

DEUTSCHE HYPO

Deutsche Hypothekenbank
(Actien-Gesellschaft)

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INTERIM REPORT AS PER

30 September 2007

Hanover, October 2007

Dear Shareholders

The scale and impact of the turbulence experienced on the international financial markets have not just been dominating the agenda in banking circles over recent months. Sparked off by the crisis on the subprime mortgage market in the USA, the securitisation and worldwide marketing of these loans have turned the US credit crisis into a global problem. Interest differentials between high-quality securities and those of lesser quality have widened dramatically, whilst demand for safe havens such as top-quality government bonds has risen considerably.

Worst of all was the uncertainty surrounding the number of bonds backed by mortgages that could still potentially default and the scale of the problem that would have to be endured by the banks. This uncertainty was so great that significant bottlenecks were created on the money markets, forcing the central banks to make additional liquidity available.

The consequences of this global financial crisis, which left its mark on all credit markets, were diverse and hit the banking sector particularly hard. In such circumstances, it is unavoidable that the income position of credit institutions will mirror the problems on the market. Obviously, the extent of the impact on different institutions varies according to the business model being pursued. In light of the described distortions on the market, we are satisfied that we are able to report at this stage in the year not only on what continues to be a very gratifying level of new mortgage business over the first nine months, but also on what has merely been a moderate impairment of **Deutsche Hypo's income situation**.

The Bank's net interest and commission income rose by 2% to €82.2 million (+ €1.2 million), whilst the expected increase of a good 4% in administrative costs to €26.8 million (+ €1.1 million) had no major impact on the overall result, with the cost/income ratio practically unchanged on the half-year result at 32.6%. Looking at the Bank's risk

result however, we were forced to take account of the market conditions described above and in terms of the liquidity reserve in particular – unlike in the case of mortgage financings – stepped up our provisioning. Overall, €21.3 million was allocated to risk provisioning, which equates to an increase of €2.7 million (+15%). The Bank's result from ordinary business activity was thus down 8% compared with the same period of the previous year, at €35 million.

The fact that business operations continued to progress in a gratifying manner alleviated the slight fall in income and provides renewed proof of the Bank's robust market position. In the area of **international commercial real estate finance**, for example, we were again able to grow, recording a clear increase of around 27% compared with the same period of the previous year. The volume of new business, at €2.1 billion, can be broken down into €1.86 billion from foreign mortgage business and €252 million from new domestic business. The mortgage portfolio grew by €364 million compared with the beginning of the year.

As expected, **new capital market business** was down compared with the same period of last year, at €3.4 billion (-13.8%). The portfolio, however, was unchanged on the year-end figure, at €24.8 billion.

It has not yet been possible to issue the hybrid bond announced in the half-yearly financial report as a means of creating scope for greater growth and of improving the Bank's capital base. This was primarily due to the distortions on the market and the resulting dramatic widening in credit spreads. As a result, the interest coupon lay outside the interest corridor approved at the Extraordinary General Meeting held in November 2006.

Looking to the remaining quarter of 2007, we are hoping that the recent tangible easing of the situation on the market will continue and that there will be no further exogenous shocks. Assuming that this is the case, we could still achieve a result for the 2007 financial year as a whole that would only be slightly down on last year's performance.

DEUTSCHE HYPOTHEKENBANK
(ACTIEN-GESELLSCHAFT)

The Board of Managing Directors

Business progress figures

	1.1.-30.9. 2007 in EUR m	1.1.-30.9. 2006 in EUR m	Change in %
Total new business	5,468	5,559	-1.6
Mortgage loans	2,113	1,665	26.9
of which: Commercial loans	1,791	1,314	36.3
Housing loans	322	351	-8.3
Capital market business	3,355	3,894	-13.8
Total loan drawdowns	4,977	5,433	-8.4
Mortgage loans	1,622	1,540	5.3
Capital market business	3,355	3,893	-13.8
Bond and loan turnover	5,154	6,889	-25.2
Mortgage Pfandbriefe	797	1,649	-51.7
Public Pfandbriefe	1,536	2,824	-45.6
Other bonds	2,821	2,416	16.8
Loans taken up	412	216	90.7

Profit and Loss Account figures

	1.1.-30.9. 2007 in EUR m	1.1.-30.9. 2006 in EUR m	Change in %
Interest income	1,253.1	1,177.6	6.4
Current income	12.5	22.2	-43.7
Interest expenses	1,186.0	1,117.7	6.1
Net interest income	79.6	82.1	-3.0
Commission income	5.1	4.1	24.4
Commission expenditure	2.5	5.2	-51.9
Net commission income	2.6	-1.1	336.4
Net interest and commission income	82.2	81.0	1.5
Wages and salaries	11.5	11.0	4.5
Compulsory social insurance contributions	3.6	3.7	-2.7
Other administrative expenses	11.7	11.0	6.4
Administrative expenses	26.8	25.7	4.3
Balance of other operating income/expenses	0.8	1.1	-27.3
Operating result before risk provisioning	56.2	56.4	-0.4
Risk provisioning	21.3	18.6	14.5
Result from financial investments	0.2	0.2	
Result from normal business activity	35.1	38.0	-7.6

Balance Sheet figures

	30.9.2007 in EUR m	31.12.2006 in EUR m
Cash reserves	67	221
Due from banks	6,064	6,117
a) Mortgage loans	0	0
b) Loans to the public sector	4,818	4,984
c) Other claims	1,246	1,133
Due from non-bank customers	16,415	16,466
a) Mortgage loans	8,638	8,274
b) Loans to the public sector	7,645	8,119
c) Other claims	132	73
Bonds and other fixed-income securities	12,127	11,445
Shares and other variable-yield securities	167	231
Due to banks	4,845	3,891
including: a) Registered mortgage Pfandbriefe	247	365
b) Registered public Pfandbriefe	433	505
Due to non-bank customers	9,922	9,422
including: a) Registered mortgage Pfandbriefe	1,359	1,349
b) Registered public Pfandbriefe	7,385	7,030
Bonded liabilities	19,697	20,254
Including: a) Mortgage Pfandbriefe	3,683	3,587
b) Public Pfandbriefe	11,626	12,559
c) Other bonds	4,388	4,108
Subordinated liabilities	245	223
Participatory capital	129	129
Equity capital	485	479
Including a) Subscribed capital	81	81
Capital held by silent partners	44	44
b) Reserves	360	354
Total assets	35,626	34,717
Contingent liabilities	582	23
Other liabilities	815	399

Other information

	1.1. - 30.9. 2007	1.1. - 30.9. 2006
No. of employees (average)	209	212
Including: Part-time staff	21	21
Trainees	6	7