Volksbanken Raiffeisenbanken
cooperative financial network

HALF-YEARLY FINANCIAL REPORT 2018

30 June 2018

DZ HYP

DEVELOPMENT OF NEW BUSINESS

€ mn	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017	Former DG HYP 1 Jan to 30 Jun 2017
Real Estate Finance			
Commercial Real Estate Investors (former DG HYP)	2,568	2,703	
Retail Customers, Housing Sector, Funds, Investors (former WL BANK)	2,140	1,835	
Treasury			
Originated loans to local authorities	374	405	71
Pfandbrief sales and other refinancing sources	4,422	5,349	2,038

PORTFOLIO DEVELOPMENT

€ mn	30 Jun 2018	1 Jan 2018	31 Dec 2017
Total assets	74,595	75,156	36,826
Mortgage loans	43,314	42,510	20,505
Originated loans to local authorities	12,168	12,479	5,530
Public-sector lending*	13,013	12,992	5,604
Bank bonds	560	723	723
Mortgage-backed securities (MBS)	588	745	745
Pfandbriefe and other debt securities	51,185	50,340	17,900

PROFIT AND LOSS ACCOUNT € mn	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017	1 Jan to 30 Jun 2017
Net interest income	266.2	232.1	138.6
Net commission result	-16.0	-9.3	16.7
Administrative expenses	158.1	124.3	71.9
Net other operating income/expenses	2.5	-2.5	-3.0
Risk provisioning	-48.6	-43.6	-11.9
Net financial result	34.3	54.3	1.8
Operating result	80.3	106.7	70.3
Allocation to the fund for general banking risks	27.0	40.2	20.0
Taxes	18.2	36.7	22.6
Partial profit transfer	8.1	7.7	7.7
Profit transferred under a profit and loss transfer agreement	27.0	22.1	20.0

EMPLOYEES

Number	30 Jun 2018	1 Jan 2018	31 Dec 2017
Average	861	852	476

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

CONTENTS

LETTER FROM THE MANAGEMENT BOARD

Ladies and Gentlemen, dear business associates,

The first half of 2018 has been shaped by intense preparations for our merger project. The merger of DG HYP and WL BANK, to form DZ HYP, was entered into the Commercial Registers at Hamburg and Münster on schedule, at the end of July – and thus became legally effective. We are delighted to have successfully concluded this merger, which continues the efficient positioning of the Cooperative Financial Network. DZ HYP is your strong partner, with activities in four business divisions: Commercial Real Estate Finance, Housing Industry, Public-Sector Clients, and Retail/Private Investors.

The way we see it, this merger is the logical consequence of the merger between DZ BANK and WGZ BANK in 2016. Besides harnessing the strengths in the Cooperative Financial Network and a diversification of risk, we also envisage good opportunities for DZ HYP in terms of synergies, by avoiding duplicate investments. DG HYP and WL BANK have developed successfully as separate organisations over recent years – to form an organisation that is even stronger is an exciting challenge. We are convinced that DZ HYP will be successful, given that our business activities are highly complementary.

Our focus is on clients' needs, and on the requirements of the cooperative banks. As a leading provider of real estate finance in Germany – as well as a centre of competence for public-sector clients within the Cooperative Financial Network – we can now offer comprehensive solutions from a single source. Thanks to the broad market presence and focused expertise of its predecessor institutions, DZ HYP will be locally accessible for you, at all existing locations and with the contacts well known to you already. We firmly believe that our regional presence – which is also part of our cooperative DNA – is a key success factor, something that allows us to efficiently exploit the potential of our German home market.

With this joint half-yearly financial report, we would like to give you a first detailed impression of DZ HYP's solidity and strength. The remainder of the year will be defined by the two banks growing together. With the successful execution of the merger project, our staff have already proven that they work together efficiently. We would like to take this opportunity to express our sincere thanks for their strong commitment and contribution.

DZ HYP's strong market position motivates us to turn the Bank into an even stronger institution. We will be working towards this with combined skills, united expertise and joint goals – for our partners, the cooperative banks, and our clients.

We thank you for the confidence you have placed in us, and look forward to continuing our trusting cooperation. Together with you, we want to preserve and expand DZ HYP's strong competitive position.

Yours sincerely,

The Management Board of DZ HYP

Frank M. Mühlbauer
Chairman

Dr Georg Reutter
Chairman

Manfred Salber

Dr Carsten Düerkop

Hamburg/Münster, August 2018

ECONOMIC ENVIRONMENT

The positive economic development in Germany continued throughout the first half of 2018, albeit with slower momentum. In light of the good situation on the labour market, private consumption remains an important pillar for growth. The number of people unemployed in Germany fell to 2.3 million as at 30 June 2018 – with an unemployment rate of 5.0 per cent, it reached the lowest level since 1991. Construction investment benefited once again from strong demand in the real estate sector during the period under review, especially in residential construction. Public spending increased, too – as did private investment. Export growth, which was fuelled further by the buoyant recovery in global trade, led to a continued upturn in German industrial activity and slightly higher commercial investment.

However, sentiment indicators in the euro area have deteriorated since the beginning of the year: it is fair to assume that German businesses were concerned by the unresolved conflict in Syria, the United States' withdrawal from the Iran nuclear agreement, the trade conflict between the US and China, and the levying of protective tariffs on steel and aluminium imports in the US. Moreover, general uncertainty rose in view of the new populist government in Italy. Economic growth throughout European Monetary Union (EMU) slowed down considerably at the beginning of the year, which reflected a loss of momentum in Germany and France in particular. Yet a recession seems to be unlikely, given that labour market developments in most European countries are still intact.

The UK economy continues to suffer from the burdens of Brexit. Manufacturing industry output declined further. Whilst foreign demand had been lively to date, on the back of sterling's weakness, the UK's exports have been faltering – in line with the whole of Europe – and can only partially offset the slowdown in consumption. This, in turn, is likely to further strengthen companies' doubts regarding planned investments in the UK. Financial sector institutions have announced their intention to relocate outside the UK, fuelling corresponding expectations on the Frankfurt office market. That said, other European financial centres have remained in focus as an alternative to London.

At its meeting on 14 June 2018, the Governing Council of the European Central Bank (ECB) resolved to extend its bond-buying programme until the end of the year – albeit lowering the volume of monthly purchases from €30 billion previously to €15 billion. Furthermore, the ECB plans to terminate net new purchases by the end of the year. In order to counter unwanted speculation for a hike in interest rate, the ECB issued guidance for its key interest

rates to remain unchanged up to, and including, the summer of 2019. If, however, inflation was to rise due to higher crude oil prices (for example), or in the event of an economic downturn due to problems in international trading conditions (tariffs), the central bank might be required to intervene at an earlier point in time.

The positive development in Europe was also reflected on the equity markets. The German blue-chip DAX index saw a good deal of movement during the year to date, with elevated volatility at times: during the period under review, the DAX declined by 4.7 per cent. At the Federal Open Market Committee (FOMC) meeting in June 2018, the US Federal Reserve increased its key rate corridor, by 25 basis points, to a current range of 1.75 to 2.00 per cent. Against the expectation of rising inflation rates and falling unemployment rates, the Fed expressed its intention to continue normalising monetary policy.

Development of the real estate markets

The German real estate markets have enjoyed dynamic development for eight years now – due to three reasons: firstly, financing conditions have continuously improved since 2010, given the persistent low level of interest rates and high market liquidity. Secondly, the boom in the services sector has increased overall demand in urban areas, which is associated with corresponding migration movements (as well as a lack of housing) and a healthy appetite for office properties. Thirdly, strong immigration from abroad has triggered additional pressure. To date, the supply side – shaped by a lack of skilled workers and capacity bottlenecks – has only been able to provide a scant response. Accordingly, this has led to price increases across all segments, which in some regions have increasingly spread from the conurbations to the surrounding areas.

Transaction volumes on the commercial real estate investment market (excluding residential real estate) of €25.6 billion for the period ending on 30 June 2018 were virtually unchanged year-on-year (down 1 per cent). Regardless of low yields, the focus remained on the seven largest cities – Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Stuttgart and Munich – which accounted for 63 per cent of transaction volumes, equivalent to €16.1 billion.

Office properties were once again the dominant asset class, by a wide margin, during the first half of 2018, accounting for transaction volumes of just under €11.4 billion – or 45 per cent, followed by retail properties, whose volumes declined further, to €4.6 billion or just under 18 per cent. Further evidence was seen of a slowdown in retail sector rental increases, as the impact of online commerce continued to bite. Investor demand for logistics properties is alive and well in 2018: just under €2.8 billion (or 11 per cent of transaction volumes) was invested in this segment during the first half of the year. Hospitals, nursing homes and retirement homes are increasingly gaining a foothold, having accounted for €1.6 billion (or approximately 6 per cent) of transaction volumes during the period under review.

Foreign capital covered almost half of transaction volumes during the period under review. In recent quarters, Berlin and Munich regularly shared the top spot amongst the main centres. At the half-year point, however, Frankfurt – the banking and financial hotspot – regained the top spot, accounting for well over €3.8 billion, up 62 per cent compared to the first half of 2017. Munich and Berlin followed, with €3.62 billion and €3.18 billion respectively.

Given strong demand, top yields in all segments remained at low levels, in spite of continued rent increases. Initial yields of around 4.3 per cent for logistics properties in good locations are currently available – 4.5 per cent for specialist retail centres. Initial yields for office properties continue to average a low 3.2 per cent in all seven metropolitan areas.

Likewise, the market for commercial residential investments remains in good shape, with transaction volumes rising to €11.3 billion during the period under review – considerably helped by Vonovia's takeover of Austria's Buwog. This means that more than 70 per cent of volume for the entire previous year was already generated during the first six months of the current year. Close to 30 per cent of the traded properties were project developments and forward deals. Foreign investors accounted for 20 per cent. Berlin retained the top spot, with transaction volumes of €1.65 billion (or 15 per cent of the total volume), followed by Frankfurt (€920 million).

Developments on residential property markets have been highly dynamic since 2013. Over the past five years, rental levels on Germany's eight largest residential property markets – Berlin, Hamburg, Munich, Frankfurt, Dusseldorf, Cologne, Stuttgart and Leipzig – have risen by an average of 30 per cent. Purchase prices experienced an even more dynamic development, rising by 54 per cent during the same period, driven by a combination of strong demand pressure and insufficient supply.

Year-on-year increases in rental and price levels slowed for the first time during the first half of 2018, yet remained on high levels. Rental levels in the cities observed rose by 4.9 per cent on average during the period under review, compared to 7.1 per cent in the previous year. This relative weakness reflected the strong increases seen in previous years: as a result of strong demand and insufficient supply (as already mentioned), rents had been rising continuously, reaching a high level in the process. Overall, the growth rate was only slightly below the 5.3 per cent average of the last five years. Berlin recorded the highest growth rate (7.9 per cent) during the period under review; the rate in Cologne (0.4 per cent) was the weakest.

At 8.4 per cent, the rate of increase for purchase prices of apartments also fell

short of the five-year average of 9.7 per cent. Nonetheless, individual cities posted clearly above-average increases in purchase prices, including Leipzig (plus 16 per cent), Frankfurt (15.5 per cent) and Berlin (12.5 per cent). At the same time, prices per square metre in these high-growth markets were spread across a wide range, from €2,030 in Leipzig to €5,260 in Frankfurt. Prices offered in Berlin averaged €4,200 per square metre during the period under review.

Overall, completions of residential property continued to fall short of requirements during the first half of 2018. As long as this situation persists, no decreases in rental levels or purchase prices are on the horizon.

CREDIT BUSINESS

Joint strength in real estate finance

DZ HYP worked together with its partners and clients, intensively and successfully, during the six-month period under review. Against this background, the Bank posted a positive development in new business – both in the Commercial Real Estate Finance business of former DG HYP and in the Real Estate Finance business of former WL BANK (for retail customers, the institutional housing sector, as well as funds and real estate investors).

DZ HYP is a leading provider of Commercial Real Estate Finance in Germany, and a strong partner to German cooperative banks. In the business segment of former DG HYP, the Bank contracted new business volume of €2,568 million during the first half of 2018 (H1 2017: €2,703 million) – in a challenging competitive environment. In line with the Bank's strategic direction, at €2,465 million (H1 2017: €2,573 million), Commercial Real Estate Finance business originated in its core German market accounted for the largest part. DZ HYP originated new business volume of €103 million in selected international markets during the period under review (H1 2017: €130 million). DZ HYP bases its financing decisions on the quality of the client relationship, as well as on its assessment of the property from a risk and return perspective. The Bank's focus is on the core segments of office, residential and retail properties. DZ HYP is also involved in the specialist segments of hotels, logistics and real estate for social purposes, within the scope of its credit risk strategy. Target clients are private and institutional investors, housing companies, as well as commercial and residential real estate developers.

The Real Estate Finance business of former WL BANK – with retail customers, housing enterprises, as well as funds and real estate investors – developed favourably: at €2,140 million (H1 2017: €1,835 million), new business rose markedly, in spite of strong competition. In the institutional housing sector, DZ HYP works with companies providing affordable housing for a substantial share of the population, including cooperative, municipal, church-owned and other housing enterprises across Germany. Leveraging many years of successful cooperation, DZ HYP is renowned as a competent and reliable partner for their projects – be it in new construction, modernisation, or refurbishment.

Cooperation with German cooperative banks successfully developed further

New retail business is originated in close cooperation with cooperative banks. At €1,277 million, around 60 per cent of new Real Estate Finance business of the former WL BANK during the first half of 2018 was attributable to business intermediated by cooperative banks – markedly higher compared to the same period of the previous year (H1 2017: €994 million). Joint customers in this segment are private developers and investors acquiring properties for their own use, or for investment purposes.
DZ HYP provides them with initial and follow-up financing for new construction, purchase, or refurbishment – safely and quickly, either as intermediated business or in the form of syndicated lending.

New business conducted jointly with cooperative banks in the former DG HYP's Commercial Real Estate Finance business stood at €1,554 million as at 30 June 2018, in line with the favourable levels seen in the same period of the previous year (H1 2017: €1,543 million). DZ HYP supports joint business in this area through a high-performance range of products and services, with which cooperative banks can meet the needs of their medium-sized commercial real estate customers, and participate in commercial real estate financings with DG HYP's clients.

Local authority lending at a good level

The merged Bank is the centre of competence for business with public-sector clients in the Cooperative Financial Network. In this function, DZ HYP supports cooperative banks in developing business with domestic local authorities as well as their legally dependent operations, which are serviced across Germany. DZ HYP originated new business volume of €374 million in loans to local authorities during the period under review (H1 2017: €405 million), of which €270 million (H1 2017: €267 million) was intermediated by cooperative banks and €104 million (H1 2017: €138.2 million) was originated through direct business. More than 93 per cent of all transactions in this business area were intermediated by cooperative banks. On top of new business in traditional loans to local authorities, the Bank extended an additional €85 million (H1 2017: €46 million) in short-term public-sector loans.

Reduction of run-down portfolios

There have been no new investments in Mortgage Backed Securities (MBS) by the former DG HYP since mid-2007; the Bank also suspended its public finance and interbank lending activities. The related portfolio of sovereign and bank loans has been reduced as planned, from €38.5 billion at the end of 2007 to €6.3 billion (31 December 2017: €6.2 billion). The MBS portfolio was reduced as planned, from €0.7 billion as at 31 December 2017 to €0.6 billion. The former WL BANK has also pursued a comparable run-down strategy since 2009, concerning its portfolio of international securities and involving a shift from bonds of EU peripheral countries to EU core countries. The related public finance portfolio has been reduced from €24.9 billion at the end of 2009 to €7.2 billion as at 30 June 2018 (31 December 2017: €7.4 billion). DZ HYP will continue to adhere to these strategies and the resulting portfolio reduction.

Refinancing

The first half of 2018 was characterised by lively issuance on the Pfandbrief market, driven by issuers' fears of higher spreads, on the back of statements made by the ECB that it would gradually run down its Asset Purchase Programme (APP). Starting in March, the Eurosystem changed its ordering pattern on the primary market; as expected, the termination of the purchase programme at the end of the year was announced on 14 June 2018. In this context, the monthly volume of purchases is set to be halved as of October 2018, from currently €30 billion to €15 billion.

In the wake of the approaching end to ultra-loose monetary policy, a total of 108 benchmark issues were placed on the euro covered bond markets during the period under review, with an aggregate volume of €86.7 billion. With €16.2 billion, Germany was ranked second in terms of issue volume, after France (€16.8 billion)[1]. At 50 per cent, German investors accounted for the lion's share of demand; banks and central banks/SSAs were the largest investors, with a share of around 30 per cent each.

Despite a slight spread increase, the market environment was positive overall during the first half of 2018. Former DG HYP and former WL BANK were thus able to successfully place new benchmark bonds on the market. In March, former WL BANK issued a ten-year, €500 million Mortgage Pfandbrief with a coupon of 0.88 per cent. Former DG HYP followed suit with a 5-year benchmark bond at the end of April; in mid-June, the Bank successfully issued a further €500 million Mortgage Pfandbrief maturing on 30 June 2027, with a coupon of 0.75 per cent. Both banks issued a total of €770 million[2] in Mortgage Pfandbriefe via private placements during the first half of 2018 (H1 2017: €1,088 million), plus €130 million in Public Sector Pfandbriefe (H1 2017: €556 million).

Together, both banks raised unsecured funding of €2,022 million, the majority of which (€1,705 million) was raised within the Cooperative Financial Network.

[1] Nord/LB Fixed Income & Macro Research, Covered Bond & SSA View dated 4 July 2018.

[2] Excluding €500 million in short-term issues for the purpose of participating in Deutsche Bundesbank's long-term refinancing transactions.

FINANCIAL SITUATION AND RESULTS OF OPERATIONS

Taking effect on 1 January 2018 (merger record date), WL BANK AG Westfälische Landschaft Bodenkreditbank with its registered office in Münster ("WL BANK") was merged with the former Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft ("DG HYP") whose registered office was in Hamburg. In connection with the Commercial Register entries related to the merger, which took place on 27 July 2018, DG HYP was renamed "DZ HYP AG" ("DZ HYP" in short), with dual registered office in Hamburg and Münster, through an amendment to the Articles of Incorporation. Since the change of company name took effect prior to the preparation and publication of the six-month interim financial statements, the present half-yearly financial report has already been published under the new name of DZ HYP.

Net Assets

At €74.6 billion, DZ HYP's total assets remain at the level of the previous year (1 January 2018: €75.2 billion; the former DG HYP as at 31 December 2017: €36.8 billion). A welcome increase to €43.3 billion in Real Estate Finance (1 January 2018: €42.5 billion; the former DG HYP as at 31 December 2017: €20.5 billion) was more than offset by declines in other balance sheet items. Originated local authority lending exposures declined slightly, to €12.2 billion in the first half of 2018 (1 January 2018: €12.5 billion; the former DG HYP as at 31 December 2017: €5.5 billion). At the same time, public finance exposure remained stable in the first half of 2018, at €13.0 billion (1 January 2018: €13.0 billion; the former DG HYP as at 31 December 2017: €5.6 billion). The portfolio of bank bonds remained stable, at €0.6 billion, as planned (1 January 2018: €0.7 billion; the former DG HYP as at 31 December 2017: €0.7 billion).

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

Nominal amounts € mn	Sovereigns*		Banks		Total	
	30 Jun 2018	1 Jan 2018	30 Jun 2018	1 Jan 2018	30 Jun 2018	1 Jan 2018
Spain	**1,484**	1,592	**260**	260	**1,744**	1,852
Italy	**1,691**	1,702	**0**	0	**1,691**	1,702
Portugal	**750**	750	**0**	0	**750**	750
Total	**3,925**	4,044	**260**	260	**4,185**	4,304

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

2018 started on a positive note in terms of capital market performance. In addition to the ECB's expansionary monetary policy, the majority of European leaders' desire to join forces in tackling the major challenges – terrorist attacks, weak economic growth, high youth unemployment and current migration flows – had a stabilising effect. However, uncertainty returned to the markets following the outcome of the Italian elections and the discussions held there in connection with forming a government, cutting the national debts, and a possible reversal of the austerity measures implemented. As a result of these developments, credit spreads in the countries particularly affected by the sovereign debt crisis changed very little overall in the first half of 2018. Still, a marked credit spread widening for Italian bonds was noteworthy, partially offset by the positive development of Spanish securities.

Against this background, the hidden burdens for DZ HYP's securities (excluding mortgage-backed securities – MBS) that are treated as fixed assets, decreased to a total of €41.8 million as at 30 June 2018 (1 January 2018: €51.4 million; the former DG HYP as at 31 December 2017: €27.9 million). This contrasts with undisclosed reserves of €1,208.6 million (1 January 2018: €1,362.4 million; former DG HYP as at 31 December 2017: €716.2 million). Whilst DZ HYP neutralised any positive changes in the value of securities held resulting from changes in swap curves, through offsetting primary or derivative interest rate transactions as part of interest rate risk management (overall bank management), DZ HYP fully participates in any negative change in the value of the securities, due to credit risk. Looking at the negative change in the value of securities due to credit risk alone, the securities portfolio (excluding MBS) recorded total hidden burdens of €804.3 million (1 January 2018: €750.2 million; former DG HYP as at 31 December 2017: €638.7 million). Following a comprehensive assessment of the credit quality of these securities, DZ HYP has concluded that none of the securities are permanently impaired. This also applies to the portfolio of Italian government bonds, which do, however, have a significant impact on the reported hidden burdens. By way of example, DZ HYP's hidden burdens would increase by €176 million if Italy's credit spreads were to widen by 100 basis points.

There have been no new investments in mortgage-backed securities (MBS) since mid-2007. At €0.6 billion, exposure to this business area, which is being phased out, continued to decline compared with the previous year-end (1 January 2018: €0.7 billion; former DG HYP as at 31 December 2017: €0.7 billion). MBS holdings are intensively monitored by means of a detailed risk management system, regular analyses of individual exposures, and comprehensive stress testing. The development of material risk factors has confirmed the stabilisation of this non-strategic portfolio, which has been ongoing for several years now. Imputed hidden burdens on this exposure in the amount of €25.2 million (1 January 2018: €37.6 million; the former DG HYP as at 31 December 2017: €37.6 million), offset by undisclosed reserves of €0.3 million (1 January 2018: €0.8 million; former DG HYP as at 31 December 2017: €0.8 million), predominantly reflect market illiquidity and stricter regulatory capital requirements. In this respect, DZ HYP anticipates a write-back over the remaining term of the MBS portfolio.

DZ HYP's financial position is sound.

Equity

DZ HYP reported equity of €1,762.3 million as at 30 June 2018 (1 January 2018: €1,762.3 million; former DG HYP as at 31 December 2017: €1,407.2 million). The €355.1 million increase in equity compared to 31 December 2017 reflects the capital increase carried out in connection with the merger of WL BANK with DG HYP and entered into the Commercial Registers on 27 July 2018. The capital increase was implemented by exchanging WL BANK shares for DG HYP shares.

DZ HYP has used the so-called waiver option provided under section 2a of the German Banking Act (Kreditwesengesetz – KWG; old version) with effect from the reporting date of 31 December 2012. According to section 2a (1), (2) and (5) of the KWG (as amended) in conjunction with section 6 (1) and (5) as well as section 7 of the EU Capital Requirements Regulation (CRR), the provisions of parts 2–5, as well as parts 7 and 8 of the CRR, do not need to be applied by DZ HYP on an individual basis, but are covered at DZ BANK Group level instead. Against the backdrop of the existing control and profit transfer agreement, DZ BANK allocates equity to DZ HYP as required within the framework of Group management. The capital base is also regularly strengthened by allocations to the fund providing for general banking risks pursuant to section 340g of the HGB.

Financial Performance

DZ HYP's financial performance in the first half of 2018 reflects the successful operating performance in the Real Estate Finance business, but is affected as scheduled by the costs of ongoing merger work. As there are again no identifiable risk costs, significant amounts may be allocated to general risk provisions from the distributable half-year results for 2018 whilst retaining the forecast pro-rata profit transfer.

Based on this assumption, DZ HYP's net interest income of €266.2 million for the first six months of 2018 is an encouraging €34.1 million higher than the figure achieved in the first half of last year (€232.1 million). This development was mainly driven by a relevant €2.7 billion increase in the Real Estate Finance portfolio, to €42.5 billion as at 31 December 2017 (31 December 2016: €39.8 billion). In addition, the Bank realised an €8.4 million premium payment from an open-market transaction with Deutsche Bundesbank, for the first time.

DZ HYP uses economic performance indicators to measure the Bank's profitability[3] as part of its economic management, and operative as well as strategic corporate planning.

The net commission result of €-16.0 million was down €6.7 million on the comparable figure for the previous year of €-9.3 million. At the same time, €5.2 million (H1 2017: €9.3 million) in commission income was generated from the lending business, which depends both on the respective product mix and disbursement timing. Moreover, €22.6 million (H1 2017: €22.8 million) was paid for brokerage services from cooperative banks within the Cooperative Financial Network.

Administrative expenses of €158.1 million in the first half of 2018, being the total of general administrative expenses and write-downs of intangible assets including depreciation of tangible fixed assets, were significantly higher than in the same period of the previous year (H1 2017: €124.3 million). This increase was mainly

NET INTEREST INCOME IN DETAIL

€ mn	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Interest income	**1,013.3**	1,046.3
Interest expense	**747.2**	814.3
Current income from participations	**0.1**	0.1
Net interest income	**266.2**	232.1

[3] Alternative performance ratios within the meaning of the APM Guidelines issued by the European Securities and Markets Authority (ESMA).

due to the costs for ongoing merger work of €33.3 million (H1 2017: €5.9 million). The bank levy due for 2018 amounted to €25.3 million – €2.7 million higher than the previous year's figure of €22.6 million. As in the previous year, the 85 per cent / 15 per cent rule was applied for the 2018 payment of contributions, so that a further €4.5 million of the total contribution of €29.8 million was deposited with Deutsche Bundesbank as cash collateral, in addition to the aforementioned €25.3 million.

Net other operating income/expenses improved by €5.0 million compared with the first half of 2017, to €2.5 million, mainly due to a reduction in provisions for legal risks.

Losses resulting from the redemption of Pfandbriefe and promissory note loans are included in risk provisioning[4] of €-48.6 million (H1 2017: €-43.6 million) and from the valuation result for the securities in the liquidity reserve. As in the previous year, however, loss allowance was positive. Once again, there were no material credit defaults in the first half of 2018. In order to guard against potential future loan defaults, a substantial addition to general risk provisions pursuant to section 340f of the German Commercial Code (HGB) was therefore made in accordance with prudent commercial judgement.

The net financial result[5] mainly includes net income of €33.6 million (H1 2017: €52.5 million) from the sale of securities held as fixed assets, which is related to the redemption of Registered Pfandbriefe and promissory note loans, within the scope of managing the cover assets pools.

DZ HYP's forecast long-term profitability continues to be affected by uncertainty as a result of the ongoing government debt crisis, given the difficult political and macro-economic situation. For this reason, amongst other factors and exercising prudent commercial judgement, €27.0 million (H1 2017: €40.2 million) was allocated to the fund for general banking risks pursuant to section 340g of the HGB, to take account of particular risks facing the business area.

A tax compensation agreement is in place between DZ BANK and DZ HYP. In the first half of 2018, DZ HYP incurred income tax expenses of €31.2 million (H1 2017: €36.8 million). Due to a non-recurring effect from the early termination of the consolidated tax group between former WL BANK and DZ BANK, tax income from other accounting periods of €16.4 million was also recorded for 2017 (H1 2017: €0.4 million).

4) Equates to the profit/loss line item "Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions".

5) Equates to the profit/loss line item "Income from write-ups on participations, interests in affiliated companies, and investment securities".

Other tax expenses amounted to €3.4 million (H1 2017: €0.3 million). The increase is due to the merger-related property transfer tax that is still outstanding for the properties of the former WL BANK.

After accounting for the notional servicing on silent partnership contributions, DZ HYP reported a higher profit after tax of €27.0 million compared with the previous year (H1 2017: €22.1 million), which would have to be transferred to DZ BANK under the profit and loss transfer agreement. However, the reported profit is not in fact transferred, since net income (determined in accordance with section 301 of the German Public Limited Companies Act (Aktiengesetz – "AktG") is decisive in this respect.

Integration into DZ BANK Group

There is a control and profit transfer agreement between DZ HYP and DZ BANK in place, which will terminate at the end of the 2018 financial year due to the merger of WL BANK with DG HYP pursuant to section 307 of the AktG. There are plans to enter into a new control and profit and loss transfer agreement for the period thereafter, and to enter this into the Commercial Register, subject to the requisite resolutions to be passed by the relevant executive bodies in accordance with stock corporation law.

REPORT ON OPPORTUNITIES AND RISKS

Aside from the business areas of real estate finance and local authority lending, DZ HYP's opportunities and risks must essentially be viewed in relation to the merger. The merger of WL BANK and DG HYP to form DZ HYP is a logical continuation of the consolidation already implemented at shareholder level within the Cooperative Financial Network, in order to meet future challenges.

This merger, into a leading real estate bank and Germany's largest Pfandbrief issuer, offers significant opportunities. In addition to risk diversification and the bundling of forces within the Cooperative Financial Network, DZ HYP expects to achieve synergies as a result of avoiding duplicate investments. Furthermore, savings are expected to be achieved by bundling and standardising structures and processes. These will be offset by merger costs that will be incurred in the short term.

DZ HYP defines opportunities and risks as unexpected deviations from the financial performance expected for the next financial year. As a subsidiary of DZ BANK, DZ HYP is a member of the Cooperative Financial Network (Genossenschaftliche FinanzGruppe) – a network characterised by a high degree of solidity, strong credit quality, and a sustainable business model. The broadly diversified market positioning of the Cooperative Financial Network, in combination with Pfandbrief issuance, forms a strong basis for DZ HYP to finance business from a risk and earnings perspective. DZ HYP will continue to use this ability to act in the future, jointly with the German cooperative banks, as a reliable financing partner to its customers. Thanks to a robust domestic economy, the Bank's good market position benefits from a favourable fundamental environment for real estate.

The continued positive environment for real estate finance provides the opportunity to generate above-average volumes of new business during 2018 as well. Based on these assumptions, DZ HYP will once again engage in a sufficient level of new real estate finance business in 2018, in excess of €8 billion, thus ensuring that the Bank's pre-tax results are stabilised at a high level, through a balanced risk/return profile.

With a low double-digit million euro amount, this outlook also incorporates write-downs in Real Estate Finance that are not yet identifiable. Therefore, opportunities for – and risks to – profitability in the current year concern the forecast risk provisioning in particular, whilst the material income components largely show a linear development. Results above €100 million are forecast for the next few years. In this context, any possible defaults in the securities portfolios are considered to be of minor importance.

Furthermore, a review of the Bank's UK portfolio – carried out against the background of a potential Brexit – has not indicated any elevated risks: internal stress tests have not identified any impairments on existing MBS holdings, over and above the levels forecast. Likewise, direct real estate financing in the UK does not require any increased risk provisioning.

Uncertainty on global financial markets continued to develop as a result of forming a new government in Italy.

The overall lending volume in relation to Italy is shown below:

Lending volume (€ mn)	30 Jun 2018	1 Jan 2018
MBS	**39.9**	46.9
Country and regions	**1,702.8**	1,713.0
Total	**1,742.7**	1,759.9

Defaults in exposure to bank bonds and public finance exposure would have a material impact on DZ HYP. However, the Bank assumes that the political situation will stabilise in the future, and that neither Brexit nor uncertainty in Italy will lead to any systemic damage in Europe. Overall, the euro area appears to have become more stress-resistant, as a result of mechanisms established in the recent past to deal with potential crises of this kind. The policy of reform has enhanced the competitiveness of the euro area countries: stabilisation action is working. Hence, DZ HYP does not expect any further write-downs in its bank and public finance portfolio. There are no indications for any threats to the Bank's continued existence. DZ HYP's expected performance is in proportion to the risks assumed.

CONDENSED BALANCE SHEET

ASSETS

€ mn	30 Jun 2018	1 Jan 2018	Former DG HYP 31 Dec 2017
Cash funds	**721**	651	650
Loans and advances to banks	**3,240**	4,215	2,291
a) Mortgage loans	18	21	16
b) Loans to local authorities	236	387	110
c) Other loans and advances	2,986	3,807	2,165
Loans and advances to customers	**58,705**	58,256	27,234
a) Mortgage loans	40,857	39,953	17,957
b) Loans to local authorities	15,268	15,690	6,682
c) Other loans and advances	2,580	2,613	2,595
Debt securities and other fixed-income securities	**11,495**	11,586	6,351
a) Bonds and debt securities	10,826	10,862	5,810
aa) Public-sector issuers	7,214	7,270	3,968
ab) Other issuers	3,612	3,592	1,842
b) Own bonds issued	669	724	541
Participations	**1**	1	1
Investments in affiliated companies	**2**	2	2
Trust assets	**62**	62	61
Intangible fixed assets	**2**	2	1
Tangible fixed assets	**172**	166	140
Other assets	**26**	37	12
Prepaid expenses	**168**	178	83
Total assets	**74,594**	75,156	36,826

LIABILITIES AND EQUITY

€ mn	30 Jun 2018	1 Jan 2018	Former DG HYP 31 Dec 2017
Liabilities to banks	**24,564**	25,641	17,675
a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	2,298	2,283	928
b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	1,372	1,379	791
c) Other liabilities	20,894	21,979	15,956
Liabilities to customers	**20,987**	21,226	7,432
a) Outstanding Registered Mortgage Pfandbriefe (Hypotheken-Namenspfandbriefe)	6,829	6,707	1,388
b) Outstanding Registered Public Pfandbriefe (öffentliche Namenspfandbriefe)	11,460	12,203	5,301
c) Other liabilities	2,698	2,316	743
Securitised liabilities	**26,169**	25,237	9,492
a) Mortgage Pfandbriefe (Hypothekenpfandbriefe)	19,808	18,533	7,707
b) Public Pfandbriefe (öffentliche Pfandbriefe)	3,654	3,630	1,208
c) Other debt securities	2,707	3,074	577
Trust liabilities	**62**	62	62
Other liabilities	**46**	208	144
Deferred income	**193**	202	110
Provisions	**279**	221	164
Subordinated liabilities	**83**	175	43
Fund for general banking risks	**449**	422	297
Equity	**1,762***	1,762	1,407
Total equity and liabilities	**74,594**	75,156	36,826
Contingent liabilities	**456**	452	438
Other commitments	**5,735**	5,841	3,469

*) The capital increase was registered with the Commercial Register on 27 July 2018.

CONDENSED PROFIT AND LOSS ACCOUNT

€ mn	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017	Former DG HYP 1 Jan to 30 Jun 2017
Interest income	1,013.4	1,046.3	548.0
Interest expenses	747.2	814.2	409.4
Net interest income	**266.2**	232.1	138.6
Commission income	13.6	19.6	19.0
Commission expenses	29.6	28.9	2.3
Net commission result	**-16.0**	-9.3	16.7
Gross profit	**250.2**	222.8	155.3
Administrative expenses	**158.1**	124.3	71.9
General administrative expenses			
Personnel expenses	47.1	43.5	27.1
Other administrative expenses	108.7	78.6	43.2
Amortisation/depreciation and write-downs of intangible and tangible fixed assets	2.3	2.2	1.6
Net other operating income/expenses	**2.5**	-2.5	-3.0
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions	**48.6**	43.6	11.9
Income from write-ups on participations, interests in affiliated companies, and investment securities	**34.3**	54.3	1.8
Result from ordinary activities	**80.3**	106.7	70.3
Allocation to the fund for general banking risks	27.0	40.2	20.0
Income taxes	14.8	36.4	22.5
Other taxes	3.4	0.3	0.1
Profits transferred under partial profit transfer agreements	8.1	7.7	7.7
Profits transferred under profit transfer agreements	**27.0**	22.1	20.0

STATEMENT OF CHANGES IN EQUITY

€ mn	31 Dec 2017	1 Jan 2018	1 Jan 2018 after adjustment	Other changes	30 Jun 2018
Subscribed capital	(725)	-	(725)	-	**(725)**
Share capital	90	-	90	-	90
Silent partnership contributions	635	-	635	-	635
Contributions made in connection with execution of resolved capital increase (entered into commercial register on 27 July 2018)	-	355	355	-	**355**
Capital reserves	589	-	589	-	**589**
Retained earnings	(93)	-	(93)	-	**(93)**
Legal reserves	1	-	1	-	1
Other retained earnings	92	-	92	-	92
Net retained profit	-	-	-	-	-
Equity	1,407	355	1,762	-	**1,762**

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

General information on the preparation of the half-yearly financial report

DZ HYP's half-yearly financial report as at 30 June 2018 has been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – "HGB"). Furthermore, the financial statements are prepared in accordance with the Regulation on the Accounting of Credit Institutions and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV") and the German Banking Act (Kreditwesengesetz – "KWG"); they fulfil the requirements of the German Stock Corporation Act (Aktiengesetz – "AktG") and the German Pfandbrief Act (Pfandbriefgesetz – "PfandBG"). The scope of reporting is in line with requirements laid out in section 115 (2) to (4) of the WpHG. Regarding the scope of the condensed notes to the financial statements, DZ HYP voluntarily applied GAS 16 – Half-yearly Financial Reporting, which implies

- that changes made to the accounting policies compared to the previous annual financial statements have to be disclosed and clarified, and
- that, regarding the items disclosed in the condensed balance sheet and the condensed profit and loss account, all material changes compared to the disclosed comparative figures as well as the respective development during the reporting period have to be clarified. DZ HYP used comparative figures – as adjusted following the merger with WL BANK – to provide such clarification.

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

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

Disclosures on the recent merger

Taking effect on 1 January 2018 (merger record date), WL BANK AG Westfälische Landschaft Bodenkreditbank with its registered office in Münster (hereinafter referred to as "WL BANK") was merged with the former DG HYP whose registered office is in Hamburg. On 27 July 2018, the merger and the renaming (from DG HYP to DZ HYP AG) – made as part of the amendment of the Articles of Incorporation – were entered into the commercial register. The aggregated transfer of all assets and liabilities of WL BANK, including any and all rights and obligations attached thereto, to DG HYP took effect on 1 January 2018 in line with the provisions of the German Commercial Code (HGB) and applying the valuation procedure option (carrying amounts taken over from acquired entity) provided under section 24 of the German Transformation Act (Umwandlungsgesetz – "UmwG"). After 1 January 2018, all business transactions of WL BANK, or other events having an effect on the assets and liabilities of WL BANK, were designated to DG HYP for accounting purposes, and are therefore entirely included in these interim condensed financial statements (so-called "on-account period", commencing on the merger date and ending on the day the merger is entered into the commercial register).

The opening balance sheet as at 1 January 2018 was derived, in line with section 24 of the UmwG, from the values itemised in the closing balance sheets of the two former legal entities (Buchwertverknüpfung) based on the audited annual financial statements dated 31 December 2017 of the former DG HYP and the former WL BANK, which have both been given an unqualified audit opinion. In line with section 17 (2) of the UmwG, former WL BANK's closing balance sheet dated 31 December 2017 was used as the basis to transfer former WL BANK's assets and liabilities to the accounting system of DZ HYP.

Merger-related changes and comparability

Against the background of the merger described above, taking retrospective effect as from 1 January 2018, and in order to improve comparability within the meaning of section 265 (2) of the HGB, the Bank provides, in its half-year financial statements dated 30 June 2018, and in addition to the balance sheet and income statement items disclosed for the first six months of 2018, consolidated[6] balance sheet figures dated 1 January 2018 as well as summarised[7] income statement figures dated 30 June 2017 of former DG HYP and former WL BANK (hereinafter referred to as "reference values"). The balance sheet reference values are identical to the values disclosed in the opening balance sheet dated 1 January 2018.

The actual figures of the former DG HYP (as disclosed in DG HYP's half-year financial report dated 30 June 2017 and annual financial statement dated 31 December 2017) are disclosed as a third column, headed "Former DG HYP – 31 December 2017" for portfolio-based figures, or "Former DG HYP – 1 January to 30 June 2017" for period-based figures.

[6] Taking into account the capital consolidation effects only. Liability consolidation is not provided, due to lack of materiality.

[7] Consolidation of income and expenses, as well as the elimination of interim results, is not provided due to lack of materiality.

Material changes in accounting policies

The interim condensed financial statements of DZ HYP as at 30 June 2018 are generally based on the same accounting policies as were applied in the financial statements of the former DG HYP as at 31 December 2017.

However, given that the assets and liabilities transferred – as part of the merger in line with the valuation procedure option from WL BANK's closing balance sheet as at 31 December 2017 – were partly disclosed according to different accounting policies, various adjustments to these items were necessary to align them with the accounting policies applied at the former DG HYP in order to prepare these interim condensed financial statements as at 30 June 2018 (necessary and permissible deviation from the generally applicable principle of accounting continuity at WL BANK). In particular the following merger-related adjustments were made during the preparation of these interim condensed financial statements:

- Application of uniform valuation parameters for pension obligations: DZ HYP used Dr Klaus Heubeck's 2005 G actuarial tables as the uniform calculation basis applicable as at 30 June 2018 (which were previously used by both DG HYP and WL BANK up until 31 December 2017); future salary increases of 2.5 per cent p.a. (in line with DG HYP's former approach applied until 31 December 2017, whereas WL BANK was using an increase of 3.0 per cent p.a. up until 31 December 2017); pension increases of 1.75 per cent p.a. (also applied by both former entities up until 31 December 2017); the discount rate of 3.46 per cent applied by DZ HYP is based on the average market interest rate for the last ten years and a notional remaining term of 15 years as established by Deutsche Bundesbank (as at 31 December 2017, a discount rate of 3.68 per cent was applied by both former entities).

- Adjustment of portfolio items to reflect the value changes due to spot rate fluctuations for cross-currency swaps and foreign exchange forwards, which – together with the respective FX underlying transactions – fulfil the requirements of section 340h of the HGB (special coverage) to the disclosure items used at the former DG HYP. Foreign exchange forwards are disclosed in the FX reconciliation item disclosed within other assets, or other liabilities (at the former WL BANK, currency translation differences were disclosed as part of the respective underlying transaction); cross-currency swaps are disclosed within loans and advances to banks, or liabilities to banks (at the former WL BANK, these items were disclosed within other loans and advances, or other liabilities).

- Uniform use of hedging relationships: at the former WL BANK, various hedging relationships were recognised in line with HGB requirements, while the former DG HYP did not recognise any hedging relationships. According to the new uniform DZ HYP policy for the recognition of hedging relationships, applicable as from 1 January 2018, hedging relationships within the meaning of the HGB shall (exclusively) be recognised for two specific accounting cases: interest rate hedging for securities held as liquidity reserve, and hedging of structured products (which have to be accounted for separately) using stand-alone opposing derivatives. Given that these two specific accounting cases did not occur in the existing or new business of both entities, no hedging relationships have been recognised since 1 January 2018. Given that it does not fulfil the requirements of DZ HYP's new policy, the legacy portfolio of WL BANK's hedging relationships was dissolved, with the resulting effects recognised directly in equity, as part of the other merger-related adjustments made to the Group's accounting policies. The previously recognised hedging derivatives and underlying transactions were considered in the fair value measurement (verlustfreie Bewertung) of the banking book.

Given the merger, the following changes in the fair value measurement of the banking book applied as from 30 June 2018: until 31 December 2017, DG HYP maintained a (single) interest rate book (given that DG HYP only applied a single management approach for the interest rate risks associated with the banking book). However, effective 30 June 2018, DZ HYP was obliged to perform provision testing within the meaning of IDW RS BFA 3 for two interest rate books (given that the interest rate risks of WL BANK and DG HYP were still managed separately as at 30 June 2018). Effective 30 June 2018, according to the provision test results, no provisions had to be recognised for either interest rate book in line with the stipulations laid out in section 249 (1) sentence 1 alt. 2 of the HGB – for both interest rate books, the present value was higher than the book value.

Compared to the financial statements dated 31 December 2017, there were additional changes to the Bank's accounting methods, which were not, or not exclusively, attributable to the merger. Among these changes was the measurement of loss allowance (specific allowances, portfolio loss allowances as well as provisions for loan commitments), which have so far been recognised in line with IAS 39. The Bank introduced IFRS 9 as at 1 January 2018 – including for the purposes of German commercial law – and thus has applied the respective loss allowance provisions since that date. This relates, in particular, to the introduction of the two-stage approach in line with IFRS 9, according to which the Bank shall recognise loss allowance in the amount of 12-month expected credit losses for lending transactions where credit risk has not increased significantly compared to a defined threshold value since initial recognition (stage 1 lending transactions), and in the amount of lifetime expected credit losses for lending transactions where credit risk has increased significantly compared to the defined threshold value since initial recognition (stage 2 lending transactions). Furthermore, DZ HYP now uses individual economic parameters to evaluate stage 1 and stage 2 loss allowance instead of the supervisory parameters that have partly been used so far. The new loss allowance accounting policy was designed to provide the reader of financial statements with a more accurate, fair and true view of the assets and liabilities of the Bank. In addition, this change in accounting policies ensures that loss allowance accounting processes remain streamlined for HGB and IFRS purposes, as was previously the case under IAS 39 regulations. The introduction of loss allowance in accordance with IFRS 9 led to a decline in loss allowance of €6.9 million (income recognised under net gain/loss from loss allowance).

Compared to the financial statements dated 31 December 2017, the Bank changed its accounting method for repurchased liabilities, which was indirectly associated with the merger. Such realisation effects had only a minor impact at former DG HYP, and were disclosed within net interest income. However, after the merger with former WL BANK, these items increased by €27.8 million. Given that WL BANK's accounting approach for such items better reflected the management of the Bank, DZ HYP now applies the same approach. Therefore, at DZ HYP, any realisation effects resulting from repurchased liability-side transactions, are disclosed according to section 340f (3) of the HGB (Überkreuzkompensation).

Material changes made to items of the condensed balance sheet

The increase in equity during the reporting period in the amount of €355.1 million was associated with the merger of WL BANK and DG HYP: as part of the merger process with WL BANK, the General Meeting of Shareholders of DG HYP resolved to increase DZ HYP's subscribed capital (share capital) from €90,000,000.00 by up to €59,991,402.86, via issuance of up to 2,332,999 DZ HYP shares. The conversion ratio of 1:13.991 was agreed upon in the merger agreement, and approved by the merger auditor. The capital increase by issuance of 2,332,942[8] no-par value bearer shares, with a notional value of €25.7142857143 per share (total share capital increase of €59,989,937.14), was entered into the commercial register of the Hamburg District Court on 27 July 2018. The new shares carry full dividend rights from 1 January 2018. The portion of WL BANK's net assets (total book value of €355,083,712.81) in excess of the share capital increase will be allocated to the capital reserve in accordance with section 272 (2) of the HGB following deduction of additional cash payments (WL BANK shareholders receive additional cash payments of €11,349.24), i.e. the capital reserve will be increased by €295,082,426.43. Given that the capital increase was not entered into the commercial register as at the balance sheet date, the sum of the share capital increase and the contributions to the capital reserve is disclosed as part of equity, under "contributions made in connection with execution of resolved capital increase" (Statement of Changes in Equity).

Disclosures on securities recognised above their fair value

As at 30 June 2018, the Bank did not recognise an extraordinary write-down in the aggregate amount of €67.0 million (1 January 2018: €89.0 million; the former DG HYP as at 31 December 2017: €65.5 million) for negotiable securities held as fixed assets with a book value of €1,404.4 million (1 January 2018: €2,201.1 million; the former DG HYP as at 31 December 2017: €1,584.1 million) and a fair value of € 1,337.4 million (1 January 2018: €2,112.1 million; the former DG HYP as at 31 December 2017: €1,518.6 million) not measured at the lower of cost or market, due to the expected temporary nature of the impairment. This assessment is based on the observation that the euro area has become more stress-resistant due to the crisis mechanisms established in the recent past, and that the effects of individual stabilisation measures are becoming increasingly evident (such as bond acquisition programmes or low-interest rate policies).

The hidden burdens and reserves in the bank's portfolio of negotiable securities amount to a total of €1,141.9 million (1 January 2018: €1,274.2 million; former DG HYP as at 31 December 2017: €651.5 million). The aggregate hidden reserves were affected by changes in the swap curve (decline in overall market interest rate levels over recent years) in the amount of €1,971.1 million (1 January 2018: €2,061.2 million; the former DG HYP as at 31 December 2017: €1,327.0 million) and by the poorer credit rating for some securities compared to the date of acquisition, affecting hidden reserves with €-829.2 million (1 January 2018: €-787.0 million; the former DG HYP as at 31 December 2017: €-675.5 million). While DZ HYP enters into opposing primary and derivative interest rate transactions to neutralise swap curve developments and the resulting positive valuation effects for securities as part of the interest rate risk management (overall bank management) (i.e. DZ HYP does not profit from such valuation changes), the bank fully carries the negative credit risk-related valuation changes for securities. According to its current assumptions, DZ HYP does not expect any disruptions of interest or principal payments; after an isolated consideration, the bank did not recognise any impairments in connection with credit risk-related valuation losses.

Please refer to the bank's interim management report (chapter "net assets") for further information on the securities portfolio.

[8] In fact, DZ HYP issued 57 shares less than the maximum number of shares.

Report on material events after the reporting date

In the period from 1 July to 8 August 2018 (adjusting period), the merger – as well as additional merger-related amendments – were entered into the commercial register (27 July 2018), making the merger legally effective as from that date. Since the economic ownership of WL BANK's assets and liabilities was transferred to DG HYP (renamed to DZ HYP) before 30 June 2018, meaning that for HGB purposes, the merger was treated as if it was effective as from 30 June 2018, the scheduled amendment of the Commercial Register entries on 27 July 2018 did not have any effects on these interim condensed financial statements.

Furthermore, during the adjusting period, no events of particular importance materialised which would have required a substantially different presentation of DZ HYP's net assets, financial position and financial performance, had they occurred earlier.

RESPONSIBILITY STATEMENT

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

Hamburg and Münster, 8 August 2018

DZ HYP AG

Frank M. Mühlbauer Chairman	Dr Georg Reutter Chairman
Manfred Salber	Dr Carsten Düerkop

REVIEW REPORT

We have reviewed the interim condensed financial statements, comprising the condensed balance sheet, the condensed profit and loss account, the statement of changes in equity and the condensed notes to the financial statement, and the interim Management Report of DZ HYP AG, Hamburg and Münster, for the period from 1 January 2018 to 30 June 2018, which are part of the half-yearly financial report pursuant to Sec. 115 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG applicable to interim management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed financial statements and the interim management report based on our review.

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

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

Hamburg, 9 August 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Mai	Meyer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

This is a translation of the review opinion issued in German. The latter is the sole authoritative version.

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