SIX-MONTHLY FINANCIAL REPORT

30 June 2016

Volksbanken Raiffeisenbanken
cooperative financial network

DG HYP

OVERVIEW

Development of new business	1 Jan to 30 Jun 2016 € mn	1 Jan to 30 Jun 2015 € mn
Commercial Real Estate Finance	**3,420**	**2,153**
Germany	3,299	2,153
International	121	–
Treasury		
Originated local authority lending	99	132
Pfandbrief sales and other refinancing sources	2,799	2,202

Portfolio development	30 Jun 2016 € mn	31 Dec 2015 € mn
Total assets	37,579	39,821
Mortgage loans	18,787	18,674
Originated loans to local authorities	6,243	6,525
Public-sector lending*)	7,808	8,442
Bank bonds	825	1,520
Mortgage Backed Securities (MBS)	1,092	1,273
Pfandbriefe and other debt securities	22,125	23,086
Own funds	1,611	1,668
Total capital ratio (%)	12.3	12.7
Tier 1 ratio (%)	9.8	10.4
Common equity tier 1 ratio (%)	6.9	7.1

Profit and Loss Account	1 Jan to 30 Jun 2016 € mn	1 Jan to 30 Jun 2015 € mn
Net interest income	134.1	133.9
Net commission result	17.4	12.9
Administrative expenses	71.7	75.4
Net other operating income/expenses	9.5	−4.3
Risk provisions	−13.4	5.1
Net financial result	−6.3	−32.9
Operating result	69.6	39.3
Allocation to the fund for general banking risks	30.0	15.0
Tax expense	1.1	0.1
Partial profit transfer	8.5	9.2
Profits transferred under a profit and loss transfer agreement	30.0	15.0

Employees	30 Jun 2016 Number	31 Dec 2015 Number
Average	463	454

*) Lending transactions with national governments and sub-sovereign entities as well as state-guaranteed corporate bonds

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Ladies and Gentlemen, dear business associates,

In an environment characterised by historically low interest rates, high regulatory requirements and intense competition, DG HYP continued to perform at a favourable level during the first half of 2016. This performance is the result of a consistent and conservative business and risk strategy which we have implemented over the last few years – based on which we conduct our business with a sense of perspective, aiming to avoid cyclical peaks. New business in our Commercial Real Estate Finance division grew notably during the period under review, thus strengthening our position as a reliable real estate finance provider – in challenging market conditions.

Our strong roots in the Volksbanken Raiffeisenbanken cooperative financial network plays a key role in this context. We are collaborating closely with German cooperative banks, in a spirit of trust: together we focus on traditional lending business, whereby the loans we extend build the foundation for long-term partnerships. The regional expertise of cooperative banks, combined with our know-how as experts in Commercial Real Estate Finance, makes us a powerful partner for our clients.

Supported by strong domestic momentum, the German economy remained stable and robust throughout the first half of 2016. Likewise, the situation in the euro area improved, with a slight increase in economic output. This development might be impaired by British voters' decision, at the referendum on 23 June 2016, for the United Kingdom to leave the European Union. Uncertainty during the transition phase to 'Brexit' is a burden to the UK economy, and given the close trade relations the UK has with euro area countries, it cannot be excluded that their economies will be impacted, too.

The European Central Bank (ECB) has continued its expansive monetary policy during the current year, expanding the buying programme for government bonds and other securities. The ECB's main refinancing rate has hit zero. The value of real estate has been rising over recent years, in the wake of falling interest rates. Now that rates have fallen to very low levels indeed, any further appreciation induced by interest rate trends will be less likely.

The bullish state of the real estate markets remains intact: given the pressure to invest, investors are focusing on tangible assets. Moreover, a boost to residential construction is necessary, and there is demand for office premises in many centres. Against this background – and looking at the uptrend, which has been ongoing for many years now – a growing appetite for risk is evident on the market. This is an environment that requires increased awareness when selecting financings. As a traditional real estate finance house, we are facing the challenge of successfully managing risks, keeping them in line with our conservative risk policy.

In this market situation, we originated a gratifying volume of new business: € 3.4 billion compared to € 2.2 billion during the same period of the previous year. This was accompanied by unscheduled redemptions, reflecting the accelerated pace of market transactions. These unscheduled redemptions were a correcting factor, keeping our real estate lending portfolio at constant levels. Our working relationship with the German cooperative banks continued to be conducted in a successful spirit of mutual trust during the first six months of the year. Lending business conducted jointly with cooperative banks amounted to € 1.1 billion during the period under review – a slight year-on-year increase.

DG HYP's results of operations continued to develop favourably during the reporting period, reflecting the Bank's successful operating performance in Commercial Real Estate Finance. Both net interest income and the net commission result developed on a stable path. We were able to reduce administrative expenses, partly due to a lower bank levy than in the previous year. The net aggregate of loan loss provisions and the result from securities held as liquidity reserve was slightly positive, before appropriation to reserves pursuant to section 340f of the German Commercial Code (*Handelsgesetzbuch* – "HGB").

In a positive market environment, we placed two benchmark Mortgage Pfandbriefe during the reporting period, both of which benefited from strong demand. The significant over-subscription of both issues demonstrated the high degree of appreciation DG HYP enjoys with investors, as a premium issuer.

Effective 1 August 2016, DZ BANK and WGZ BANK, two central institutions within the cooperative banking sector, merged – thereby bundling their strategic expertise and operative strengths. Under the name of "DZ BANK. Die Initiativbank", the merged institution serves as the common central institution for more than 1,000 cooperative banks in Germany. We welcome the merger, since we believe that this combination will further strengthen the Volksbanken Raiffeisenbanken cooperative financial network for the future.

We look forward to continuing the successful business development, in close cooperation with local cooperative banks, during the remainder of the year. In doing so, we will benefit from our long-standing client relationships and the strong commitment of our employees. Following the successful start to the new year, we look ahead to the remaining months of 2016 with confidence, expecting positive results for the year as a whole.

Yours sincerely,

The Management Board
Hamburg, August 2016

ECONOMIC ENVIRONMENT

Overall economic development

The German economy is on a solid growth path. During the first half of 2016 it maintained the previous year's positive development, driven once again by private consumption. German households benefit from low energy prices, low interest rates, strong increases in real income and favourable labour market developments. Employment rose further during the period under review – at the same time, unemployment fell to around 2.6 million, the lowest level since 1991. The unemployment rate fell to 6.1 per cent.

Rising investment contributed materially to economic growth during the reporting period: corporate investments rose stronger than expected at the beginning of the year. Furthermore, there was good demand for new equipment such as vehicles. Moreover, the construction industry benefitted from the mild weather during the first quarter. Increased government spending for refugees also supported the economy, whilst strong demand for residential space fuelled investments in housing construction. Conversely, the export sector provided slightly negative impulses.

Overall, the euro area economy continued the moderate recovery seen in 2015. The high average unemployment rate of the euro member states continued to decline, reaching the lowest level for almost five years. Economic development showed a positive trend in the majority of countries – only Belgium and Portugal saw their respective growth rates halve, and Greece once again slipped into negative territory.

In a referendum held on 23 June 2016, Britons voted in favour of the UK leaving the European Union ('Brexit'), with a thin majority. As a consequence, the UK economy will have to face changes during the next few months – with investment activity likely to be the first to be affected. Without the UK's access to the EU single market, foreign companies are likely to reconsider impending investment decisions, in favour of other locations. Given the UK's importance as a trading partner, its exit will also influence economic development in Germany and Europe. Last year, Germany exported a record volume of goods – worth close to € 90 billion – to the United Kingdom. Hence, effects dampening growth cannot be excluded going forward, affecting Germany as well as the entire euro area.

During the period under review, the Governing Council of the European Central Bank (ECB) reinforced its expansive monetary policy stance, through additional measures – cutting its main refinancing rate to zero per cent for the first time. The ECB also further lowered the deposit facility rate – which was already negative – to minus 0.40 per cent. Moreover, the Governing Council resolved to expand the ECB's buying programme for sovereign bonds, covered bonds, and asset-backed securities, from € 60 billion to € 80 billion a month. The ECB has already increased the volume of purchases since April. Furthermore, in June the central bank expanded the programme to also include investment-grade corporate bonds. The programme will continue until March 2017 at least.

Equity market volatility increased at the end of June, stirred by the UK referendum. The impending Brexit caused investors to shift assets to 'safe haven' investments such as gold or government bonds. Following the referendum vote, the German blue-chip DAX index fell by almost seven per cent, with subsequent corrections.

Development of the real estate markets

The German real estate market was defined by continued strong demand for commercial real estate during the first half of 2016 – which, however, met with demonstrably restricted supply of adequate properties. Against this background, transaction volumes of commercial real estate (excluding residential property) amounted to € 18 billion during the first six months of the year – down by about 25 per cent on the strong level of the previous year's quarter (source: Jones Lang LaSalle). However, the decline was exclusively attributable to transactions involving foreign investors; German investors actually increased transaction volumes during the period under review. Accordingly, international investors only accounted for one-third of transaction activity; during the same quarter of the previous year, they had accounted for more than half of capital invested.

The trend towards a growing share of portfolio transactions did not carry over into the reporting period: at € 4.9 billion, investments in this segment were markedly lower compared to the previous year. Individual deals accounted for the lion's share of approximately 72 per cent (or € 13.1 billion) of transaction volumes. In terms of asset classes, it was office properties that were mostly in demand, with approximately € 7.6 billion (42 per cent of properties traded), followed by retail properties (€ 4.1 billion or roughly 23 per cent). Hotels accounted for just under 12 per cent of transaction volumes, followed by warehouse and logistics properties (just over 10 per cent), mixed-use properties (approximately 5 per cent), and other asset classes, which together accounted for 7 per cent.

Transaction volumes declined, on average, in the seven top locations (Hamburg, Berlin, Dusseldorf, Cologne, Frankfurt, Stuttgart and Munich) as well as outside these main hubs. Hamburg, however, was the exception: volumes there were up 10 per cent, to € 2.1 billion. Declines in the other main economic centres ranged between 12 per cent in Stuttgart and 53 per cent in Cologne. Aggregate transaction volumes in the top locations totalled € 9.6 billion in the year to date (30 June 2016), down 26 per cent on the same quarter of the previous year.

Yields continued their downtrend during the first half of 2016, falling below 4 per cent on average for office properties in the seven top locations for the first time. During the period under review, top yields of retail properties in first-class locations were even lower during the reporting period. Investment yields for shopping centres and specialist retail centres did not decline by as much: here, yields of more than 4 per cent or just over 5 per cent, respectively, were still achievable. Yields for warehouse/logistics properties remained stable, averaging more than 5 per cent in the top locations.

Transaction volumes for housing investments totalled approximately € 4.4 billion during the first six months of 2016 – 75 per cent lower than in the same period of 2015, which was a record year. The decline was not due to dwindling investor interest, but to a significant decline in large transactions; during the previous year's period, these also reflected mergers of some large housing enterprises. Moreover, the propensity to sell remains low in view of the persistent low-interest rate environment. At more than € 1.2 billion, project developments accounted for almost 30 per cent of transaction volumes involving commercial housing properties. In their hunt for attractive yields in Germany, faced with clear excess demand and low vacancy ratios in the cities, national and international investors are increasingly looking beyond new construction projects, turning their attention to student apartments and micro-apartments. More than € 300 million was invested in this special segment during the period under review.

Berlin was the most sought-after location during the reporting period, where approximately a quarter of investment volumes (more than € 1 billion) was in housing – reflecting high investments of public-sector housing enterprises. Hamburg came second, with transaction volumes of € 320 million, followed by Leipzig (€ 280 million), where a portfolio repurchase by a local housing enterprise made a significant contribution to this result.

For the remainder of the year, it is fair to expect demand for attractive commercial real estate to remain high – and perhaps to increase even further. After the UK's Brexit vote, the German market might gain further importance, especially for international real estate investors – yet Europe as a whole might well be seen more critically following this vote. Given limited supply, transaction volumes are unlikely to match the previous year's high level – in excess of € 50 billion. Housing investments are expected to generate transaction volumes of more than € 10 billion for the full year 2016.

CREDIT BUSINESS

Increase in new business
Supported by Germany's favourable economic development and the persistently low interest rate environment, demand for commercial real estate finance remains high. In this environment, DG HYP successfully maintained its cooperation with partners and clients during the reporting period. At € 3,420 million, DG HYP originated new business clearly above the level seen in the same period of the previous year (H1 2015: € 2,153 million). In line with the Bank's strategic direction, at € 3,299 million (H1 2015: € 2,153 million) business originated in its core German market accounted for the largest part. DG HYP contracted new business volume of € 121 million in selected international markets during the first half of 2016.

DG HYP bases its financing decisions on the quality of the client relationship, as well as on its assessment of the property from a risk and return perspective. The Bank pursues a conservative lending policy and is committed to developing long-term client relationships. The Bank's Commercial Real Estate Finance activities are focused on the core segments of office, residential and retail properties. DG HYP is also involved in the specialist segments of hotels, logistics and real estate for social purposes, within the scope of its credit risk strategy. Target clients are private and institutional investors, housing companies, as well as commercial and residential real estate developers. With six Real Estate Centres in Germany's major cities, namely Hamburg, Berlin, Dusseldorf, Frankfurt, Stuttgart and Munich, as well as regional offices in Hanover, Kassel, Leipzig, Mannheim and Nuremberg, DG HYP has a good presence throughout the country, which it leverages to finance suitable properties for its commercial real estate clients.

Joint lending with German cooperative banks expanded
DG HYP's new business activities are being developed successfully with the German cooperative banks, and continuously expanded. New business conducted jointly with the German cooperative banks amounted to € 1,128 million as at 30 June 2016, markedly exceeding the previous year's level (H1 2015: € 972 million). This positive development shows that commercial real estate finance – as part of the corporate customer business – is meeting with a strong response in the Volksbanken Raiffeisenbanken cooperative financial network. At present, DG HYP cooperates with more than 400 cooperative banks in this area of business, on a regular basis. The close relationship with German cooperative banks provides DG HYP with a broad presence in the market, thus enabling it to optimally serve the growing investor appetite for regional locations.

Market coverage is achieved in close cooperation with German cooperative banks, for whom DG HYP provides a high-performance range of products and services. With its IMMO META range of products, DG HYP has developed a product family with which cooperative banks can meet the needs of their medium-sized commercial real estate customers, and participate in commercial real estate financings with DG HYP's customers. The core product, which has met with a very good response within the Volksbanken Raiffeisenbanken cooperative financial network, is IMMO META REVERSE+, through which many cooperative banks can acquire individual tranches of a financing concluded by DG HYP, as partners in the syndicate, of equal rank and in a standardised manner.

Local authority lending to support the cooperative banks

In the interests of the Volksbanken Raiffeisenbanken cooperative financial network, DG HYP supports the cooperative banks as they respond to financing enquiries from the public sector. In this way, the cooperative banks are able to reinforce their presence on the market and build up further business relationships with local authorities. Taking into account the borrowers' credit ratings, financing offers are prepared and submitted to the local authorities via the local cooperative banks. As at 30 June 2016, DG HYP generated new business with a volume of € 99 million in the area of local authority lending (H1 2015: € 132 million).

Portfolio of sovereign and interbank financings reduced further

Within the framework of the strategic realignment, the Bank suspended its active public finance and interbank lending activities back in 2008, a decision taken in advance of the government debt crisis affecting euro area peripheral states. The related portfolio of sovereign and interbank loans has been reduced as planned, from € 38.5 billion at the end of 2007 to € 8.6 billion (31 December 2015: € 9.9 billion). DG HYP will continue to adhere to this strategy – implementing the scheduled portfolio reduction – in the years to come.

Refinancing

Against the background of subdued economic performance and continued low core inflation in Europe, the European Central Bank once again loosened its monetary policy stance in March: specifically, it lowered the deposit rate by 10 basis points, to –0.4 per cent and brought its main refinancing rate to zero per cent. It also raised the monthly volume of its bond-buying programme by € 20 billion to € 80 billion, and included corporate bonds in its purchases. Furthermore, the ECB now offers additional four-year liquidity to banks in the form of Targeted Longer-Term Refinancing Operations. In the wake of economic and geopolitical uncertainty, German bond market yields declined during the first half of 2016, reaching their lows at the end of June – impacted by the outcome of the UK referendum.

At € 16.9 billion, Pfandbrief issuance showed a marked year-on-year increase (by € 5.4 billion) during the first six months of the year (source: DZ BANK Research). After a slight widening of funding spreads at the beginning of the year, spreads narrowed again slightly during the course of the first half of 2016, thanks to strong demand from investors.

DG HYP leveraged this positive market environment by placing two € 500 million Mortgage Pfandbriefe during the period under review. The two issues – with maturities of approximately 6.5 years and just under 10 years, respectively – met with strong investor demand. As part of its covered funding activities, DG HYP issued an aggregate € 1.1 billion in Mortgage Pfandbriefe during the first half of 2016 (H1 2015: € 1.2 billion). Uncovered funding of € 1.7 billion (H1 2015: € 1.0 billion) was fully raised within the Volksbanken Raiffeisenbanken cooperative financial network.

FINANCIAL SITUATION AND RESULTS OF OPERATIONS

Net assets
DG HYP's total assets decreased by a further € 2.2 billion during the first half of 2016, to € 37.6 billion. The portfolio of real estate loans (including short-term receivables collateralised by property liens) rose slightly, by € 0.1 billion to € 18.8 billion – driven by an increase in Commercial Real Estate Finance, where new business exceeded unscheduled repayments, which remained on a high level. This was offset by the planned reduction in the non-strategic real estate lending portfolio, and private home loan financing in particular.

In originated lending to local authorities, DG HYP's investment strategy continues to focus on supporting the cooperative banks in this line of business, whilst ensuring a balanced risk/return profile. New business originated during the first half of 2016 fell short of ongoing repayments, as planned, thus reducing the portfolio by € 0.3 billion to € 6.2 billion.

At the same time, the public finance portfolio was cut by a further € 0.6 billion to € 7.8 billion in the first half of 2016, as a result of maturities and repayments. The portfolio of bank bonds was reduced by € 0.7 billion, to € 0.8 billion, as planned. Repayment at maturity of € 0.6 billion in covered bonds issued by Spanish banks was the main contributor to this reduction.

Exposures to countries and banks that are particularly affected by the debt crisis have developed as follows during the period under review (details excluding MBS):

Nominal amounts € mn	Sovereigns*)		Banks		Total	
	30 Jun 2016	31 Dec 2015	30 Jun 2016	31 Dec 2015	30 Jun 2016	31 Dec 2015
Spain	1,410	1,494	400	1,010	1,810	2,504
Italy	1,045	1,060	–	–	1,045	1,060
Portugal	595	595	–	–	595	595
Total	**3,050**	**3,149**	**400**	**1,010**	**3,450**	**4,159**

*) including state-guaranteed corporate bonds and sub-sovereign entities

Loans and advances to banks exclusively consisted of covered bonds. As in previous periods, DG HYP did not hold any public-finance exposures vis-à-vis Ireland and Greece, or bonds issued by banks in these countries.

Discussions concerning the political, economic and financial stability of European countries resurfaced during the first half of 2016. Uncertainty was caused, in particular, by the British population's vote in favour of an exit from European Union (EU): the 'Brexit' vote has had an impact upon bond markets, with yields on ten-year German government bonds turning negative. Citing increased deflationary threats, the European Central Bank has built the foundation to argue for a continuation – or even further expansion – of its bond-buying programme. These measures have also helped to keep spread widening regarding those countries most affected by the sovereign debt crisis within manageable boundaries so far, despite ongoing discussions about further countries leaving the EU.

Against this background, the hidden burdens for DG HYP's securities (excluding MBS) that are treated as fixed assets (excluding hedges taken out within the scope of overall bank management) increased to € 51.8 million as at 30 June 2016 (31 December 2015: € 41.4 million). This contrasts with undisclosed reserves in the amount of € 987.9 million (31 December 2015: € 848.8 million). Taking into account the net effects from hedges within the context of the overall management of the Bank, hidden burdens from this securities portfolio amounted to € 959.8 million (31 December 2015: € 784.1 million). Following a comprehensive credit quality assessment of these securities, DG HYP has concluded that only one of the securities is permanently impaired. Specifically, this concerns a bond issued by Austria's HETA Asset Resolution AG. However, in view of ongoing litigation, there is a chance for a complete repayment of this bond, which is guaranteed by the Austrian state of Carinthia.

There have been no new investments in mortgage-backed securities (MBS) since mid-2007. At € 1.1 billion, exposure to this business area, which is to be phased out, continued to decline compared to the previous year-end (€ 1.3 billion). The MBS portfolio is monitored by means of a comprehensive risk management system, regular analyses of individual exposures, and exhaustive stress testing. The development of material risk factors has confirmed the stabilisation of this non-strategic portfolio, which has been ongoing for several years now. Hidden burdens on this exposure, in the imputed amount of € 147.0 million (31 December 2015: € 145.2 million), reflect to a lesser extent the default risk of the securities. Illiquidity of the markets and stricter regulatory capital requirements are more significant factors. These are offset by undisclosed reserves of € 0.1 million (31 December 2015: € 0.2 million). In this respect, DG HYP anticipates a write-back over the remaining term of the MBS portfolio. DG HYP's financial position is sound.

Regulatory capital

DG HYP has used the so-called waiver option provided under section 2a of the German Banking Act (KWG; old version) since the reporting date of 31 December 2012. According to section 2a (1), (2) and (5) of the KWG (as amended) and section 6 (1) and (5) as well as section 7 of the EU Capital Requirements Regulation (CRR), the provisions of sections 2-5 and 8 of the CRR do not need to be applied by DG HYP on an individual basis, but are covered at DZ BANK Group level instead. However, DG HYP will continue to make use of the regulatory capital requirements for internal management purposes. Capital ratios declined slightly during the first half of the year, as planned, largely due to the reduced inclusion of interest-bearing capital components.

DG HYP's key regulatory capital indicators developed as follows:

	30 Jun 2016	31 Dec 2015
Own funds (€ mn)	1,611	1,668
Total capital ratio (%)	12.3	12.7
Tier 1 ratio (%)	9.8	10.4
Common equity tier 1 ratio (%)	6.9	7.1

Financial performance

DG HYP's financial performance continued to reflect successful operating performance in its Commercial Real Estate Finance business during the first half of 2016. As in the previous year, stable sources of income were not impaired by any evidence of risk costs during the first six months of the year. Hence, significant amounts were available from distributable half-year results to be allocated to general riskprovisions, whilst preserving the forecast pro-rata profit transfer.

DG HYP's net interest income of € 134.1 million for the first six months of 2016 was virtually unchanged from the positive figure achieved in the previous year (H1 2015: € 133.9 million). The stable development of all individual components is evidence of DG HYP's successful management of its banking book, which is geared towards generating long-term, matched-maturity margins.

The net commission result of € 17.4 million – which is generated in particular through servicing fees in Commercial Real Estate Finance – outperformed the previous year's figure by € 4.5 million (H1 2015: € 12.9 million). The key driver of this improvement was a € 4.0 million increase in commission income generated from the lending business, whose development depends upon the product mix and disbursement timing. The net figure included € 2.7 million (H1 2015: € 2.6 million) in commission expenses for the successful issue of two benchmark bonds with a nominal value of € 500 million each.

Administrative expenses of € 71.7 million in the first half of 2016, being the total of general administrative expenses and write-downs on intangible assets and tangible fixed assets, were € 3.7 million below the previous year's figure of € 75.4 million. The bank levy due for 2016 (which is included in the total figure) was determined at € 15.4 million – € 9.6 million below the expected figure of € 25.0 million recognised during the first half of 2015. Other expenses for levies paid to associations, and for supervisory bodies, together rose by € 3.3 million.

Net other operating income/expenses rose to € 9.5 million, up € 13.8 million (H1 2015: € –4.3 million), of which € 9.7 million was attributable to legal changes concerning the discount rate to be used for determining pension provisions.

As in the previous year, no material credit defaults occurred during the first half of 2016. The net aggregate of loan loss provisions and the result from securities held as liquidity reserve was slightly positive. Accordingly, € –13.4 million in risk provisioning recognised (H1 2015: net release of € +5.1 million) was largely defined by an addition to general risk provisions pursuant to section 340f of the HGB, which was recognised, in accordance with prudent commercial judgement, to guard against potential credit defaults during the second half of 2016.

The net financial result for the first half of 2015 was shaped by a write-down on a bond issued by Austria's HETA Asset Resolution AG. No such expense was recorded during the period under review: the net financial result of € –6.3 million largely includes the net result from the non-strategic MBS portfolio (€ –6.8 million; H1 2015: net € –9.6 million) as well as € 0.7 million in income from written-down financial assets.

DG HYP's forecast long-term profitability continues to be affected by uncertainty as a result of the ongoing government debt crisis, given the difficult macro-economic situation – also in the wake of discussions concerning the UK's exit from the EU. For this reason, amongst other factors and exercising prudent commercial judgement, € 30.0 million (H1 2015: € 15.0 million) was allocated to the fund for general banking risks pursuant to section 340g of the HGB, to take account of particular risks facing the business area.

Taking into account the notional servicing on silent partnership contributions and a tax expense of € 1.1 million, profit after taxes of € 30.0 million (H1 2015: € 15.0 million) is reported that would have to be transferred to DZ BANK under the profit and loss transfer agreement that is in place. However, the reported profit is not in fact transferred, since net income (determined in accordance with section 301 of the German Stock Corporation Act (AktG)) is decisive in this respect.

REPORT ON MATERIAL EVENTS AFTER THE REPORTING DATE

No events of particular importance materialised during the period from 1 July to 10 August 2016 which would have required a materially different presentation of DG HYP's net assets, financial position and financial performance, had they occurred earlier.

REPORT ON OPPORTUNITIES AND RISKS

In its half-yearly financial report, DG HYP defines opportunities and risks as unexpected deviations from the financial performance expected for the second half of the financial year. As a subsidiary of DZ BANK, DG HYP is a member of the Volksbanken Raiffeisenbanken cooperative financial network – a network characterised by a high degree of solidity, strong credit quality, and a sustainable business model. The broadly diversified market position of the cooperative banking sector, in combination with Pfandbrief issuance, provides DG HYP with a strong base that gives the Bank room for manoeuvre required to finance business with adequate returns for the risks involved. DG HYP will continue to make use of this ability to act in the future, jointly with the German cooperative banks, as a reliable financing partner to its customers. Thanks to a robust domestic economy, the Bank's good market position benefits from a favourable fundamental environment for real estate.

The persistently positive environment for commercial real estate lending continues to provide opportunities for originating above-average new business volumes during 2016. Assuming these assumptions will materialise, DG HYP will once again engage in a sufficient level of new commercial real estate finance business in 2016, in excess of € 5 billion, thus ensuring that the Bank's results are stabilised above € 100 million, on the basis of a balanced risk/return profile.

This outlook also incorporates write-downs in Commercial Real Estate Finance, with a low double-digit million euro amount, which cannot be identified as yet. At the same time, successful selling or marketing efforts for non-performing exposures may lead to reversals of write-downs. Therefore, opportunities for – and risks to – profitability in the current year concern the forecast risk provisioning in particular, whilst the material income components largely show a linear development.

Results in the high two-digit million euro range are forecast for the next few years. In this context, the impact of possible defaults in non-strategic credit portfolios – MBS, subordinated debt, private real estate lending – has diminished and is no longer considered material.

Furthermore, a review of the Bank's UK portfolio – carried out against the background of a potential Brexit – has not indicated any elevated risks: internal stress tests have not identified any impairments on existing MBS holdings, over and above the levels forecast. Likewise, given an average loan-to-value ratio of around 50 per cent, direct real estate loans extended in the UK do not require any increase in risk provisioning.

DG HYP's overall lending volume related to the United Kingdom is shown below:

Lending volume (€ mn)	30 Jun 2016
MBS	558.8
Bank bonds	129.0
Mortgage loans	311.0
Total	**998.8**

Further defaults in the remaining interbank business and public finance portfolio would, however, be more significant. Yet DG HYP does not expect the potential Brexit to trigger system-relevant damages in Europe. The Bank envisages current tensions to gradually calm down over the next twelve months, once uncertainty concerning the future relationship between the EU and the United Kingdom diminishes in the wake of ongoing bilateral negotiations. Overall, the euro area appears to have become more stress-resistant, as a result of mechanisms established in the recent past to deal with potential crises of this kind. This has also been affirmed by the relatively calm manner in which the EU and the capital markets have responded to the vote in the UK. The policy of reform has enhanced the competitiveness of the euro area countries: stabilisation action is working. Hence, DG HYP does not expect any further impairments on its public finance portfolio. There are no indications for any threats to the bank's continued existence during the second half of the financial year. DG HYP's expected performance is appropriate in terms of the risks assumed.

CONDENSED BALANCE SHEET

Assets

	30 Jun 2016 € mn	31 Dec 2015 € mn
Loans and advances to banks	**2,534**	**3,077**
a) Mortgage loans	19	22
b) Loans to local authorities	110	141
c) Other loans and advances	2,405	2,914
Loans and advances to customers	**27,425**	**27,782**
a) Mortgage loans	17,283	17,299
b) Loans to local authorities	8,610	9,071
c) Other loans and advances	1,532	1,412
Debt securities and other fixed-income securities	**7,308**	**8,620**
a) Bonds and debt securities	7,248	8,549
aa) Public-sector issuers	4,784	4,973
ab) Other issuers	2,464	3,576
b) Own bonds issued	60	71
Participations	**1**	**1**
Investments in affiliated companies	**2**	**2**
Trust assets	**77**	**81**
Intangible fixed assets	**1**	**1**
Tangible fixed assets	**142**	**143**
Other assets	**7**	**8**
Prepaid expenses	**82**	**106**
Total assets	**37,579**	**39,821**

CONDENSED BALANCE SHEET

Liabilities and equity

	30 Jun 2016 € mn	31 Dec 2015 € mn
Liabilities to banks	**13,908**	**14,988**
a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	993	1,082
b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	805	937
c) Other liabilities	12,110	12,969
Liabilities to customers	**9,182**	**10,312**
a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	1,640	1,824
b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	6,428	7,042
c) Other liabilities	1,114	1,446
Securitised liabilities	**12,259**	**12,200**
a) Mortgage Pfandbriefe (Hypothekenpfandbriefe)	7,938	7,720
b) Public Pfandbriefe (öffentliche Pfandbriefe)	4,003	4,113
c) Other debt securities	318	367
Trust liabilities	**77**	**81**
Other liabilities	**45**	**151**
Deferred income	**126**	**141**
Provisions	**154**	**149**
Subordinated liabilities	**234**	**235**
Fund for general banking risks	**187**	**157**
Equity	**1,407**	**1,407**
Total equity and liabilities	**37,579**	**39,821**
Contingent liabilities	**575**	**496**
Other commitments	**3,743**	**3,279**

CONDENSED INCOME STATEMENT

	1 Jan to 30 Jun 2016 € mn	1 Jan to 30 Jun 2015 € mn
Interest income	596.9	690.0
Interest expenses	462.8	556.1
Net interest income	**134.1**	**133.9**
Commission income	22.0	17.8
Commission expenses	4.6	4.9
Net commission result	**17.4**	**12.9**
Gross profit	**151.5**	**146.8**
Administrative expenses	**71.7**	**75.4**
General administrative expenses		
Personnel expenses	25.0	24.5
Other administrative expenses	45.2	49.4
Amortisation/depreciation and write-downs of intangible and tangible fixed assets	1.5	1.5
Net other operating income/expenses	**9.5**	**–4.3**
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions	13.4	–5.1
Amortisation and write-downs on participations, investments in affiliated companies, and investment securities	6.3	32.9
Result from ordinary activities	**69.6**	**39.3**
Allocation to the fund for general banking risks	30.0	15.0
Other taxes	1.1	0.1
Profits transferred under partial profit transfer agreements	8.5	9.2
Profits transferred under a profit and loss transfer agreement	**30.0**	**15.0**

CONDENSED NOTES

General notes

General information on the preparation of the six-monthly financial report

DG HYP's six-monthly financial report as at 30 June 2016 has been prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch* – "HGB"). Furthermore, the financial statements are prepared in accordance with the Regulation on the Accounting of Credit Institutions and Financial Services Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* – "RechKredV"); they fulfil the requirements of the German Stock Corporation Act (*Aktiengesetz* – "AktG") and the German Pfandbrief Act (*Pfandbriefgesetz* – "PfandBG").

Given the non-materiality of all subsidiaries, even if considered in aggregate, in accordance with section 290 (5) in conjunction with section 296 (2) of the HGB, the company has not prepared consolidated financial statements.

All amounts have been quoted in euros, in accordance with section 244 of the HGB.

Accounting policies

The present six-monthly financial report is based on the same accounting policies as were applied in the financial statements as at 31 December 2015.

Loans and advances to banks/to customers
Loans and advances to banks and customers are recognised at nominal value, in accordance with section 340e (2) of the HGB. Where their stated value differs from the amount disbursed, or cost, the amount of the difference is reported under prepaid expenses or deferred income, and amortised in interest income over the term of the transaction.

Loans and advances which are fully classified as current assets are valued strictly at the lower of cost or market. All existing individual lending risks are covered by specific loan loss provisions. As prescribed by international accounting standards, changes over time in the value of real estate collateral recognised for the purposes determining the value of Commercial Real Estate Finance receivables are reported in net interest income (unwinding effect). Besides this policy, no income received on commercial real estate financings for which a specific provision has been recognised is reported in net interest income: receipts for such exposures are set off against the provision for loan losses. In case of settlement of a private real estate financing, interest income is no longer recognised where it becomes obvious during execution proceedings that the realisable proceeds will fall short of the carrying amount. Inherent default risks, country risks as well as existing risks of default in the retail lending business are covered by the portfolio-based allowance for credit losses in accordance with IAS 39.

Damages charged for loan repayments or extensions during the fixed-interest term of a loan are fully recognised in interest income.

Debt securities and other fixed-income securities
All debt securities and other fixed-income securities are carried as fixed assets (financial assets), at amortised cost, except repurchased own issues, which are valued strictly at the lower of cost or market, and mortgage-backed securities (MBS) reclassified due to an existing intention to sell. Premiums and discounts are amortised in net interest income over the term of the transactions.

As at 30 June 2016, the Bank did not recognise an extraordinary write-down in the aggregate amount of € 198.8 million (31 December 2015: € 186.6 million) for negotiable securities with a fair value of € 1,410.0 million (31 December 2015: € 1,675.7 million) not measured at the lower of cost or market, due to the expected temporary nature of the impairment, pursuant to section 253 (3) sentence 4 of the HGB. This assessment is largely based on the reform measures undertaken in the European Monetary Union, which are expected to enhance competitiveness and to lead to more solid public-sector budgets. The appropriateness of write-downs in the MBS portfolio is being verified through regular credit analyses of individual exposures, and default simulations using stress testing.

The hidden burdens and reserves in the Bank's portfolio of negotiable securities amount to a total of € 789.2 million (31 December 2015: € 662.4 million). Taking into account the net effects from hedges within the context of the overall management of the Bank, these hidden burdens amount to € 1,106.7 million (31 December 2015: € 929.1 million); Since impairments of interest and principal payments are not expected to occur – in our view – with respect to the securities concerned and the hedges, no write-downs pursuant to section 253 (3) sentence 4 of the HGB were recognised based on such a high-level portfolio view.

The carrying amount of securities held as liquidity reserve, valued strictly at the lower of cost or market, amounted to € 90.3 million (31 December 2015: € 121.3 million). The fair value of liquid debt securities and other fixed-income securities is generally determined on the basis of external market prices. If a valid market price for securities already held cannot be determined as at the balance sheet date, due to a lack of transaction volume, spread curves are used to determine the relevant price on the basis of the discounted cash flow method. Future cash flows from interest and principal were discounted to their present value, using market interest rates in line with the risks and maturities concerned.

Participations and interests in affiliated companies
Participations and interests in affiliated companies are carried at amortised cost.

Intangible and tangible fixed assets
Tangible fixed assets are carried at cost less regular depreciation, where applicable. Where necessary, extraordinary write-downs were taken into account in accordance with section 253 (3) sentence 3 of the HGB. Moveable fixed assets are depreciated on a straight-line basis, or degressively with a subsequent transfer to straight-line depreciation. Low-value assets are written off in full during their year of purchase. Standard software is reported under intangible assets, as prescribed by accounting standard HFA 11 issued by the Main Committee of the IDW (IDW RS HFA 11).

Liabilities
Liabilities are shown on the balance sheet at the amount due for repayment. The difference between the nominal value and the initial carrying amount of liabilities is recognised under prepaid expenses or deferred income, and amortised over the term of the transaction. Liabilities classified as structured products (as defined in Accounting Standard 22 issued by the Auditing and Accounting Board of the IDW) are accounted for as uniform liabilities, since they only contain embedded interest rate derivatives.

Provisions
Contingent liabilities are covered by provisions equalling the anticipated amount of the liability, on the basis of prudent business judgement. Provisions for pensions are determined in accordance with actuarial principles, using Dr Klaus Heubeck's 2005 G actuarial tables. The calculation of the provisions takes into account future salary increases of 2.5 per cent p.a. as well as pension increases of 1.75 per cent p.a. The discount rate of 4.17 per cent as determined by Deutsche Bundesbank was used.

Due to amended legal requirements, the calculation of pension provisions had to be adapted. The assessment period of the underlying average interest rate was extended from 7 to 10 years, which resulted in a profit contribution of € 10.4 million. DG HYP assumes that this amount will not be collected by the Bank, but has to be allocated to provisions in the years ahead. The interest rate-related relief of the provisions for pensions is recognised in net other operating income.

Derivative financial instruments
Financial derivatives are accounted for separately in auxiliary ledgers. As at 30 June 2016, the nominal volume of financial derivatives amounted to € 80,105.7 million (31 December 2015: € 88,339.9 million), with a net fair value of € –1,588.8 million (31 December 2015: € –1,493.6 million). These instruments are generally used to hedge against the interest rate and currency risk exposure of on-balance sheet transactions. Each derivative transaction forms part of the overall management of the banking book; segregated subportfolios (valuation units) are not managed on an individual basis. Accordingly, section 254 of the HGB (as amended) is not applicable.

Current interest payments are amortised and recorded in net interest income.

In connection with the early redemption of hedged items recognised on the balance sheet, the bank generally sell interest rate-based derivative financial instruments. Any resulting gains are reported in net interest income. Premiums paid or received for credit default swaps are amortised in commission income over the terms of the transactions. Compensation payments received under Credit Default Swaps are offset against provisions for loan losses.

Currency translation

Assets and liabilities from foreign exchange transactions are translated in line with section 340h in conjunction with section 256a of the HGB and the Statement IDW RS BFA 4 issued by the Banking Committee of the Institute of Public Auditors in Germany (IDW). Book receivables, securities, liabilities and unsettled spot transactions denominated in foreign currencies are translated into euro using the ECB reference rate. Due to the specific coverage of all existing foreign currency items, all currency translation effects have been recognised in income. Currency translation effects are reported in net other operating income/expenses.

Related party transactions

There were no related-party transactions entered into – at terms not in line with prevailing market terms – which would give rise to a disclosure duty pursuant to section 285 no. 21 of the HGB.

RESPONSIBILITY STATEMENT

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

Hamburg, 10 August 2016

Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft

Dr Georg Reutter Manfred Salber

REVIEW REPORT

To Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft, Hamburg

We have reviewed the interim condensed financial statements, comprising the condensed balance sheet, the condensed income statement and the condensed notes, and the interim management report of Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, for the period from 1. January 2016 to 30. June 2016 which are part of the six-monthly financial report pursuant to Sec. 37w WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG applicable to interim management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed financial statements and the interim management report based on our review.

We conducted our review of the interim condensed financial statements and the interim management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed financial statements are not prepared, in all material respects, in accordance with German commercial law and that the interim management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

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

Hamburg, 10 August 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Lösken	Meyer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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