

Hanover, November 2005

Dear Shareholders,

For more than two years now, the European Central Bank has maintained its key rate at 2% and though the weak economic conditions in the key eurozone countries of Germany, France and Italy would not justify a turnaround in interest rate, it does now seem possible. Politicians in those countries where growth is weak are looking anxiously at the latest rate of inflation in the twelve eurozone countries, as this may jeopardise the political measures they have taken to revive the economy. At 2.5%, the current rate is now significantly higher than the rate of almost 2% considered ideal by the ECB. As far as the immediate future is concerned, uncertainties on the crude oil markets and possible rises in both politically-determined prices and indirect taxation both constitute price risks. In addition, the danger of overheating real estate prices in the eurozone, which, like the price rises experienced by other types of assets, is caused by a high degree of excess liquidity, which, due to volatile share prices and low interest rates, flows into the real estate market rather than into equities. After all, the real estate markets still provide higher potential earnings than the bond markets.

Against this background and as a provider of finance for real estate transactions, Deutsche Hypo will continue to retain its selective approach to new lending. We are therefore pleased to be able to report that during the first nine months of the current financial year and despite no further improvement in market conditions, the Bank's business remained satisfactory.

- **New mortgage business** achieved a volume of € 672 million. The amount of new business from direct customers is therefore higher than the same figure in the previous year, given that the volume of new business in the same period in 2004, at € 842 million, also included the acquisition of a residential property portfolio of € 244 million. The increase in new mortgage loan commitments in our target markets overseas was also pleasing, rising by € 149 million to € 510 million. New business on the German market was € 75 million less than the directly acquired volume during the same period of the previous year.
- Dominated as it is by the intense competition between all market players to acquire the most attractive assets, the **capital market business** achieved new business of € 3.8 billion, and, despite the fact that this is lower than in the same period of the previous year (€ 5.6 billion), it was in line with our expectations. Adequate margins due to favourable refinancing opportunities and, more specifically, the provision of tailor-made, structured issues, which, at € 8 billion, form more than 30% of the total issue volumes – are the most important features of this area of business.

- In September, Deutsche Hypo issued its first SLIMBO (short, liquid money market bond. With a term of 18 months and a volume of € 500 million, this new product was intended to fulfil the demand for actively managed money market funds. In addition, the new, six-year Public Jumbo Pfandbrief, issued in February, was increased in June by € 250 million. In response to customer demand, an older Jumbo issue due to mature in February 2012 was increased by € 225 million, taking it up to € 1 billion.

The Bank's **performance** continues to be good overall. At € 78.1 million, net interest and commission income is 6.3% higher than in the previous year and administration expenses have risen according to expectation by € 2 million to € 24.4 million, whilst risk provisioning, at € 18.6 million, lies approximately at the same level as last year (€ 18.3 million). The result from normal business activity rose by 4.5% to € 36.9 million and in view of business transacted to date, makes us confident that we will be able to report satisfactory results at the end of the financial year.

## DEUTSCHE HYPOTHEKENBANK (ACTIEN-GESELLSCHAFT)

The management board

## Business progress figures

	1.1.-30.9. 2005 in EUR m	1.1.-30.9. 2004 in EUR m	Change in %
Total new business	4,491	6,478	-30.7
Mortgage loans	672	842	-20.2
of which: Commercial loans	417	550	-24.2
Housing loans	255	292	-12.7
Capital market business	3,819	5,636	-32.2
Total loan drawdowns	4,363	6,256	-30.3
Mortgage loans	638	923	-30.9
Capital market business	3,725	5,333	-30.2
Bond and loan turnover	7,938	11,990	-33.8
Mortgage Pfandbriefe	6	1,098	-99.5
Public Pfandbriefe	6,003	7,301	-17.8
Other bonds	1,929	3,591	-46.3
Loans taken up	188	65	189.2

## Profit and Loss Account figures

	1.1.-30.9. 2005 in EUR m	1.1.-30.9. 2004 in EUR m	Change in %
Interest income	1,156.2	1,216.7	-5.0
Current income	17.0	5.8	193.1
Interest expenses	1,096.7	1,148.5	-4.5
Net interest income	76.5	74.0	3.4
Commission income	2.7	2.8	-3.6
Commission expenditure	1.1	3.3	-66.7
Net commission income	1.6	-0.5	
Net interest and commission income	78.1	73.5	6.3
Wages and salaries	10.2	9.6	6.3
Compulsory social insurance contributions	3.8	3.5	8.6
Other administrative expenses	10.4	9.3	11.8
Administrative expenses	24.4	22.4	8.9
Balance of other operating income/expenses	1.7	2.5	-32.0
Operating result before risk provisioning	55.4	53.6	3.4
Risk provisioning	18.6	18.3	1.6
Result from financial investments	0.1	0.0	
Result from normal business activity	36.9	35.3	4.5

## Balance Sheet figures

	30.9.2005 in EUR m	31.12.2004 in EUR m
Cash reserves	11	110
Due from banks	6,636	6,688
a) Mortgage loans	36	45
b) Loans to the public sector	5,304	5,705
c) Other claims	1,296	938
Due from non-bank customers	16,751	17,513
a) Mortgage loans	7,901	8,414
b) Loans to the public sector	8,839	9,091
c) Other claims	11	8
Bonds and other fixed-income securities	9,547	9,192
Shares and other variable-yield securities	205	205
Due to banks	3,420	2,923
including: a) Registered mortgage Pfandbriefe	311	306
b) Registered public Pfandbriefe	616	364
Due to non-bank customers	7,934	7,130
including: a) Registered mortgage Pfandbriefe	1,388	1,561
b) Registered public Pfandbriefe	5,530	4,619
Bonded liabilities	21,002	22,902
Including: a) Mortgage Pfandbriefe	3,398	4,282
b) Public Pfandbriefe	13,774	15,393
c) Other bonds	3,830	3,227
Subordinated liabilities	195	208
Participatory capital	135	135
Equity capital	447	440
Including a) Subscribed capital	81	81
Capital held by silent partners	44	44
b) Reserves	322	315
Total assets	33,334	33,896
Contingent liabilities	2	3
Other liabilities	279	311

## Other information

	1.1. - 30.9. 2005	1.1. - 30.09. 2004
No. of employees (average)	207	201
Including: Part-time staff	19	18
Trainees	7	7

## Branch offices

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## Chairman of the Supervisory Board

Wolfgang Hollender

## Board of Managing Directors

Jürgen Grieger  
Jürgen Morr  
Thomas Frhr. v. Tucher

## Commercial Register

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AG Berlin-Charlottenburg 92 B 1

*Interim Report as per  
30 September 2005*