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Hypo Real Estate Group has exceeded earnings expectations in 2003

- **Net income of EUR 116 million**
- **Successful start following spin-off in September 2003**
- **Restructuring of Germany portfolio partially ahead of plan**
- **Expectation of higher earnings and yield in 2004**

Munich, March 29th 2004: Hypo Real Estate Holding AG, the parent company of the group, has reported a consolidated result of ordinary activities (earnings before tax) of EUR 156 million. The most recently published management guidance was just over EUR 100 million. The net income in 2003 amounted to EUR 116 million; after minorities, consolidated net income amounted to EUR 115 million. This is equivalent to a return on equity after taxes of 2.8%.

The development in earnings has been boosted by the development in overall business which has been partially better than planned, and also by a one-time income of EUR 35 million attributable to the acquisition of minority interests in the former Westfälische Hypothekenbank. This was opposed by restructuring expenses of EUR 86 million for the business segment Hypo Real Estate Germany. Net income also comprises a positive tax effect of EUR 19 million. This was attributable to the profit and loss transfer agreement signed at the end of 2003 between Hypo Real Estate Holding AG and Württembergische Hypothekenbank AG.

Net interest income after provisions for loan losses and advances amounted to EUR 422 million in the Hypo Real Estate Group. The provisions for loan losses and advances comprise a figure of EUR 460 million for the contractually agreed risk shelter provided by

HVB AG to Hypo Real Estate Bank AG. Net commission income amounted to EUR 45 million. General administrative expenses amounted to EUR 260 million; this item contains for the first time the costs of Hypo Real Estate Holding AG and the newly established headquarters of the business segment Hypo Real Estate International in Dublin. The operating result of the group is stated as EUR 226 million.

Development in the three business segments

Hypo Real Estate International has reported profit before taxes of EUR 87 million for 2003. The portfolio of commercial real estate financing was worth EUR 13 billion on Dec 31 of last year. It was again not necessary to take any specific loan loss provisions, which again underlines the quality of the business model.

Württembergische Hypothekbank has reported sound profit before taxes of EUR 54 million for 2003. New mortgage lending was generated almost exclusively abroad; these activities expanded to EUR 3.3 billion, one reason being the financing for the acquisition of the US portfolio of the HVB Group acquired by Hypo Real Estate Bank International.

Hypo Real Estate Germany has reported profit before taxes of EUR minus 11 million, which was better than originally budgeted. This figure reflects the risk sheltering provided by the HVB Group of EUR 460 million. The total loan portfolio of Hypo Real Estate Germany including municipal loans as of Dec 31, 2003 amounted to EUR 74.4 billion, compared with EUR 88.8 billion on the same reference date last year. The figure was accordingly lower than the target value of EUR 78 billion and the portfolio of non-strategic and non-performing loans has been reduced more quickly than originally planned. At the same time, margins in the prolonged business improved significantly.

Outlook for 2004

For the year 2004, on the basis of expanding new business abroad and further rapid progress being made with restructuring the domestic portfolio, the Board of Directors of Hypo Real Estate Holding AG expects earnings before tax to increase to between EUR 205 million and EUR 225 million in conjunction with an improvement in the return on equity after tax to 3.5 to 4%.

Hypo Real Estate Group

Income statement by business segment

in €millions	HREI	WürttHyp	HRED	Other consolidation	HREG
	2003	2003	2003	2003	2003
Net interest income	137	110	420	7	674
Provisions for losses on loans and advances	37	25	190	0	252
Net interest income after provisions for losses on loans and advances	100	85	230	7	422
Net commission income	55	-4	-6	0	45
General administrative expenses	64	31	152	13	260
Balance of other operating income/expenses	1	-2	22	-2	19
Operating result	92	48	94	-8	226
Net income from investments	-5	6	-2	0	-1
Balance of other income/expenses thereof:	0	0	-103	34	-69
Restructuring expenses	0	0	86	0	86
thereof: Additions to restructuring provisions	0	0	33	0	33
Result of ordinary activities/result before taxes	87	54	-11	26	156
Taxes on income	30	2	5	3	40
Net income	57	52	-16	23	116
Minority interests					1
Consolidated net income					115

Key indicators by business segment

in %	HREI	WürttHyp	HRED	HREG
	2003	2003	2003	2003
Cost-income ratio (based on operating revenues)	33.2	29.8	34.9	35.2
Return on equity before taxes	6.6	8.5	-0.5	3.8
Return on equity after taxes (excl. amortisation of goodwill)	4.3	8.2	-0.7	2.8
Return on equity after taxes	4.3 Adjusted return on equity: 9.4 ¹⁾	8.2	-0.7	2.8

Multi-year summary

Income/expenses		
in € millions	2003	2002 ²⁾
Net interest income	674	670
Provisions for losses on loans and advances	252	505
Net interest income after provisions for losses on loans and advances	422	165
Net commission income	45	11
Trading result	0	0
General administrative expenses	260	235
Balance of other operating income/expenses	19	17
Operating result	226	-42
Net income from investments	-1	62
Balance of other income/expenses	-69	-4
Result of ordinary activities/result before taxes	156	16
Taxes on income	40	27
Net income	116	-11

Notes:

- 1) The acquisition of the US real estate portfolio from the HVB Group was completed at the end of December, and accordingly had a very minor influence on operating earnings. If the equity charges and the standard risk costs set for the portfolio are eliminated, the adjusted return on equity at Hypo Real Estate Bank International would have been 9.4%. Under these circumstances, it would have earned its cost of capital; like the business segment Württembergische Hypothekenbank did.
- 2) The financial data for the financial year 2002 are based on the segment data of the segment "Hypo Group" taken from the consolidated financial statements of HVB AG for the financial year 2002. They are only comparable to a limited extent to the items for the financial year 2003 as the Hypo Real Estate Group only came into existence in September 2003 as a result of the spin-off of the HVB Group, and accordingly did not exist in 2002 in its present-day form.

Further Information: The annual report for 2003 of the Hypo Real Estate Group is available on the internet at www.hyporealestate.com from 08:00 hours today onwards.