

Deutsche Hypo

HALF-YEARLY FINANCIAL REPORT

2008

DEUTSCHE HYPO

Ein Unternehmen der **NORD/LB**

# Deutsche Hypo at a glance

	01.01.-30.06. 2008 € millions	01.01.-30.06. 2007 € millions	Change in %
<b>Business progress figures</b>			
Mortgage loans	1,048	1,304	- 19.6
Capital market transactions	952	2,761	- 65.5
of which public-sector loans	445	1,572	- 71.7
Loan drawdowns	2,220	3,905	- 43.1
Bond sales and loans taken up	2,492	3,743	- 33.4
<b>Balance Sheet figures</b>			
	<b>30.06.2008</b>	<b>31.12.2007</b>	
Mortgage loans (including interest)	8,868	8,544	
Public-sector loans (including interest)	11,177	12,071	
Securities	11,919	12,250	
Borrowed funds	32,909	34,203	
Equity (excluding distributable profits)	843	834	
of which: Core capital	506	496	
Total assets	34,067	35,430	
<b>Profit and Loss Account figures</b>			
	<b>01.01.-30.06. 2008</b>	<b>01.01.-30.06. 2007</b>	
Net interest and commission income	59.2	54.4	8.8
Administrative expenses including depreciation	17.8	17.6	1.1
Result from ordinary business activity	22.3	26.1	- 14.6
Net income for the year	16.3	18.5	- 11.9
<b>Other information</b>			
	<b>30.06.2008</b>	<b>30.06.2007</b>	
Cost/income ratio	30.0 %	32.4 %	-
Core capital ratio	5.7 %	5.3 %	-

<b>Rating</b>			
		S & P	Moody's
Public Pfandbriefe		AAA	Aaa
Mortgage Pfandbriefe		-	Aaa
Long-term liabilities		-	A2
			since 27.02.2008 Aa3

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# LETTER TO OUR SHAREHOLDERS

Dear Shareholders

Dear Sir or Madam

Our aim in presenting this financial report on the first half of 2008 is to report on Deutsche Hypo's performance during the period under review, which has proved to be satisfactory and in line with our expectations. This is a gratifying situation to be in, given the continuing crisis on the financial markets, albeit one that has affected us far less severely than many other banks thanks to our business model, and given that the economy as a whole is now less dynamic in nature.

New mortgage business in particular has continued to develop positively, and at more than € 1 billion was in line with our forecast. Of this total, € 715 million related to foreign business and € 333 million to new domestic business. The mortgage portfolio has grown by € 326 million or 4% since the beginning of the year to approximately € 8.9 billion. The extraordinarily good and not necessarily repeatable level of new business recorded in 2007 was almost 20% higher than the level recorded during the half-year under review and was also marked by special one-off effects. In this regard, a development on which we reported in our first interim report for 2008 has been maintained.

A second trend has also continued to date. In terms of new capital market business, our approach is currently a very selective and risk-based one, in response to the continued volatility on the capital markets. Consequently,

our reserved investment policy is causing new capital market business to dip. At just under € 1 billion, it amounted to around one third of the previous year's level.

With regard to refinancing, it has been domestic demand in particular that has dominated issuing business. Reliable levels of domestic sales have meant that the Bank has been able to procure liquidity without any problems. Overall, Deutsche Hypo issued € 2.5 billion during the first half of the year, with € 1.0 billion of this total relating to Pfandbrief products.

The Bank's income situation benefited from a rise in the margins achievable in mortgage lending business. As a result, net interest income improved by € 2.6 million on a year-on-year basis. Net commission income, up by more than € 2 million, also increased significantly with the result that, on balance, net interest and commission income rose by a gratifying 9% to € 59.2 million.

The fact that the Bank's pre-tax result was still lower than for the same period of last year can be explained by the ongoing impact of the financial market crisis. Whilst the downward development in the risk provisioning charge for lending business continued – at € 4.3 million it was 46% down on the € 7.9 million recorded during the first six months of 2007 – provisioning measures with regard to the liquidity reserve cancelled out this improvement. An extra € 6.6 million was allocated to risk provisioning in this regard compared with the same period

of the previous year. Nevertheless, we are not expecting to see a long-term loss in value as our portfolio is primarily composed of papers from high-quality issuers. In terms of the investment result, the Bank recorded a negative balance of € 5.2 million. This was due to write-downs on securities held as fixed assets, with regard to which we were forced to assume a long-term impairment loss.

The pre-tax result reached € 22.3 million and was thus € 3.8 million down on the same period of the previous year. With regard to its cost/income ratio, the Bank once again demonstrated just how competitive it is. At a mere 30.0%, the good ratio of 32.4% recorded last year was built on and exceeded.

We are also satisfied with the result recorded by the Bank during the first half year to the extent that, in addition to the challenges of day-to-day business, we also faced the central project of establishing ourselves as a centre for excellence for commercial real estate finance, this being the role to be assumed by Deutsche Hypo in its capacity as a bank within NORD/LB Group. Following many months of hard work, we are now very close to the finish line. Our aim is to cross this line in time for this year's EXPO REAL real estate trade fair, which takes place in early October, and to present the "new" Deutsche Hypo to the market then.

The pooling of the joint resources of Deutsche Hypo and NORD/LB in this area of business at the Hanover location represents the logical ex-

ten- sion of the already successful Deutsche Hypo business model, whilst offering scope for growth prospects in both existing and new commercial real estate markets. Above all, we envisage advantages for our customers from this extended positioning of the Bank. These customers will continue to have a reliable partner in Deutsche Hypo and will benefit from the greater arranging and structuring of expertise, customised and innovative finance solutions and – in short – full portfolio of services offered by a highly specialist real estate bank.

As we make our plans for growth, we will consistently strive to ensure that our business model remains resistant to crises and future-proof. Nevertheless, the current crisis facing the capital and real estate markets is not something that we can escape completely unscathed. However, leaving aside the comparatively moderate corrections experienced, Deutsche Hypo is proving to be a strategically well positioned and highly competitive real estate bank.

DEUTSCHE HYPOTHEKENBANK  
(ACTIEN-GESELLSCHAFT)

The Board of Managing Directors

# THE SUPERVISORY BOARD AND ITS COMMITTEES

## .. MEMBERS OF THE SUPERVISORY BOARD

**Alexander Stuhlmann**  
Düsseldorf  
Chairman of the Managing Board of WestLB AG  
– **Chairman** –  
to 15/02/2008

**Jochen Döhle**  
Hamburg  
Personally liable partner of PETER DÖHLE Schiffahrts-KG  
to 15/02/2008

**Joachim Olearius**  
Hamburg  
Executive Manager of M. M. Warburg & CO Kommanditgesellschaft auf Aktien  
to 15/02/2008

**Eckhard Forst**  
Hanover  
Member of the Management Board of Norddeutsche Landesbank, Girozentrale  
– **Chairman** –  
since 16/02/2008

**Reinhard Drexler**  
Hanover  
Bank employee

**Dr. Hannes Rehm**  
Hanover  
Chairman of the Management Board of Norddeutsche Landesbank, Girozentrale  
since 16/02/2008

**Michael Gehrig**  
Hanover  
Bank employee

**Dietmar Schmid**  
Frankfurt am Main  
Member of the Board of Managing Directors of BHF-BANK AG  
– **Vice-Chairman** –  
to 15/02/2008

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

**Dr. Johannes-Jörg Riegler**  
Hanover  
Member of the Management Board of Norddeutsche Landesbank, Girozentrale  
since 16/02/2008

**Dr. Gunter Dunkel**  
Hanover  
Deputy Chairman of the Management Board of Norddeutsche Landesbank, Girozentrale  
– **Vice-Chairman** –  
since 16/02/2008

**Jürgen Kösters**  
Hanover  
Member of the Management Board of Norddeutsche Landesbank, Girozentrale  
since 16/02/2008  
to 20/05/2008

**Max Warburg**  
Hamburg  
Personally liable partner of M. M. Warburg & CO Kommanditgesellschaft auf Aktien  
to 15/02/2008

**Frank Wolff**  
Hanover  
Bank employee

**Dr. Jürgen Allerkamp**  
Hanover  
Member of the Management Board of Norddeutsche Landesbank, Girozentrale  
since 21/05/2008

.. **COMMITTEES:**

.. **LENDING COMMITTEE**

to 15/02/2008

Alexander Stuhlmann  
– Chairman –

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Friedrich Carl Janssen

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Max Warburg

---

Jochen Döhle  
– Substitute member –

since 18/02/2008

Dr. Johannes-Jörg Riegler  
– Chairman –

---

Friedrich Carl Janssen

---

Eckhard Forst

---

Dr. Gunter Dunkel  
– Substitute member –

.. **PERSONNEL COMMITTEE**

to 15/02/2008

Alexander Stuhlmann  
– Chairman –

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Dietmar Schmid  
– Vice-Chairman –

---

Max Warburg

---

Joachim Olearius  
– Substitute member –

since 18/02/2008

Eckhard Forst  
– Chairman –

---

Dr. Gunter Dunkel

---

Dr. Hannes Rehm

---

Jürgen Kösters  
– Substitute member –  
to 20/05/2008

---

Dr. Jürgen Allerkamp  
– Substitute member –  
since 21/05/2008

## .. COMMITTEES:

### .. AUDIT COMMITTEE

Friedrich Carl Janssen  
– Chairman –  
to 17/02/2008

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Joachim Olearius  
to 15/02/2008

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Frank Wolff  
to 17/02/2008

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Jochen Döhle  
– Substitute member –  
to 15/02/2008

### .. APPOINTMENTS COMMITTEE

to 15/02/2008

Dietmar Schmid  
– Chairman –

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Jochen Döhle

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Max Warburg

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Joachim Olearius  
– Substitute member –

since 18/02/2008

Jürgen Kösters  
– Chairman –  
to 20/05/2008

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Dr. Jürgen Allerkamp  
– Chairman –  
since 21/05/2008

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Friedrich Carl Janssen

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Frank Wolff

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Dr. Gunter Dunkel  
– Substitute member –

since 18/02/2008

Dr. Hannes Rehm  
– Chairman –

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Eckhard Forst

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Jürgen Kösters  
to 20/05/2008

---

Dr. Jürgen Allerkamp  
since 21/05/2008

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Dr. Gunter Dunkel  
– Substitute member –

# MANAGEMENT

## .. BOARD OF MANAGING DIRECTORS

Jürgen Grieger  
Hanover

Jürgen Morr  
Hanover

Andreas Pohl  
Hanover  
since 01/03/2008

Andreas Rehfus  
Hanover

## .. EXECUTIVE MANAGER

Michael Müller

## .. 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  
Assistant Director, retired  
– Trustee –

Wolfdietrich Kühne  
Hanover  
Degree in business  
– Deputy Trustee –

# MANAGEMENT REPORT

## • BUSINESS PERFORMANCE

The first half of 2008 continued to be dominated by the financial market crisis and, as a result, a difficult business environment for the banking sector as a whole. Widening spreads and, consequently, falls in the price of securities also impacted on Deutsche Hypo's business performance. Due to the gratifying manner in which mortgage business developed, however, overall business performance can still be described as satisfactory:

- Net interest and commission income rose, due, among other factors, to an increase in the portfolio and wider margins in mortgage business (+ 9%).
- The risk provisioning requirement for mortgage business remained moderate.
- Price losses in the securities portfolio resulted in a higher need for write-downs compared with the first half of 2007.
- Costs are stable.
- The overall result fell by 12% year-on-year.
- New mortgage business is growing as planned.
- New capital market business is falling due to a selective investment policy in response to the current capital market climate.
- The fact that Deutsche Hypo is now part of NORD/LB Group has resulted in adjustments to the Bank's ratings. The Moody's rating for unsecured issues was upgraded to Aa3, whilst the financial strength rating was adjusted from C to C-. The Bank's Pfandbrief ratings remained unchanged at AAA, the top rating available.

## • MORTGAGE LOAN BUSINESS

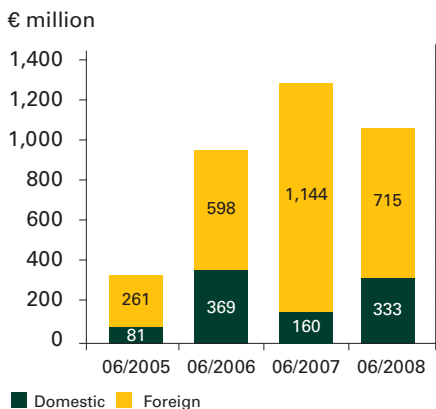
### • NEW MORTGAGE BUSINESS

New mortgage loan commitments totalled € 1,048 million, which was € 256 million down on the same period of the previous year (- 20%).

The drop in the volume of new business can be attributed to foreign business, which fell by € 429 million to € 715 million. This is primarily due to an underlying effect. In March 2007 a major portfolio from our target market of the UK was included in the Bank's books, as a result of which the reported figure for new business was comparatively high.

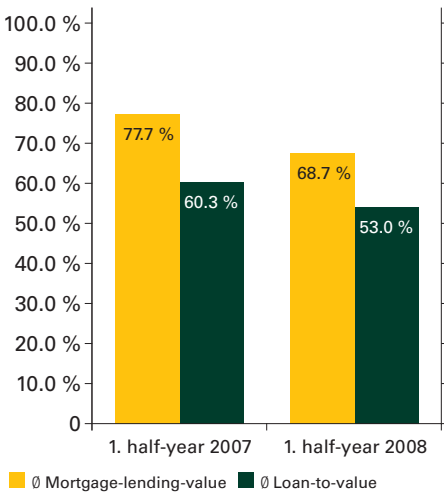
New domestic mortgage business rose by € 173 million to € 333 million. Overall, new business developed as planned over the first half of the year.

### New business by region (in € millions)



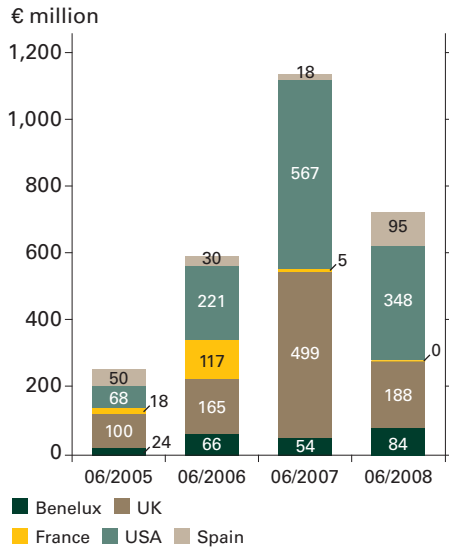
In the USA, against the backdrop of the real estate crisis, we tightened up our lending criteria. With a fundamentally cautious policy towards lending, we continued as before to focus on first-rate financing segments as part of larger-scale financing projects. Loans with short and manageable terms were a particular focus. With regard to its US financings, the Bank succeeded during the reporting period in once again reducing the average key figures of "mortgage-lending-value" and "loan to value" (LTV) and adapting to the stricter criteria.

### Mortgage-lending-value and LTV for US business



The volume of new business in Spain, comprising exclusively commercial finance for strategic reasons, was positive at € 77 million. With regard to the Benelux countries, the volume of new business was practically unchanged.

### Foreign mortgage loan commitments (in € millions)



Financings for residential property accounted for € 172 million (= 16%) of total new commitments, with commercial loans making up € 876 million (= 84%). This means that the relationship between residential and commercial new mortgage business remained more or less unchanged.

### MORTGAGE LOAN PORTFOLIO

The mortgage portfolio grew compared with the situation at 30 June 2007, up by € 181 million (+ 2.1%) to € 8,868 million. This comparatively small increase was strongly influenced by exchange rate translation effects. Due to the strength of the euro against the US dollar and sterling, loans in these currencies – irrespective of any foreign currency hedging arrangements – are reported at a lower value in euros. Excluding the fluctuations in exchange rates,

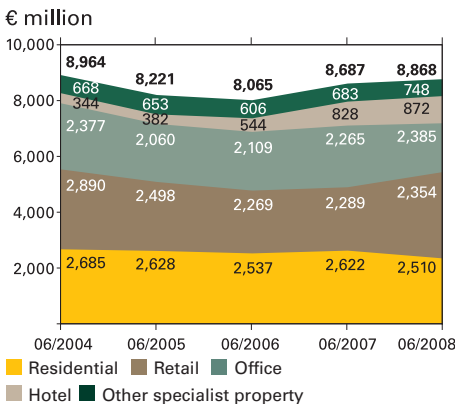
the increase in the size of the mortgage portfolio would be in the region of € 650 million.

Portfolio increases were recorded with regard to office properties (+ € 120 million) and retail properties (+ € 65 million). The increase with regard to hotels was + € 44 million, with a rise of + € 65 million in the case of other specialist property. In terms of residential financing, we recorded a fall in our portfolio in the amount of € 113 million.

In terms of domestic and foreign loans, the portfolio can be broken down as follows: domestic € 4,994 million (- € 240 million), foreign € 3,874 million (+ € 421 million). There was a renewed rise in the portfolio of foreign loans compared with the previous year (40%), with these now accounting for approximately 44% of the entire loan portfolio.

No new MBS structures were acquired. The MBS portfolio amounted to € 218.8 million, compared with € 346 million as at 30 June 2006, although most of this fall can be attributed to scheduled redemptions.

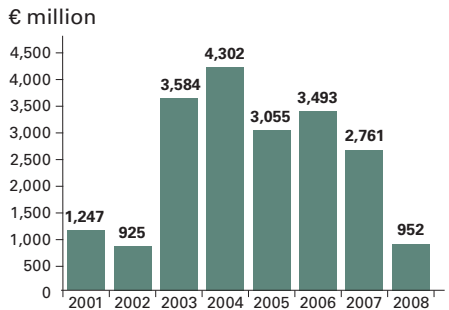
### Development of mortgage loan portfolio (in € million)



### • CAPITAL MARKET TRANSACTIONS

During the first half-year, credit premiums rose across nearly all segments of global capital market business. With no end to this development in sight, the Bank was reticent in its approach to new investments. The current valuation risk appeared to be too great. It was only during the second quarter that Deutsche Hypo took advantage of the opportunities that presented themselves, investing in some selected areas of the capital market. The main focus was bonds and borrowers' notes with a zero percent risk weighting under Basel II. This cautious and selective approach explains the fall in new business recorded in the capital market segment.

### New capital market business (in € millions) As at 30 June of each financial year



The decision on whether an investment will be profitable or not is made on the basis of the margin that is achievable with term-congruent refinancing. The equity capital used for refinancing purposes must earn a sufficient return in accordance with the Bank's predetermined criteria. This approach, based on sustainability, was implemented successfully in practice.

Deutsche Hypo also adhered resolutely during the reporting period to its tried-and-tested strategy of applying strict quality criteria to its selection of assets. With the markets hit by intensive fluctuations, these criteria were particularly narrowly defined during the period under review, with the aim of avoiding any major valuation risks. The share of new business with the highest rating of AAA was 39%. The remainder consisted of the good ratings of AA (55%) and A (6%).

The cover pool benefited from the high quality of new business. A high proportion of the cover pool is still comprised of the top ratings. The rating agencies S&P and Moody's acknowledged this quality, confirming their AAA and Aaa ratings respectively for Deutsche Hypo public Pfandbriefe.

Compared with the previous year, there was a further rise in the share of foreign business, with the focus on the EU states. The approach of engaging in government lending business abroad offers opportunities for attractive margins and adds to the diversification of the cover pool.

The capital market business portfolio, worth € 22.9 billion, continues to be of high quality. More than 60% of the portfolio was rated AA or higher, resulting in an overall average rating of AA. Of the total portfolio, € 11.5 billion related to the Bank's securities portfolio. This sub-portfolio, with an average rating of AA-, also fulfilled our quality criteria. The high quality of this capital market business, of which we are fully convinced in our economic assessment, did not, however, protect the Bank from the effects of the temporary irrational distortions on the market. The global widening of credit spreads led, in

some cases, to major impairment losses in this portfolio too, on a scale that will be markedly greater than the negative factors reported on for the 2007 financial year. We do not, however, believe these adjustments in value to be long-term. Moreover, the Deutsche Hypo securities portfolio is managed exclusively on the basis of long-term investments, with the result that, in light of the described quality of our portfolios, we can assume that the papers will be repaid in full upon the expiry of the overall term.

## ... REFINANCING

The first half of 2008 was dominated by domestic demand, with foreign investors adopting a wait-and-see or even restrictive approach towards German issues. We view this waning in international demand as a temporary factor on the market as a whole. The Bank was able to procure liquidity at all times, even against the background of the financial market crisis, due to the consistent level of domestic sales.

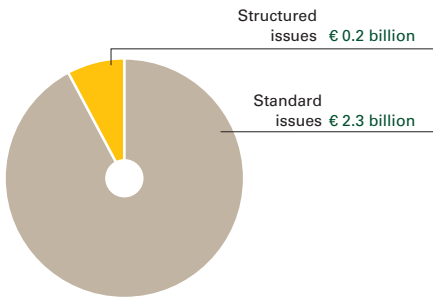
The market reacted positively to the news of Deutsche Hypo becoming part of the NORD/LB Group. The Bank's already first-rate capital market standing was therefore consolidated and contributed to the straightforward, placement of our issues at good market conditions.

Deutsche Hypo issued € 2.5 billion during the first half of the year, with € 1.0 billion of this total relating to Pfandbrief products. Given that market making has only taken place to a limited extent on the jumbo market or has been officially suspended, there has not been any

opportunity for a new Deutsche Hypo issue in this format to date this year. Once demand, including international demand, begins to rise again, we will of course return to this type of issue format.

Deutsche Hypo placed structured issues in the amount of € 0.2 billion, with € 0.6 billion being issued in the context of the Debt Issuance Programme (DIP). Placement in the form of registered papers in the amount of € 0.6 billion rounded off the mix of refinancing methods.

**Breakdown of issue volume of € 2.5 billion (as at 30 June 2008)**



We are continuing to pursue a strategy of meeting investor demand in a targeted way, i.e. offering customised rather than volume-based products. At no time was the generating of sales on price alone an option for Deutsche Hypo. Rather, issues were completed on the basis of attractive spreads and thus in a cost-effective way to ensure that we could retain our successful position in a competitive capital market environment.

**.. 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-

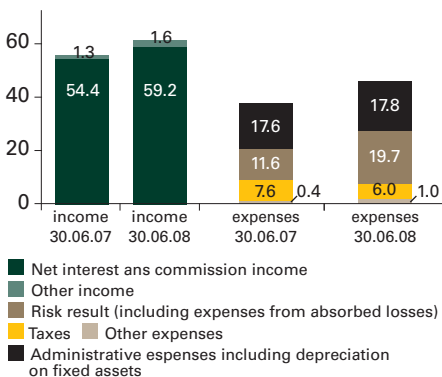
## .. PROFIT SITUATION

### .. SATISFACTORY PROFIT SITUATION

During the first half-year net interest and commission income rose by 9% to € 59.2 million, thereby exceeding by € 4.8 million the figure recorded during the first half of 2007. Both of the Bank's areas of business were able to increase their contribution to net interest and commission income. With regard to mortgage lending business, margins and the size of the portfolios developed positively. In terms of foreign business in particular, the loans portfolio recorded a disproportionately strong increase.

#### Structure of income and expenses (in € millions)

€ million



### .. ADMINISTRATIVE EXPENSES

Administrative expenses, at € 17.8 million, were practically unchanged on the previous year (€ 17.6 million). The cost/income ratio was a mere 30%, and thus even lower than the already good result of 31.9% recorded at the previous year-end.

### .. OTHER OPERATING INCOME AND EXPENSES

The balance of other operating income and expenses fell slightly, at € 0.6 million, which was € 0.3 million down on the previous year's level.

### .. RISK PROVISIONING

Expenses relating to risk provisioning rose year-on-year by 25% to € 14.5 million. A key factor in this development was risk provisioning for securities held in the liquidity reserve. The ongoing uncertainties on the international financial markets lead to renewed price falls on numerous securities markets during the first six months of the year. The price writedowns implemented in accordance with the strict principle of the lower of cost or market totalled € 10.4 million as at the reporting date, and were thus € 6.4 million higher than during the first half of 2007.

In contrast, the provisioning charge in relation to lending business fell by € 3.7 million to € 4.3 million (- 46%). Despite this, we still accounted for all discernible risks using our customary conservative benchmarks. The favourable result is primarily due to the writing back of lump-sum valuation adjustments that are no longer required.

In terms of its investment result, the Bank recorded a negative balance of € 5.2 million. This mainly includes writedowns on structured securities held as fixed assets (CDOs), where we have classed the impairment losses as long-term losses. In light of the financial market crisis, we are unable to exclude the possibility of further impairment losses in this segment.

## •• **RESULT FROM ORDINARY BUSINESS ACTIVITY**

The impact of the ongoing financial market crisis is placing a burden on the Bank's result. Despite operations developing successfully in the Bank's core divisions, it was not possible to match the previous year's result. The pre-tax result was € 22.3 million, which was € 3.8 million down on the previous year (-15%).

## •• **NET INCOME FOR THE YEAR**

Net income for the year was € 16.3 million and thus € 2.2 million (-12%) down on the same period of 2007.

## •• **RISK REPORT**

The principles of the Bank's risk management system, its commercial and risk strategy and a description of the individual types of risk that are measured, monitored and managed by Deutsche Hypo are detailed in the Annual Report for the 2007 financial year. As there were no changes in this regard during the first half of the year, please refer to the 2007 Report for further information. The Bank's strategy continues to be based on a risk-oriented business policy. To date, no risks have emerged in the Bank's mortgage business with an unexpected impact on the risk provisioning required for 2008. However, the crisis on the financial markets has triggered major distortions, which have also resulted in value adjustments being made to the Bank's liquidity and investment portfolios.

## •• **COUNTERPARTY DEFAULT RISK**

Counterparty default risk represents the greatest potential risk. Around 80% of the Bank's overall risk position relates to this type of risk. Whilst the level of counterparty default risk has remained practically unchanged with regard to capital market business, there has been a slight increase in the area of real estate financing compared with the situation as at 31 December 2007 given the impact of the subprime crisis and the expansion of the mortgage portfolio.

## •• **MARKET PRICE RISK**

The market price risk facing Deutsche Hypothekbank is composed of currency risk and both general and specific interest rate risks. Currency risks assumed in relation to foreign currency financings are eliminated through hedge transactions in the same volume and with the same term. The general interest rate risk from fluctuations in the swap curves is expressed as a Value at Risk (VaR) with a confidence level of 99% and a holding period of 10 days. The Bank's value at risk for its overall economic portfolio, as at 30 June 2008, was € 6.3 million. As at the reporting date, the VaR was limited to € 10 million. There were no instances of the limit being exceeded during the reporting period.

The specific interest rate risk or spread risk results from changes in interest premiums based on credit rating. In terms of commercial law, these fluctuations in credit ratings are only reflected in profit and loss for securities held as current assets. The VaR calculated from historical simulations for securities held as current

assets as at the reporting date, with a confidence level of 99% and a holding period of one month, was € 12.25 million.

#### .. OPERATIONAL RISK

There were no instances of damage of an operational nature during the first half of 2008 that had a significant influence on Deutsche Hypo's profit situation. Similarly, the Bank is not aware of any potential risks that could represent a major threat. As part of its integration into the NORD/LB Group, the Bank is also aligning the way in which it manages its operational risks with the Group's methods. The Bank's risk-bearing capacity in relation to operational risks was sufficient at all times.

#### .. LIQUIDITY RISK

Deutsche Hypo once again met the requirements of Principle II without any problems throughout the reporting period. The Bank's liquidity ratio as at 30 June 2008 was 1.68 (previous year: 1.69). This means that short-term payment obligations were covered by incoming payments due in the short term by a factor of 1.68. The liquidity escalation procedure applied for liquidity management purposes and to ensure that any shortages can be tackled in good time was permanently in its "green" phase during the reporting period. This means that the Bank's liquidity situation was not at risk at any point.

## .. INCORPORATION OF DEUTSCHE HYPO INTO NORD/LB'S COMMERCIAL REAL ESTATE FINANCE DIVISION

Deutsche Hypo is to be the centre of excellence for real estate banking within the NORD/LB Group. The two divisions of the "new" Deutsche Hypo will remain commercial real estate finance and capital market business. The strategy going forward is to expand the strategic division of real estate banking by means of organic growth whilst retaining the focus on selected customers, properties and markets. This transaction offers opportunities for the logical common development of the individual business models that have already been successful in their own right. After all, the business focuses and skills of Deutsche Hypo and NORD/LB complement each other perfectly. We firmly believe that the cooperation in real estate banking between NORD/LB and Deutsche Hypo will result in an even stronger and more powerful presence on the commercial property market, retaining the well-established Deutsche Hypo name and continuing the Bank's success story under the NORD/LB umbrella.

Structural evidence of this transaction, the most significant in Deutsche Hypo's history, will also soon be visible. The plan is for around 100 new colleagues from real estate banking at NORD/LB to be welcomed to Deutsche Hypo in early October. We are all looking forward to working together to implement the goals that lie ahead of us and to mastering the challenges that lie ahead in a demanding competitive environment.

## .. FORECAST

Deutsche Hypo has also been unable to escape the impact of the financial market crisis completely unscathed. Nevertheless, the Bank succeeded, during the first half of 2008, in acquiring new mortgage business in line with its expectations, and this new business is developing successfully. However, the unease on the capital markets and the increasingly difficult macroeconomic conditions in Europe and the USA can only impact on the real estate markets and thus on our expectations as regards new business.

In principle, we are expecting the German market to remain relatively stable but that the market risks here, as on the international commercial property markets, will intensify. Based on the situation before the merger between Deutsche Hypo and the commercial real estate finance arm of NORD/LB, we are therefore not expecting the total level of new business for 2008 as a whole to exceed the previous year's result.

Similarly, in terms of our capital market business, the difficult market conditions mean that we will be continuing with our policy of choosing new business in a cautious and selective manner. Looking at the financial year as a whole, we therefore anticipate that the level of new business will not be on a par with the level recorded during the previous year.

Furthermore, for the purposes of our planning, we are assuming that the consequences of the financial market crisis will still be in evidence in the near future and that the state of the economy as a whole in Europe and the USA will

yet to have improved. Greater fluctuations in spreads on the capital markets, that frequently fly in the face of economic reason and are therefore not actually justified on such a scale, will lead to more volatile results. We are therefore preparing for the fact that the difficulties portrayed will have a negative effect on new business and on the Bank's profit and risk position until at least 2009.

In light of these imponderables, it is not possible to make reliable statements on the future course of business development. Consequently, we are currently refraining from making a specific forecast for our result for the 2008 financial year.

## .. REPORT ON ESSENTIAL TRANSACTIONS WITH AFFILIATED PARTIES

### .. NORDDEUTSCHE LANDESBANK — GIROZENTRALE -, HANOVER ("NORD/LB")

As announced on 24 January 2008, NORD/LB holds approximately 98.4% of the share capital and voting rights of Deutsche Hypo and is therefore to be viewed, in accordance with DRS 11 (Deutscher Rechnungslegungsstandard Nr. 11), as an affiliated party that can control the company.

Deutsche Hypo considers the following to be key business events with NORD/LB:

- .. Assets-side borrowers' notes business in the amount of € 217.0 million
- .. Issued borrowers' notes business in the amount of € 68.1 million
- .. Assets-side bonds in the amount of € 275.0 million
- .. Forward deposits taken up in the amount of € 301.0 million
- .. The volume of concluded derivative transactions is € 1.3 billion

These transactions were concluded at the normal market terms and conditions.

Information on the companies in which NORD/LB directly or indirectly holds a majority share (affiliated companies) is not being provided here. Reference is made in this regard to the NORD/LB Annual Report for the 2007 financial year.

## .. BALANCE SHEET

### .. ASSETS

	30.06.2008	31.12.2007
	€ thousands	€ thousands
<b>Cash reserve</b>	35,022	99,340
<b>Due from banks</b>	5,784,427	5,955,915
a) mortgage loans	0	0
b) public-sector loans	4,276,985	4,609,465
c) other claims	1,507,422	1,346,450
<b>Due from non-bank customers</b>	15,872,191	16,108,623
a) mortgage loans	8,868,256	8,544,131
b) public-sector loans	6,900,216	7,461,202
c) other claims	103,719	103,290
<b>Bonds and other fixed-income securities</b>	11,919,154	12,250,436
<b>Shares and other variable-yield securities</b>	167,217	167,217
<b>Investments</b>	227	495,227
<b>Other assets</b>	288,863	353,107
<b>Total assets</b>	<b>34,067,101</b>	<b>35,429,865</b>

## .. LIABILITIES

	30.06.2008	31.12.2007
	€ thousands	€ thousands
<b>Due to banks</b>	5,372,761	4,665,827
<b>of which:</b>		
a) registered mortgage Pfandbriefe	155,621	166,462
b) registered public Pfandbriefe	396,514	467,717
<b>Due to non-bank customers</b>	10,060,649	10,048,077
<b>of which:</b>		
a) registered mortgage Pfandbriefe	1,265,433	1,358,356
b) registered public Pfandbriefe	7,500,753	7,490,636
<b>Bonded liabilities</b>	17,475,864	19,488,848
<b>of which:</b>		
a) mortgage Pfandbriefe	4,218,379	3,839,702
b) public Pfandbriefe	9,378,213	11,097,849
c) other bonds	3,879,272	4,551,297
<b>Other liabilities</b>	298,776	368,533
<b>Subordinated liabilities</b>	228,252	229,274
<b>Participatory capital</b>	108,226	108,226
<b>Equity</b>	506,296	496,380
<b>of which:</b>		
a) subscribed capital	80,640	80,640
capital held by silent partners	44,000	44,000
b) reserves	381,656	371,740
<b>Distributable profits 2007</b>		24,700
<b>Profit 01.01.2008-30.06.2008</b>	16,277	
<b>Total liabilities</b>	<b>34,067,101</b>	<b>35,429,865</b>
<b>Contingent liabilities</b>	652,430	661,423
<b>Other obligations</b>	692,061	857,088

## .. PROFIT AND LOSS ACCOUNT

	01.01.-30.06. 2008 € millions	01.01.-30.06. 2007 € millions	Change in %
Interest income	814.6	825.9	- 1.4
Current income	13.3	5.8	129.3
Interest expenses	771.8	778.2	- 0.8
<b>Net interest income</b>	<b>56.1</b>	<b>53.5</b>	<b>4.9</b>
Commission income	4.7	2.9	62.1
Commission expenditure	1.6	2.0	- 20.0
<b>Net commission income</b>	<b>3.1</b>	<b>0.9</b>	
<b>Net interest and commission income</b>	<b>59.2</b>	<b>54.4</b>	<b>8.8</b>
Wages and salaries	7.9	7.7	2.6
Social security contributions	2.5	2.3	8.7
Other administrative expenses	7.4	7.6	- 2.6
<b>Administrative expenses</b>	<b>17.8</b>	<b>17.6</b>	<b>1.1</b>
<b>Balance of other operating income/expenses</b>	<b>0.6</b>	<b>0.9</b>	<b>- 33.3</b>
<b>Operating result before risk provisioning</b>	<b>42.0</b>	<b>37.7</b>	<b>11.4</b>
Risk provisioning	14.5	11.6	25.0
Result from financial investments	- 5.2	0.0	
<b>Result from ordinary business activity</b>	<b>22.3</b>	<b>26.1</b>	<b>- 14.6</b>
Tax expenses	6.0	7.6	- 21.1
<b>Profit for the period from 01.01. to 30.06</b>	<b>16.3</b>	<b>18.5</b>	<b>- 11.9</b>

# NOTES

## .. GENERAL INFORMATION

### .. ACCOUNTING REGULATIONS

The half-yearly financial statements for the period from 1 January 2008 to 30 June 2008 have been prepared in accordance with the same statutory provisions as the 2007 year-end financial statements. The accounting and valuation methods referred to in the latter have been applied in the same way (cf. page 63 onwards of the 2007 Annual Report).

### .. CALCULATION OF INCOME TAX

The calculation of income taxes is based on the weighted average rate of 26.9% expected for the year as a whole (previous year: 29.1%).

### .. AUDIT/REVIEW BY AN AUDITOR

The interim financial statements and management report have not been audited or reviewed by an auditor.

### .. CALCULATION OF COVER

Up-to-date information (in German) on the calculation of cover is available on the Bank's website at:

[http://www.deutsche-hypo.de/all/download/para\\_28\\_german.pdf](http://www.deutsche-hypo.de/all/download/para_28_german.pdf)

## .. NOTES ON INDIVIDUAL ITEMS OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

### .. INVESTMENTS IN SUBSIDIARIES

The reduction is attributable to the sale of shares in the Société d'investissement à capital variable, Luxembourg.

### .. OTHER BALANCE-SHEET ITEMS

The other changes are the result of ordinary business activity (see also new business).

### .. CURRENT INCOME

The rise in current income is due to a higher investment volume and to the full collection of fund income; reported amount only pro-rata for previous year.

### .. RESULT FROM FINANCIAL INVESTMENTS

This position mainly includes long-term impairment losses for securities held as fixed assets.

### .. OTHER INFORMATION

	01.01.-30.06. 2008	01.01.-30.06. 2007
Average number of employees	208	209
of which:		
part-time staff	23	21
trainees	4	7

# RESPONSIBILITY STATEMENT

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

Hanover, August 2008

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