Pursuant to Article 16 (3) of the German Securities Prospectus Act investors who have already agreed to purchase or subscribe for Notes issued under the Programme before this Supplement has been published shall have the right, exercisable within a time limit of two working days after the publication of this Supplement, to withdraw their acceptances insofar as the purchase is not yet completed.

Supplement dated 11 April 2007, pursuant to Article 16 (1) of the German Securities Prospectus Act

to the two base prospectuses (i) the base prospectus in respect of non-equity securities within the meaning of Article 22 No. 6 (4) of the Commission Regulation (EC) No. 809/2004 (the **Regulation**) and (ii) the base prospectus in respect of Pfandbriefe within the meaning of Article 22 No. 6 (3) of the Regulation
(together, the **DIP Prospectus**)
dated 7 July 2006
as supplementend by the Supplement
dated 14 August 2006 (the **First Supplement**)

relating to

Düsseldorfer Hypothekenbank

Euro 5,000,000,000
Debt Issuance Programme

This Supplement to the DIP-Prospectus is prepared in connection with the Euro 5,000,000,000 Debt Issuance Programme (the **Programme**) of Düsseldorfer Hypothekenbank AG (the **Issuer**) and is supplemental to, and must be read in conjunction with, the DIP-Prospectus, as supplemented by the First Supplement, both, the DIP-Prospectus and the First Supplement, published on the website of the Issuer.

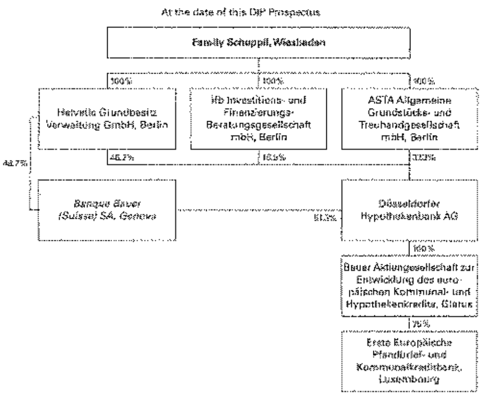
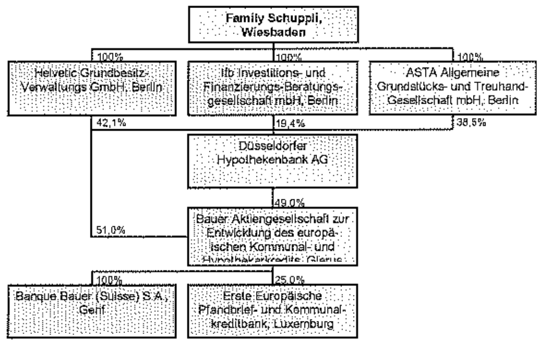
This Supplement has been filed with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht,* the **BaFin**) in its capacity as the competent authority. Furthermore, the Issuer has requested the BaFin to provide the competent authorities in Austria, Ireland, the Great Duchy of Luxembourg, The Netherlands and the United Kingdom after approval regarding this Supplement with a certificate of approval attesting that the Supplement has been drawn up in accordance with the German Securities Prospectus Act (each a **Notification**). The Issuer may request the BaFin to provide competent authorities in additional member states of the EEA with a Notification.

This Supplement will be published together with the DIP-Prospectus and the First Supplement on the website of the Issuer (http://www.duesshyp.de/Investoren/Emissionsprogramm) and copies of this Supplement, the DIP-Prospectus and the First Supplement will be obtainable in printed form free of charge from (i) Düsseldorfer Hypothekenbank Aktiengesellschaft (Berliner Allee 43, 40212 Düsseldorf, Germany) and (ii) the Paying Agents in Germany (Deutsche Bank Aktiengesellschaft, Große Gallusstraße 10-14, 60272 Frankfurt am Main, Germany) and Luxembourg (Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, 1115 Luxembourg, Luxembourg).

I. Supplemental Information relating to the Issuer:

Page	Section	
6 38	**Summary - Information relating to the Issuer - Merger with Bankhaus Bauer** **Description of the Issuer - Information about the Issuer, Corporate History and Business Development - Merger with Bankhaus Bauer** "45 staff members are employed at its place of business in Stuttgart." shall be deleted	shall be replaced by: "28 staff members are employed at its place of business in Stuttgart."
7 39, 40	**Summary - Information relating to the Issuer - Shareholders and Organizational Structure** **Description of the Issuer – Shareholders and Organizational Structure** "Pursuant to § 17 paragraph 1 of the German Stock Corporation Act *(Aktiengesetz)*, the Issuer is an enterprise controlled by the three companies ASTA Allgemeine Grundstücks- und Treuhandgesellschaft mbH **(ASTA)**, Berlin, Helvetic Grundbesitz Verwaltung GmbH **(Helvetic)**, Berlin and ifb Investitions- und Finanzierungs-Beratungsgesellschaft mbH **(ifb)**, Berlin. ASTA holds a 37.3 per cent. interest, Helvetic holds a 46.2 per cent. interest and ifb holds a 16.5 per cent. interest. There is no group relationship *(Konzernverhältnis)* pursuant to § 18 of the German Stock Corporation Act. ASTA, Helvetic and ifb are 100 per cent. owned by the Schuppli family. The Issuer's share capital as of the date of this DIP Prospectus amounts to Euro 206 millions, divided into 206 million registered shares of Euro 1 each. The Issuer holds 100 per cent. of the shares in Bauer Aktiengesellschaft zur Entwicklung des europäischen Kommunal- und Hypothekarkredits, Glarus/ Switzerland **(Bauer)**. There is a group relationship with Bauer. Therefore, the Issuer draws up a group management report and consolidated financial statements in accordance with the principles of full consolidation. Via Bauer, the issuer holds an interest in Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxembourg. As, due to the 25 per cent. interest, no major influence can be exerted over this company, it is not included in the consolidated financial statements. As a result of the merger, the 51.3 per cent. interest of Bankhaus Bauer in Banque Bauer (Suisse) SA, Geneva/ Switzerland, was also transferred to the Issuer." shall be deleted	shall be replaced by: "Pursuant to § 17 paragraph 1 of the German Stock Corporation Act *(Aktiengesetz)*, the Issuer is an enterprise controlled by the three companies ASTA Allgemeine Grundstücks- und Treuhandgesellschaft mbH **(ASTA)**, Berlin, Helvetic GrundbesitzVerwaltung GmbH **(Helvetic)**, Berlin and ifb Investitions- und Finanzierungs-Beratungsgesellschaft mbH **(ifb)**, Berlin. ASTA holds a 38.5 per cent. interest, Helvetic holds a 42.1 per cent. interest and ifb holds a 19.4 per cent. interest. There is no group relationship *(Konzernverhältnis)* pursuant to § 18 of the German Stock Corporation Act. ASTA, Helvetic and ifb are 100 per cent. owned by the Schuppli family. The Issuer's share capital as of the date of this DIP Prospectus amounts to Euro 226 millions, divided into 226 million registered shares of Euro 1 each. The Issuer held 100 per cent. of the shares in Bauer Aktiengesellschaft zur Entwicklung des europäischen Kommunal- und Hypothekarkredits, Glarus/ Switzerland **(Bauer)**. There had been a group relationship with Bauer. Therefore, the Issuer drew up a group management report and consolidated financial statements in accordance with the principles of full consolidation in 2004 and 2005. Via Bauer, the issuer holds an interest in Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxembourg. As, due to the 25 per cent. interest, no major influence can be exerted over this company, it was not included in the consolidated financial statements in 2004 and 2005. As a result of the merger, the 51.3 per cent. interest of Bankhaus Bauer in Banque Bauer (Suisse) SA **(Banque Bauer)**, Geneva/ Switzerland, was also transferred to the Issuer. With effect from 1 December 2006, the Issuer transferred 100 per cent. of its shares in Banque Bauer to Bauer and 51.0 per cent. of its shares in Bauer to Helvetic. Therefore, there is no longer a group relationship with Banque Bauer and Bauer and the Issuer did not prepare consolidated financial statements in 2006."

Page	Section	
8	**Summary - Information relating to the Issuer - Management Board** "Stefan Brugger (since 1 June 2006)" shall be deleted	
8 21, 22	**Summary - Information relating to the Issuer - Supervisory Board** **German Language Translation of Summary - Angaben zu der Emittentin - Aufsichtsrat** "Wolfgang H. Müller" shall be deleted	shall be replaced by: "Prof. Dr. Jörg-E. Cramer"
20	**German Language Translation of Summary - Angaben zu der Emittentin - Verschmelzung mit Bankhaus Bauer** „An dem Standort in Stuttgart sind 45 Mitarbeiter beschäftigt." shall be deleted	shall be replaced by: „An dem Standort in Stuttgart sind 28 Mitarbeiter beschäftigt."
20, 21	**German Language Translation of Summary - Angaben zu der Emittentin - Aktionäre und Organisationsstruktur** „Die Emittentin ist gemäß § 17 Abs. 1 Aktiengesetz abhängiges Unternehmen der drei Gesellschaften ASTA Allgemeine Grundstücks- und Treuhandgesellschaft mbH (ASTA), Berlin, Helvetic Grundbesitz Verwaltung GmbH (Helvetic), Berlin und ifb Investitions- und Finanzierungs-Beratungsgesellschaft mbH (ifb), Berlin. ASTA hält 37,3 Prozent, Helvetic hält 46,2 Prozent und ifb ist mit 16,5 Prozent beteiligt. Ein Konzernverhältnis gemäß § 18 Aktiengesetz besteht nicht. ASTA, Helvetic und ifb befinden sich zu 100 Prozent im Eigentum der Familie Schuppli. Das Grundkapital der Emittentin beläuft sich zum Datum dieses DIP-Prospekts auf Euro 206 Millionen und ist eingeteilt in 206 Millionen auf den Namen lautende Aktien zu je Euro 1. Die Emittentin hält 100 Prozent der Kapitalanteile an Bauer Aktiengesellschaft zur Entwicklung des europäischen Kommunal- und Hypothekarkredits, Glarus/ Schweiz (Bauer). Mit Bauer besteht ein Konzernverhältnis. Die Emittentin erstellt daher einen Konzernlagebericht und einen konsolidierten Jahresabschluss gemäß den Grundsätzen der Vollkonsolidierung. Die Emittentin ist über Bauer an Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxemburg, beteiligt. Da die Beteiligung sich auf lediglich 25 Prozent beläuft und die Emittentin daher keinen wesentlichen Einfluss auf dieses Unternehmen ausübt, ist es im konsolidierten Jahresabschluss nicht berücksichtigt. Mit der Verschmelzung ging auch die 51,3-prozentige Beteiligung von Bankhaus Bauer an Banque Bauer (Suisse) SA, Genf/Schweiz, auf die Emittentin über." shall be deleted	shall be replaced by: „Die Emittentin ist gemäß § 17 Abs. 1 Aktiengesetz abhängiges Unternehmen der drei Gesellschaften ASTA Allgemeine Grundstücks- und Treuhandgesellschaft mbH **(ASTA)**, Berlin, Helvetic Grundbesitz Verwaltung GmbH **(Helvetic)**, Berlin und ifb Investitions- und Finanzierungs-Beratungsgesellschaft mbH **(ifb)**, Berlin. ASTA hält 38,5 Prozent, Helvetic hält 42,1 Prozent und ifb ist mit 19,4 Prozent beteiligt. Ein Konzernverhältnis gemäß § 18 Aktiengesetz besteht nicht. ASTA, Helvetic und ifb befinden sich zu 100 Prozent im Eigentum der Familie Schuppli. Das Grundkapital der Emittentin beläuft sich zum Datum dieses DIP-Prospekts auf Euro 226 Millionen und ist eingeteilt in 226 Millionen auf den Namen lautende Aktien zu je Euro 1. Die Emittentin hielt 100 Prozent der Kapitalanteile an Bauer Aktiengesellschaft zur Entwicklung des europäischen Kommunal- und Hypothekarkredits, Glarus/ Schweiz **(Bauer)**. Mit Bauer bestand ein Konzernverhältnis. Die Emittentin erstellte daher für 2004 und 2005 einen Konzernlagebericht und einen konsolidierten Jahresabschluss gemäß den Grundsätzen der Vollkonsolidierung. Die Emittentin ist über Bauer an Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxemburg, beteiligt. Da die Beteiligung sich auf lediglich 25 Prozent beläuft und die Emittentin daher keinen wesentlichen Einfluss auf dieses Unternehmen ausübt, ist es im konsolidierten Jahresabschluss für 2004 und 2005 nicht berücksichtigt. Mit der Verschmelzung ging auch die 51,3-prozentige Beteiligung von Bankhaus Bauer an Banque Bauer (Suisse) SA **(Banque Bauer)**, Genf/Schweiz, auf die Emittentin über. Die Emittentin hat mit Wirkung zum 1. Dezember 2006 100 Prozent ihrer Anteile an Banque Bauer auf Bauer und 51 Prozent ihrer Beteiligung an Bauer auf Helvetic übertragen. Daher besteht kein Konzernverhältnis mit Banque Bauer und Bauer mehr und die Emittentin erstellte für 2006 keinen konsolidierten Jahresabschluss."

Page	Section	
21	**German Language Translation of Summary - Angaben zu der Emittentin - Vorstand** "Stefan Brugger (seit 1. Juni 2006)" <u>shall be deleted</u>	
40	**Description of the Issuer – Shareholders and Organizational Structure – Participation and Shareholder Structure of Düsseldorfer Hypothekenbank Aktiengesellschaft, including Banque Bauer (Suisse) SA, Geneva** "  " <u>shall be deleted</u>	<u>shall be replaced by:</u> "  "
41	**Description of the Issuer – Adminstrative, Management and Supervisory Bodies – Management Board** " **Name** — **Internal responsibility** Wolfgang Hampel — Real Estate Financing (Market); Structured Financing; Other Financing (Market); Bank assets/ Real Estate Management; Internal Auditing Dr. Michael Kosche — Credit Activities (Settlement); Trading Activities (Settlement); Risk Controlling/ Limit Monitoring; Accounting/ Finance; Human Resources; Board Coordination/ Organ Meetings Stefan Brugger — Private Banking (Clients); Asset Management (Clients); Other Services (Clients); Information Management; Legal; Money Laundering/ Compliance Arnold Sedlmayr — Public Sector Financing (Market); Other Trading Operations (Market); Asset-Liability-Management; Trading Services (Clients); Holdings " <u>shall be deleted</u>	<u>shall be replaced by:</u> " **Name** — **Internal responsibility** Wolfgang Hampel — Real Estate Financing (Market); Structured Financing; Other Financing (Market); Bank assets/ Real Estate Management; Internal Auditing; Professional "Financing"; Division Banque Bauer (Suisse) Dr. Michael Kosche — Credit Activities (Settlement); Trading Activities (Settlement); Risk Controlling/ Limit Monitoring; Accounting/ Finance; Human Resources; Board Coordination/ Organ Meetings; Information Management; Legal; Money Laundering/ Complinace; Division Bankhaus Bauer Arnold Sedlmayr — Public Sector Financing (Market); Other Trading Operations (Market); Asset-Liability-Management; Professional "Portfoliomanagement"; Professional "Investment Strategy"; Professional "Trading Operations" "
41, 42	**Description of the Issuer - Adminstrative, Management and Supervisory Bodies - Supervisory Board** "Wolfgang H. Müller, Lawyer" <u>shall be deleted</u>	<u>shall be replaced by:</u> "Prof. Dr. Jörg-E. Cramer, Banker (retired)"

II. Supplemental financial Information – Publication of the 2006 Annual Accounts

Page	Section	
42	**Description of the Issuer - Financial Information - Historical Financial Information**	shall be supplemented by: "The financial statements of the Issuer as of 31 December 2006 (the **2006 Annual Accounts**) are set out as Annex 3 to this DIP Prospectus."
42	**Description of the Issuer - Financial Information - Statutory Auditors** "The Issuer's auditors are Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Schwannstr. 6, 40476 Düsseldorf, Germany, who have audited each of the 2004 Annual Accounts and the 2005 Annual Accouts. The 2004 Annual Accouts and the 2005 Annual Accounts have in each case been given an unqualified auditor's opinion." shall be deleted	shall be replaced by: "The Issuer's auditors are Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Schwannstr. 6, 40476 Düsseldorf, Germany, who have audited each of the 2004 Annual Accounts, the 2005 Annual Accouts and the 2006 Annual Accounts. The 2004 Annual Accouts, the 2005 Annual Accounts and the 2006 Annual Account have in each case been given an unqualified auditor's opinion."
43	**Description of the Issuer - Documents on Display** "For the period of twelve months following the date of this DIP Prospectus, copies each of the 2004 Annual Accounts, the 2005 Annual Accounts and the Articles of Incorporation of the Issuer will be available at and will be obtainable, free of charge, from Düsseldorfer Hypothekenbank Aktiengesellschaft, Berliner Allee 43, 40212 Düsseldorf." shall be deleted	shall be replaced by: "For the period of twelve months following the date of this DIP Prospectus, copies each of the 2004 Annual Accounts, the 2005 Annual Accounts, the 2006 Annual Accounts and the Articles of Incorporation of the Issuer will be available at and will be obtainable, free of charge, from Düsseldorfer Hypothekenbank Aktiengesellschaft, Berliner Allee 43, 40212 Düsseldorf."
146	**General Information - Documents Available for Inspection** "(b) the audited non-consolidated and consolidated financial statements of the Issuer (in each case together with an English language translation thereof) in respect of the financial years ended 31 December 2004 and 31 December 2005, in each case together with the auditors' certificates prepared in connection therewith (in each case, together with an English language translation thereof). The Issuer currently prepares audited non-consolidated and consolidated accounts on an annual basis; (c) the most recently published audited non-consolidated and consolidated annual financial statements of the Issuer (in each case together with an English language translation thereof) and the most recently published unaudited non-consolidated and consolidated interim financial statements (if any) of the Issuer (in each case together with an English language translation thereof), in each case together with any auditors' certificates prepared in connection therewith (in each case, with an English language translation thereof). The Issuer currently prepares unaudited non-consolidated interim accounts on a quarterly basis with the exception of the first quarter;" shall be deleted	shall be replaced by: "(b) the audited non-consolidated and consolidated financial statements of the Issuer (in each case together with an English language translation thereof) in respect of the financial years ended 31 December 2004 and 31 December 2005, in each case together with the auditors' certificates prepared in connection therewith (in each case, together with an English language translation thereof); (c) the most recently published audited annual financial statements of the Issuer (together with an English language translation thereof) and the most recently published unaudited interim financial statements of the Issuer (together with an English language translation thereof), in each case together with any auditors' certificates prepared in connection therewith (in each case, with an English language translation thereof). The Issuer currently prepares unaudited interim accounts on a quarterly basis with the exception of the first quarter;"

The DIP Prospectus shall be supplemented by the following:

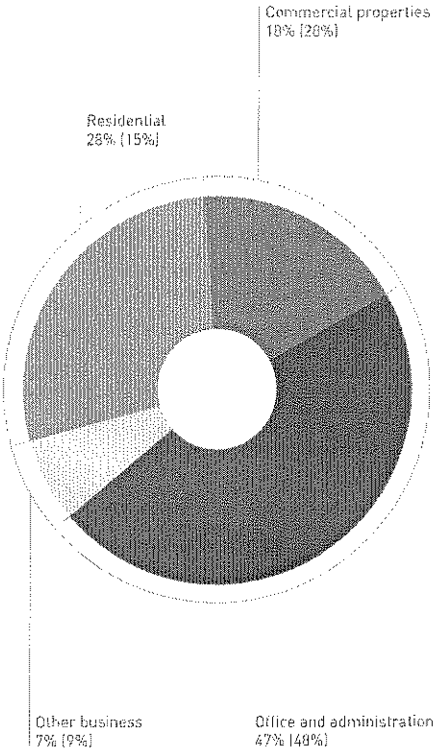
"

ANNEX 3

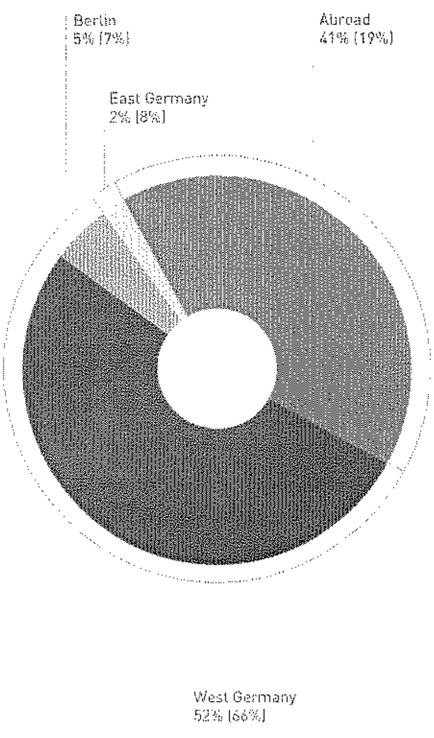
2006 Annual Accounts

MANAGEMENT REPORT

Mortgage loans by use of property
Portfolio 31 December 2006
Previous year in brackets



Mortgage loans by property location
Portfolio 31 December 2006
Previous year in brackets



The volume of business transacted by Düsseldorfer Hypothekenbank grew strongly in 2006. With total assets of € 25.4 bn and an annual medium and long-term issue volume in excess of the € 5 bn mark, the Bank has reached a scale of magnitude at which it can operate as an efficient Pfandbrief issuer with lasting success. The prerequisite for this expansion was an increase of the Bank's net worth by almost 40%.

New lendings surged by 42% compared with the previous year to € 5.0 bn. Cross-border financings experienced over-proportional growth to account for a share of 62% (previous year 38%). This means that for the first time the Bank was active for the greater part on markets abroad.

Property finance developed particularly well. Net interest income rose as a result of the vigorous new lending activity and, with risk costs down, contributed towards a strong improvement in the Bank's performance. In total, the Bank's net income for the year climbed by 27% to € 22.2 m.

Profitability receded to 7.6% (previous year 8.3%) due to the strong expansion of the capital base. The rate of business growth will slow down perceptibly in 2007 for the Bank to move closer to its target of 10% after taxes.

Property finance posts sharp growth

After three years of decline, new lending activity in property finance picked up again strongly. Commitments totalled € 518 m against € 166 m one year before. Including prolongations of € 64 m (€ 24 m), loan production almost tripled versus the previous year. Nearly one third was accounted for by mortgage backed securities (MBS). With that, the Bank reacted to the tendency whereby the especially low-risk financing tranches – usually covered by the first 50% of the property value – are increasingly being placed directly on the capital market. MBS investments are suitable in portfolio management as an admixture for diversification purposes.

For years now, the Bank has participated in large-volume syndicate financings together with established banking sector partners. This business has long crossed national borders with the result that many international standards – legal and economic – have come about in the meantime. By stepping up acquisition efforts, the Bank gained broader access to this segment during the year under review. In particular the Bank succeeded, through new partner banks, in making further inroads into the large US market including the financing of architectural landmarks in metropolises such as New York, the professional handling of which qualifies the Bank for follow-up transactions. The share of commitments accounted for by the foreign market amounted to 85%, exceeding the previous year's already high level of 82%.

The international orientation is also reflected in the structure of the loan portfolios. As at the balance sheet date, the share of loans to EU countries was 27% (previous year 15%); the share accounted for by other foreign countries, i.e. the United States and Switzerland, rose from 3% to 15%. At the same time, the relative significance of domestic financings dropped. Credit exposure in West Germany fell to 56% (73%); the figure in East Germany was 2% (8%). The weighting allotted to foreign lendings would have been even greater if there had not, during the course of the year, been repayments totalling € 245 m which primarily concerned foreign lendings with a short and medium-term orientation. As a result of the high volume of repayments, only two thirds of property finance – which grew by 22% to € 1,498 m – were older than twelve months as at the balance sheet date.

The loan portfolio has also changed with regard to the use of the properties concerned. The share accounted for by residential properties doubled to 28%, exceeding for the first time the 25% target the Bank had set itself. On the other hand, lendings on wholesale and retail premises were down from 28% to 18%. The share for office premises remained virtually unchanged at 47% (previous year 48%). Hotel premises and senior citizens' properties represented 7% (9%) of the loan portfolio as at the balance sheet date.

Public-sector lending: 59% of new commitments given abroad

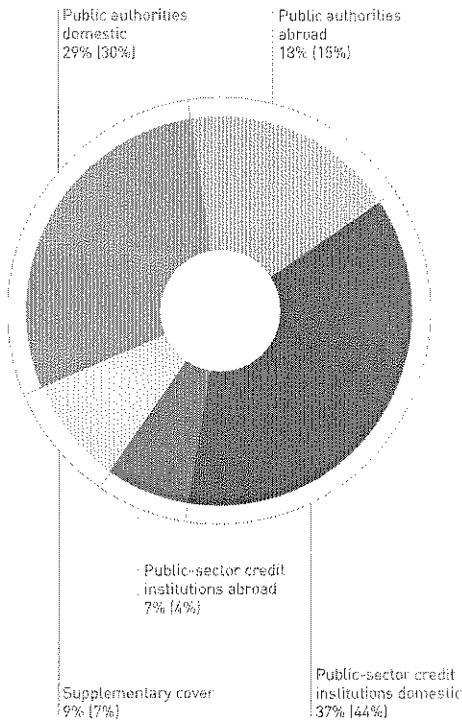
Opportunities present themselves for public-sector lending also in phases of rising market yields. The net present value management practised by the Bank, combined with the intensive use of derivatives, resulted in a decoupling from general interest rate developments. Loans to public-sector borrowers are not "warehoused" and maintained for a longer period of time as unmatched assets, but are taken into the books only if a concrete possibility of an adequate interest margin is given. The 70 to 120 bp rise in yields, depending on the maturity, over the previous balance sheet date conceals the fact, moreover, that market conditions were by all means friendly for long periods of the year.

In 2006, the Bank for the first time looked into purchasing entire third-party portfolios. The holdings offered – including, for instance, receivables of the federal state of Lower Saxony – were prestructured and valued. However, the Bank's price bids proved unsuccessful in the bidding procedures. Nevertheless, at € 4.5 bn, new lendings were 34% up on the previous year. They received a boost from expectations that risk premiums (spreads) would fall further and give the Bank an additional price edge in funding through Pfandbriefe. Part of the lending volume planned for 2007 was brought forward to exploit the favourable market conditions.

The internationalisation of the Bank's new lending activities is continuing in public-sector lending, too, with loan commitments abroad accounting for a share of 59%. The corresponding figure one year before was one third. 95% of international activities are concentrated on sovereigns, regions and local authorities in the EU area. Higher interest margins than at home are obtainable abroad, although the risk is similar. Moreover, the Bank is able to diversify its loan portfolio in this way.

Fuelled by the strong rise in new lendings, the loan book grew by 22% to € 17.6 bn. The share accounted for by domestic public-sector credit institutions, whose obligations are still covered by state guarantees under the transitional provisions negotiated with the EU Commission, was down on the previous year at 37%. The share of public-sector borrowers came to 25%; including the claims against banks that are eligible as so-called supplementary cover, the portion of loans granted abroad was 32% (previous year 25%).

Public-sector lendings by borrower groups
Portfolio 31 December 2006
Previous year in brackets



Investments outside the collateral pool by ratings
Share of aggregate portfolio in %

Other money and capital market activities expanded

Besides the long-term property finance and public-sector lending, the Bank engages in activities that cannot be funded through Pfandbriefe, i.e. they are not eligible as cover. These investments outside the collateral pool refer, above all, to the general liquidity management, the use of derivatives and market making for the Bank's own issues.

By transferring its own securities to third parties as security, the Bank is able to improve its funding cost on the money market by several basis points. For this purpose it traditionally maintains a securities book which can be pledged to borrow short-term funds from the European Central Bank. In the second half-year, own securities of the Bank were lent against on the interbank market to similar effect (repurchase agreements or repos) for the first time. Through the growth in these activities, investments outside the collateral pool rose by € 2.8 bn to € 4.6 bn. In terms of the Bank's total assets, their share advanced to 18% (previous year 10%).

As a general rule, only top-rated securities are eligible as collateral. For this reason, the Bank's investments are concentrated on the investment grade segment; the required minimum rating here is unchanged at "BBB-". 93% of investments outside the collateral pool met this rating requirement as at the balance sheet date. A further 6% of the holdings – for the most part, German savings banks – have not been rated by an international agency. An internal investment grade rating is awarded in such cases. Only a scant 1% or € 54 m of total investments did not meet the above rating requirement as at the balance sheet date, including a bond of the City of Bucharest in the amount of € 15 m, which became eligible as collateral upon Romania's admission to the EU on 1 January 2007.

The trading book within the meaning of Section 1a) para. 1 German Banking Act (KWG), which the Bank has as a result of the merger with Bankhaus Bauer, is also to be allocated to investments outside the collateral pool. In the year under review, the trading activities referred to shares and derivative financial instruments (index futures). Because the tight restrictions set down in Section 2 para. 11 German Banking Act (KWG) – so-called trifling limits – were not exceeded at any time, the market price risks did not have to be backed with regulatory equity. Trading in shares serves the purpose of diversifying the risks stemming from the Bank's two main business fields.

In its asset and liability management the Bank switched, in the second half-year, to a consistent individual hedging of balance sheet items. Moreover, the shift of the main focuses in lending to markets abroad gives rise to the need for a large number of security contracts in foreign currencies. As a result, the number of derivatives used to close interest rate and foreign exchange positions rose considerably. The volume of derivative contracts increased by € 20.3 bn to € 37.9 bn in nominal terms, despite the high volume of prematurely terminated contracts. In terms of the Bank's total assets, derivative operations grew from 95% to 149%.

Restructuring of the participating interests

At the end of June, Bankhaus Bauer in Stuttgart was merged with Düsseldorfer Hypothekenbank with retroactive effect as of 1 January 2006. The latter had previously held a 33% stake in the private bank which, with total assets of formerly some € 800 m, specialises primarily in asset management for private and institutional customers. The reasons for the merger carried out by the bodies of both companies were economies of scale and diversification of business. Only since July 2005 is Düsseldorfer Hypothekenbank legally permitted to engage in general banking business.

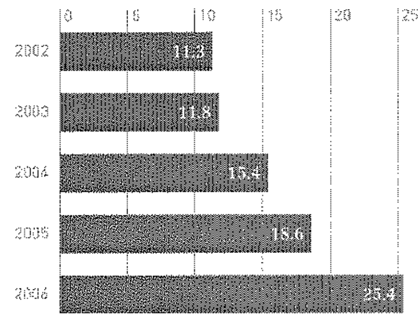
During an integration process lasting six months, all the staff functions were concentrated at Düsseldorf, and activities that had previously overlapped were discontinued. The number of employees at Bankhaus Bauer, 52 at the time of the merger, fell by about a third as at end-2006 through normal fluctuation and termination of employment by mutual agreement. At the same time, new jobs were created at the Düsseldorf location. In future only investment consultation and management, primarily for private customers, will be conducted in Stuttgart under the "Bankhaus Bauer" brand name.

Within the scope of the reorganisation of the ownership structure, the 51.3% participation in Banque Bauer (Suisse) SA, Geneva, that was obtained through the merger was transferred to the subsidiary Bauer Aktiengesellschaft zur Entwicklung des europäischen Kommunal- und Hypothekarkredits, Glarus/ Switzerland. All the international bank participations are therefore now bundled there. In a second step, 51% of the equity interest in this holding company was sold to Helvetic Grundbesitz Verwaltung GmbH, Berlin. With that, Düsseldorfer Hypothekenbank is no longer a corporate group ("Konzern") as defined in Section 290 German Commercial Code (HGB).

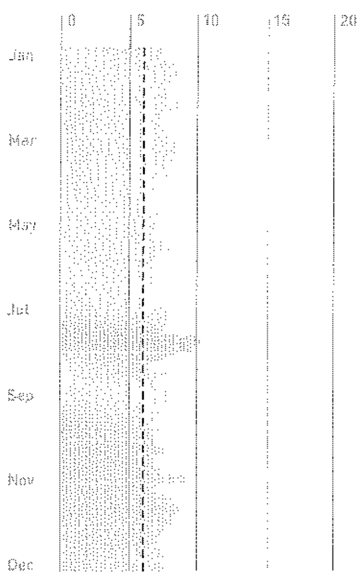
Tap issuer status strengthened

In July 2006, the Bank launched a debt issuance programme totalling € 5 bn in response to the onward development of European prospectus regulations. Aimed primarily at international investors, the programme will in future make it easier, among other things, to issue foreign currency bonds. Use was first made of the programme to float a public-sector Pfandbrief of € 1.25 bn. This Jumbo issue, carrying a maturity of 3.5 years, was oversubscribed several times within hours and was ultimately placed with a discount of three basis points to the swap curve.

Development of balance sheet total
Bn €



Net present value overcollateralisation
Public-sector Pfandbriefe 2006
in %



Rating agency Fitch awarded the Bank's public-sector Pfandbrief a rating of "AAA" in February 2006. As Standard and Poor's also confirmed its "AAA" rating, the Bank's principal refinancing instrument now has top marks from two leading agencies. This enables the Bank to tap wider circles of institutional investors, as is also demonstrated by the steady decline of the risk markups (spreads) on the secondary market. Here, the Jumbo Pfandbriefe of Düsseldorfer Hypothekenbank are neck and neck with Germany's biggest Pfandbrief issuers.

In the year under review, the Bank received its first external rating for its unsecured obligations. The investment grade rating ("BBB+") awarded by Fitch is a reflection, among other things, of the Bank's consistently positive development over the last five years, as well as of the high level of risk transparency compared with its peers.

Large volumes of short-term finance were constantly procured on the money market. Its volume as at the balance sheet date rose from € 2.2 bn to € 6.1 bn as the lending on securities intensified during the course of the year. The medium- and long-term issue volume totalled € 5.3 bn (previous year € 4.5 bn). It was made up of 93% (85%) public-sector Pfandbriefe, 5% (6%) bonds or loans not requiring cover and only 2% (9%) mortgage Pfandbriefe. New lendings in property finance were eligible as cover to a limited extent only or with a time lag, leaving very little scope to issue mortgage Pfandbriefe.

Total net worth up by 38%

Over the last twelve months, total net worth rose in several stages from € 220 m to € 307 m. In addition to inflows stemming from profit retention and capital increase – making a combined € 37.5 m – a further € 49 m resulted from the merger. Thus, the Bank's equity-related ratios far exceed regulatory requirements. The core capital ratio, which is referred to by rating agencies and credit analysts to evaluate a bank's capacity to bear risk, was 7.1% as at the balance sheet date; a minimum of only 4.0% is required by law.

Whereas the minimum called for under Principle I of the German Banking Act (KWG) is 8.0%, the Bank reported a ratio of 10.0% as at the balance sheet date. Liable capital as defined by Section 10 German Banking Act (KWG) amounted to € 422 m (previous year € 345 m).

The Board of Managing Directors prepared a report for the period, subject to reporting requirements in accordance with Section 312 German Stock Corporation Act (AktG), on the relationships with affiliated companies, which was audited and certified by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft. The report closes with the following declaration by the Board of Managing Directors: "According to the circumstances known to us at the point in time at which legal transactions were conducted with affiliated companies, our company did in each case receive an appropriate consideration. Measures in the interest of or upon the initiative of affiliated companies were neither taken nor omitted that put our company at a disadvantage."

Merger with Bankhaus Bauer

The integration of the Stuttgart-based personal banking business presented the Bank with new requirements to be fulfilled. Of particular relevance to risk are individual customer advice, the handling of assets for third parties and the settlement of customer-driven transactions. This has consequences with regard to the insider transactions principles (compliance), which are designed to prevent potential conflicts between customers' interests and the interests of the Bank. Personal banking also entails special requirements in terms of the systematic prohibition of money laundering activities.

In view of the above, the Bank decided to largely retain the tried and tested competencies and procedures in the Stuttgart-based customer-driven business. Above all, the specialised DP systems will remain in place. Human resources also became a focal point in the integration process that was started at the middle of the year.

The experience generally made is that staff fluctuation is very high during a transition phase to a new business-policy orientation. As a result of the economic recovery in conjunction with the "rediscovery" of personal banking, qualified employees are highly sought-after. The Bank responded to this situation by, among other things, issuing clear statements regarding the long-term business objectives and with appreciably higher performance bonuses. Moreover, HR marketing measures were stepped up.

The lendings to customers and securities taken over from Bankhaus Bauer within the scope of the merger did not contain any noteworthy additional risks, not least due to their comparatively low volumes. Where balance sheet provisioning existed in individual cases, the standards applied by the incorporating Düsseldorfer Hypothekenbank show it to be adequate.

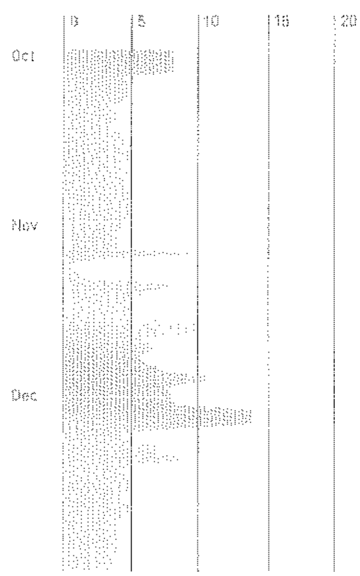
For the first time, share value at risk in the net present value limit system

An adequate capital situation is the basic prerequisite for the carefully directed assumption of risks. For this reason, risk limits should take their bearings from equity. The net present value of the Bank's liable capital (Section 10 German Banking Act (KWG)) serves as the basis for calculating the limits. A part of the capital is allocated to each of the risk categories in order to define the upper loss limit as well as the basis for calculating the overnight and stop loss limits in each case.

Following the merger with Bankhaus Bauer, a new category – share value at risk (SVaR) – has been added. This risk expresses the potential loss in value of a share or of derivatives linked to a share price. Since the year under review, 5% of equity is reserved for the share value at risk. As a result, the portion for interest rate risks has been reduced from 35% to 30%. As before, 50% of equity is allocated to the credit risk and 15% to other risks.

Since September, the SVaR has been measured and managed on a daily basis in the same way as the interest rate and credit risk resulting from trading transactions. Based on an observation period of 250 trading days, this ratio states for a holding period of one day the maximum loss which, with a 99% confidence level, will not be exceeded. The Bank's share value at risk as at the end of the year was

Development of share risk
Business year 2006, limit utilisation
in %

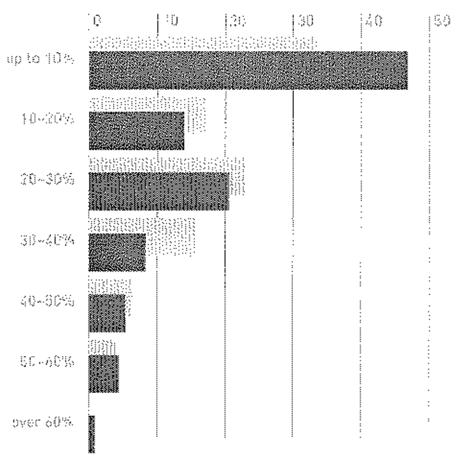


Mortgage loans by probability
of default (PD)
Share of aggregate portfolio in %

31 Dec 2006 31 Dec 2005

Mortgage loans by loss
given default (LGD)
Share of aggregate portfolio in %

31 Dec 2006 31 Dec 2005



€ 74,000; the average for the year came to € 106,000. The figures forecast in the form of the SVaR are compared daily with the actual losses in the share portfolio. To date, the actual losses have not been higher than the forecast on any day.

Foreign orientation of property finance without higher risk

In commercial property finance, which the Bank has engaged in for a number of years, property companies with which the personal liability assumed by the borrower is limited (non-recourse) are rising further in importance. For this reason, the risk assessment hinges less on the creditworthiness of the borrower and primarily on how the value of the property lent against develops. At first glance at least, this seems to be more difficult to assess on a foreign, supposedly unknown market.

However, within the scope of the Bank's risk strategy, the requirements to be met by a loan are largely location-neutral. The Bank lends against commercial, office and residential buildings with up-to-date fixtures and fittings, and which can be put to alternative use or be used by a third party. Moreover, specific requirements exist with regard to the long-term capacity to repay principal. The aim is to rule out the possibility that changes in rents and/ or capital market rates lead to shortfalls in cover. In the case of commercial properties, moreover, the life of the loan must be in a suitable proportion to the residual life of the main tenancy agreements.

It has been shown that the defined key points of the credit risk strategy possess sufficient classifiability, i.e. they are capable of clearly identifying "good" risks from "bad". Whereas projects abroad usually met the Bank's stringent criteria, this is still the exception at home. To take this fact into account, since May 2006 the maximum loan-to-value ratio no longer takes its bearings from the mortgage lending value – a purely German term used to measure the part of the loan eligible as cover – but from the market value, which is used internationally.

Although the structure of lendings has shifted due to the high volume of new commitments abroad, there are no indications of higher risks. According to the most recent stress tests carried out at end-2006 – their aim is to examine the consequences for the capacity of the financed properties to repay principal assuming interest rates rise or rents fall – 85% of loans, as in the year before, withstood the assumed extreme yield fluctuations even at the higher market interest rate level reached. The corresponding figure assuming a strong decline in rents was 88% (previous year 82%).

The distribution of loans among the six internal risk classes was stable. The movements between the individual categories were fewer in the year under review. This may also be explained by the fact that the criteria for grading loans back to a lower-risk class have been tightened. As at the balance sheet date, 96% of the Bank's total lendings were again categorised as "normal". Roughly 1% (previous year 2%) was classified as entailing a risk. Four commercial loans and a number of small loans were rated as being "non-performing"; they were equivalent to 3% (2%) of total lending.

Statistical expected loss on the decline

These more qualitative assessments can be backed up by statistics. The probabilities of default of property financings show a distribution with a concentration of between 0.4% and 2.5%, whereby the average improved over the last twelve months from 1.6% to 1.3%. The reason for this development was an improved rating function (i.e. validation) and, above all, the type and/ or structure of new lending activity.

The loss rate calculated on the basis of empirical market data for the book of own property lendings fell from 21% to 20%. The fact that last year the share of proceeds from the realisation of non-performing properties rose with investor demand, particularly in Germany, had an effect. Moreover, due to the rising share of cross-border lendings, the average fixed rate – which determines the amount of the funding loss that would typically arise in the event of default – decreased for the portfolio as a whole. Property projects abroad often have a time horizon of roughly three years.

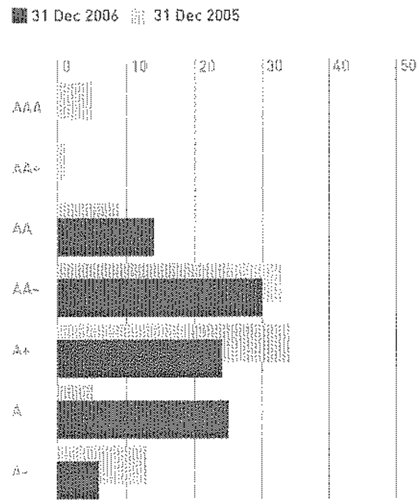
In terms of total property lendings, an expected loss of € 3.9 m may be deduced with the calculated probability of default of 1.3% and the loss rate of 20%. One year earlier, the corresponding figure was € 4.1 m, with a lower volume of property lendings. For the year under review, the Bank's actual risk costs totalled € 3.2 m, and so were below statistical expectations.

Internal credit rating also for trading operations

The empirical probabilities of default and loss rates, which the Bank calculates in joint projects with other banks, are a prerequisite for computing the capital backing in accordance with the new international rules on bank capital ("Basel II"). The Bank is aiming to apply the advanced Internal Ratings-Based approach, with which the capital required can be significantly reduced. This method is based on a complex model for calculating individual ratings. Because the number of unconditionally reliable estimate functions cannot readily be obtained as the number of cases of loss available for analysis is insufficient to date, the Bank will probably apply the so-called standardised approach until end-2008.

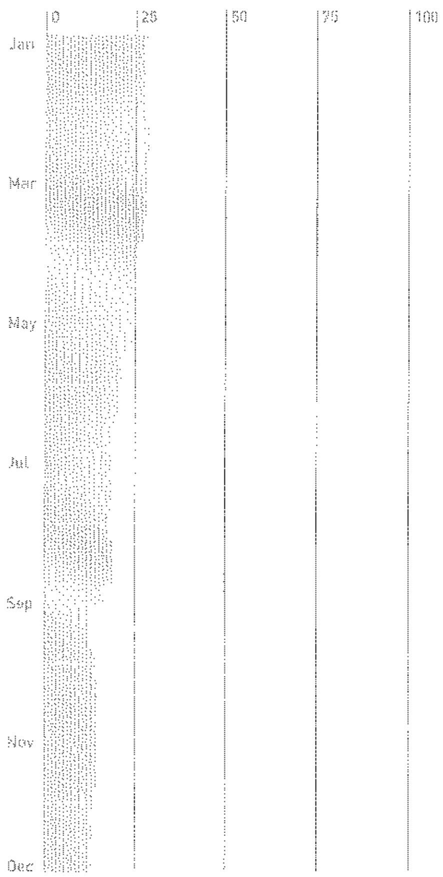
In this connection, an IRB model is also being developed for the Bank's trading operations. This will affect public-sector lending and investments outside the collateral pool including derivatives. The objective of one joint project with other credit institutions is to arrive at individual probabilities of default for sovereign, regional and local authorities as well as banks that are calibrated to the ratings of international rating agencies.

Derivative counterparties by rating
Share of aggregate portfolio in %



Public-sector loans by credit quality
Share of aggregate portfolio in %

Development of credit risk
Business year 2006, limit utilisation
in %



A distinction must be made between the above and daily risk management. The credit risk resulting from trading operations is based on the potential widening of the spreads in relation to the respective interest rate curve. It is measured on a daily basis to produce the Credit Value at Risk (CVaR). This ratio represents the maximum loss which, with a confidence level of 99%, will not be exceeded within a holding period of one day over an observation period of 250 trading days. Daily bakktesting is conducted to compare the CVaR forecast with the change in value that actually occurred. In the year under review, the actual loss exceeded on three days the loss forecast. With the 99% confidence level chosen, up to four "outliers" would have been permissible. This confirms the quality of the risk measurement procedure.

As at year-end, the CVaR was € 2.5 m (previous year € 3.4 m); as an average for the year, it came to € 3.3 m (€ 3.5 m). Thus, although the volume of business transacted grew strongly, the credit risk declined in the trend. This is because, first, the daily spread fluctuations (implicit volatility) that are entered into the calculation were lower; second, the portfolio was more widely diversified due to a change in risk strategy. Individual positions hedge themselves, therefore, because the risk of default they represent correlates weakly or negatively.

The credit risk of derivatives used to hedge interest rate and currency exposure represents losses or lost gains due to potential default by the counterparty. The prerequisite for granting a limit is a positive credit assessment for each individual business partner. In addition, agreements have been concluded with numerous counterparties concerning the furnishing of top-quality collateral for negative market values.

Low interest rate risk protects against rise in yields

In order to achieve positive margins, the Bank incurs in public-sector lending – its main field of operations – interest rate risks under open positions. These risks arise as a result of mismatched maturities in lending or in the management of the Bank as a whole, and are measured and managed as the Value at Risk (VaR). This ratio quantifies the loss which, with a confidence level of 99%, will not be exceeded within a holding period of one day and an observation period of 250 trading days.

As in the previous years, the Bank kept the interest rate risk at a very low level for long periods during 2006. This was due to the rising yields and the flat yield curve, in the case of which it is generally not worthwhile entering into open positions. As an average for the year, the VaR was € 1.2 m, after € 0.9 m one year before. As at the balance sheet date, the ratio came to € 3.3 m (previous year € 0.6 m), which was at the same time the highest daily value measured in the year under review. Even at that point in time, utilisation of the internal risk limit was only 30%. The fact that the interest rate loss actually incurred did not exceed the VaR forecast on any day confirms the quality of the risk measurement procedure used.

Liquidity position comfortable at all times

Liquidity risks arise from incongruent cash-flows and/ or delayed incoming payments. In extreme cases they may result in the inability to meet payment obligations fully or on time. In particular, they represent the risk of only being able to cover liquidity needs on terms above those planned.

With the monthly liquidity structure analysis the Bank has at its disposal an effective tool for managing these risks. Comparisons of projected/ actual figures and simulations produce the forecast liquidity requirements for the next six months, and enable the Bank to identify in good time potential structural shifts in the availability of funds. A daily projection of liquidity indicates for the weeks ahead surpluses or shortages of cover detailed to the day, and so serves as the basis for fine-tuning payment flows.

In the year under review, the Bank's liquidity position was comfortable at all times, thanks to favourable funding conditions. The ratio in accordance with Principle II was always clearly above the legally prescribed minimum of 1.0, and was 2.1 as at the balance sheet date.

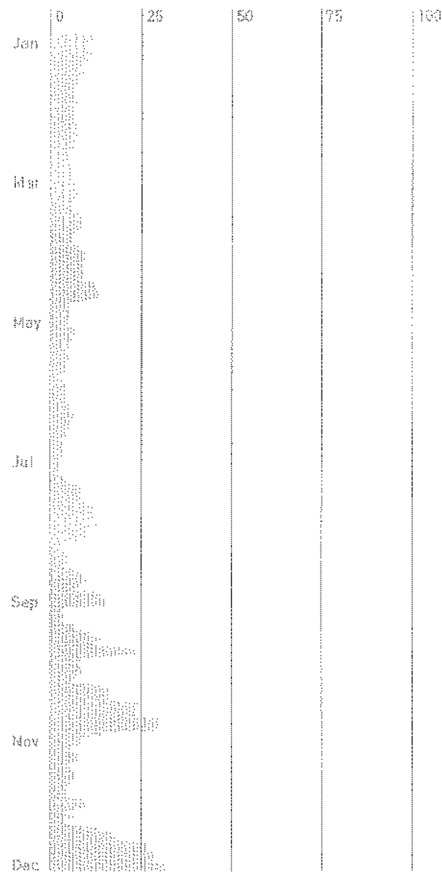
Risk management for public-sector Pfandbriefe

Since September 2004, the Bank has committed itself towards investors to observe specific risk restrictions for the public-sector Pfandbrief ("AAA" rating), the bank's principal refinancing instrument. These restrictions refer to all interest rate, currency, liquidity and credit risks of the cover pool. With these self-imposed restrictions the Bank exceeds the legal requirements governing cover for Pfandbriefe.

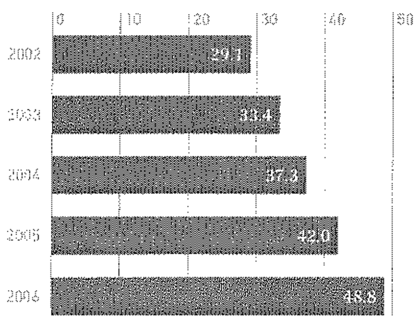
The self-imposed restrictions did not have to be adjusted in the year under review. However, talks were held with the rating agencies concerning a refinement of the rules, as not all of the limits defined have shown themselves to be practicable. In particular, the different methodological approaches applied by the agencies make it difficult to manage the cover pool with maximum efficiency.

Utilisation of the individual limits is published on www.duesshyp.de.

Development of interest rate risk
Business year 2006, limit utilisation
in %



Development of net interest income
Million €



Net interest income grows by 16%

Net interest income rose with the Bank's business volume, although not at the same pace. The growth of 16% to € 48.8 m conceals the fact that the interest margins obtainable in public-sector lending – the business field accounts for approx. 90% of total lendings – trended lower. Repayments could not, therefore, as a rule be replaced on the same terms. Particular opportunities presented themselves abroad.

The narrowing of credit spreads was not fully reflected in net interest income. This may also be explained by the fact that Düsseldorfer Hypothekenbank, as a large tap issuer, itself profited from this trend. The Bank's funding conditions on the money and capital market have been improving for over four years. Investor demand for Pfandbriefe and other interest-bearing paper of the Bank has been strongly stimulated by the steadily rising business figures, the sound ratings awarded by international agencies and the predictable issue policy. This explains why the yield gap vis-à-vis swap rates (swap spreads) reached new lows in the year under review, despite the very large volumes of funds raised. Where the prices of public-sector Pfandbriefe are concerned, the Bank is now on a par with its big competitors.

As in the past, income from maturity transformation was of no significance to net interest income. Within the scope of the net present value management of trading transactions, which the Bank has consistently pursued for several years, the Bank dispensed with setting up structural net asset positions. The extreme flattening of the interest rate curve observed above all in recent months is not, therefore, reflected in the profit and loss account.

The current income contained in the net interest income position increased by € 8.3 m over the previous year. Roughly half of this growth was accounted for by dividend income from equities accepted as collateral in securities lending. There was a corresponding decline in interest income from fixed-income securities and debt register claims, so that there was purely a shift. The remaining part of the growth stemmed from the specialised funds; payouts were € 4.4 m up on the previous year on the back of an increased investment volume.

Net commission income, which improved from -€ 0.3 m to € 1 m, profited above all from the additional activities in the Stuttgart-based (private) customer-driven business. Indeed, the increase would have been € 0.9 m higher if the placement expenditure for the annual Jumbo issue had – as in the years before – been spread over the entire life as a discount and not booked in its full amount as a commission payment.

Net interest income and commission income amounted to € 49.8 m, which was almost 20% above the previous year's level. As at the balance sheet date, the Bank generated a net income of € 0.6 m from own-account trading in shares and index futures. There were no such activities in the previous year.

Cost structure changed

Both the level and the structure of costs changed as a result of the merger with Bankhaus Bauer. In the last year as a company in its own right, the Stuttgart-based private bank reported a cost/ income ratio of 88%. This unfavourable ratio subsequently had a detrimental impact on the cost efficiency of Düsseldorfer Hypothekenbank as incorporating bank, causing it to rise from 22% to 31%. General administrative expenses climbed by € 5.9 m versus the previous year to € 15.2 m.

Although the business processes of the two merged banks were integrated during the course of the year under review, a great deal of work was nevertheless still performed twice. This explains why operating expenditure (including depreciation on tangible assets) rose by 45% to € 7.4 m. The total number of staff following the merger almost doubled. As an average for the year, 91 members of staff were employed as opposed to 46. Staff expenses increased from € 4.2 m to € 7.8 m as a result.

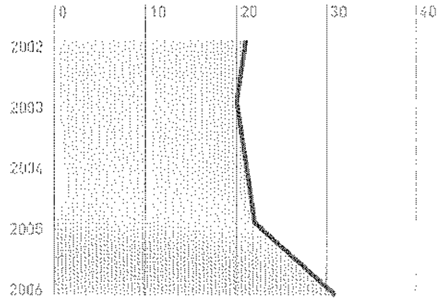
The comparison with Düsseldorfer Hypothekenbank's costs the previous year conceals the fact that the expenditure side developed favourably in the year of the merger with Bankhaus Bauer. For instance, the drop in per capita expenditure by 17% to € 167,000 indicates that appreciable economies of scale are possible in the new organisation. What is more, due to a reduction of advisory and audit costs, general administrative expenses were € 0.6 m lower than when the two banks still operated independently. Gross income, which consists primarily of net interest and commission income and the income/ loss from trading, grew by 10% to € 35.5 m after deduction of administrative expenses.

Less provisioning for credit risk, higher write-downs of securities

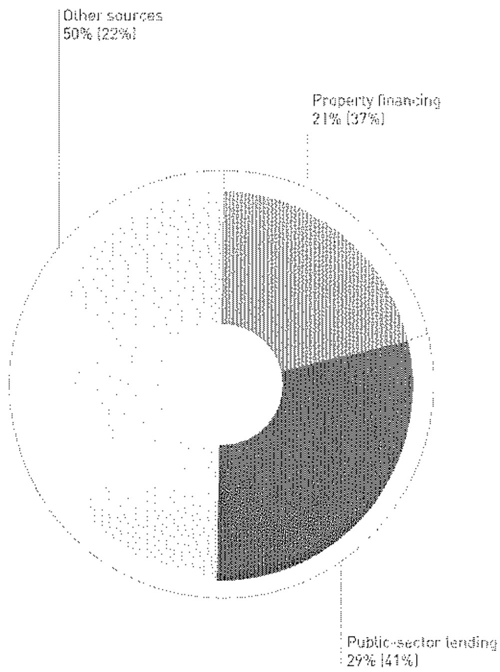
At Düsseldorfer Hypothekenbank, bad debt provisioning for a distressed property loan is usually based on a fictitious market value. This value is determined on the basis of all the factors of relevance to the valuation from the viewpoint of a potential investor. The difference between it and the higher book value of the loan claim determines the extent to which the value has to be adjusted. A special audit of the Bank's lending operations (Section 44 German Banking Act (KWG)) conducted in early 2006 did not lead to any noteworthy objections. In particular, the Bank's credit rating was confirmed without exception.

Using this procedure, risk provisioning for the principal amounted to € 2 m for the period under review. In addition, the Bank was able to write back € 0.5 m due to a sustained improvement in the property and rent situation. Bad debt charges were made in respect of all interest arrears of more than 90 days (€ 1.8 m). Because of payments received, bad debt charges of € 0.1 m in respect of interest arrears were not availed of and written back. Finally, a general charge of € 0.8 m was set aside for the latent credit risk and allocated to the provisioning reserves in accordance with Section 340f German Commercial Code (HGB). The Bank has been forming reserves in this way for three years now in the equivalent of the annual standard risk costs. Risk provisioning for lendings totalled € 4 m, compared with € 7.7 m one year before.

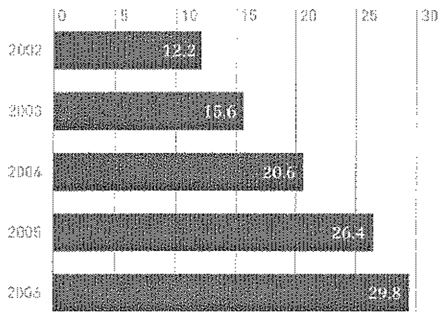
Development of cost/ income ratio
Administrative expenses to net interest and commission income in %



Sources of administrative expenses
Business year 2006
Previous year in brackets



Development of operating income
Million €



Income statement
Million €

	2006	2005	Δ
Net interest income	48.8	42.0	
Net commission income	1.0	-0.3	
Net interest and commission income	49.8	41.7	+19%
Trading result	0.6	0	
Other operating result	0.3	-0.2	
Administrative expenses	-15.2	-9.3	
Gross income	35.5	32.2	+10%
Valuation result	-5.7	-5.8	
Operating income	29.8	26.4	+13%
Extraordinary Result	-0.5	0	
Profit before taxes	29.3	26.4	
Taxes	-7.1	-8.9	
Net income for the year	22.2	17.5	+27%

The weakness of prices on the European bond markets – particularly in the first four months – depressed the Bank's current assets significantly (stringent lower-of-cost-or-market principle). The interest rate-induced write-downs of security holdings came to a total of € 12.3 m. On the other hand, book profits from sales totalled € 5.5 m, resulting in a net valuation loss of € 6.8 m. A net profit of € 4.8 m was recorded for current assets in the previous year.

By far the greater part of securities is protected against a general increase in yields in the Bank's fixed assets. Nor were there any indications of a rating-induced decrease in value. As a result, write-downs did not have to be made. With that, only a number of disposals with a book profit of € 5.1 m in net terms were recognised as income. In the previous year, a charge of € 2.9 m was reported. The sale of the participations (cf. Business developments) was carried out at book value and was therefore not recognised.

After setting off this profit against the charges for current assets and lendings, a total valuation loss of € 5.7 m ensued. This corresponds almost exactly with the result for 2005 (€ 5.8 m), albeit with a substantial shift of the influencing factors. After setting off this loss against gross income, operating income remains of € 29.8 m, which is 13% up on the previous year.

Net income for the year rises by 27%

The extraordinary result comprises all expenditures for restructuring the customer-driven business in Stuttgart. Calculated at € 0.5 m, this amount represents the direct integration costs as well as the conservatively estimated charges resulting from the rescission of service contracts, rental agreements and contracts of employment. There were sufficient provisions for this as at the balance sheet date.

The tax audit of the accounts of the years 2001-2004 was completed in the year under review. The risk of additional tax payments for previous periods was covered by provisions of € 1.8 m in the tax position. In the previous year, a reserve of € 4.1 m had been formed for other audit risks. After adjusting for these influences, the effective tax charge was constant at 18% in both years.

After deduction of all taxes, a net income for the year of € 22.2 m remains; this is 27% above the previous year. Nevertheless, due to the considerably widened capital base, the return on equity fell from 8.3% to 7.6%. Accordingly, the Bank is still well short of its profitability target of 10%.

Net income for the year is equivalent to the balance sheet profit. We will propose to the Annual General Meeting that the balance sheet profit in the amount of € 22.2 m be allocated in its entirety to the other retained earnings. With that, the retention rate is 100% as in the previous year.

All business divisions close on a positive note

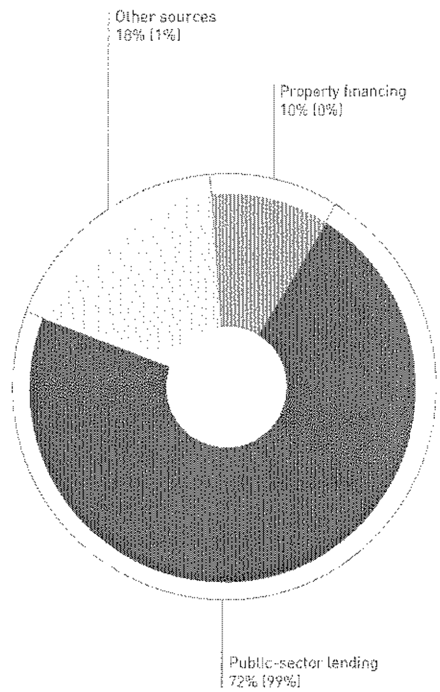
The breakdown by business segments shows the composition of the net income for the year.

Public-sector lending is by tradition the outstanding source of income. This division contributed € 16 m or more than two thirds to the overall performance of € 22.2 m. However, this was 8% short of the previous year's level because of high write-downs of securities due to interest rate changes. Of course, public-sector lending also profited from capital market developments. This was because despite rising market yields, time windows repeatedly presented themselves – especially in the second half-year – for profits from asset/ liability management. Thus, declining interest margins in new commitments were compensated for by the rising internationalisation and the larger volume. The commitment of capital rose by 48% as a result, which forced down the return on equity down from 16% to 10%.

Property finance profited from the growth in the loan portfolio, so that the division's net interest income rose by 22%. Because staff expenses and operating expenditure fell by 11% at the same time, the cost/ income ratio of this business segment improved from 40% to 31%. This figure is proof of the high efficiency in acquisition and loan processing. With risk costs down, after-tax profits remained of € 2.3 m. In the previous year, this division had closed with a "black zero". Taking into account the capital commitment, a return on equity was calculated for the property finance division of 7.6% after taxes.

The Bank's other business activities, at € 3.9 m, contributed close to one fifth to the Bank's overall performance. In the previous year, extraordinary tax charges ate up almost all the interest income and income from trade investments. For the first time, this item includes the customer-driven business of Bankhaus Bauer, which was almost neutral in its effects on profits.

Sources of profit
Business year 2006
Previous year in brackets



Money and capital market rates rise

The global economy is performing better than expected, and the trend in global growth appears to be intact. In view of the general pressure on prices, hopes of a easing of monetary policy are unfounded for the foreseeable future. Worldwide, the signs point to a further rise in interest rates. Though the central banks have raised their key interest rates substantially in recent years, investors still have access to cheap outside capital. Low-interest countries such as Japan, where the key interest rate was recently hiked to only 0.5%, are still providing the international markets with favourably priced liquidity. For this reason, experts consider it unlikely that the Fed will trim its key interest rate of currently 5.25% this year.

In Europe, too, the central banks are likely to tighten their interest rates in the near future. The risk of a wage/price inflation spiral remains, even though the 2.0% growth forecast for the euro zone does not match the previous year's high level. It is considered to be as given that the ECB will lift its key interest rate to 3.75% in March, and even further interest rate hikes to 4.25% in subsequent months would not exactly come as a surprise.

The increase of the short-term interest rates will not be without effect for the "long end" of the interest rate curve. Capital market yields are untypically low in terms of the stage now reached in the economic cycle. However, the yield curve has gradually risen again since November.

The medium and long-term market yields have since advanced over-proportionally. Thus, there are a number of signs that the long-running phase of low interests rates in the euro zone is indeed at an end. The interest rate advantage of the US markets should therefore melt away as a result, which could have implications for exchange rate developments.

Property markets buoyant

The German economic upswing continues. According to first analyses, the dampening effect of the value added tax increase on consumption has remained within limits. The retail sector is apparently unable to pass it on to consumers in the form of higher prices. Economists expect the gross domestic product to grow by 1.8% in 2007, which will also benefit the domestic property market.

Rising employment and the high propensity of the corporate sector to invest continue to fuel demand for office premises. Broader parts of the market will feel the effect of this development in the current year; as a result, falling vacancy rates and rising rents will no longer be restricted to prime locations in urban concentrations. In terms of the market situation elsewhere in Europe, German office properties still offer considerable potential.

The pronounced buying interest shown by foreign investors will continue to benefit German residential properties. Although the first of the participation companies that took capital interests three or four years ago now want to part with their property portfolios with the double-digit yields that have been generated, a "second wave" of investors seems to be standing by to take over. They are less speculatively oriented and, in opting for securitised participation forms, are consciously choosing an alternative to the "classical" investment in fixed-income government bonds. For this reason, initial yields in the region of 6% are considered extremely attractive by European standards.

Greater opportunities for new commitment activity outside Germany

Notwithstanding the upbeat prospects for the German office and residential property markets, the main focus of Düsseldorfer Hypothekenbank's acquisition efforts in property finance will again be abroad. Going by the first weeks of the current year, the planned growth in new commitment activity of 15% ought to be attainable. The Bank will again make MBS investments on a carefully targeted basis to round off the portfolio structure. Assuming repayments proceed normally, the loan portfolio will grow by 25%.

Public-sector lending activities, which also concern for the most part foreign borrowers, will decrease by approx. 40% compared with the previous year. The overall situation looks unfavourable given the rising interest rate trend on the one hand and the extremely low level of margins on the other. For this reason, the volume of new lendings will be confined to the replacement of maturities and repayments. In view of the brisk development expected in property finance, the relative share accounted for by public-sector lending will be trimmed slightly in the balance sheet.

Shifts will be made in investments outside the collateral pool to reduce the Bank's present dependence on the development on the bond markets and to achieve greater diversification. Against this background, the Bank plans to expand its expertise in alternative asset classes.

Equity rises by € 42 m

Net interest income in property finance will rise as a result of the high volume of new lending activities. The Bank's target of a return on equity of 10% after taxes could be achieved if risk provisioning remains at the level recorded for 2006. In public-sector lending, by contrast, a repetition of the previous year's earnings in public-sector lending would be a success. It is hardly possible to forecast the additional earnings that may be generated through asset/ liability management in the current year. Certainly, there is no sign on the capital markets of a sideways movement of yields, which would be ideal as it would allow the Bank to exploit volatilities.

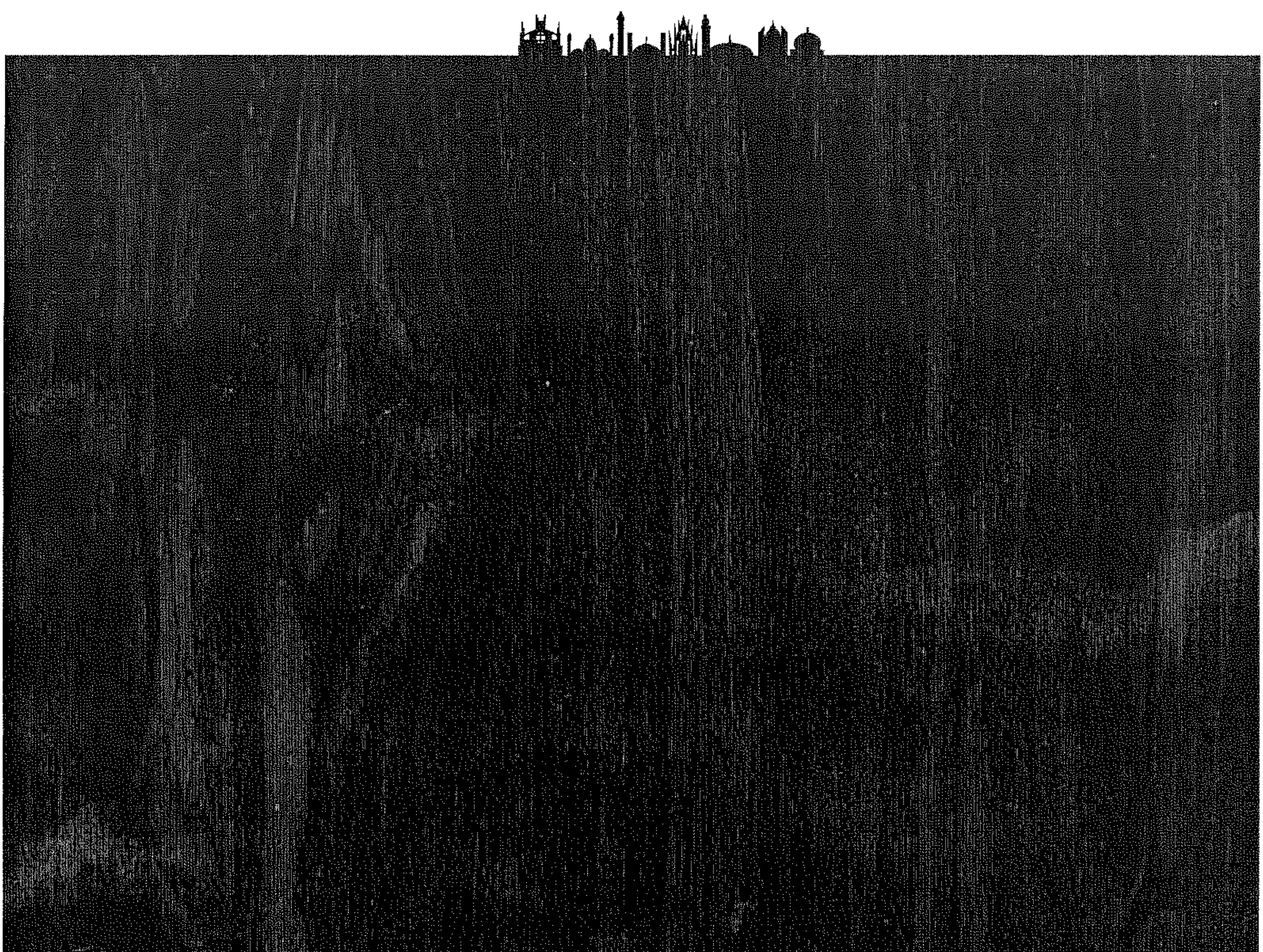
The new investment consultation/ management division stands to profit from the restructuring embarked upon in the previous year. The Bank intends to give customer-driven business new impetus by adhering to a consistent target group orientation and streamlining product offerings. These measures will be combined with cost cuts and stronger sales incentives. According to the Bank's plans, these operations will break even during the course of the year. However, a broader customer base will be needed to achieve a cost/ income ratio that is acceptable on a long-term basis. Different options are therefore being examined with a view to expanding business volume in a profitable manner.

Administrative expenses for the company as a whole, which were inflated due to the merger in the previous year, will recede by approx. 10%. Staff expenses will decrease to an over-proportional extent, as the workforce will be almost 15% lower as an average for the year. With regard to operating expenditure, cost savings will be made in Stuttgart whereas sizeable DP investments are planned for the Bank's internal financial management.

The shareholders will implement a capital increase of € 20 m in the first quarter of 2007. Including the planned retention of the entire balance sheet profit for 2006, equity is therefore set to grow by 14%. The core capital ratio will rise accordingly to initially 8%. As in the past, this ratio will be calculated throughout this year using the standardised approach ("Basel I"). In terms of the sophisticated new ratings-based approaches ("Basel II"), to which the Bank will switch at a later date, the regulatory capital required under the traditional method will be exceeded.

ANNUAL ACCOUNTS

Balance Sheet
Profit and Loss Account
Notes
Supervisory Board, Board of Managing Directors
Audit certificate



Assets in thousand €	2006	2006	2006	2005
Cash reserve			36,279	56,350
of which: with Deutsche Bundesbank	35,948			(56,347)
Claims on banks				
Public-sector loans		4,359,133		3,799,701
other claims		1,143,387	5,502,520	699,752
of which: payable on demand	448,136			(311,659)
collateralised against securities	0			(0)
Claims on customers				
Mortgage loans		1,366,553		1,221,301
Public-sector loans		3,916,141		3,919,807
other claims		30,433	5,313,127	187
of which: collateralised against securities	0			(0)
Bonds and other fixed income securities				
Bonds and notes of public-sector issuers	5,035,039			2,672,909
of which: eligible as collateral with Deutsche Bundesbank	4,666,197			(2,532,016)
of other issuers	8,841,650	13,876,689		5,700,639
of which: eligible as collateral with Deutsche Bundesbank	8,465,977			(5,506,411)
Own debt instruments		31,979	13,908,668	22,084
Nominal amount	31,951			(21,617)
Shares and other variable-yield securities			399,274	375,966
Participating interests			15,336	16,897
of which: in banks	8			(16,897)
Shareholdings in affiliated companies			0	31,282
of which: in banks	0			(0)
Intangible assets			856	823
Tangible assets			11,483	4,767
Other assets			15,120	12,740
Deferred items				
from issuing and lending business		111,830		100,311
others		45,559	157,389	3,931
Total Assets			25,360,052	18,639,447

Liabilities in thousand €	2006	2006	2006	2005
Liabilities to banks				
registered Mortgage Pfandbriefe issued		129,128		117,397
registered Public-sector Pfandbriefe issued		1,269,173		865,820
other liabilities		6,315,691	7,713,992	2,111,611
of which: payable on demand	14,357			(1,895)
registered Mortgage Pfandbriefe given to lenders to secure loans contracted	0			(0)
and registered Public-sector Pfandbriefe	0			(0)
Liabilities to customers				
registered Mortgage Pfandbriefe issued		483,727		362,427
registered Public-sector Pfandbriefe issued		3,043,358		2,077,019
savings deposits		29,656		0
with agreed withdrawal notice of three months	25,626			(0)
with agreed withdrawal notice of more than three months	4,030			(0)
other liabilities		2,028,107	5,584,848	1,218,020
of which: payable on demand	27,839			(3)
registered Mortgage Pfandbriefe given to lenders to secure loans contracted	0			(0)
and registered Public-sector Pfandbriefe	0			(0)
Securitised liabilities				
Bonds issued				
Mortgage Pfandbriefe		233,400		348,578
Public-sector Pfandbriefe		11,037,468		10,919,266
other bonds		273,507	11,544,375	213,803
Other liabilities			9,672	7,976
Deferred items				
from issuing and lending business		12,512		13,519
others		7,756	20,268	655
Provisions				
Tax provisions		4,057		6,083
others		2,684	6,741	495
Subordinated liabilities			86,438	77,610
Profit-sharing rights			64,596	61,347
of which: due in less than two years	3,249			(0)
Capital and reserves				
subscribed capital		206,000		154,000
Capital reserve		74,229		57,129
Revenue reserve				
other revenue reserves		26,693		9,193
distributable profit		22,200	329,122	17,500
Total Liabilities			25,360,052	18,639,447
Contingent liabilities				
Liabilities from guarantees and indemnity agreements			2,709	2,173
Other commitments				
irrevocable loan commitments			60,252	107,513

Profit and Loss Account
from 1 January to 31 December 2006

in thousand €	2006	2006	2006	2005
Interest income				
from lending and money market transactions	1,254,536			849,949
from fixed-income securities and debt register claims	440,604	1,695,140		294,652
Interest paid		-1,689,500	5,640	-1,137,427
Income				
from shares and other variable-yield securities		41,960		32,979
from participating interests		292		801
from affiliated companies		915	43,167	1,065
Commission income		3,639		1,036
Commission paid		-2,687	952	-1,369
Net income from financial transactions			636	0
Other operating income			486	198
General administrative expenses				
Staff expenses				
Wages and salaries	-6,740			-3,535
compulsory social security contributions and expenses for pensions and other staff benefits	-1,102	-7,842		-614
of which: pensions	-162			(-98)
other administrative expenses		-6,846	-14,688	-4,740
Depreciation of and value adjustments to intangible and tangible assets			-513	-382
Other operating expenses			-161	-467
Write-downs of and value adjustments				
to claims and certain securities as well as additions to the provision for possible loan losses			-10,822	-2,856
to participating interests, shareholdings in affiliated companies and securities treated as fixed assets			0	-2,919
Income from additions				
to participating interests, shareholdings in affiliated companies and securities treated as fixed assets			5,123	0
Profit on ordinary activities			29,820	26,371
Extraordinary expenses			-553	0
Profit before taxes			29,267	26,371
Taxes on income		-6,979		-8,853
Other taxes				
not included under "other operating expenses"		-88	-7,067	-18
Net income for the year			22,200	17,500
Allocations to other revenue reserves			0	0
Balance sheet profit			22,200	17,500

Accounting and valuation principles

The Annual Accounts have been prepared in accordance with the applicable provisions of the German Commercial Code, the German Joint Stock Corporation Act and the German Pfandbrief Act as well as with the Bank Accounting Directive.

The merger with Bankhaus Bauer took place with retroactive effect as of 1 January 2006. The comparative figures therefore refer to the previous year's figures of Düsseldorfer Hypothekenbank.

Claims are stated at nominal value in accordance with § 340e para. 2 German Commercial Code (HGB); the difference between the amount paid out and the nominal amount is shown under 'deferred items'. All discernible individual risks in lending are taken into consideration by the formation of specific loan loss provisions. Latent credit risk is covered by general loan loss provisions within the scope of tax requirements; moreover, provisioning reserves exist in accordance with Section 340f para. 1 German Commercial Code.

Bonds of the current assets are stringently valued at the lower of the continuously calculated average or the market value as at the balance sheet date, taking interest rate hedging instruments into account. Inasmuch as the reasons for special write-downs made in previous years no longer exist, additions are made. Bonds that are allocated to fixed assets are valued at cost including a pro rata reversal of the difference to the nominal value. The pro rata reversal of a premium or discount is included in the net interest income.

The shares in specialised funds and stocks in the trading book reported under shares and variable-income securities are allocated to the current assets and stringently valued at the lower of cost or market. Write-ups required in accordance with Section 280 German Commercial Code are also made under this item.

Participating interests are shown at cost.

Based on their operating life expectancy, tangible assets and intangible assets are stated at cost less straight-line regular depreciations. Minor-value assets are depreciated in full in their year of acquisition.

Liabilities are stated at the amounts repayable. The difference between the nominal amount and the issue price is shown under 'deferred items'. Zero-coupon bonds are stated at issue price plus pro rata interest in accordance with the issuing yield.

Provisions have been made for taxes and contingent liabilities based on the estimated amount payable.

Balance sheet items denominated in foreign currency are converted in accordance with Section 340h German Commercial Code with the rate hedging transactions at the reference rate of the ECB as at the balance sheet date.

Derivative financial transactions that serve to hedge against interest rate and exchange rate fluctuations are not subject to individual valuation and, as open contracts, are not stated.

When reporting risk provisioning and the result from financial investments, use is made of the possibility of cross-compensation in accordance with Section 340f para. 3 German Commercial Code and Section 340c para. 2 German Commercial Code respectively.

Breakdown by remaining time to maturity

Million €	payable on demand	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	total
Claims						
on banks	514	744	282	2,100	1,863	5,503
on customers	13	281	310	2,938	1,792	5,334 *
Liabilities						
on banks	14	4,058	2,511	665	466	7,714
on customers						
savings deposits		27	3			30
others	29	748	562	1,310	2,906	5,555

* Residual claim without general value adjustment

Claims on customers with an indefinite maturity total € 5.7 m. There are no other securitised liabilities.

Amounts contained in the item 'bonds and other fixed-income securities' that fall due in the year following the balance sheet date total € 1,283 m.

Amounts contained in the sub-item 'bonds issued' that fall due in the year following the balance sheet date total € 4,229 m.

The savings deposits reported under liabilities to customers refer to the customer business of the former Bankhaus Bauer.

Cash reserve

The item 'cash reserve' contains balances with central banks totalling € 36 m and cash in hand of € 331,000.

Claims on/ liabilities to participating interests

There are neither claims on nor liabilities to any company with which a participatory relationship is maintained.

Securities negotiable on the stock exchange

All bonds and other fixed-income securities totalling € 13,656 m are negotiable on the stock exchange; of this amount, € 13,614 m is listed on the stock exchange.

Of the shares and variable-income securities, € 1.4 m is negotiable on the stock exchange and listed on the stock exchange. The remaining shares and variable-income securities totalling € 398 m and the participations of € 15 m are not negotiable on the stock exchange.

Of the bonds, € 8,132 m is accounted for by bonds designated as cover for Pfandbriefe outstanding. Bonds totalling € 7,100 m are not stringently valued at the lower of cost or market as at the balance sheet date. These

Development of fixed assets

Million €	Bonds and notes	Participating interests	Shareholdings in affiliated companies	Intangible assets	Tangible assets	total
Cost of acquisition/ manufacture						
carried forward on 1 January 2006	5,068	17	31	1	5	5,122
Additions in 2006	3,627	40			7	3,674
Disposals in 2006	-1,489	-42	-31			-1,562
Accumulated depreciation	-105				-1	-106
Book value as at 31 December 2006	7,101	15	0	1	11	7,128
Depreciation charge in 2006	-23					-23

include bonds with a book value of € 5,816 m which, due to capital market forces, are stated at a fair value that is lower by € 95.4 m as at the balance sheet date.

Minor-value assets are contained in the 'additions' of the year under review and are depreciated in full. These depreciations are included in the 'disposals' of the business year. The tangible assets comprise land and buildings which are used for the bank's own activities and a neighbouring plot on which a further building is currently being erected, amounting to € 10.9 m.

Participating interests

There is a participating interest of 49% in Bauer Aktiengesellschaft zur Entwicklung des europäischen Kommunal- und Hypothekarkredits, Glarus/ Switzerland. According to information provided by the company, net worth totalled € 31 m as at the balance sheet date. Further, net income for the 2006 business year of € 2.9 m is reported.

Obligations to make additional contributions exist as a result of the participation in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, in accordance with § 26 German Law on Private Limited Companies (GmbHG) in the amount of € 100,000 plus a contingent liability in respect of the fulfilment of the obligation to make additional contributions of other shareholders belonging to the Federal Association of German Banks (Bundesverband deutscher Banken e.V.), Berlin.

Shareholdings in affiliated companies

Following the sale in December 2006 of 51% of the shares in Bauer Aktiengesellschaft zur Entwicklung des europäischen Kommunal- und Hypothekarkredits, Glarus/ Switzerland, the Bank no longer has any shareholdings in affiliated companies.

Other assets and liabilities

The 'other assets' consist of a tax claim in the amount of € 7.6 m and a guarantee claim, due in September 2007, in the amount of € 6.8 m (previous year € 12.6 m) towards Helvetic Grundbesitz Verwaltung GmbH, Berlin, resulting from the default of a bond of the Republic of Argentina within the scope of the rescheduling conducted in early 2005. The rescheduled bond contains hidden securities reserves of € 1.1 m as at the balance sheet date.

'Other liabilities' largely comprise pro rata and payable interest under 'subordinated liabilities' and 'profit-sharing rights'.

Deferred items from issuing and lending business

The 'deferred items' on the assets side contain an issuing discount in respect of bonds of € 37 m and a premium in respect of claims of € 68 m. The liabilities-side 'deferred items' contain an issuing premium in respect of bonds of € 1 m and a discount in respect of claims of € 11 m.

Profit-sharing rights

The bearer profit-sharing rights were increased by € 3 m following the merger with Bankhaus Bauer. The aggregate holding of € 65 m is composed of € 37 m bearer profit-sharing rights, € 5 m profit-sharing rights transferable only with the Bank's consent and € 23 m registered profit-sharing rights.

Subordinated liabilities

In the event of the insolvency or liquidation of the Bank, subordinated liabilities may not be settled until all non-secondary creditors have received satisfaction. Prepayment is precluded. The borrowings meet the conditions pursuant to Section 10 para. 5a German Banking Act (KWG) concerning recognition as liable capital. Interest and discount expenses on all subordinated liabilities total € 4 m. One subordinated loan of € 20 m exceeds the 10% limit of total subordinated liabilities. Interest of 4.22% is payable in respect of the principal, which falls due on 25 February 2015.

Subscribed capital and reserves

The previous year's profit of € 17.5 m was allocated in full to the other revenue reserves.

A capital increase was implemented in April 2006 in the total amount of € 20 m (nominal € 16 m, price 125%). A second increase was carried out as a result of the merger with Bankhaus Bauer. Subscribed capital was increased by € 36 m and capital reserves by € 13 m.

Subscribed capital amounted to € 206 m as at the balance sheet date, and is divided into 206,000,000 registered shares of € 1 each.

Contingent liabilities and other commitments

The liabilities on guarantees and warranties largely comprise guarantee loans of € 3 m which are secured by first-ranking land charges. The irrevocable loan commitments refer solely to mortgage loans and totalled € 60 m as at the balance sheet date.

Assets transferred as security

As at the balance sheet date, securities totalling € 3,534 m were sold under repurchase agreements (genuine repurchase agreements).

As at the balance sheet date, bank balances of € 391 m and shares in specialised funds totalling € 112 m were pledged to hedge against risks under financial futures. The book value of bonds transferred as security for open market loans totalled € 1,761 m.

Staff expenses, emoluments and personnel

Staff expenses totalled € 7.8 m. This amount includes aggregate emoluments for the Board of Managing Directors, which was enlarged from two to three members, of € 1.02 m.

The emoluments for the members of the Supervisory Board (€ 118,000) and of the Advisory Board (€ 15,000) are included under 'other administrative expenses'.

As an average for the year, besides the Board of Managing Directors, 91 members of staff were employed, including seven part-time employees.

Auditing and advisory services

In respect of the auditor, administrative expenses also include € 107,000 for the audit, € 1,000 for tax advisory services and € 63,000 for other services.

Extraordinary expenses

The extraordinary expenses refer solely to business restructuring measures in Stuttgart.

Taxes on income and earnings

Taxes on income and earnings have been allocated to the result arising from ordinary business activities.

Profit appropriation

The net income for the year in the amount of € 22.2 m is equivalent to the distributable profit.

Public-sector Pfandbriefe: Nominal overcollateralisation

Million €	2006	2005
Claims on banks (public-sector loans)	3,022	3,725
Claims on customers (public-sector loans)	3,610	3,823
Bonds and other fixed-income securities	7,736	5,584
Ordinary cover	14,368	13,132
Substitute cover	1,505	1,066
Total cover	15,873	14,198
Public-sector Pfandbriefe requiring cover	-15,124	-13,671
Overcollateralisation	749	527

Public-sector Pfandbriefe: Net present value (npv) overcollateralisation

Million €	npv		Risk-adjusted npv	
	2006	2005	2006	2005
Cover assets	16,271	14,994	15,692	14,525
Public-sector Pfandbriefe	-15,123	-13,989	-14,727	-13,622
Overcollateralisation	1,148	1,005	965	903

Public-sector Pfandbriefe: Principal maturities by years

Million €	Total cover		Public-sector Pfandbriefe	
	2006	2005	2006	2005
≤ 1 year	1,866	1,617	4,148	3,558
> 1 year ≤ 5 years	6,576	7,258	7,974	7,529
> 5 years ≤ 10 years	4,932	3,984	1,604	1,953
> 10 years	2,499	1,339	1,398	631
	15,873	14,198	15,124	13,671

Public-sector Pfandbriefe: Public-sector loans by country and borrower

Million €	Central government		Regional authorities		Local authorities		others	
	2006	2005	2006	2005	2006	2005	2006	2005
Australia							15	
Belgium		25						
Denmark							50	40
Germany	10	61	4,238	3,915	2	2	6,499	6,787
Estonia							25	25
Finland						8	20	31
France		45			50	53	40	85
Greece	201	316					2	
Ireland							20	15
Iceland	25						45	45
Italy	400	209	384	202	137	50	237	186
Japan					25	25		5
Canada			28	28			66	41
Latvia	33	8						
Lithuania	120	90						
Netherlands							35	15
Norway							15	44
Austria	35	88					1,235	794
Poland	95	120						
Portugal	55	25					130	15
Sweden							15	15
Switzerland			65	90			50	
Slovakia	25							
Slovenia							25	
Spain			520	42	116	76	133	79
Czech Republic	147	67			19	17		
Hungary	139	139					34	9
USA			45				110	134
United Kingdom							50	20
Cyprus	108	111						

There are no payments in arrears in the case of claims serving as cover for public-sector Pfandbriefe.

Mortgage Pfandbriefe: Principal maturities by years

Million €	Total cover 2006	Total cover 2005	Mortgage Pfandbriefe 2006	Mortgage Pfandbriefe 2005
≤ 1 year	152	263	86	116
> 1 year ≤ 5 years	288	261	370	329
> 5 years ≤ 10 years	331	278	182	274
> 10 years	111	37	194	96
	882	839	832	815

Mortgage Pfandbriefe: Mortgage loans by loan size

Million €	2006	2005
> € 0.3 m ≤ € 5.0 m	87	111
> € 5.0 m	640	648
	727	759

Mortgage Pfandbriefe: Property loans by use of property and country

Million €	Germany 2006	Germany 2005	France 2006	France 2005	Netherlands 2006	Netherlands 2005	USA 2006	USA 2005	Switzerland 2006	Switzerland 2005	total 2006	total 2005
residential												
Apartments	51	63			19	20				10	70	93
Multi-family dwellings	31	36									31	36
commercial												
Offices	259	248			68	58	25				352	306
Retail	194	260					7				201	260
others	53	44	20	20							73	64

There are no payments in arrears in the case of claims serving as cover for public-sector Pfandbriefe.

Mortgage Pfandbriefe: Nominal overcollateralisation

Million €	2006	2005
Claims on customers (mortgage loans)	728	759
Substitute cover	154	80
Total cover	882	839
Mortgage Pfandbriefe requiring cover	-832	-815
Overcollateralisation	50	24

Mortgage Pfandbriefe: Net present value (npv) overcollateralisation

Million €	npv		Risk-adjusted npv	
	2006	2005	2006	2005
Cover assets	906	893	937	921
Mortgage Pfandbriefe	-837	-847	-881	-886
Overcollateralisation	69	46	56	35

Compulsory measures, properties taken over and interest in arrears

As at the balance sheet date, no administrative receivership involving property loans included in cover were pending. In the year under review, no foreclosure sales were carried out. Moreover, no properties were taken over to prevent losses on mortgages in the year under review.

A bad debt charge was made in full for interest in arrears arising between 1 October 2005 and 30 September 2006 in the amount of € 2.4 m. It arose in respect of one residential property and two commercially used properties.

Repayments in respect of mortgage loans

In the year under review, a total of € 245 m was repaid. Of this total, € 11 m was accounted for by amortisation and € 212 m by other repayments in respect of commercially-used properties. € 2 m was accounted for by amortisation and € 20 m by other repayments in respect of properties for residential purposes.

Foreign currency positions

Total current assets in foreign currencies amounted to € 650 m as at the balance sheet date. Liabilities in foreign currencies amounted to € 20 m. Foreign currency positions were hedged against exchange rate fluctuations through offsetting transactions.

Financial derivates by remaining time to maturity

Million €	Nominal amount < 1 year	1 – 5 years	> 5 years	total	Market value
Interest rate swaps	8,598	13,632	15,031	37,261	-463
Interest rate options		5		5	
Cross-/ currency swaps	254	77	292	623	15
	8,852	13,714	15,323	37,889	-448

Derivative financial transactions

As at the balance sheet date, the following interest and currency-driven forward transactions were still outstanding: interest rate swaps, interest rate/currency swaps, short swaption positions, note loans with put and call option, Pfandbriefe with call option, rate capping agreements. All transactions serve the purpose of hedging against interest rate and exchange rate fluctuations.

The negative market values of the derivative financial instruments were set off against corresponding positive market values from the underlying transactions.

Further duties of disclosure

Helvetic Grundbesitz Verwaltung GmbH, Berlin, and ASTA Allgemeine Grundstücks- und Treuhandgesellschaft mbH, Berlin, informed us that they each hold more than 25% of the shares in the company.

Dr. Michael Kosche, Member of the Board of Managing Directors, held a seat on the Supervisory Board of Bankhaus Bauer AG, Stuttgart, until 30 June 2006 within the meaning of § 340a para. 4 German Commercial Code (HGB).

As at the balance sheet date, there were no loans to members of the Supervisory Board.

The Bank engages in principal brokering services (Section 1 para. 1 No. 4 German Banking Act (KWG)) and custody business (Section 1 para. 1 No. 5 German Banking Act (KWG)) for third parties.

Statement of operations by segment

Million €	Property financing		Public-sector lending		Other activities		total	
	2006	2005	2006	2005	2006	2005	2006	2005
Results by segment								
Net interest income	9.6	7.9	27.4	26.0	11.8	8.1	48.8	42.0
Net commision income/ loss	0.5	0.8	-1.8	-1.1	2.3		1.0	-0.3
Trading result			0.6				0.6	
Administrative expenses*	-3.1	-3.5	-4.3	-3.9	-7.5	-2.1	-14.9	-9.5
Valuation result	-3.2	-5.2	-1.6	1.9	-0.9	-2.5	-5.7	-5.8
Extraordinary result					-0.5		-0.5	
Taxes	-1.5		-4.3	-5.5	-1.3	-3.4	-7.1	-8.9
	2.3	0.0	16.0	17.4	3.9	0.1	22.2	17.5
Ratios								
Risk assets	1,192	928	2,914	1,727	120	56	4,226	2,711
Allocated capital	30	24	158	107	104	89	293	220
Cost/ income ratio	31%	40%	17%	16%	53%	23%	30%	22%
Return on equity	7.6%	0.0%	10.1%	16.2%	3.7%	0.1%	7.6%	8.3%

* incl. other operating result

Statement of operations by segment

In terms of the method applied, the statement of operations by segment takes its bearings from the profit and loss account and distributes all expenses and income among the individual business fields according to the costs incurred. The result per segment comprises net interest income, net commission income/loss, trading profit/loss, administrative expenses, valuation result, extraordinary income/loss and taxes. Risk provisioning and the result from financial investments are combined in the valuation result (cf. explanations in the Management Report).

Supervisory Board

Dr. Wolfgang Schuppli
Chairman
Lawyer, Wiesbaden

Dieter Wenserski
Deputy Chairman
Banker, Bochum

Dr. h. c. Klaus G. Adam
Auditor, Wiesbaden
from 1 August 2006

Prof. Dr. Jörg-E. Cramer
Banker (ret'd), Bad Homburg
from 5 January 2007

Volkher Kerl †
President (ret'd), Kleinmachnow
from 11 March 2006 until 10 May 2006

Wolfgang H. Müller
Lawyer, Erkrath
until 31 December 2006

Dr. Eberhard Schäfer
Economic Lawyer, Bad Homburg
until 10 March 2006

Dipl.-oec. Berta Schuppli
Wiesbaden

Prof. Dr. Friedrich-Leopold
Freiherr von Stechow
Managing Partner
Jucho, von Stechow & Collegen
Unternehmensberatung GmbH
& Co. KG

Board of Managing Directors

Wolfgang Hampel
Bochum

Dr. Michael Kosche
Cologne

Arnold Sedlmayr
Wolfratshausen
from 1 July 2006

Düsseldorf, 21 February 2007
Düsseldorfer Hypothekenbank
Aktiengesellschaft
The Board of Managing Directors

Wolfgang Hampel | Dr. Michael Kosche | Arnold Sedlmayr

An unqualified auditors' certificate has been issued in regard to the complete unconsolidated annual accounts. The translation of such auditors' certificate reads as follows:

"We have audited the Annual Accounts – comprising Balance Sheet, Profit and Loss Account and Notes – including the accounting records and Management Report of Düsseldorfer Hypothekenbank Aktiengesellschaft, Düsseldorf, for its financial year 1 January to 31 December 2006. The accounting records and the preparation of the Annual Accounts and Management Report in accordance with German commercial law regulations are the responsibility of the Bank's Board of Managing Directors. It is our task to issue an appraisal of the Annual Accounts, including the accounting records and Management Report, based on our audit.

We conducted our audit of the Annual Accounts in accordance with Section 317 German Commercial Code (HGB), paying due regard to the German principles of year-end audits established by the Institut der Wirtschaftsprüfer (IDW) (Institute of Certified Accountants). Based on this, the audit has to be planned and executed in such a way that inaccuracies and irregularities which have a major effect on the presentation of the net asset, financial and earnings position of the Bank as transmitted by the Annual Accounts, paying due regard to generally accepted accounting principles, as well as by the Management Report, are identified with reasonable certainty. Knowledge of the business activities and of the economic and the legal environment of the Bank is also taken into account in the determination of audit procedures, as are the expectations of possible errors. The effectiveness of the accounting-relevant internal control systems and the evidence supporting the disclosures in the accounting records, Annual Accounts and Management Report are appraised primarily on the basis of random tests. Our audit includes an appraisal of the accounting principles applied, of the main estimates and assumptions made by the Board of Managing Directors, and an appraisal of the overall presentation of the Annual Accounts and Management Report. We are of the opinion that our audit constitutes a reasonable basis for our appraisal.

Our audit has not led to any reservations.

In our opinion based on the insight gathered while conducting the audit, the Annual Accounts of Düsseldorfer Hypothekenbank Aktiengesellschaft, Düsseldorf, are in keeping with legal requirements and provide a true and fair view of the net asset, financial and earnings position of the Bank in accordance with proper accounting principles. In all, the Management Report is consistent with the Annual Accounts and provides a true and fair view of the position of the Bank and shows accurately the opportunities and risks of the future development."

Düsseldorf, 21 February 2007
Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Göttgens — ppa. Lotz
Wirtschaftsprüfer — Wirtschaftsprüfer
(German Chartered Accountant)

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Düsseldorf, 11 April 2007

Düsseldorfer Hypothekenbank Aktiengesellschaft

signed	signed
Dr. Michael Kosche	Arnold Sedlmayr