominated in foreign currencies can be broken down as follows: (in € millions)

	2007	2006
Assets*)	4,988.8	3,794.9
Liabilities*)	1,947.1	2,084.1
Other obligations	494.4	187.1
Contingent liabilities	153.1	0.0

*) including the foreign currency adjusting items under "Other assets" and "Other liabilities".

24. REPURCHASE TRANSACTIONS

As at the balance sheet date, 10 foreign securities with a book value of € 584.6 million (previous year: € 0 million) had been subject to repurchase agreements.

25. OPEN MARKET TRANSACTIONS

As at 31 December 2007 securities with a nominal value of € 2,369.9 million (previous year: € 1,689.7 million) were blocked with the German Bundesbank for overdraft facilities and open market transactions. As at the balance sheet date, open-market credits in the total amount of € 1,400.0 million (previous year: € 900 million) had been utilised. As in the previous year, no own bonds were pledged as collateral for transactions on EUREX.

26. INFORMATION ON COVER ASSETS

Disclosure in accordance with Section 28, para. 2, point 1a of the Pfandbrief Act

Claims used to cover mortgage Pfandbriefe by size

Mortgage loans serving as cover

	2007 € millions	2007 units	2006 € millions	2006 units
up to and including € 300,000	783	10,634	851	11,433
over € 300,000 up to and including € 5 million	1,358	1,081	1,475	1,220
more than € 5 million	3,370	277	3,075	267
	5,511	11,992	5,401	12,920

Disclosure in accordance with Section 28, paras. 2 and 3 of the Pfandbrief Act

Overdue payments relating to mortgage claims

Mortgage loans serving as cover

	2007 € millions	Germany 2007 units	2006 € millions	2006 units
Total amount of payments overdue by at least 90 days	2	35	3	41
	2	35	3	41

There were no overdue payments on mortgage claims relating to other states, as was also the case during the previous year.

Disclosure in accordance with Section 28, para. 2, points 1b and c of the Pfandbrief Act

Claims used to cover mortgage Pfandbriefe according to region in which the mortgaged property is located and according to type of use

Mortgage loans serving as cover

	Germany		United Kingdom		Netherlands		France	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Apartments	530	615	0	0	24	25	0	0
Detached family homes	185	202	0	0	8	10	0	0
Multifamily homes	921	852	0	0	7	7	18	15
Office buildings	537	584	364	417	160	236	170	146
Commercial buildings	1,098	1,206	187	186	87	65	0	0
Industrial buildings	21	35	18	22	16	1	0	0
Other commercial use	318	360	149	159	95	106	23	23
Building sites	0	0	0	0	0	0	0	0
	3.610	3.854	718	784	397	450	211	184

Mortgage loans serving as cover

	Spain		Belgium		Austria		USA	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Apartments	0	0	0	0	0	0	1	0
Detached family homes	0	0	0	0	0	0	0	0
Multifamily homes	0	0	0	0	0	0	124	31
Office buildings	20	20	3	19	0	0	137	17
Commercial buildings	52	27	0	0	0	0	40	9
Industrial buildings	0	0	0	0	0	0	0	0
Other commercial use	26	0	0	0	0	6	145	0
Building sites	0	0	0	0	0	0	27	0
	98	47	3	19	0	6	474	57

Disclosure in accordance with Section 28, para. 3, points 1 and 2 of the Pfandbrief Act

Claims used to cover public Pfandbriefe

Cover assets

	Germany		Belgium		European Union		France	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Central state	353	455	93	92	167	126	0	0
Regional authority	4,995	6,058	55	105	0	0	14	23
Local authority	59	111	0	0	0	0	0	0
Others	7,850	8,140	140	140	86	145	12	20
	13,257	14,764	288	337	253	271	26	43

Cover assets

	Greece		United Kingdom		Ireland		Iceland	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Central state	83	229	0	0	0	0	0	0
Regional authority	0	0	0	0	0	0	0	0
Local authority	0	0	0	0	0	0	0	0
Others	0	0	212	157	20	20	19	19
	83	229	212	157	20	20	19	19

Cover assets

	Italy		Japan		Canada		Latvia	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Central state	689	685	175	200	0	0	0	0
Regional authority	734	716	129	119	111	112	16	0
Local authority	0	0	0	0	0	0	0	0
Others	0	0	213	133	61	46	0	0
	1,423	1,401	517	452	172	158	16	0

Cover assets

	Luxembourg		Netherlands		Austria		Poland	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Central state	0	0	0	0	659	654	63	0
Regional authority	0	0	5	5	0	0	0	0
Local authority	0	0	0	0	0	0	0	0
Others	85	110	63	63	780	705	0	0
	85	110	68	68	1,439	1,359	63	0

Cover assets

	Portugal		Sweden		Switzerland		Spain	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Central state	101	106	56	56	0	0	0	0
Regional authority	0	0	33	0	100	127	624	749
Local authority	0	0	0	0	0	0	0	0
Others	0	0	0	0	141	143	398	316
	101	106	89	56	241	270	1,022	1,065

Cover assets

	Hungary		USA		Other supranational institutions	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Central state	48	0	0	0	0	0
Regional authority	0	0	218	242	0	0
Local authority	0	0	0	0	0	0
Others	0	0	0	0	83	21
	48	0	218	242	83	21

Disclosure in accordance with Section 28, para. 3, point 2 of the Pfandbrief Act

Total amount of payments overdue by at least 90 days relating to public claims

Cover assets

	2007 € millions	2007 units	2006 € millions	2006 units
Total amount of payments overdue by at least 90 days	0	0	0	0
	0	0	0	0

Disclosure in accordance with Section 28, para. 1, nos. 1 to 3 of the Pfandbrief Act (PfandBG)

Pfandbriefe in circulation and the related cover assets:

a) Total amount of outstanding	Nominal		Net present value		Risk net present value *)	
	2007 € millions	2006 € millions	2007 € millions	2006 € millions	2007 € millions	2006 € millions
Mortgage Pfandbriefe	5,222	5,175	5,275	5,338	5,602	5,607
Cover pool	5,929	5,903	6,090	6,136	6,190	6,242
of which derivatives	0	0	6	0	38	0
Surplus cover	707	728	815	798	588	635

*) Calculation of risk present value using dynamic simulation method in accordance with PfandBG

re a) maturity structure (residual maturity)

	2007				2006			
	up to and including 1 year	over 1 year and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years	up to and including 1 year	over 1 year and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Mortgage Pfandbriefe	858	781	3,046	537	876	1,020	2,872	407
Cover pool	2,200	2,180	1,409	140	2,117	2,318	1,356	112

b) Total amount of outstanding	Nominal		Net present value		Risk net present value *)	
	2007	2006	2007	2006	2007	2006
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Public Pfandbriefe	18,642	19,687	18,640	20,072	19,636	20,973
Cover pool	19,743	21,148	20,603	22,365	21,459	23,074
of which derivatives	0	0	4	0	15	0
Surplus cover	1,101	1,461	1,963	2,293	1,823	2,101

*) Calculation of risk present value using dynamic simulation method in accordance with PfandBG

re b) maturity structure (residual maturity)

	2007				2006			
	up to and including 1 year	over 1 year and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years	up to and including 1 year	over 1 year and up to and including 5 years	more than 5 years and up to and including 10 years	more than 10 years
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Public Pfandbriefe	2,097	8,902	4,130	3,513	2,625	8,248	5,091	3,723
Cover pool	3,375	6,930	6,666	2,772	3,778	8,334	6,274	2,762

Portfolio changes and new loans (in € millions)

(excluding interest and cost claims)

	Mortgage loans	Public-sector loans
Portfolio as at 31/12/2006	8,321,7	12,768.4
Additions		
New loans	+ 2,037.9	+ 2,479.1
Regroupings and valuation adjustments	- 63.1	+ 50.3
Disposals		
Scheduled redemptions	- 299.4	- 3,335.9
of which: residential	- 214.0	- 0.1
commercial	- 85.4	- 3,335.8
Non-scheduled redemptions	- 1,417.8	- 197.3
of which: residential	- 254.9	- 0.0
commercial	- 1,162.9	- 197.3
Portfolio as at 31/12/2007	8,579.3	11,764.6

Cover for bonds in circulation (in € millions)

	2007	2006
Bonds issued	28,315	28,908
plus: registered Pfandbriefe delivered to the lenders as security for loans	-	10
registered public Pfandbriefe	-	3
Bonds in circulation	28,315	28,921
plus: certificates issued but not yet sold (treasury paper)	-	-
minus: bonds not requiring cover (formerly: Section 5, paragraph 1, point 4c of the German Mortgage Bank Act.)	- 4,451	- 4,059
Total amount in circulation requiring cover	23,864	24,862

This compares with the following cover assets: (in € millions)

	for mortgage Pfandbriefe		for public Pfandbriefe	
	2007	2006	2007	2006
Ordinary cover				
Due from banks				
Mortgage loans	-	-	-	-
Public-sector loans	-	-	4,582	4,742
Due from non-bank customers				
Mortgage loans	5,511	5,496	-	-
Public-sector loans	-	-	7,235	7,866
Bonds of public-sector issuers	-	-	7,926	8,420
Property, plant and equipment (Land charges on property owned by the Bank)	-	22	-	-
	5,511	5,518	19,743	21,028
Substitute cover				
Other monies due from banks	-	-	-	25
Bonds and other fixed-income securities	418	480	-	-
	418	480	-	25
Total value of cover	5,929	5,998	19,743	21,053
Total amount in circulation requiring cover	5,222	5,175	18,642	19,687
Surplus cover	707	823	1,101	1,366

Foreclosures/
sequestrations

	As at 31 December					
	Foreclosures pending		Sequestrations pending		Foreclosures executed	
	2007	2006	2007	2006	2007	2006
Land used for residential purposes	35	16	16	13	9	21
Land used for commercial purposes	20	12	19	21	5	36
Total	55	28	35	34	14	57

.. **PROPERTIES TAKEN OVER**

No property was taken over in the 2007 financial year (previous year: -) to protect our mortgage charges.

.. **VALUE-ADJUSTED INTEREST ARREARS**

The interest arrears totalling € 0.8 million accumulated from 01/10/2006 – 30/09/2007 were fully value-adjusted.

	€ millions 2007	€ millions 2006
of which:		
land used for residential purposes	0.3	0.3
land used for commercial purposes	0.5	0.5

.. **OTHER INFORMATION**

.. **27. FORWARD TRANSACTIONS IN ACCORDANCE WITH SECTION 36 OF THE ORDINANCE ON THE PRESENTATION OF ACCOUNTS OF GERMAN BANKS (RECHKREDV) (IN € MILLIONS)**

Forward translations include 110 forward exchange transactions used to hedge against positions in GBP, USD and CHF and due to expire on 30 December 2008 at the latest.

The remaining positions shown are all OTC products used as components of micro-hedges and macro-hedges to hedge against interest rate and currency risks and to improve and/or safeguard margins in loan business and investments in foreign securities.

Market values represent the current value of the derivatives at market conditions (yield curves, forex rates etc.) including accrued interest.

The values calculated using the mark-to-market method are summarised in the table below by product group and rating. This is in line with the requirements of Section 285, point 18 of HGB. The mar-

ket values calculated in this way are required to calculate the credit equivalent amount in accordance with Principle I, taking account of netting as recognised under supervisory law.

2006	Nominal amount Remaining term			Total	Market values
	< = 1 year	1 – 5 years	> 5 years		
Currency-related transactions					
Forward exchange	2,121.49	0.66	0.00	2,122.15	– 4.97
Cross-currency swaps	307.66	713.75	906.33	1,927.74	– 95.49
Interest rate-related transactions					
Interest rate swaps	11,865.97	13,848.39	20,106.03	45,820.39	– 554.04
Interest rate options (sales)	0.00	0.00	95.81	95.81	– 21.54
Transactions involving other price risks					
Equity-linked swaps	40.00	40.00	7.50	87.50	– 5.67
Credit derivatives					
Total return swaps	0.00	0.00	727.55	727.55	70.88

2007	Nominal amount Remaining term			Total	Market values
	< = 1 year	1 – 5 years	> 5 years		
Currency-related transactions					
Forward exchange	3,308.87	0	0	3,308.87	83.13
Cross-currency swaps	163.00	976.64	952.86	2,092.50	– 23.36
Interest rate-related transactions					
Interest rate swaps	5,242.20	14,111.87	20,517.95	39,872.02	– 649.43
Interest rate options (sales)	0	0	91.96	91.96	– 17.82
Transactions involving other price risks					
Equity-linked swaps	40	0	0	40	– 0.95
Credit derivatives					
Total return swaps	0	0	670.00	670.00	62.05
Credit default swaps	0	0	588.14	588.14	– 8.26

The transactions are not included in the balance sheet.

The total market values in the amount of - € 554.64 million can be broken down by counterparty into positive cash amounts of € 51.25 million and negative amounts of - € 605.89 million.

To hedge the derivative risks after netting, Deutsche Hypotheken bank enters into security agreements with some of its business partners. As at 31 December 2007, Deutsche Hypothekenbank had provided security of € 417.78 million and received security of € 9.43 million.

• 28. NUMBER OF EMPLOYEES (YEARLY AVERAGE)

(in accordance with Section 285, point 7/Section 267, paragraph 5 of the German Commercial Code)

	2007	2006
Female employees	82	82
Male employees	123	124
Total	205	206

• 29. SUPERVISORY BOARD

(including information on positions on supervisory boards and other corporate bodies in accordance with Section 285, point 10 of the German Commercial Code)

Alexander Stuhlmann

Düsseldorf

Chairman of the Board of Management of WestLB AG

– Chairman –

since 16 May 2007

to 15 February 2008

alstria office REIT-AG, Hamburg

Berlin-Brandenburg Media GmbH, Berlin

BVV Pensionsfonds des Bankgewerbes AG, Berlin

BVV Versicherungsverein des Bankgewerbes a.G, Berlin

BVV Versorgungskasse des Bankgewerbes, Berlin

Capital Stage AG, Hamburg

DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main

Frank Beteiligungsgesellschaft mbH, Hamburg

Hamburger Feuerkasse Versicherungs-AG, Hamburg

HCI Capital AG, Hamburg

HSBA Hamburg School of

Business Administration GmbH, Hamburg

HSH Real Estate AG, Hamburg

Chairman of the Supervisory Board

Member of the Advisory Board

Member of the Supervisory Board

Member of the Supervisory Board

Member of the Supervisory Board

Vice-Chairman of the Supervisory Board

Member of the Board of Directors

Vice-Chairman of the Advisory Board

Vice-Chairman of the Supervisory Board

Vice-Chairman of the Supervisory Board

Member of the Board

Member of the Supervisory Board

LBS Bausparkasse Hamburg AG, Hamburg	Member of the Supervisory Board
LBS Bausparkasse Schleswig-Holstein-Hamburg, AG Hamburg	Member of the Supervisory Board
Siedlungsbaugesellschaft Hermann und Paul Frank mbH & Co. KG, Hamburg	Vice-Chairman of the Advisory Board
Stiftung Schloss Neuhardenberg, Berlin	Member of the Supervisory Board

Wolfgang Hollender to 16 May 2007
 Wedemark
 Member (retired) of the Board of Managing
 Directors of Deutsche Hypothekenbank
 (Actien-Gesellschaft)
 – **Chairman** –

Eckhard Forst since 16 February 2008
 Hanover
 Member of the Board of Management of
 Norddeutsche Landesbank Girozentrale
 – **Chairman** –

Bank DnB NORD A/S, Copenhagen	Board of Directors
Bank DnB NORD Polska S.A., Warsaw	Supervisory Council
Deutsche Factoring Bank GmbH & Co. KG, Bremen	Member of the Supervisory Board
LHI Leasing GmbH, Munich	Member of the Supervisory Board
NORDCON Investment Management AG, Hanover	Vice-Chairman of the Supervisory Board
NORD Holding Unternehmensbeteiligungs- gesellschaft mbH, Hanover	Member of the Supervisory Board

Dietmar Schmid to 15 February 2008
 Frankfurt am Main
 Member of the Board of Managing
 Directors of BHF-BANK AG
 – **Vice-Chairman** –

FRANKFURT-TRUST Investment-Gesellschaft mbH, Frankfurt am Main	Chairman of the Supervisory Board
Frankfurter Fondsbank GmbH, Frankfurt am Main	Chairman of the Supervisory Board
Frankfurter Service Kapitalanlage-Gesellschaft mbH, Frankfurt am Main	Chairman of the Supervisory Board
KMS AG, Kapital Management Systeme, Frankfurt am Main	Member of the Supervisory Board

Dr. Gunter Dunkel Hanover Vice-Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale – Vice-Chairman –	since 16 February 2008
Viscardi AG, Munich LHI Leasing GmbH, Munich Norddeutsche Landesbank Luxembourg S. A., Luxembourg Skandifinanz Bank AG, Zürich	Member of the Supervisory Board Vice-Chairman of the Supervisory Board Member of the Board of Directors Member of the Board of Directors
Jochen Döhle Hamburg Personally liable partner of Peter Döhle Schiffahrts-KG	to 15 February 2008
EUROGATE Geschäftsführungs-GmbH & Co. KGaA, Bremen EUROKAI KGaA, Hamburg ICL–Independent Container Lines, Richmond, USA Montemar Marittima SA, Montevideo, Uruguay Wellington Holdings Group SA, Rio de Janeiro, Brazil Deutsche Schiffsbank AG, Bremen Kurt F.W.A. Eckelmann (GmbH & Co.) KG, Hamburg SHL Schiffshypothekenbank zu Lübeck AG, Hamburg	Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Advisory Board Member of the Advisory Board Member of the Advisory Board
Reinhard Drexler*¹⁾ Hanover Bank employee	
Michael Gehrig*¹⁾ Hanover Bank employee	since 14 June 2007
Ralf Hinrichs*¹⁾ Hanover Bank employee	to 17 May 2007

Friedrich Carl Janssen

Cologne

Personally liable partner of Sal.

Oppenheim jr. & Cie. KGaA

AXA Service AG, Cologne

Bank Sal. Oppenheim jr. & Cie. (Luxemburg) S.A.,
Luxembourg

Bank Sal. Oppenheim jr. & Cie. (Schweiz) AG, Zürich

Bank Sal. Oppenheim jr. & Cie. (Österreich) AG, Vienna

Content Management Aktiengesellschaft, Cologne

Ernst & Young AG, Stuttgart

FARAMIR Beteiligungs- und Verwaltungs GmbH,
Cologne

Financière Atlas S.A., Paris

gardeur AG, Mönchengladbach

INTERSEROH Aktiengesellschaft zur

Verwertung von Sekundärstoffen, Cologne

moderne stadt Gesellschaft zur Förderung des

Städtebaues und der Gemeindeentwicklung mbH,
Cologne

Oppenheim Beteiligungs-AG, Wuppertal

Sal. Oppenheim jr. & Cie.

Corporate Finance (Schweiz) AG, Zürich

Sal. Oppenheim International S.A., Luxembourg

Sal. Oppenheim jr. & Cie. KGaA, Cologne

Sal. Oppenheim jr. & Cie. S.C.A., Luxembourg

Sal. Oppenheim jr. & Cie. S.C.A., Luxembourg

Services Généraux de Gestion S.A., Luxembourg

SOAR European Equity Fund plc., Dublin

Xchanging plc, London

IV. Oppenheim AG, Wuppertal

V. Oppenheim AG, Wuppertal

Member of the Supervisory Board

Member of the Board of Directors

Member of the Board of Directors

Member of the Supervisory Board

Member of the Supervisory Board

Member of the Supervisory Board

Managing Director

Chairman of the Supervisory Board

Chairman of the Supervisory Board

Vice-Chairman of the Supervisory Board

Member of the Supervisory Board

Member of the Board of Directors

Vice-President of the Supervisory Board

Member of the Supervisory Board

Personally liable partner

Personally liable partner

Member of the Management Committee

Member of the Board of Directors

Supervisory Committee

Board of Directors

Member of the Supervisory Board

Member of the Supervisory Board

Jürgen Kösters

Hanover

Member of the Board of Directors der

Norddeutschen Landesbank

Girozentrale

since 16 February 2008

BÖAG Börsen AG, Hamburg and Hanover

Bank DnB NORD A/S, Copenhagen

LBS Norddeutsche Landesbausparkasse

Berlin-Hanover, Berlin and Hanover

Vice-Chairman of the Supervisory Board

Board of Directors

Member of the Supervisory Board

Norddeutsche Landesbank Luxembourg S. A., Luxembourg	Member of the Board of Directors
NORD/LB COVERED FINANCE BANK S. A., Luxembourg	Chairman of the Board of Directors
RMX Risk Management Exchange AG, Hanover	Chairman of the Supervisory Board
Toto-Lotto Niedersachsen GmbH, Hanover	Chairman of the Supervisory Board

Joachim Olearius Hamburg Executive Manager of M. M. Warburg & CO Kommanditgesellschaft auf Aktien	to 15 February 2008
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Bankhaus LÖbbecke AG, Berlin	Member of the Supervisory Board
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Dr. Hannes Rehm Hanover Chairman of the Board of Management of Norddeutsche Landesbank Girozentrale	since 16 February 2008
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Salzgitter AG, Salzgitter	Member of the Supervisory Board
Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen	Member of the Supervisory Board
DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main	Member of the Board of Directors
LBS Norddeutsche Landesbausparkasse Berlin-Hanover, Berlin and Hanover	Chairman of the Supervisory Board
Norddeutsche Landesbank Luxembourg S.A., Luxembourg	Chairman of the Board of Directors
Porzellanmanufaktur Fürstenberg GmbH, Fürstenberg/Weser	Member of the Supervisory Board
Provinzial Lebensversicherung Hannover, Hanover	Member of the Supervisory Board

Dr. Johannes-Jörg Riegler Hanover Member of the Board of Management of Norddeutsche Landesbank Girozentrale	since 16 February 2008
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Bank DnB NORD A/S, Kopenhagen	Board of Directors / Vice Chairman
Bank DnB Nord Polska S.A., Warsaw	Supervisory Council
Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen	Member of the Supervisory Board

Max Warburg	bis 15.02.2008
Hamburg	
Personally liable partner of M. M.	
Warburg & CO Kommanditgesellschaft auf Aktien	
Warburg Invest Kapitalanlagegesellschaft mbH, Frankfurt am Main	Vice-Chairman of the Supervisory Board
Bankhaus Hallbaum AG, Hanover	Vice-Chairman of the Supervisory Board
Private Life BioMed AG, Hamburg	Vice-Chairman of the Supervisory Board
Warburg - Henderson Kapitalanlagegesellschaft für Immobilien mbH, Hamburg	Vice-Chairman of the Supervisory Board
M.M. Warburg & CO Luxembourg S.A., Luxembourg	Vice-Chairman of the Board of Directors
M.M. Warburg Bank (Schweiz) AG, Zürich	Member of the Board of Directors
Warburg Alternative Investments AG, Zürich	Chairman of the Board of Directors
EUROKAI KGaA, Hamburg	Member of the Supervisory Board
EUROGATE GmbH & Co. KGaA KG, Bremen	Chairman of the Supervisory Board

Frank Wolff *¹⁾

Hanover
Bank employee

*¹⁾ elected by the employees

•• 30. BOARD OF MANAGING DIRECTORS

(including information on positions on supervisory boards and other corporate bodies in accordance with Section 285, point 10 of the German Commercial Code)

Jürgen Grieger

RMX Risk Management Exchange AG,
Hanover

Member of the Supervisory Board

Jürgen Morr

Hypo Real Estate Systems GmbH, Stuttgart
(formerly GfA-Gesellschaft für
Anwendungssoftware mbH)

Member of the Supervisory Board

Thomas Frhr. v. Tucher

Dr. Lorenz Tucher'sche Stiftung (von 1503),
Nuremberg

to 30/06/2007

Member of the Board of Directors and
authorised agent

Andreas Rehfus

since 01/07/2007

•• 31. CORPORATE GOVERNANCE

In accordance with Section 161 of the Joint Stock Companies Act, Deutsche Hypo has submitted the required declaration, which has been made available to the shareholders.

•• **32. EMOLUMENTS OF THE BOARD OF MANAGING DIRECTORS AND SUPERVISORY BOARD**

Emoluments paid to the Board of Managing Directors for the 2007 financial year amounted to € 1,310.0 k (previous year: € 1,583.3 k). Of this total, fixed payments amounted to € 723.2 k (previous year: € 698.3 k), with the variable component comprising € 586.8 k (previous year: € 840.0 k).

The variable salary component is calculated on the basis of the annual accounts prepared in accordance with the German Commercial Code (HGB) using the following formula:

Operating result before tax (in € millions) + return on equity (in %) + dividend x 10 (in euros).

This total is then multiplied by the individual multipliers for each member of the Board of Managing Directors.

The total multiplier for the incumbent Board of Managing Directors is 7,800.

The information required under Section 285, first sentence, point. 9 (a), fifth to ninth sentences HGB was not required in accordance with Section 286, paragraph 5 HGB.

Former members of the Board and their surviving dependants received € 610.8 k (previous year: € 532.5 k). The pension provisions made for this group of persons totalled € 6,461.3 k (previous year: € 4,836.6 k).

The Supervisory Board received € 354 k (previous year: € 336 k), of which € 149 k (previous year: € 96 k) was paid as a fixed component (excluding value-added tax).

•• **33. LOANS GRANTED TO THE BOARD OF MANAGING DIRECTORS AND SUPERVISORY BOARD (IN € THOUSANDS)**

As at the balance sheet date, the following loans had been granted to the members of the corporate bodies:

	2007	2006
Members of the Board of Managing Directors	15.4	1.1

A loan in the amount of € 21.7 k was granted. After repayment of € 6.3 k, the remaining outstanding capital was € 15.4 k. The loan is subject to a standard market rate of interest of 4.57 %. The redemption rate is 2.0 %.

•• **34. OTHER OPERATING INCOME**

This predominantly includes income from land and property in the amount of € 2.3 million, from the writing back of provisions in the amount of € 0.2 million, and income from the reimbursement of expenses in the amount of € 0.1 million.

•• 35. OTHER OPERATING EXPENSES

This item primarily includes expenses for damages in the amount of € 1.2 million, price losses from currency transactions of € 0.9 million and expenses relating to buildings managed by third parties in the amount of € 0.5 million.

•• 36. BREAKDOWN OF TAXES ON INCOME

Of the income taxes reported, amounting to € 12.5 million (previous year: € 12.4 million) € 13.5 million (previous year: € 14.9 million) relates to the result from ordinary business activity.

€ 0.6 million is related to adjustments of the tax position under commercial law in line with the tax balance sheet, and € 0.4 million relates to the adjustment of the cash value of corporation tax credits.

•• 37. INCOME OF AND ADJUSTMENTS TO INVESTMENTS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS

Revenue of € 0.9 million (previous year: € 6.7 million) was generated during the financial year from the sale of four securities held as fixed assets. In contrast, a loss of € 1.0 million was generated from the sale of one security forming part of the fixed assets.

Write-downs in relation to foreign securities held as fixed assets accounted for € 5.4 million.

Revenue of € 3.8 million was generated from the sale of investments.

•• 38. FEE FOR AUDITING AND CONSULTANCY SERVICES OF AUDITOR

- a) € 500,000.00 (previous year: € 459,600.00)
for the audit of the annual accounts
- b) € 122,415.00 (previous year: € 243,255.00)
for other attestation services
- c) € 532,641.00 (previous year: € 0.00)
for other services

•• INVESTMENTS AND GROUP AFFILIATION

•• 39. HOLDINGS SUBJECT TO DISCLOSURE REQUIREMENTS

(pursuant to Section 160 (1) point 8 AktG in conjunction with Section 21 (1) WpHG and Section 25 (1) WpHG)

As formally stated, the following companies have a holding in our company (up to 8 January 2008):
BHF-BANK Aktiengesellschaft, Frankfurt am Main
M.M. Warburg & CO Gruppe KGaA, Hamburg
Döhle ICL Beteiligungsgesellschaft mbH, Hamburg
Josef H. Boquoi-Stiftung, Lübeck
COREALCREDIT BANK AG, Frankfurt am Main
Union Investment Institutional GmbH,
Frankfurt am Main

With effect from 8 January 2008:
Norddeutsche Landesbank Girozentrale, Hanover

•• 40. GROUP AFFILIATION

Since 8 January 2008, Norddeutsche Landesbank Girozentrale, Hanover, has held the majority share (97.612 %) of our company's share capital.

•• 41. EQUITY HOLDINGS IN OTHER COMPANIES (IN € THOUSANDS)

The following list details holdings in other companies in accordance with Section 285, point 11 of the Commercial Code:

	Shareholding %	Capital	Result 2007	Result 2006
Deutsche Hypo B.V., Amsterdam	100.0	26	213	370
Deutsche Hypo Consulting GmbH, Hanover	100.0	10	0	0
Deutsche Hypo Immobilien GmbH, Hanover	100.0	89	0	0
Terra Grundbesitzgesellschaft am Aegi mbH, Hanover ¹⁾	100.0	57	0	0
Terra Grundbesitzgesellschaft am Aegi mbH & Co. Grundbesitzerwerbs KG, Hanover	100.0	- 141	274	- 72
Corporate I SICAV, Luxembourg	49.5	1,000,000	²⁾	0

¹⁾ Profit and loss transfer agreement ²⁾ Information not yet available

Hanover, 27 February 2008

The Board of Managing Directors



Grieger Morr Rehfus

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report 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."

Hanover, 27 February 2008

The Board of Managing Directors



Grieger



Morr



Rehfus

AUDITOR'S 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 the Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover/Berlin, for the business year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. 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 "German Commercial Code" and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 man-

agement 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 management, 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 comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Deutsche Hypothekenbank (Actien-Gesellschaft) 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.

Hamburg, February 29, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Madsen
Wirtschaftsprüfer

Schröder
Wirtschaftsprüferin

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board performed the tasks required of it by law, under the Bank's Articles of Association and in accordance with the German Corporate Governance Code during 2007.

Six meetings of the Supervisory Board were held during the financial year, two of which had been held by the time of the 124th Ordinary General Meeting on 16 May 2007. The Chairman of the Supervisory Board, Wolfgang Hollender, retired from the Board with effect from the end of the Ordinary General Meeting. The General Meeting duly appointed Alexander Stuhlmann as a new member of the Supervisory Board. At the meeting of the Supervisory Board held directly following the General Meeting, Alexander Stuhlmann was elected Chairman of the Supervisory Board. Three further Supervisory Board meetings (one of which was an extraordinary meeting) were held after this meeting in 2007. The extraordinary meeting on 14 December 2007 dealt solely with a resolution on the statement of the Supervisory Board in response to the voluntary, public takeover bid (cash offer) submitted by Norddeutsche Landesbank-Girozentrale, Hanover.

Member of the Supervisory Board, Friedrich Carl Janssen attended fewer than half of the Supervisory Board meetings held in the 2007 financial year.

In addition to these meetings, the Supervisory Board used the risk reports, further up-to-date written and oral reports, and frequent discussions between the Chairman and the Bank's Board of Managing Directors to keep itself fully abreast of the Bank's position and development in terms of fundamental issues relating to strategic policy, the loan portfolio, the overall risk situation and income situation of the Bank and other major activities.

In addition to decision-making at its meetings, the Supervisory Board also took some decisions through its committees.

The Lending Committee assessed all credits involving large scale risks or an elevated degree of risk. It also looked at credit rating and country risks, as well as issues relating to risk management, risk controlling and the structure of the entire loan portfolio.

The Audit Committee met on one occasion during the year under review, a meeting that was also attended by representatives of the auditor. The meeting focused on a preliminary review of the Annual Accounts and in-depth discussion of the audit report with the auditor present. Further issues dealt with included the relationship between the Bank and the auditor in light of the required independence and the nomination for the election of the auditor.

The Personnel Committee met twice during the financial year under review, dealing with matters relating to the Board of Managing Directors.

With effect from 30 June 2007, Thomas Freiherr von Tucher resigned from his position on the Board of Managing Directors, having been a member of the Board since 1 October 1989. He played a key role in the Bank's strategic realignment, creating a specialist financing institution for commercial real estate financing, thereby laying the foundation stone for the prosperous development of Deutsche Hypo over almost two decades.

Mr Andreas Rehfus was appointed as an ordinary member of the Board of Managing Directors with effect from 1 July 2007.

Mr Wolfgang Hollender resigned from the Supervisory Board with effect from the close of the ordinary General Meeting on 16 May 2007. Mr Hollender had been a member of the Supervisory Board since 16 May 2001 and its chairman since 12 May 2005. He was also Chairman of the Personnel Committee and the Lending Committee.

Mr Ralf Hinrichs resigned from the Supervisory Board with effect from the end of 17 May 2007, having been a member in the capacity of employee representative since 12 May 2005.

The Supervisory Board wishes to thank these members for their dedication and constructive cooperation.

The following new members were appointed to the Supervisory Board: Mr Alexander Stuhlmann with effect from the close of the ordinary General Meeting on 16 May 2007 and Mr Michael Gehrig with effect from 14 June 2007 in the capacity of employee representative.

In the context of the takeover bid for Deutsche Hypo, NORD/LB had been offered more than 95 % of the shares in Deutsche Hypo by the end of the deadline of 2 January 2008, which, as at 8 January 2008, were then acquired by NORD/LB. Due to this change in ownership, Jochen Döhle, Joachim Olearius, Dietmar Schmid, Alexander Stuhlmann and Max Warburg duly resigned from the Supervisory Board with effect from 15 February 2008. Dr. Gunter Dunkel, Eckhard Forst, Jürgen Kösters, Dr. Hannes Rehm and Dr. Johannes-Jörg Riegler applied to Hanover Local Court for appointment to the Supervisory Board. These appointments were made with effect from 16 February 2008. At a Supervisory Board meeting on 18 February 2008, Mr Forst was elected Chairman of the Supervisory Board, with Dr. Dunkel being elected as Vice-Chairman. New

members were also appointed to the Supervisory Board's committees at this meeting.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the auditor elected by the General Meeting and commissioned by the Supervisory Board, has audited the bookkeeping method, Management Report and Annual Accounts for the period from 1 January to 31 December 2007 and awarded an unqualified audit certificate. This confirms that the bookkeeping, Management Report and Annual Accounts comply with the statutory requirements and the audit did not lead to any reservations. The Supervisory Board duly noted and approved the auditor's report.

The auditor was available to the Chairman of the Supervisory Board, to the whole of the Supervisory Board and to the Audit Committee at its balance sheet meeting to answer questions and provide additional information. On completion of its examination, the Supervisory Board raised no objections to the Annual Accounts drawn up by the Board of Managing Directors, with the result that these were duly approved and adopted. The Supervisory Board also endorses the proposal submitted by the Board of Managing Directors regarding the appropriation of profit.

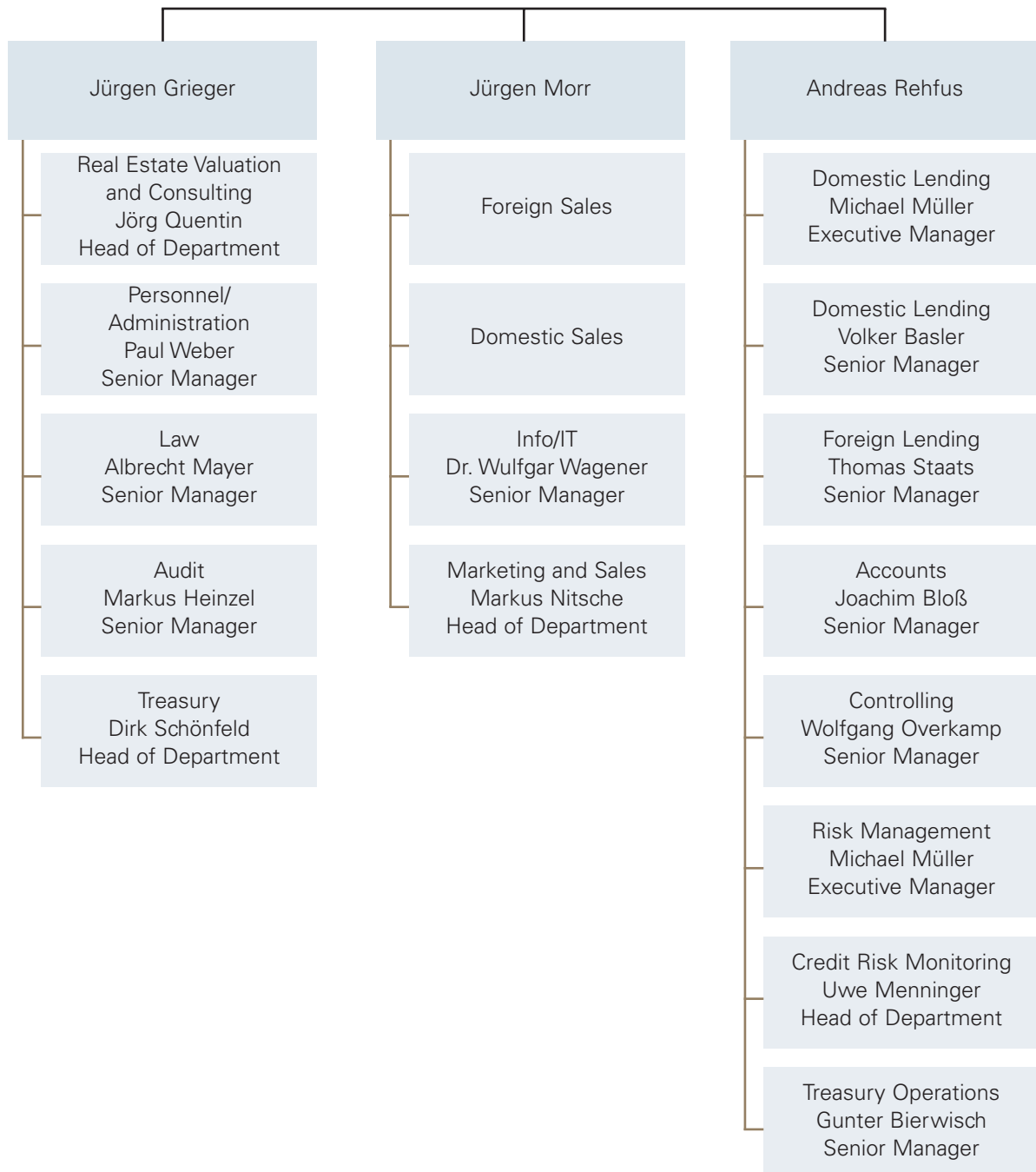
Hanover, 26 March 2008

The Supervisory Board



Chairman

ORGANISATIONAL STRUCTURE OF DEUTSCHE HYPO AS AT 31 DECEMBER 2007



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STATE SUPERVISORY BODY	Bundesanstalt für Finanzdienstleistungsaufsicht Graurheindorfer Straße 108 53117 Bonn

GLOSSARY

•• **Asset Backed Securities (ABS)**

Securities backed by a pool of financial assets. This pool of assets is sold to a legally independent special purpose vehicle established for the purposes of securitisation and financing, which finances the purchase price by issuing securities whose rating varies according to level of risk. ABS is also the general term applied to other forms of securitisation (e.g. →CDO, →MBS etc.) and is used to describe any form of asset-backed claim securitisation.

•• **Backtesting**

Process used to verify the forecasting accuracy of → VaR. This involves comparing the daily changes in net present value with the forecast values.

•• **Basis-Point-Value method (100 bp)**

In addition to → VaR, another process used to measure interest rate risk by simulating an interest rate rise of 100 bp by means of a parallel shift in the yield curve. The total resulting change in the present value of all balance sheet and off-balance sheet positions indicates the level of interest rate risk.

•• **Collateralized Debt Obligation (CDO)**

A form of → ABS, where ABS or other parcelled up bonds serve as security.

•• **Cost-Income-Ratio**

Ratio of administrative expenses to net interest and commission income. The cost-income-ratio provides a quantitative indicator of the efficiency level achieved in banking operations. Essentially, the lower the cost-income-ratio, the more efficient the Bank.

•• **Debt Issuance Programme (DIP)**

A DIP provides the contractual framework and the template documentation for the international placement of security issues. Deutsche Hypo uses this programme as a flexible refinancing tool on the euro market, thereby supplementing traditional refinancing through Pfandbriefe. With the framework of the DIP, Deutsche Hypo can issue bonds and Pfandbriefe in the common currencies and in a variety of different structures. Given that only brief standardised documentation is required for the individual issues, the Bank can react quickly and flexibly to investor wishes, which, in particular, is also of significance to foreign investors.

•• **Hedging**

Transactions used to offset the risk of unfavourable price developments (e.g. interest rate hedges). An individual risk position is secured by taking another risk position in the opposite direction.

•• **Macro-hedge**

A macro-hedge is the term used when as part of a → hedging strategy, a bank secures/immunises a portfolio or several individual transactions against future price losses.

•• **Mark-to-market**

Valuation method describing the revaluation of financial instruments on the basis of the market prices applicable on the revaluation date, rather than on the basis of historical costs.

•• **Micro-hedge**

A micro-hedge is the term used when as part of a → hedging strategy, a single position is secured/immunised against future price losses by means of a futures transaction.

•• **Mortgage-Backed Securities (MBS)**

Mortgage Backed Securities securitise a section of a pool of mortgage loans, issued for example by Pfandbrief banks for the purposes of property financing, in the form of bonds. Mortgage Backed Securities are a special type of Asset Backed Security, i.e. tradable bonds covered by claims.

•• **PfandBarwertV**

Pfandbrief Net Present Value Ordinance: Ordinance relating to securing the availability of cover at all times for mortgage Pfandbriefe, public Pfandbriefe and ship Pfandbriefe based on net present value, and to the calculation of this value by the Pfandbrief banks.

•• **Probability of Default (PD)**

Key figure used to determine the likelihood of a loan not being repaid. Scoring model Deutsche Hypo's internal rating method to determine debtor quality in capital market business.

•• **Scoring-Modell**

Internal rating procedure of Deutsche Hypo to evaluate the debtor's creditworthiness in capital market business.

•• **Spread**

The difference between the yields on different forms of investments, e.g. the yield differential between Pfandbriefe and federal loans.

•• **Subprime-Markt**

Segment of the US real estate finance market in which mortgages are granted to borrowers with poor credit ratings.

•• **Swap**

Generally a swap involves the exchange of payment flows. In particular, it refers to a financial technique whereby two partners swap interest payments and/or currency positions. If these operations affect the assets side of a balance sheet, they are referred to as asset swaps, whilst liability swaps relate to the liabilities side of the balance sheet.

•• **Value-at-Risk (VaR)**

Concept used to quantify market price risks (interest rate risks) and a key component of modern risk management. It involves determining the potential (net present value) loss that will not be exceeded subject to a given level of probability and within a stipulated period.

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