



Annual Report 2006

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Financial Review of
Hypo Real Estate Holding AG
for the business year 2006

Macro-economic conditions

With real growth of approx. 5 %, the global economy in 2006 continued its robust performance. China is the undisputed leader in this respect, but the developed economies in 2006 were also able to meet or even exceed their growth expectations. In the EU-15 countries economic growth increased to 2.5 % on average. Despite the fact that the current round of negotiations for trade liberalisation within the framework of the World Trade Organisation was suspended in the summer of 2006, global economic integration continued with undiminished momentum. World trade grew twice as fast as world-wide output. Stock markets reflected the good mood. With the exception of Japan, the indices in all industrialised countries grew at double digit rates – approx. 18 % world-wide.

This stable development has to be viewed against the backdrop of commodity prices which rose rapidly during 2006. In US-Dollar terms, the increase was about 30 %. The still huge current account imbalances are problematical. Despite a somewhat higher budget discipline of the US government, the current account deficit

of the USA has again risen slightly to 7 % of GDP. On the other hand, China is reporting a current account surplus of the same magnitude. However, the slide of the US-Dollar, which was interrupted in 2005, continued again – primarily against the Euro, which appreciated by approx. 11 % against the US-Dollar.

World-wide consumer price inflation increased slightly compared with 2005, but is still moderate. The main central banks raised their key lending rates in 2006. However, the impact on long-term rates was quite limited.

In 2006, Germany experienced its best economic year since 2000, with growth of 2.5 %. On the demand side, the capital spending boom which commenced in 2005 continued with growth of around 7 %, and private consumption also advanced appreciably following many years of near stagnation. This positive development is also now being felt on the labour market. The German economy has also become much more competitive within the Euro-zone.



Source: IMF WEO (World), September 2006; EIU (US, Asia, EU-15 and Germany), January 2007

Source: EIU, January 2007

Source: OECD Economic Outlook, November 2006, Statistical Annex

Source: Hypo Real Estate Group, computed on the basis of 3-month rates and 10-year government bond yields from Eurostat and the ECB

Company-specific conditions

Organisational and legal structure of the Group

The Hypo Real Estate Holding, located in Munich, is responsible for the strategic steering and the business policy of the Hypo Real Estate Group, consisting of a leading holding company and its three independently operating subsidiaries. In 2006 overall human resources responsibility was centralised and additional reporting lines were prepared in the holding. At the same time, group-wide tasks were pooled at Hypo Real Estate Holding AG, in order to reduce the workload on the subsidiaries and minimise costs by way of streamlined processes and pooling of non-sales-related activities.

The areas of responsibility of the three subsidiaries are precisely defined business segments:

- Hypo Real Estate Bank International AG, with registered offices in Stuttgart, which emerged from the renamed Württembergische Hypothekbank AG, Stuttgart, and the merger of the international credit portfolios of Württembergische Hypothekbank AG and Hypo Real Estate Bank International, Dublin. It is responsible for international business with large-volume structured real estate financing.
- Following the transfer of the domestic financing arrangements of the former Württembergische Hypothekbank AG, Hypo Real Estate Bank AG with registered offices in Munich is a major player on the national market and covers the entire German real estate financing business of the Group.
- With its locations in Dublin, New York, London and Dortmund, Hypo Public Finance Bank with registered offices in Dublin constitutes the second main area of business apart from commercial real estate financing. In this segment, the focus is on asset-based and infrastructure financing as well as asset management for secondary real estate products.

The subscribed capital of Hypo Real Estate Holding AG of € 402,216,525 consists exclusively of 134,072,175 ordinary bearer shares. The ordinary shares are no-par value shares, and represent a nominal value of € 3.00. The shares confer the same rights. There are no excep-

tional rights, and in particular there are no rights which confer control powers. There are no restrictions which affect the voting rights or the transfer of shares, or the Management Board is not aware of such restrictions to the extent that they might result from agreements between shareholders.

The Management Board is only aware of one stake in the capital which exceeds 10 % of the voting rights. Capital Research and Management Company, 333 South Hope Street, Los Angeles, CA-90071, USA, notified Hypo Real Estate Holding AG with its letter of 7 September 2006 in accordance with section 21 (1) WpHG that it exceeded the threshold of 10 % of the voting rights in Hypo Real Estate Holding AG on 31 August 2006. On that day, its share of voting rights amounted to 10.131 % (corresponding to 13,583,228 ordinary shares). All of these voting rights are ascribed to it in accordance with section 22 (1) sentence 1 no. 6 WpHG. All notifications relating to participations can be found on the Company's homepage (<http://www.hyporealestate.com/795.html>).

Employees of Hypo Real Estate Holding and the Group companies currently do not own such an interest in the capital of Hypo Real Estate Holding AG that an indirect exercising of control rights might be carried out by the employees. As a result of the bearer shares, the Company does not have any reliable information concerning shareholders, and also does not have any reliable information of any private shareholdings of employees.

The members of the Management Board of the Company are nominated and dismissed by the Supervisory Board in accordance with the stipulations of section 84 of the German Aktiengesetz. The articles of association of Hypo Real Estate Holding AG do not include any further stipulations in this respect. Contrary to the statutory fundamental rule in section 179 (1) of the German Aktiengesetz, section 17 (1) of the articles of association specifies that the shareholders' meeting is able to adopt resolutions regarding changes to the articles of association with a simple majority of the votes which are cast (unless a larger majority is specified by law). In those

cases in which the law additionally prescribes a capital majority, a simple majority of the share capital represented at the point at which the resolution is adopted shall be sufficient, if this is admissible by law. In addition, section 8 (4) of the articles of association authorises the Supervisory Board to adopt resolutions with regard to changes to the articles of association which only relate to the version.

The Management Board is authorised by section 3 (2) of the articles of association to increase the share capital of the Company, subject to the approval of the Supervisory Board, on one or more occasions by 3 June 2009 by up to a total of € 201,108,261 by issuing new shares in return for cash or non-cash contributions (authorised capital). In accordance with section 3 (3) of the articles of association, the contingent capital of € 40,221,651 provides the Management Board with the possibility of issuing, via the Company or subsidiaries, bonds with conversion rights or conversion obligations or option rights which could be serviced out of contingent capital. More precise details can be found in the relevant paragraphs of the articles of association. The Company was authorised by the shareholders' meeting on 8 May 2006 to purchase treasury shares equivalent to a volume of up to 10% of the share capital for purposes other than security trading. Such shares can be purchased via the stock exchange or by means of a public offer directed to all shareholders. This authorisation will terminate by no later than on 8 November 2007.

There are no major agreements of the Company which are subject to the condition of a change of control resulting from a take-over bid. Such agreements or agreements involving compensation in the case of a take-over bid with members of the Management Board or with employees exist only between the Company and the CEO. The change of control clause for the event of a majority of share capital being acquired by a new shareholder provides the CEO of Hypo Real Estate Holding with an exceptional right of terminating the service agreement. According to this clause, he is authorised to lay down his office within six months of the take-over being completed, six months notice have to be provided in this respect. In such a case, the severance payment claims

amount to 50 percent of the fixed compensation which would have been payable between the point at which the service agreement is prematurely terminated and the point at which the CEO celebrates his 60th birthday. After celebrating his 60th birthday, the CEO is entitled to a retirement pension equivalent to 70 percent of the contractual fixed compensation.

Sustainability

As a leading real estate financing group with international operations, Hypo Real Estate Group focuses on business success, growth, innovation, added value for shareholders and securing jobs in the long term. Entrepreneurial action also involves accepting responsibility with regard to society and encouraging and maintaining a sustainable environment within which life is worth living.

Corporate culture A key component in this respect is the encouragement of an open corporate culture which is willing to take on change and which, in addition to its economic focus, also takes account of non-financial factors.

For instance, the general credit principles of the Hypo Real Estate Group define ethical principles for extending loans which are also consistent with the Company's code of conduct which is applicable for all members of staff. Transparent structures and clearly communicated corporate objectives support the effort to install this responsibility as a fixed component of the corporate culture.

A further part of this culture is to feel a commitment to the environment. Protecting natural resources is a fundamental basis of sustainable economic growth and social prosperity. The Hypo Real Estate Group places emphasis on encouraging and maintaining an environment in which life is worth living. Accordingly, manufacturers and suppliers must meet the defined environmental protection requirements and must be correspondingly certified. This objective is also observed internally by way of working procedures which save paper or the purchase of modern, energy-saving equipment.

Social commitment The Hypo Real Estate Group also exercises its social responsibility via the Hypo Real Estate Foundation and the Stiftung der Württembergischen Hypothekenbank (today: Hypo Real Estate Bank International AG) for art and science.

Particular mention in this respect has to be made of the architecture prize for exemplary commercial buildings of the Hypo Real Estate Foundation, which awards a prize to commercial buildings which are exemplary in aesthetic and ecological terms. Since 1992, this prize has been awarded every two years. In 2006, it was extended to include an award for young talent; this provides young architects with a platform and encourages a dialog between young architects and experienced architects, clients and investors. Both competitions are held under the patronage of the Federal Minister for Transportation, Construction and Municipal Development and the Bund Deutscher Architekten (BDA).

In addition to the activities of its foundations, the Group is also active in sponsoring and via donations. Particularly important in this respect is the sponsorship of young talent.

For instance, the Hypo Real Estate Group sponsors the “Ensemble Interculturel” in Germany (formerly “Junge Symphoniker”) In this case, very talented soloists who have performed well in the “Jugend musiziert” competition are given the opportunity to develop also as a musician in an orchestra. The ability to combine highly professional soloists and experts to form a successful team is an idea which also enables Hypo Real Estate Group to achieve success.

Sustainability indices The efforts of the Hypo Real Estate Group to achieve sustainable management have been recognised by further confirmation of membership in major sustainability indices such as the FTSE 4 Good and the Dow Jones Sustainability Index.

Development in Earnings

The result of operations of Hypo Real Estate Holding AG as a financial holding company is mainly determined by the revenues generated by investments and the costs of operations.

For financial 2006, Hypo Real Estate Holding AG has reported net income of € 385,952 thousands; this figure mainly comprises the distributions of the two subsidiaries Hypo Real Estate Bank International AG (€ 283,281 thousands) and Hypo Real Estate Bank AG (€ 128,699 thousands).

The revenues of € 283,281 thousands were received as part of the profit and loss transfer agreement with Hypo Real Estate Bank International AG. The increase of € 15,882 thousands compared with the previous year figure (after netting with an income subsidy) is due to the fact that the profit transfer in 2006 contains the contributions to earnings generated by international real estate financing business, which was transferred from Hypo Real Estate Bank International, Dublin (today trading as Hypo Public Finance Bank) as of 1 January 2006.

The simultaneous capitalisation of the dividend claim against Hypo Real Estate Bank AG has resulted in income from investments of € 128,699 thousands. The dividend is paid out of the cumulative profit of the Company for commercial law purposes. The decline compared with last year's dividend of € 265,383 thousands is mainly due to the fact that the dividend payment comprised a reversal of free capital reserves of € 212,000 thousands.

The main individual item in other operating revenues is a book profit of € 60,591 thousands generated by Hypo Real Estate Bank International AG as a result of buying back its own shares. The 1.3 million shares of Hypo Real Estate Bank International AG were retired by the Company in accordance with section 237 (3) No. 3 AktG pursuant to a resolution of 28 December 2006.

The revenues from investments are opposed by current expenses incurred in connection with management and administration of the investments.

Personnel expenses in the year under review amounted to € 17,418 thousands compared with € 13,360 thousands in the previous year. The increase in personnel expenses is due to the fact that certain functions which were reduplicated in the Group have been pooled in the Company as a Group function, and the average number of employees has accordingly increased from 59 in the previous year to 76 in the year under review. In addition, allocations to pension provisions have also increased by € 855 thousands compared with the previous year as a result of new or amended pension commitments.

Depreciation on intangible assets and property, plant and equipment, adjusted by impairments of € 463 thousands on intangible assets, is stated as € 702 thousands compared with € 504 thousands in the previous year.

The other operating expenses, after expenses of € 2,406 thousands to be adjusted in relation to previous years in connection with the fiscal authorities failure to recognise input tax deductions in full, amounted to € 15,967 thousands compared with € 10,799 thousands in the previous year. The figure includes the expenses of insurance, contributions and charges, expenses for consultancy and audit services as well as for the maintenance of hardware and software.

The balance of revenues generated by loans to affiliated companies, other interest and similar income as well as interest and similar expenses amounted to € -17,639 thousands, and is thus a cost item on balance. The revenues generated by loans to affiliated companies amounted to € 550 thousands, and referred to loans of € 90,000 thousands extended to Hypo Real Estate Bank International AG in the fourth quarter of 2006. The other interest and similar income of € 175 thousands is attributable to the investment of overnight money and time deposits. Interest and similar expenses are attributable mainly to the interest expense of € 6,725 thousands for issued profit participation rights and the interest expense of € 7,634 thousands attributable to a borrower's note loan as well as loans taken out with Hypo Real Estate Bank AG (€ 1,766 thousands) and Hypo Real Estate Bank International AG (€ 1,598 thousands).

Current expenses accordingly total € 51,726 thousands. These are opposed by other operating income of € 3,711 thousands, mainly as a result of cost recharging.

Result from ordinary operations amounted to € 421,687 thousands, and consists of the income from investments of € 472,571 thousands and the balance of current operating expenses and income of € 50,884 thousands.

The extraordinary expenses of € 3,450 thousands stated in the previous year constitute expenses and allocations to provisions in connection with consultancy fees for restructuring the Group.

Taxes on income amount to € 35,735 thousands. This figure includes a one-off effect from capitalised corporate income tax claims of € 1,328 thousands.

Development in assets and the financial position

The total assets of Hypo Real Estate Holding amounted to € 4,972,566 thousands as of 31 December 2006, and have thus increased by € 191,898 thousands compared with the previous year.

The book value of intangible assets increased by € 2,298 thousands to € 3,126 thousands. Of this figure, € 3,010 thousands is attributable to new standard software purchased in the year under review. The capitalised operating and business equipment is shown as € 923 thousands as of the reference date, compared with € 989 thousands in the previous year.

Shares in affiliated companies have declined by € 26,540 thousands in the course of the financial year. At the beginning of financial 2006, the interest in Hypo Real Estate Bank International, Dublin (now trading as Hypo Public Finance Bank) was transferred to Hypo Real Estate Bank International AG, Stuttgart, by way of a capital increase involving a non-cash contribution as part of the process of transferring the international real estate financing business to Württembergische Hypothekbank AG (now trading as Hypo Real Estate Bank Inter-

national AG, Stuttgart). Hypo Real Estate Holding AG accordingly now only holds an indirect stake in Hypo Public Finance Bank. Ordinary shares of Hypo Real Estate Bank International AG were also sold to the Company in financial 2006. The book value was € 2,600 thousands at the end of the financial year. In addition, Hypo Real Estate Holding AG acquired all shares in GfA-Gesellschaft für Anwendungssoftware mbH, Stuttgart, and GfR-Gesellschaft für Rechenzentrumsleistungen mbH, Stuttgart, in the year under review for a book value of € 2,869 thousands.

Accounts due from affiliated companies increased by € 78,335 thousands to € 412,958 thousands. This is due mainly to the € 214,399 thousands increase in the receivable of € 283,281 thousands arising from the profit and loss transfer agreement with Hypo Real Estate Bank International AG.

Total liabilities amounted to € 338,117 thousands compared with € 418,790 thousands in the previous year.

Provisions amounted to € 39,596 thousands as of the reference date, and have accordingly increased by € 20,691 thousands compared with the previous year. The increase is attributable mainly to the tax provisions.

Shareholders' equity shown as of 31 December 2006 amounted to € 4,594,852 thousands. Profit-sharing rights outstanding included in this figure amounted to € 97,124 thousands. The Company's shareholders' equity of € 4,497,729 thousands (adjusted by profit-sharing rights outstanding) comprises the cumulative profit of € 201,633 thousands as well as the allocation to profit reserves (€ 185,000 thousands). It will be proposed to the shareholders' meeting on 23 May 2007 that a dividend of € 1.50 be paid out of the cumulative profit. The remaining amount of € 525 thousands after the payment of the dividend of € 201,108 thousands is to be carried forward to the new account.

The Management Board and Supervisory Board have defined major steps and measures for a new growth phase of the Group. This focus of the Group is extensively described in the forecast report. In connection with the new growth phase, the following changes relating to the Management Board of Hypo Real Estate Holding AG and the Management Boards of some subsidiaries were announced on 29 January 2007.

- Dr. Paul Eisele will step down from the Management Board of the Holding as of 31 May 2007, and will also step down from the Management Board of Hypo Real Estate Bank International AG as of 30 June 2007. In February, he will step down from his position as board spokesman of Hypo Real Estate Bank International, and will also step down from his positions as chairman of Hypo Public Finance Bank and as a member of the Supervisory Board of Hypo Real Estate Bank AG.
- Frank Lamby will assume responsibility for the “Commercial Real Estate Origination” unit on the Management Board of the Holding and will become the new spokesman of Hypo Real Estate Bank International AG. At Hypo Real Estate Bank AG, he will move over from the Management Board to the Supervisory Board.
- Dr. Robert Grassinger was appointed as deputy member of the Management Board of the Holding as of 1 February 2007. At the Holding Company, Dr. Grassinger will assume responsibility for group-wide funding of covered as well as uncovered issues (Pfandbriefe, lettres de gage, jumbos and MTN issues) as well as interest scheduling on the bank book. He will also succeed Frank Lamby as board spokesman at Hypo Real Estate Bank AG.
- Thomas Glynn has also been appointed as deputy member of the Management Board of the Holding, where he will be responsible for asset management.
- And finally, Bettina von Oesterreich has been appointed as deputy member of the Management Board of Hypo Real Estate Holding AG. In addition to her function as Chief Risk Officer of Hypo Real Estate Bank International AG, she will also assume responsibility as Group Chief Risk Officer.
- Georg Funke is to assume the function of Chairman at Hypo Public Finance Bank as the successor of Dr. Paul Eisele.
- Harin Thaker will be appointed to the Management Board of Hypo Real Estate Bank International AG as of 1 February 2007. Mr. Thaker operates the European real estate financing of the group from London, and will continue to be responsible for this business in the Management Board of Hypo Real Estate Bank International.

The proposal for paying a dividend of € 1.50 per share will be submitted to the Annual General Meeting of Hypo Real Estate Holding AG on 23 May 2007.

There were no further events after 31 December 2006 worth reporting.

The Hypo Real Estate Group as a major commercial real estate financier will further expand its successful business model of structured financing on all target markets. The risk-diversifying segments of asset-based and infrastructure finance will account for an above-average share in the amount of growth. The planned extension of the existing buy-and-hold strategy to include a buy-and-distribute strategy which has a positive impact on capital will result in higher turnover rate of the credit book and in an expansion and diversification of the product range. This aspect and the greater use of derivative products for optimising risk and return means that successful risk management will have to face new challenges. Traditional boundaries between risk types will have to be increasingly reviewed and redefined.

Despite the main aspects of business and risk which the three banks profitably implement within the framework of overall Group strategy, comprehensive identification as well as the Group-wide uniform and comparable treatment

of risks for determining the Group's risk profile is one of the major criteria of successful business and risk management in the interests of the desired value creation.

The focus of further methodical development of the Group-wide system comprising risk identification, measurement, limitation, controlling and management was therefore further centralised in 2006 with the strong support of local Risk Control- and Risk Management units in the banks.

Based on this structure the effects of internal (risk) strategic changes at portfolio level, method adjustments also from external requirements, (such as Basel II), can be assessed and implemented on a timely basis for all material risks of Hypo Real Estate Group described in the following.

The risk report contains information which also has to be disclosed inter alia in accordance with IAS 32.

Risk-oriented Group Management

Overview

The Group-wide system comprises the following:

- Risk identification involves permanently and systematically analysing what internal or external factors may constitute a potential risk for transactions or business positions of the Group. The top-down risk inventory carried out in 2006 as well as the annual risk self assessment are one way of identifying previously unrecognised risks; another way is a detailed new product process.
- Risk measurement is used for assessing the expected negative effects and also the potentially unexpected negative effects of the identified risk factors on the bank's earnings situation with various quantitative and qualitative methods.
- Risk limitations restrict the amount of risk involved with the main risk types for the Group; quantitative limitations are imposed by means of limits, and qualitative limitations are imposed by way of policies.
- Risk Control monitors the risk limits and regularly reports to the Management Board. The regular comparison of aggregate Group risk position with the risk bearing capability of the Group, also under stress scenarios, guarantees compliance with the defined risk tolerance of the Group, and ensures that any potential risk to the continued existence of the Group as a going concern is identified on a timely basis.
- Risk management manages the risks which are taken on at portfolio level, for instance by way of diversification, sale or insurance; at the level of individual transactions, risk management manages the risks which are taken on by way of procedure regulations and processes in the banks.

Organisation, responsibilities and duties

Organisation The organisation of the risk management system is broken down into central and local units; a clear segregation of duties together with the joint responsibility permit comprehensive and efficient risk measurement and management across the organisational units. In the Holding Company, the relevant divisions are responsible for uniform risk identification, measurement and limitation throughout the Group in close co-operation with the banks, and are also responsible for risk management at portfolio level. This also includes responsibility for co-ordinating regulatory requirements such as Basel II and the Minimum Requirements for Risk Management (MaRisk) consistently and on a Group-wide basis, and implementing them in co-operation with the banks.

The interchange of information with the banks takes place at the operating level via local risk control- and risk management departments; at the decision-making level, it takes place via the various decision-making committees and bodies which comprise members of the Management Board of the Group as well as members of the Management Boards of the banks.

The interchange of information with the members of the Supervisory Board takes place via the Audit Committee of the Supervisory Board of the Group or Supervisory Boards of the banks.

Within the Holding Company, the departments which are involved in Risk Management such as Group Risk Control, Credit Risk Management and Senior Risk Management are organised separately. Group Risk Control and the Risk Management entities report to various Board members at the time of the report.

Responsibilities and duties Committees which meet regularly have been established for the purpose of holistic management of risk at Group level; these are basically responsible for deciding on guidelines for the entities, such as risk policies, risk limits as well as methods for risk measurement, and are also responsible for making recommendations to the banks with regard to risk positioning. The following are further specific duties:

- **Group Asset-Liability Committee (ALCO):**
Asset/liability management of the Group; decisions on allocating limits for market and liquidity risks and defining the funding strategy of the Group.
- **Treasurer Committee:**
As a sub-committee of the ALCO, this focuses on short-term asset/liability management of the Group, planning of issue activities in line with the funding strategy as well as the management of risk assets.
- **Credit Portfolio Committee (KPA):**
Defining the target structure of the Group credit portfolio based on the Group credit risk position for optimising the risk-return situation and clarifying fundamental questions relating to credit risk management.
- **Operational Risk Committee (ORC):**
Interchange of information within the Group and ensuring uniform measurement and management of operational risks. The transparency relating to the Group's risk situation enables Group-wide measures to be taken in order to limit and avoid risk.

The organisation of the committees is the responsibility (at Group level) of Group Risk Control (GRC) and, in the case of the KPA, Group Credit Risk Management (GCR) in conjunction with the corresponding risk control- and management units in the banks.

Group Risk Control is responsible for managing and co-ordinating all Group-wide tasks for identifying, measuring and managing those risk types which have been defined as material to ensure a systematically and conceptually uniform risk management. The aggregate metrics at Group level, the results of the Internal Capital Adequacy Assessment Process (ICAAP), adjustments in method as well as risk-restricting limits and the utilisation of such limits are regularly reported to the Holding Management Board as well as the committees.

Group Credit Risk Management analyses the Group's credit portfolio on the basis of various risk-relevant aspects, e.g. expected loss, PD-movement as well as sectors, customer groups and property structures, implements and updates regulations for lending which are used for managing individual business activities and also defines lending principles and core elements of the lending process.

Senior Risk Management analyses new credit decisions and substantial changes in the risk of existing business of the individual banks in the Group on an independent basis for implementing the Group's risk policy, and makes recommendations to the Holding Management Board in the interest of an efficient credit approval process; these recommendations are used as the basis of the definitive decision.

The Group Legal Department advises the Holding Management Board as well as the Holding entities, tracks developments in court verdicts in order to limit legal risk, and supports the Group companies at the request of their Management Boards in fundamental matters as well as in general legal matters and transaction-related processes.

As an independent monitoring body, Group Internal Audit regularly reviews the adequacy and effectiveness of risk-oriented Group Management, and reports the results directly to the Holding Management Board.

The entire internal (risk) control system, the organisational framework as well as the processes are documented on an aggregate basis in the risk manual of Hypo Real Estate Holding, on a detailed basis and particularly at the process level, they are documented in the risk manuals and process documentation of the banks.

Regulatory developments and preparations of Hypo Real Estate Group

A paradigm change in bank regulation results from the introduction of Basel II. Not only regulatory capital requirements are now more risk-sensitive; in future, there will be greater focus on qualitative regulatory elements, which are manifested in the second pillar of the Basel II concept.

At the national level, the specifications of the new set of rules have now been incorporated in a new German Solvency Regulation (SolvV), which will replace Principle I, as well as by changes in the German Banking Act (KWG), and the German Large Exposure Ordinance (GroMiKV).

In a Group-wide project, the Hypo Real Estate Group has intensively prepared its methods as well as processes for the new Basel II requirements and, in the autumn of 2006, submitted an application to the banking regulatory authorities for approving the use of the so-called Advanced Internal Rating Based Approach as of January 2008. The regulatory review procedure necessary for approval will take place in 2007.

The contents of Pillar II of the Basel rules have been specified by the Minimum Requirements for Risk Management (MaRisk), which were valid in 2006 for the MaK, MaH and MaR summarised in this document, and which are applicable for the new requirements starting 1.1.2007.

Total bank risk and risk bearing capability

A key parameter within the bank's steering concept is the adequate degree of utilisation of economic capital which is available for covering risk. With the quarterly Internal Capital Adequacy Assessment Process which is consistent with MaRisk, the risk position at Group level and also at banks' level is compared with conservatively defined risk cover funds.

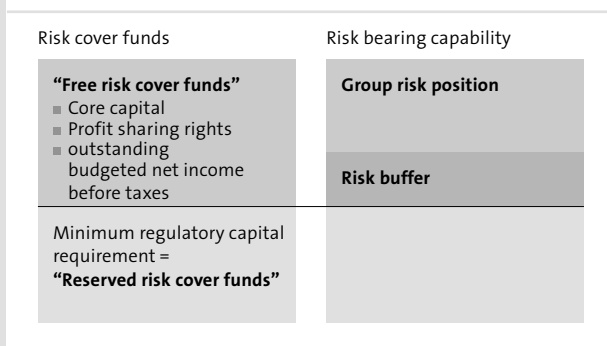
The Group Risk Position is the aggregate of the material risk categories described in the following chapters, with due consideration being given to correlation effects. Where possible and meaningful, the individual risks are determined using a statistical method, normally a value at risk, and quantify potential unexpected losses within a one-year period and different confidence levels in Euro. The risks are calculated quarterly for the current risk profile and annually for the planned business of the subsequent years.

The "going concern" approach assesses whether, even after deducting the minimum regulatory capital requirement according to Principle I, the Group risk position – calculated with a confidence level of 99% – can be covered by the free risk cover funds.

Stress tests also show quarterly the risk bearing capability in a negative environment for the Group or "worst case" scenarios. Accordingly, the regulatory stress test assesses whether the Group or the individual banks are still able to comply with the minimum capital ratios in accordance with the Basel II requirements despite the losses arising from all risk types associated with the occurrence of a macro-economic climate which is negative for the Group as well as the potential structural deterioration in the credit portfolio. The economic stress test simulates whether bondholder's protection can still be guaranteed in conjunction with extremely unlikely "worst-case" scenarios such as the default of the largest borrowers of the Group (stress test of credit risk concentration).

The results of the ICAAP and the stress tests are discussed and adopted in the Holding Management Board for the individual banks, where appropriate with pro-

Presentation of the principles of the risk bearing capability analysis

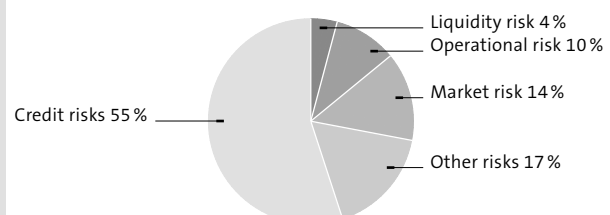


posed action. The risk-bearing capability analysis of planned business is used for taking decisions with regard to the future risk profile and the risk tolerance. Major plan or risk profile changes which take place during the year, such as limit increases, are additionally subject to a risk bearing capability analysis.

The Group as well as the individual banks currently enjoy a comfortable risk cover buffer at present, even on the basis of this very conservative risk bearing capability analysis. At Group level, this amounted to € 0.9 billion as of December 2006 for a statistical confidence level of 99% on the basis of a "going concern" assumption. All currently assessed stress scenarios also withstand the risk-bearing capability analysis.

Group risk position by risk category

as of 31.12.2006



Risk measurement, control and management of material risk categories in the Hypo Real Estate Group

The risk profile of the Hypo Real Estate Group is currently very much characterised by credit risk. The intensive analysis, identification, management and monitoring of this risk type is reflected in the organisational structure and the committees of the Group.

Market risk- and liquidity risk measurement have become more significant with the slight expansion of capital market business, and were further developed in 2006. Identification and management of operational risk were again improved appreciably last year. With the current risk measurement and monitoring methods for all major risks, Hypo Real Estate Group satisfies the more stringent statutory – and in particular regulatory – requirements such as Basel II and the Minimum Requirements for Risk Management, MaRisk.

Credit risks

Credit risks can be broken down into loan default risk, counterparty risk, issuer risk and country risk, and define the potential loss of value which may occur as a result of the default or rating downgrading of customers in lending business, issuers of promissory notes and debt securities as well as counterparties in money market, securities and derivative transactions.

In the field of real estate financing business, the credit risk comprises not only the pure rating risk but also the collateral risk. The latter is attributable to potential losses of value of collateral due to reasons related to the financed properties and/or the market environment. The “General credit principles of Hypo Real Estate Group” which are applicable throughout the Group have been adopted for professional management of this risk; these also set the following standards for lending:

- Thorough and careful credit analyses of each individual transaction,
- Determining the extent to which forecast cash flows are able to cover capital servicing, (specifically under extreme market conditions such as sharply rising interest rates) as well as the current and sustainable value or collateral,
- Use of PD rating methods for determining the default probability of the borrower and use of early warning systems,
- Use of Loss Given Default (LGD) measuring procedures for measuring future proceeds of any foreclosures which may become necessary if borrowers default,
- Ongoing active observation of the real estate market and adjustment of the lending policy where necessary,
- Avoiding concentration risks and enforcing systematic diversification of the loan portfolio by way of credit portfolio management which draws up appropriate recommendations for action,
- Ensuring that the loans can be resold or syndicated.

These principles have been used as the basis for adopting the specific credit risk strategies in the banks; the general character of these strategies is the focus on individual transactions and a conservative risk profile.

The quality of the valuation methods which are used is constantly monitored by risk controlling; in our opinion, they meet Basel II requirements throughout the Group. The calibration of the PD rating scale for probabilities of default and the LGD measuring process for loss ratios is based on statistical analyses, historical defaults and losses in the portfolio as well as corresponding simulation procedures.

The very different strategic focus of the three members of the Group – Hypo Real Estate Bank International AG, Hypo Real Estate Bank AG as well as Hypo Public Finance Bank – has meant that it is necessary for Group-wide credit principles with clear and uniform principles and financing principles need to be adopted in order to ensure a uniform perception of risk. The credit principles also require the banks to prepare external or

internal reports for each individual property transaction and to carry out cash-flow simulations and stress tests. By continuously monitoring the covenants, risks can be identified, assessed and managed at an early stage. These analyses relating to individual transactions are complemented by scenario observations at the portfolio level.

The Group orients its activities on the German Minimum Requirements for Risk Management (MaRisk) as well as established best-practice approaches by way of organisational measures and functional segregation of credit processes right through to Management Board level into market and back office.

In addition to lending as described above, Hypo Real Estate Group is also actively involved in purchasing, structuring and onward placing of loans and financial instruments (securitisation) as a facility for return and risk optimising. The Group also uses internal rating procedures for assessing ratings; at present, these procedures have been submitted to the regulatory authorities for assessing Basel II conformity.

Counterparty risks are defined as possible losses of value affecting interest rate and foreign currency derivatives and forward transactions. Most of these transactions are carried out as hedge positions as part of the asset/liability management. A value-at-risk approach based on a mark-to-market method is used for measuring the counterparty risk throughout the Group; this approach is based on potential future replacement costs. Counterparty risks with derivative, security and money market transactions exist with financial institutions, Central Banks and supranational institutions whose credit standing is above-average on the basis of the assessment of external rating agencies and also on the basis of internally used rating procedures. In order to reduce the derivative-related counterparty risk, the Hypo Real Estate Group normally uses master agreements with its business partners which enable all contracts covered by the master agreement to be pooled into a net receivable if the counterparty fails to meet his obligations (so-called close-out netting). In order to reduce risk further, collateral agreements are taken out which may result in the cancellation of transactions if the counterparty fails to comply with a request to provide a collateral. For further

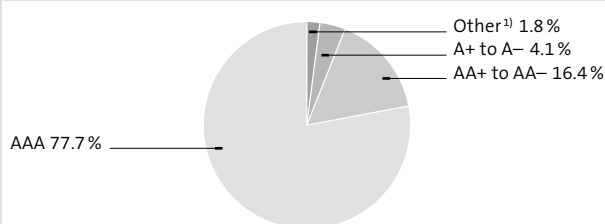
details concerning the maturity distribution regarding the volume of derivatives in the Hypo Real Estate Group, please refer to the notes of the consolidated financial statements.

The Hypo Real Estate Group defines the term country risk as the risk of possible transfer and conversion problems encountered with contract partners domiciled abroad. Credit risk arises from the fact that a borrower who is willing and able to pay is not able to meet his payment obligations if, as a result of government action, he is not able to procure foreign currency or transfer assets to persons not resident in the territory. The location of the property securities is also important in this respect. Credit risk controlling is responsible for ongoing monitoring of country risks. Country risks are monitored by credit risk management on the basis of country limits. Depending on the results of the internal rating process, maximum limits are allocated to:

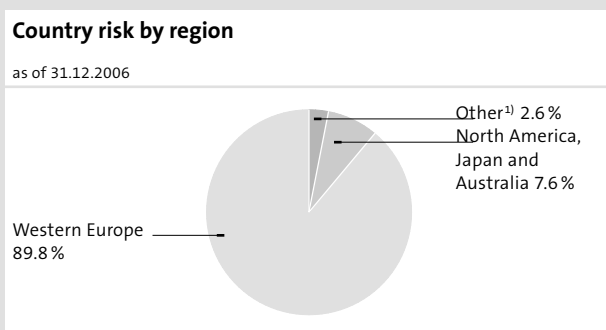
- 1) Each individual country and
 - 2) Groups of countries in certain rating ranges;
- These limits restrict the business activities. All country ratings and country limits are reviewed at least once every year by the credit portfolio committee. The internal risk assessments are also regularly compared with the assessments of the main rating agencies. The following graph sets out the distribution of the entire country risk of the Hypo Real Estate Group according to rating classes and according to regions as of 31.12.2006.

Country risk by rating class

as of 31.12.2006



¹⁾ BBB+ to BBB-: 1.7 %; BB+ to BB-: 0.1 %; B+ or worse: 0.0 %



¹⁾ Eastern Europe: 2.5 %; Asia excl. Japan and Middle East: 0.1 %; Latin America: 0.0 %; Africa: 0.0 %

Credit portfolio management is particularly important within the framework of credit risk management. The aim is to reduce the extent and volatility of credit risk costs in line with the overall business strategy of the Group and the Group's ability to bear risk by way of suitable portfolio measures, and to achieve diversification success in the Group measured against risk and earnings parameters.

The process of tracking this aim is supported by the following instruments:

- Continuous portfolio and real estate market analysis
- Systematic increasing or decreasing of sub-portfolios in line with risk strategy by way of appropriate new business or adjustment of conditions with risk-adequate margins
- Risk transfer by way of partial portfolio sales, securitisation measures and syndications
- Use of a credit portfolio model for establishing the extent of potentially unexpected losses and
- Central Group-wide monitoring of cluster risks as well as specific risk concentrations by special regular evaluations.

In the case of development financing arrangements, which imply a higher risk than investment financing arrangements as a result of the completion risk, the extent of the development portfolio is limited as follows:

- 1) for specific countries (as a percentage of the country limit) and
- 2) in relation to the overall portfolio

The degree of risk of development financing correlates primarily to the sale and rental status of the financed property and the ability to cover current credit interest out of the cash flows which are received and the ISC (Interest Service Coverage) figure. Financing arrangements which are covered by risk-adjusted ranges of these criteria are limited by way of structural specifications. Overall, the differentiated limitation of sub-portfolios guarantees a sound relationship between investment and development financing in the individual countries and in the overall portfolio.

A key element of successful activity in real estate financing is sound knowledge of the (real estate) markets and the implementation of such knowledge in business strategies as well as in credit and portfolio management processes. Hypo Real Estate Group has established considerable know-how of the corresponding real estate markets and is aware of the risk-relevant factors. Research results obtained on site are incorporated in the business activities and the analysis for lending. For instance, more restrictive lending requirements are applicable for markets whose risk profile is critical (e.g. with regard to the input of equity, rental/sale covenants).

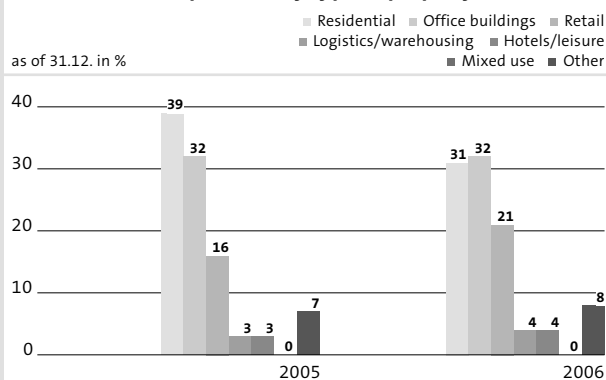
The Group's primary target customers include business partners with professional operations on international real estate markets and who meet the stringent lending standards particularly also in new markets (for instance Russia and China). Extensive market and risk analyses are carried out ahead of the decision to follow our customers into new markets.

Pre-calculation models are used to set management impetus in the individual financial statements which enable risk-adequate margins to be established for new business or when conditions are adjusted. These models take account of covering refinancing costs, capital costs and general administrative expenses as well as potential credit risk costs of expected losses.

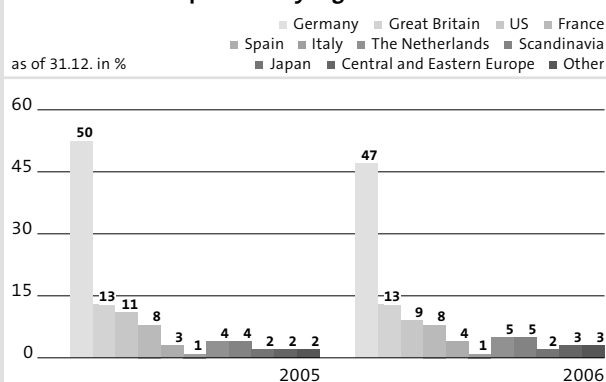
The credit portfolio committee is responsible for managing the gradual further improvement of risk diversification of the real estate financing portfolio within a climate of changing markets.

The following graphs break down the real estate financing operations of the Hypo Real Estate Group in the amount of € 73.4 billion on the basis of property-specific and regional aspects. The information is based on the credit portfolio (incl. commitments, excl. pro-rata interest) as of 31 December 2006. Including state financing business, it amounted to € 133.5 billion.

Real estate credit portfolio by type of property



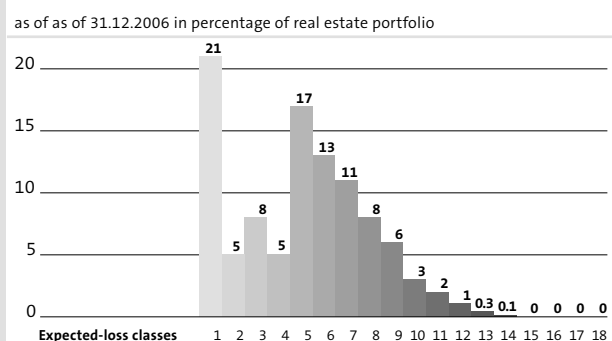
Real estate credit portfolio by region



The credit risk of the Group's credit exposures is constantly monitored with the risk management instruments described above. For this purpose, for each individual exposure, an estimate is made of the probability of default (PD) and also the loss ratio to be expected in the event of a default (LGD). These two risk ratios

provide an estimate of the expected losses, which can be used for breaking down the credit portfolio into expected-loss classes. As shown in the following diagram, 88% of the real estate credit portfolio is in the expected-loss classes 1–8.

Expected-loss class distribution in the real estate portfolio



Early identification of potential problem loans can be described as a fundamental principle of the Group's credit risk culture. In addition, existing problem loans (sub-performing or non-performing loans which have been problematical for a lengthy period of time or which are already in the work-out process) are intensively monitored and regularly analysed. Early warning systems have been installed in order to ensure that loans which may be exposed to an enhanced level of credit risk can be identified at an early stage. Affected exposures are placed on a "watch list" in order to ensure that they are the subject of greater attention. The following table sets out the performance of real estate loans exposed to an increased level of risk – in relation to the overall real estate credit portfolio – over the past three years.

Real estate loans with an increased level of risk

as of 31.12. in %	2006	2005	2004
Watch list	0.7	1.0	2.0
Sub-performing	0.7	1.0	1.0
Non-performing	1.5	2.0	2.0

Individual allowances have been set aside for all loans for which it will probably not be possible to collect all due interest payments and repayments in accordance with the contractually agreed terms. For further information concerning the individual allowances which have been set aside, please refer to the notes of the consolidated financial statements.

Market risk

Market risk is defined as the potential loss which may be incurred as a result of changes in prices on the financial markets.

The aim of the market price strategy of Hypo Real Estate Group is to manage the market risks associated with re-financing lending business as efficiently as possible. All lending business, all own issues, all securities held as investments and liquidity instruments as well as all derivative transactions are taken into consideration for this purpose at all banks in the Hypo Real Estate Group. This is also applicable for the positions held in the trading book in Dublin. Scheduling assumptions for equity funds, allowances and the effects of non-scheduled redemptions are also taken into consideration. The resultant market risks are mainly interest rate risks.

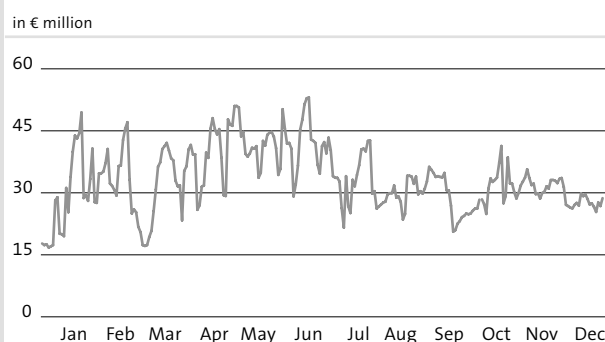
A distinction is made between general and special interest rate risks (credit spread risks). The former measure potential changes in the present value of positions in the event of shifts of the no-risk rate curve (swap curve). The measurement of credit spread risks, which is to be further fine tuned in 2007 and rolled out on a Group-wide basis, takes account of possible present value changes if there are any changes in the credit spreads influencing the prices of securities and derivatives.

Currency risks are to a large extent hedged at all banks in the Group, and are accordingly present only to a limited extent. In the field of equity, commodity and other price risks, only equity risks as well as alternative investments may be taken on to a strictly limited extent.

The banks in the Hypo Real Estate Group use a uniform value-at-risk approach for daily quantification of the

market risk. This approach determines a potential loss on the assumption that a position is held for ten days and also on the assumption of a confidence level of 99%. The period of observation for historical data is 250 trading days. The value-at-risk is established daily by local risk controlling of the banks; it is aggregated by the Holding Company to form a total market risk at the Group level, and is then reported to management. With this system, the Hypo Real Estate Group is at all times able to control consequences of potential market fluctuation, such as rate changes or currency fluctuations, in a timely and profitable manner. This active management is also reflected in daily fluctuations of value-at-risk for the general interest rate risk (excl. own funds books) in the Hypo Real Estate Group during the year. With an average value of approx. € 29 million for 2006 (max. € 49 million; min. € 12 million), the general interest rate of the Group is at a low level, also on the basis of an external comparison.

General interest rate risk 2006



Daily risk monitoring, limitation and reporting of value-at-risk and the actual changes in present values which occur are complemented by regular back testing and stress testing. The quality of the method which is used is constantly reviewed and optimised by comparing the value-at-risk figures with the daily changes in present values which actually occur. The statistical assumptions of our models have been confirmed. Whereas the value-at-risk measures the market risk under “normal” market fluctuations, the simulation of stress scenarios also measures the potential changes in present values

under very extreme and unusual market movements, so that the continued existence of the Company as a going concern can also be guaranteed at all times under these conditions. The measured market risk was also within the “normal limits” even under these conditions.

Market risk management is handled in the individual banks by a committee on the basis of the market risk position measured daily by Risk Controlling; this committee meets regularly and intensively considers the future development of the financial markets and market parameters. In addition, the Group Asset-Liability Committee (ALCO) and its sub-committee (Treasurer Committee) uses the market analyses as the basis for making a trend statement for further positioning within the Group. Implementation is again the responsibility of the individual banks within the framework of their risk limits defined by the Holding Company.

As a result of the trading book approved at Hypo Public Finance Bank, Dublin (formerly: Hypo Real Estate Bank International, Dublin) in 2004 by the Irish regulatory authorities, the bank can also benefit to a greater extent from short-term market fluctuations. Resultant market risks are also subject to the strict risk management process detailed above, including daily risk measurement, limitation and reporting to management.

Liquidity risk

The central aim of the liquidity risk strategy of Hypo Real Estate Group which has been adopted in the central Group ALCO for the entire Group is to ensure that every individual bank in the Hypo Real Estate Group is solvent at all times. In accordance with the internal limit system, probable payment inflows and outflows and possible liquidity-procuring measures, the so-called liquidity position, must be at least balanced at all times during the following five days. This position is determined daily, with due consideration being given to precautionary discounts (“haircuts”); it is monitored by independent Risk Controlling and reported to the Management Board.

A liquidity preview covering 90 days is prepared (independently of trading) in order to identify any additional short-term refinancing needs at an early stage. This preview is used as the basis of active liquidity management. For controlling structural long-term liquidity, the banks in the Group use a liquidity run off scheme, which is also broken down on the basis of individual product groups and thus also permits fine tuning on the basis of market segments. An annual funding plan is then prepared, with due consideration being given to planned new business; this funding plan is adopted and implementation thereof is monitored. In this way, the Hypo Real Estate Group had closely followed the Basel recommendations for liquidity management.

For short-term funding, all banks in the Group have adequate access to the money market. In addition, the banks have extensive liquidity reserves which can be used as part of the monetary operations of the system of the European Central Bank or which can be sold in the repo market. The good liquidity situation is also demonstrated by the relevant parameters according to principle II of the German Banking Act (KWG); in December 2006, these were more than 1.5 for the German institutions in the Group, and were thus considerably higher than the specified minimum of 1. In Ireland, the central bank ensures that the banks are solvent at all times by way of regulations specifying that one quarter of equity has to be invested in very liquid funds.

For medium- and long-term refinancing, the main refinancing instruments of the Group are public sector Pfandbriefe as well as mortgage Pfandbriefe with their special credit ratings and liquidity. In 2006, the Pfandbrief issues alone were worth € 15 billion. The third major business is conducted with unsecured capital market issues. The origination of commercial paper, debt issuance and medium-term note programmes as well as the issue of money market bonds (SLIMBO) have also enabled the banks in the Group to be able to respond on the market even more quickly and flexibly.

As a result of the opportunities provided by the new Pfandbrief Law, which are also being utilised in the Hypo Real Estate Group as a result of the internal restructuring, the Hypo Real Estate Group will be able to

utilise the Pfandbrief instrument to an even greater extent in the course of the next few years. This will also have a positive impact on the liquidity risks quantified as part of the Internal Capital Adequacy Assessment Process. The scenario approach is based on the possible effects of a rating downgrade on the refinancing costs for unsecured issues of the entire Group.

Operational risk

The process of taking on risk lies in the nature of banking business. Operational risk is an unavoidable consequence, and becomes more and more significant with increasingly complex international business. Hypo Real Estate Group has adopted a strategy, defined in an OpRisk policy which is valid throughout the Group, of identifying potential risks by way of an OpRisk measurement and management system which complies with Basel II and of encouraging the pro-active handling of operational risk by way of an institute-wide risk culture. In this way, measures which diminish risk or limit damage can be initiated at an early stage in order to restrict the amount of risk to an acceptable level. In line with the regulatory requirements, operational risk in the Hypo Real Estate Group is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risks. It does not include strategic or reputational risk.

In 2006, Hypo Real Estate Group completed to a large extent the centrally managed conception and implementation of the OpRisk management system, with due consideration being given to the requirements of "Sound Practices for the Management and Supervision of Operational Risk" in accordance with Basel II. With the implementation of the organisational framework for the structure of duties and responsibilities in the banks and the extension of technical support for recording and identifying operational risk, all major criteria for operational risk management in line with the business model have now been implemented in the Hypo Real Estate Group.

Identification, analysis and management are the responsibility of the individual segments in the banks. OpRisk events are therefore recorded locally in the loss database in accordance with specifications which are uniform throughout the Group. The local evaluation of key risk indicators in the banks is used in particular as early warning indicators for potential sources of risk. In addition, a top-down risk inventory was carried out in the year under review. Since the year 2006, the system based risk self assessment is used for assessing segment-specific operational risks as well as possible management measures.

The collected information is evaluated locally and also centrally by Group Risk Control. The results are presented in the OpRisk report to the OpRisk Committee, which meets every six months and which comprises members of the Management Boards of all entities. If required, the committee takes decisions with regard to the implementation of Group-wide risk management measures.

The growing complexity of products used in Hypo Real Estate Group comes along with an increase in model risk. Therefore, in 2006, Hypo Real Estate Group established a model validation unit in Group Risk Control for the qualitative control and limitation of model risk. In this framework, model risks comprise all risks resulting from the fact that simplifying models are used to model complex reality. In particular, this includes the risk that valuation models for approved products do not reflect with sufficient accuracy the actual market dynamics, especially for structured products and derivatives.

The model validation unit validates the valuation models independently of the banks for all products, and in addition ensures model consistency within the Group. Whereas the independent validation and documentation of the models which are used records, monitors and reduces the model risk, the provision of model consistency is a necessary basis for consistent profit and loss calculation as well as for standardised risk management at the Group level.

In 2006, as part of the process of consolidating IT operations in the Group, IT activities were outsourced to Hypo Real Estate Systems, a wholly owned subsidiary

of Hypo Real Estate Holding AG. Because the outsourcing comprised the former IT operations of the banks together with the central unit in the Holding, OpRisk measurement and management of IT risks is still guaranteed.

Management of legal risks as a component of operational risk is extremely important within the Hypo Real Estate Group. There is particular focus in this respect on the categories of contract risks, risks of legal verdicts and legal risks of the property to be financed. We define contract risk as the possible disadvantages arising from contracts or parts of contracts which are not enforceable, due to errors in the contract form or documentation.

As far as possible, Hypo Real Estate Group uses standard specimen contracts which are consistent with local law. These specimens form the basis of the specific individual contract documentation, which is prepared by employees with legal training and who are familiar with local law. The contract specimens and clauses which are used are regularly checked internally and externally in order to identify economic and legal consequences. Hypo Real Estate Group places special emphasis on sector-wide standardisation of specimen contracts. As shown by the example of the specimens proposed by the “Initiative Finanzplatz Deutschland”, this results in a further gain in terms of efficiency and a considerable reduction of risk.

The Group defines legal verdict risk as the risk that, following a change in legal verdicts, contracts which have been signed in an enforceable manner become entirely or partially unenforceable or ineffective. In order to limit this risk the Group constantly observes the development in legal verdicts. This is carried out internally by the corresponding legal and documentation departments, and externally by specialist lawyer's offices.

The economic value of the property to be financed is determined by legal conditions. These include for instance tenancy agreements which govern the size of rent and the tenancy duration or approvals relating to the operation or utilisation of the property. The Group's credit process regularly comprises “legal due dili-

gence”, in which these legal data are carefully assessed. The Group's experience in the financing process and the findings obtained in this process with regard to possible legal risks of the property to be financed are regularly included in the process of optimising this legal due diligence process.

Strategic and other risks

The aim of senior management's intensive analysis of the competition situation as well as the legal and regulatory environment of the markets relevant for the Group's business is to limit strategic risk, which is defined as the risk of an incorrect assessment of major developments and trends in the main areas of operation of the Group. The business and risk strategy of the Group aims to further diversify income flows by developing the new segments of asset based finance and infrastructure project finance in addition to capital market business, in order to further reduce the strategic risk of the Group's previous main concentration on the field of international commercial real estate financing. The flexibility which the Group has demonstrated in the past with regard to organisational and strategic changes has proved to be a major support in this respect.

Reputational risks, resulting for instance from business conduct, the conduct of customers of the Group or due to occurred losses from other risk types, can have a significantly negative impact on company value by way of negative publicity – either justified or unjustified.

A code of conduct which is applicable throughout the Group and which defines principles of fair conduct with regard to all interest groups is monitored by local compliance officers together with compliance with money laundering and compliance regulations and the guidelines relating to insider trading. Lending principles which are valid throughout the Group define ethical standards which exclude certain transactions or business partners. In line with a uniform image of the Group, a press guideline sets out the way to deal with the press for all members of staff, including the Group Corporate Communication unit.

Summary and outlook

In 2007, Hypo Real Estate Group will adopt a “buy-and-distribute” approach for its business activities to an even greater extent than its previous “buy-and-hold” approach. In addition, the new segments of infrastructure finance and asset based finance will be expanded to a greater extent. The credit risk from all business segments will be effectively limited mainly as a result of the strict risk specifications in cash-flow based new business and intensive risk monitoring of new and existing business.

In order to support the process of risk profile optimising at the Group, has been set up a monthly Group Risk Management Committee for integrating, monitoring, and steering of all major risk types as part of Group divisional steering which was communicated at the beginning of 2007. In line with the divisional structure,

Group Credit Risk Management and Group Risk Control are reporting to the CRO since 2007.

This ensures that the method used for the early recognition, measurement and monitoring of all risk types will again be further developed in a uniform manner to reflect the increasingly complex products and business processes on a continuous basis throughout the Group in 2007. The management impetus resulting from comprehensive and independent reporting in the Group Risk Management Committee together with an even more intense risk/return analysis will further optimise the risk profile of the Group.

The regulatory audit of the comprehensive Basel II regulations will be a further key milestone in 2007 for the Group.

Macro-economic situation

A slight decline of economic growth is generally expected for 2007. This applies to the main regions of the world as well as to Germany. Oil prices in 2007 are expected mostly to be between US\$ 60 and 65 per barrel, whereas the futures markets for other commodities tend to point to falling prices. Apart from the geopolitical risks which are very difficult to quantify, the high current account imbalances are still major factors which give rise to a certain amount of concern throughout the world. The still high US deficit requires the willingness of international investors to continue to change their portfolio towards American assets. One condition for this is the absence of an abrupt end of the positive real estate trade cycle in the US. In Germany, the increase in value-added tax is one of the factors behind a somewhat moderate growth in 2007. However, a positive aspect is that the state is accordingly taking a clear step in the direction of sustainable financial policy, although consolidation in terms of spending would have been the better economic alternative. Monetary policy is not expected to provide any compensation in the form of positive impetus, particularly as the inflation target of the European Central Bank is also just met in Germany. The development on the labour market is considered to be positive. After the number of unemployed decreased by 600,000 in 2006, a further considerable decline is expected for 2007.

Company-specific situation

The forecasts used as the basis for the future performance of the Hypo Real Estate Group are estimates which have been taken on the basis of all currently available information. If the assumptions used as the basis for the predictions fail to materialise, or if risks (as detailed in the risk report) occur to an extent which is not calculated, the actual results may differ from the currently expected results.

Strategic orientation of the group The Management Board and Supervisory Board have defined the main steps and measures for the new growth phase of the group which is now beginning:

- The Hypo Real Estate Group will step up the pace of its existing policy of broadening its business base. In addition to financing large-volume commercial real estate, financial engineering know how will be strengthened and also applied to other asset classes. In this way, the earnings base of the group is to be broadened, and its risk profile is to be further diversified. Initial steps in 2006 were the establishment of infrastructure financing and asset-based finance.
- The segments Hypo Real Estate International and Hypo Real Estate Germany will be combined at the beginning of the financial year to form the segment "Commercial Real Estate". This takes account of the successful establishment of German business and the international focus of customers. A distinction between domestic and international business is accordingly no longer necessary. The legal structure of the group with the three entities of Hypo Real Estate Bank International AG in Stuttgart, Hypo Real Estate Bank AG, Munich, and Hypo Public Finance Bank, Dublin, will be retained despite the new segmentation.
- In addition, the distribution channels for financing which have been set up last year will also be established as a key value driver of the group. This comprises for instance the expansion of securitisation, which will reduce the balance sheet volume and release equity for further growth. The aim is to allocate the group's equity consistently on the basis of the best yield opportunities. The value chain also includes strengthening asset management, which comprises the management of finance risks which are based on real estate as assets. Asset-based finance activities outside

real estate financing, the activities at Capital Markets and asset management are pooled in the segment “Asset Finance und Asset Management”.

- Group-wide portfolio management will be established in the holding company in order to optimise the risk and earnings potential of the group. This will be responsible for managing the entire existing portfolio of the bank; in the past this function has been the responsibility of the operating entities.

Expected results of operations As has been the case in previous years, the Hypo Real Estate Group has again fully met and partially exceeded its ambitious expectations in financial year 2006.

The planning of future financial years is based on the growth steps which have been initiated and on the new segment structure. Planning is also based on the following assumptions:

- Macro-economic growth is expected as described in the forecast report parts concerning the macro-economic and sector-specific situation.
- A rate of inflation of approx. 2.5 % has been planned.
- Based on forward rates, the Euro is expected to strengthen slightly against the US Dollar and the Japanese Yen, and is expected to be relatively constant against Sterling.
- A core capital ratio of 7.0 % is planned for the Group. Core capital comprises an issue of hybrid capital which will account for up to 10 % of shareholders' equity. If the hybrid issue is disregarded, Hypo Real Estate Group aims to achieve a core capital ratio of 6.3 %.

Overall, the Management Board expects to see the positive business development continue in the course of the next few years. Consolidated net income before taxes of at least € 680 million is forecast for financial year 2007. The Commercial Real Estate segment will contribute earnings before taxes in a range of between € 630 million and € 650 million. For the Asset Finance and Asset Management segment, the range has been set at € 90 million to € 110 million.

Return on equity after taxes is expected to be between 11 % and 12 % in financial year 2007. For the year 2009, a target of more than 13 % has been fixed for return on equity.

The considerable improvement in return on equity after taxes is due to higher operating revenues, constant provisions for losses on loans and advances and very moderate growth in general administrative expenses. The Management Board expects to see operating revenues of the Group increase to more than € 1.2 billion in financial year 2007. The major factor with an impact on the extent of operating revenues is the volume of new business and the development of the real estate financing portfolio. The Management Board is expecting that new business will be at least € 25 billion in 2007 with an average return of more than 13 % after taxes. This figure does not include off-balance-sheet business resulting from securitisation and syndication. As is the case with Asset Management, this additional business features major opportunities for revenues.

If it is not able to generate the planned extent of new business on the market and/or if outflows in the existing portfolio are higher than originally planned, there may be a negative impact on operating revenues. The Hypo Real Estate Group will not relax its strict risk and return criteria even in this case. On the other hand, new business in excess of the budgeted figure, e.g. resulting from the expansion into new markets such as India or Singapore which was stepped up last year, constitutes a considerable opportunity.

Net trading income and net income from investments account for part of the operating revenues. A target of a range between 10 % and 15 % is expected for these two items. The Hypo Real Estate Group generates part of this result from activities which are related to the capital market; these are of course subject to fluctuations – depending on the specific market conditions. These fluctuations may constitute risks or opportunities.

Because it is not possible in general to generate revenues in banking without taking on risk, it is possible that provisions for losses on loans and advances will increase again. The Hypo Real Estate Group combats this risk by way of risk-oriented Group steering. A further step in this direction is the establishment of Group-wide portfolio management in Hypo Holdings. Provisions for losses on loans and advances of between € 150 million and € 160 million are forecast throughout the Group for financial year 2007.

The Hypo Real Estate Group will continue to maintain its high cost discipline. The growth which is achieved will enable the cost base and efficiency to be enhanced even further. For the Group, general administrative expenses of between € 360 million and € 370 million are forecast for financial year 2007. Because growth in operating revenues will be considerably higher than growth in general administrative expenses, the cost-income ratio in 2007 will be less than 30%. A cost-income ratio of less than 28% has been set as a target for financial year 2009.

The development of the exchange rate of the Euro against the main international currencies is not expected to have a major impact on the income statement, because open currency items for the current year are generally closed directly. Accordingly, the Hypo Real Estate Group does not consider that this factor presents a major opportunity or involves a major risk.

Expected financial position The Hypo Real Estate Group will continue to use a wide range of refinancing possibilities in future. The pooling of refinancing functions in the Group will enhance the viability of the Hypo Real Estate Group even further. In addition, the capital base will be strengthened by the initial issue of hybrid capital. Overall, liquidity will be adequately secured at all times. In addition, the basis will be created for further growth in Commercial Real Estate and also in Asset Finance and Asset Management.

For refinancing, an improvement in the rating may constitute a major opportunity, as it would probably result in lower interest expenses. On the other hand, a deterioration in the rating (which is not expected) would have a detrimental impact.

Financial Statements of
Hypo Real Estate Holding AG
for financial year 2006

Balance sheet as of 31 December 2006

Assets		
in €	31.12.2006	31.12.2005
Fixed assets		
Intangible assets		
Licenses and software	3,125,673.40	827,889.25
Property, plant and equipment		
Operational and office equipment	923,227.35	989,495.38
Financial assets		
Shares in affiliated companies	4,340,026,804.71	4,366,566,410.55
Loans to affiliated companies	90,000,000.00	—
Security investments	89,868,791.57	—
	4,519,895,596.28	4,366,566,410.55
Current assets		
Accounts receivable and other assets		
Accounts receivable from affiliated companies	412,957,952.58	334,622,688.78
Other assets	33,813,605.79	30,655,481.34
	446,771,558.37	365,278,170.12
Cash at banks	1,190,158.40	46,170,671.32
Deferred charges and prepaid expenses	659,490.31	835,134.77
Total assets	4,972,565,704.11	4,780,667,771.39

Shareholders' equity and liabilities		
in €	31.12.2006	31.12.2005
Shareholders' equity		
Subscribed capital		
Ordinary shares	402,216,525.00	402,216,525.00
Additional paid-in capital	3,318,879,475.00	3,318,879,475.00
Retained earnings		
Other retained earnings	575,000,000.00	276,500,000.00
Participatory capital	97,123,574.14	97,123,574.14
Profit available for distribution	201,632,859.59	248,253,263.99
Provisions		
Provisions for pensions and similar obligations	6,961,990.00	5,282,186.00
Tax provisions	26,466,006.86	5,009,047.83
Other provisions	6,168,285.18	8,613,431.33
	39,596,282.04	18,904,665.16
Liabilities		
Deposits from other banks	201,858,266.66	201,281,444.44
Accounts payable, trade	1,515,442.85	349,210.90
Accounts payable to affiliated companies	125,880,822.21	210,158,437.98
Other liabilities	8,862,456.62	7,001,174.78
thereof for taxes € 616,389.10 (previous year: € 345,648.55)		
thereof for social security € 37,494.48 (previous year: € 0.00)		
	338,116,988.34	418,790,268.10
Total Shareholders' equity and liabilities	4,972,565,704.11	4,780,667,771.39

Liabilities from guarantees, bills of exchange and cheque guarantees
€ 5,158,903,300.63 (previous year: € 6,183,042,368.13)

Income Statement for the Period from 1 January to 31 December 2006

in €	31.12.2006	31.12.2005
Other operating income	64,302,083.01	51,868,987.34
Personnel expenses		
Wages and salaries	14,512,293.81	11,631,688.13
Social security costs, pension expenses and related employee benefit costs thereof for pensions € 1,922,051.42 (previous year: € 1,019,057.29)	2,905,847.63	1,728,132.12
	17,418,141.44	13,359,820.25
Depreciation/amortisation on intangible assets and property, plant and equipment	1,164,820.10	504,467.86
Other operating expenses	18,373,223.38	23,798,909.42
Income from investments thereof from affiliated companies € 128,699,126.16 (previous year: € 470,383,234.60)	128,699,126.16	470,383,234.60
Income from other securities and loans of financial assets thereof from affiliated companies € 550,250.00 (previous year: € 4,784,772.21)	550,250.00	4,784,772.21
Other interest and similar income	174,742.89	1,155,146.51
Income from profit-and-loss transfer agreements	283,280,754.33	15,882,118.00
Interest and similar expenses	18,363,545.37	13,023,295.32
Result of ordinary activities	421,687,226.10	493,387,765.81
Extraordinary expenses	—	3,450,000.63
Extraordinary result	—	-3,450,000.63
Taxes on income	35,735,455.49	8,495,989.72
Net income	385,951,770.61	481,441,775.46

A. General Information Concerning the Financial Statements**Basic information**

Hypo Real Estate Holding AG was established as a new company by way of a spin-off as of 1 January 2003. The assets spun off from Bayerische Hypo- und Vereinsbank AG, Munich, consisted of all shares in DIA Vermögensverwaltungs-GmbH, Munich.

The wholly-owned subsidiary DIA Vermögensverwaltungs-GmbH was merged with Hypo Real Estate Holding AG as of 29 December 2003. The transaction was recorded in the commercial register on 10 March 2004. The company assumed the rights and obligations of DIA Vermögensverwaltungs-GmbH at the point at which the merger agreement was completed. This is also applicable for the profit-and-loss transfer agreement closed with the approval of the extraordinary shareholders' meeting of Württembergische Hypothekenbank AG (since 1 January 2006 trading as Hypo Real Estate Bank International AG) on 30 October 2003, and recorded in the commercial register.

The financial statements as of 31 December 2006 have been prepared in accordance with the regulations of the

German Commercial Code (Handelsgesetzbuch – HGB) concerning the accounting of corporations and the supplementary regulations of the law concerning Aktiengesellschaften (joint stock corporations). The prior year figures have been used for comparison purposes.

The accounting of the company is subject to the regulations for large corporations as detailed in section 267 (3) HGB.

The financial statements have been prepared subject to the general statement regulations set out in sections 246–251 HGB and also subject to the special statement regulations for corporations, sections 268–274 a, 276–278, and subject to the general valuation regulations of sections 252–256 HGB, and also in accordance with the special valuation regulations applicable for corporations, sections 279–283 HGB.

The statement regarding the Corporate Governance Code which is prescribed by section 161 AktG has been issued by the Management Board and the Supervisory Board, and has been published on our web site at www.hyporealestate.com.

B. Information Concerning Accounting and Valuation Principles**Fixed assets****Intangible assets**

Franchises, trademarks, patents, licenses and similar rights and licenses to such rights Software is stated at cost less scheduled depreciation.

Scheduled depreciation is based on a useful life of three years.

Property, plant and equipment

Other installations, operational and office equipment are stated at cost plus ancillary acquisition costs less any reductions in acquisition costs.

Scheduled depreciation was calculated on the basis of normal useful lives. The straight-line method of depreciation is used for writing down assets. Depreciation is calculated on a pro-rata basis.

Minor-value assets are written down in full in the year in which they are acquired and are stated in the list of assets as disposals and additions.

Financial assets are stated at acquisition costs. In the event of a probable permanent reduction in value the regulation of section 253 (2) p. 3 HGB was taken into account.

Current assets**Accounts receivable and other assets**

Accounts receivable from affiliated companies are stated with their nominal values.

Other assets are stated with their nominal value or payment amounts.

Cash in hand, cash at banks and cheques are stated with nominal value.

Provisions

Provisions for pensions and similar obligations are stated in accordance with section 6a EStG with their current value established on the basis of actuarial principles using an interest rate of 6% and established according to the tables 2005 G of Prof. Dr. K. Heubeck.

Tax provisions and other provisions are endowed with the value of estimated liabilities on the basis of a business-like manner, taking all recognisable risks and uncertain obligations into account.

Liabilities

Deposits from other banks, trade accounts payable, accounts payable to affiliated companies and other liabilities are stated in the amount due for repayment.

Currency Translation

In principle, balance sheet items as well as expenses and income in foreign currencies are translated into Euro using the exchange rates applicable on the reference date and transferred to the balance sheet and the income statement.

The security investments in Babcock & Brown Ltd. (Sydney) held in Australian Dollar together with the AUD loan taken out in order to refinance the share purchase together constitute a single valuation unit (special coverage). Accordingly, the securities as well as the refinancing loan are always converted into Euros using the foreign currency exchange rate applicable on the accounting reference date.

C. Notes to the Balance Sheet

The development of intangible assets, property, plant and equipment and financial assets in the course of financial 2006 are set out in the assets development in the appendix to these notes. Major items in the balance sheet are explained in the following:

Fixed assets

Intangible assets The purchase costs for acquired standard software including customizing costs were capitalised in the year under review. In addition to the scheduled depreciation, impairments to EDP software of € 463 thousands were recognised.

Financial assets

Shares in affiliated companies The book value of shares in affiliated companies declined by € 26,540 thousands to a total of € 4,340,027 thousands (previous year: € 4,366,566 thousands).

As part of the transfer of the international real estate financing business to Württembergische Hypothekenbank AG (now trading as Hypo Real Estate Bank International AG, Stuttgart), the investment in Hypo Real Estate Bank International, Dublin (now trading as Hypo Public Finance Bank) together with its participations was structured under the new Hypo Real Estate Bank International AG with effect from 1 January 2006. An increase of € 40 million in shares in affiliated companies is attributable to the capital increase carried out at the beginning of the year. The disposal of € 69,409 thousands is attributable to the share buy-back programme of Hypo Real Estate Bank International AG. The company bought back a total of 1.3 million shares for a price of € 130 million with purchase agreements of 6 September and

17 October 2006. The book value of the investment in Hypo Real Estate Bank International AG amounted to € 2,600,284 thousands at the end of the financial year.

All shares in GfA-Gesellschaft für Anwendungssoftware mbH, Stuttgart, and GfR-Gesellschaft für Rechenzentrumsleistungen mbH, Stuttgart, were acquired in the year under review. The two companies have merged to form Hypo Real Estate Systems GmbH. The book value of the investment is € 2,869 thousands.

The book values of Hypo Real Estate Bank AG and PBI-Beteiligungs-GmbH (in liquidation) were unchanged in the year under review.

Loans to affiliated companies This item shows the loan of € 90,000 thousands extended to Hypo Real Estate Bank International AG in the fourth quarter of 2006.

Security investments A stake of approx. 2.2 % in the Australian investment and consultancy company Babcock & Brown Ltd. (Sydney) was acquired in the year under review. The book value of these securities is € 89,869 thousands.

Accounts receivable and other assets

Receivables from affiliated companies Receivables from affiliated companies amounted to € 412,958 thousands (previous year: € 334,623 thousands). Of this figure, € 128,699 thousands (previous year: € 265,383 thousands) is attributable to the receivable arising from the simultaneous receipt of the dividend of Hypo Real Estate Bank AG, Munich, and € 283,281 thousands (previous year: € 68,882 thousands) is attributable to receivables arising from the profit and loss transfer agreement with Hypo Real Estate Bank International AG, Stuttgart.

Other assets Other assets include, as the largest item, a claim from the reinsurance policy concluded in 2005 vis-à-vis Allianz Lebensversicherung AG in the amount of € 24,447 thousands.

Remaining maturities All receivables have a remaining maturity of up to one year.

Deferred charges and prepaid expenses This item includes amounts from accrued/deferred discounts in the amount of € 114 thousands (previous year: € 228 thousands).

Equity capital

Subscribed capital The subscribed capital of the Company comprises € 134,072,175 no-par value bearer ordinary shares (WKN 802770), each with a theoretical nominal amount of € 3.00. Preferred bearer shares (3,638,400 no-par shares) without voting rights (WKN 802771) were converted into ordinary shares.

At the end of the year reported, the approved capital is € 201,108,261.00 nominal, which is terminable up to the 3rd June 2009. In the case of capital increases against contributions in kind, the subscription right can be excluded. If the capital is increased against cash deposits, the shareholders are to be granted a subscription right. Thereby, however, the shareholder's subscription right can be excluded for peak amounts.

There is limited conditional capital terminable up to the 3rd June 2009 in the amount of € 40,221,651.00 upon which option rights or conversion rights from treasury bonds with subscription rights to shares can be issued in as much as own shares are not deployed for servicing purposes.

The Management Board has so far not taken advantage of these authorization by the Annual General Meeting 2004.

Participatory capital As part of the spin-off and establishment process, the company took on participatory capital of € 102,258 thousands. The bearer participating certificates comprise two million units, each with a nominal amount of DM 100.

The owners of the participating certificates are entitled to an annual coupon of 6.75 % of the nominal amount; this entitlement enjoys priority over the shareholders' entitlement to a dividend payment. The entitlement to a coupon payment is diminished (non-cumulative entitlement) to the extent that such a coupon payment would result in a net loss.

The nominal amount is due for repayment – subject to any participation in losses – on the day after the shareholders' meeting which is responsible for resolutions with regard to the financial year 2007. Participation in any net loss reduces the entitlement to repayment on a pro-rata basis. Any net profits in subsequent years increase the entitlement to repayment maximum to the nominal amount. All other creditors of the company are ranked higher than the participating certificates. If the company becomes insolvent or is liquidated, payments in relation to the participating certificates shall be made after all other creditors' claims have been settled, and before the rights of shareholders are settled.

During the financial year 2003, the company purchased its own participating certificates worth DM 10,042,800. This amount was deducted from the corresponding position at the liabilities side of the balance sheet. The company did not purchase any more of its own participating certificates during the financial years 2004 to 2006.

Retained earnings As of 31st December 2006 € 185,000 thousands were allocated to retained earnings.

Profit available for distribution Profit available for distribution includes the profit carried forward from the previous year in the amount of € 681 thousands.

Reconciliation between net income and profit available for distribution		
in €	2006	2005
Net income	385,951,770.61	481,441,775.46
Profit brought forward from previous year	681,088.98	6,811,488.53
Allocation to retained earnings	185,000,000.00	240,000,000.00
Profit available for distribution	201,632,859.59	248,253,263.99

The following proposals are submitted to the Annual General Meeting as to how the accumulated profits are to be used:

Proposed appropriation of profit available for distribution			
in €	Units	Amount per share	Total
Profit available for distribution as of 31.12.2006			201,632,859.59
Dividend for ordinary shares	134,072,175	1.50	201,108,262.50
Profit carried forward to new account			524,597.09

Provisions

Provisions for pensions and similar obligations have increased compared with the previous year as a result of new or amended pension commitments.

The tax provisions of € 26,466 thousands (previous year: € 5,009 thousands) resulted from the earnings of the Company, including the earnings from the profit-and-loss transfer agreement with the Hypo Real Estate Bank International AG. Due to the minimum taxation rules an offsetting against existing capitalised losses carried forward is only possible at a flat rate of 60%. Any prepayments are considered already.

The other provisions in the amount of € 6,168 thousands (previous year: € 8,613 thousands) include, amongst other things, provisions for employment and contracts with executive bodies in the amount of € 3,392 thousands (previous year: € 6,288 thousands) as well as provisions for the annual audit in the amount of € 288 thousands (previous year: € 242 thousands).

Liabilities

Remaining maturities and details on collateralisation Liabilities do not contain any amounts with remaining maturities of more than five years. In the year reported, there was no collateralisation via liens on outstanding accounts and similar rights.

List of liabilities		Remaining period to maturity up to one year	Remaining period to maturity between one and five years
in €			
Deposits from other banks	2006	1,858,266.66	200,000,000.00
	2005	1,281,444.44	200,000,000.00
Accounts payable, trade	2006	1,515,442.85	—
	2005	349,210.90	—
Accounts payable to affiliated companies	2006	125,880,822.21	—
	2005	210,158,437.98	—
Other liabilities	2006	8,862,456.62	—
	2005	7,001,174.78	—
Thereof: liabilities to holders of participatory rights	2006	6,555,841.51	—
	2005	6,555,841.26	—
		138,116,988.34	200,000,000.00

Off-balance sheet liabilities Relating to the medium term note (MTN) program, issued by the subsidiary company, Hypo Public Finance Bank (the former Hypo Real Estate Bank International, Dublin), the Company has assumed an unlimited guarantee in favour of the creditors. As part of the process of contributing the international real estate financing business of the former Hypo Real Estate Bank International, Dublin, most of the MTN program was transferred to Hypo Real Estate Bank International

AG. The contingent liability is amounting to € 5,158,903 thousands (previous year: € 6,183,042 thousands) on the reference date and contains both the nominal and interest liabilities. Deviating currencies were converted on the reference date.

By updating the prospectus, the Company no longer assumes any guarantee for treasury bonds issued after the end of April 2005.

D. Notes to the income statement

Other operating income The largest item in other operating income results from the sale of shareholdings of Hypo Real Estate Bank International AG, amounting to € 60,591 thousands (previous year: € 47,677 thousands). In addition there is also income included from the forward invoicing of services within Hypo Real Estate Group in the amount of € 2,481 thousands (previous year: € 1,865 thousands).

Other operating expenses Apart from insurance, contributions and charges in the amount of € 2,117 thousands (previous year: € 1,943 thousands), other operating expenses included disbursements for legal, tax and other consultancy services. For the financial year, the annual auditor for the Company received a fee in the amount of € 1,939 thousands (previous year: € 1,191 thousands). The breakdown of this is as follows:

- € 1,048 thousands for Audit of the Annual Financial Statements, of the Group's Annual Financial Statements as well as the review of the Interim Financial Statements;
- € 3 thousands for tax consultancy services;
- € 887 thousands for other services.

Income from investments Due to the in-phase capitalisation of a dividend claim against the Hypo Real Estate Bank AG, income of € 128,699 thousands (previous year: € 265,383 thousands) was recorded. Last year's

dividend comprised a reversal of free capital reserves of € 212,000 thousands.

Income and expenses arising from profit-and-loss transfer Based upon the profit-and-loss transfer agreement concluded between the Hypo Real Estate Bank International AG and the Hypo Real Estate Holding AG, a profit in the amount of € 283,281 thousands (previous year: € 15,882 thousands after granted subsidies) was transferred in the reporting year. The profit transfer benefits from the profit contribution of the transferred international real estate financing business.

Extraordinary result The extraordinary expenses of the previous year (€ 3,450 thousands) represent restructuring expenses, which result from consultancy services relating to the new of Hypo Real Estate Group.

Taxes on income imposed on result for ordinary activities Relating to the spin-off, a corporation tax and trade tax loss was transferred to Hypo Real Estate Holding AG. Despite the further availability of the loss carry forwards the minimum taxation rules, mean that tax expenses totalling € 35,735 thousands have been incurred. This amount includes an exceptional income from capitalised corporate income tax claims of € 1,328 thousands. Tax loss carry forwards amounted to € 202,179 thousands as of 31 December 2006.

E. Additional information

Liability The Company has provided the loss indemnification statement for Württembergische Hypothekenbank AG and Hypo Real Estate Bank AG specified in accordance with prevailing statutes to the Einlagensicherungsfonds (deposit guarantee fund) within the Bundesverband deutscher Banken e.V., Berlin.

In addition, a full guarantee was provided by the company for debt instruments issued as part of the medium term note program (issue framework € 10,000,000 thousands) of Hypo Public Finance Bank (the former Hypo Real Estate Bank International, Dublin). This guarantee is only applicable for debt instruments issued by the end of April 2005 as a result of the reorganisation within the Hypo Real Estate Group. As part of the process of contributing the international real estate financing business of Hypo Public Finance Bank to Hypo Real Estate Bank International AG, Stuttgart, which took place as of 1 January 2006, most of the MTN program was transferred to Hypo Real Estate Bank International AG.

Statement of responsibility For the following companies, Hypo Real Estate Holding AG ensures that they are able to meet their contractual obligations (with the exception of political risk):

- Hypo Real Estate Bank International AG, Stuttgart
- Hypo Real Estate Bank AG, Munich

Other financial obligations There are no other financial obligations.

Average number of persons employed during the financial year, broken down by categories In the year under review, Hypo Real Estate Holding AG employed 76 persons (previous year: 59). 69 persons (previous year: 55) of this figure were full-time employees and seven persons (previous year: four) were part-time employees.

Mandates of the Management Board as of 7.3.2007	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Georg Funke (Chairman of the Management Board)	Hypo Real Estate Bank AG, Munich (Chairman of the Supervisory Board) Hypo Real Estate Bank International AG, Stuttgart (Chairman of the Supervisory Board)	Hypo Public Finance Bank, Dublin/Ireland (Chairman of the Board from 31.1.2007)
Stephan Bub	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board) Collineo Asset Management GmbH, Dortmund (Chairman of the Administrative Board)	Hypo Pfandbrief Bank International S.A., Luxembourg (Chairman of the Administrative Board) Hypo Capital Markets, Inc., New York/USA (Chairman of the Board) Hypo Public Finance USA, Inc., New York/USA (Chairman of the Board) HARDT GROUP Investments AG, Vienna/Austria (Deputy Chairman of the Supervisory Board)
Dr. Paul Eisele	Hypo Real Estate Bank AG, Munich (Deputy Chairman of the Supervisory Board until 31.1.2007)	Hypo Public Finance Bank, Dublin/Ireland (Chairman of the Board until 31.1.2007)
Dr. Markus Fell	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board until 15.2.2007, Deputy Chairman of the Supervisory Board from 16.2.2007) Hypo Real Estate Bank International AG, Stuttgart (First Deputy Chairman of the Supervisory Board) Hypo Real Estate Systems GmbH, Stuttgart (Chairman of the Supervisory Board from 31.1.2006)	Hypo Public Finance Bank, Dublin/Ireland (Non-Executive Member of the Board) Hypo Real Estate Capital Ltd., London/Great Britain (Director) Hypo Real Estate Capital Japan Corp., Tokyo/Japan (Director until 28.2.2006)
Thomas Glynn (Deputy Member of the Management Board from 1.2.2007)	Collineo Asset Management GmbH, Dortmund (Member of the Administrative Board)	Collineo Asset Management USA Inc, USA (Member of the Board of Directors)
Dr. Robert Grassinger (Deputy Member of the Management Board from 1.2.2007)	Hypo Real Estate Systems GmbH, Stuttgart (Member of the Supervisory Board, until 31.12.2006)	
Frank Lamby	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board from 1.2.2007)	
Bettina von Oesterreich (Deputy Member of the Management Board from 1.2.2007)		Hypo Public Finance Bank, Dublin/Ireland (Non-Executive Member of the Board of Directors from 1.3.2006) Hypo Real Estate Capital Corporation, New York/USA (Non-Executive Member of the Board) Quadra Realty Trust, Inc., New York (US REIT) (Member of the Board from 15.2.2007)
Mandates of the Supervisory Board as of 7.3.2007	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Kurt F. Viermetz (Chairman of the Supervisory Board)	Deutsche Börse AG, Frankfurt/Main (Chairman of the Supervisory Board) ERGO-Versicherungs-AG, Duesseldorf (Member of the Supervisory Board until April 2006)	
Professor Dr. Klaus Pohle (Deputy Chairman of the Supervisory Board)	DWS Investment GmbH, Frankfurt/Main (Member of the Supervisory Board and Chairman of the Audit Committee)	COTY Inc., New York/USA (Non-Executive Member of the Board and Chairman of the Audit Committee) Sanofi-Aventis S.A., Paris/France (Administrateur and Chairman of the Audit Committee)

Mandates of the Supervisory Board	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
as of 7.3.2007		
Dr. Ferdinand Graf v. Ballestrem (passed away at 30.9.2006)	Renk AG, Augsburg (Deputy Chairman of the Supervisory Board) MAN Roland Druckmaschinen AG, Augsburg/Offenbach (Member of the Supervisory Board) Bayerische Versicherungsbank AG, Unterfoehring (Member of the Supervisory Board)	MAN Financial Services plc., Swindon/Great Britain (Chairman of the Board of Directors)
Dr. Frank Heintzeler (Member of the Supervisory Board from 14.11.2006)	Walter AG, Tuebingen (Chairman of the Supervisory Board) BWK GmbH Unternehmensbeteiligungsgesellschaft (Beteiligungsgesellschaft der LBBW), Stuttgart (Member of the Supervisory Board) Baden-Württembergische Bank, Stuttgart (Member of the Supervisory Board) Hypo Real Estate Bank International AG, Stuttgart (Member of the Supervisory Board until 31.12.2006)	
Antoine Jeancourt-Galignani		Société Nationale d'Assurances Group S.A.L., Beirut/Lebanon (Chairman of the Board) Euro Disney S.C.A., Marne-La-Vallée/France (Chairman of the Supervisory Board) Gecina S.A., Paris/France (Director) Assurances Générales de France S.A., Paris/France (Director) Société Générale S.A., Paris/France (Director) Total S.A., Paris/France (Director) Kaufman & Broad S.A., Paris/France (Director) Oddo & Cie S.C.A., Paris/France (Member of the Supervisory Board)
Dr. Pieter Korteweg		DaimlerChrysler Nederland B.V., Utrecht/The Netherlands (Non-Executive Member of the Supervisory Board) Dutch Central Bureau of Statistics (CBS), Rijswijk/The Netherlands (Chairman of the Supervisory Board until 1.1.2006) Cerberus Global Investment Advisors, LLC, Baarn/The Netherlands (Senior Advisor) SSA Global Technologies Inc., Chicago/USA (Non-Executive Member of the Board until August 2006) Aozora Bank Ltd., Tokyo/Japan (Non-Executive Member of the Board) Development Fund Netherlands Antilles (SONA), Den Haag/ The Netherlands (Executive Member of the Board) AerCap B.V., Schiphol/The Netherlands (Chairman of the Board)
Robert H. Mundheim (Member of the Supervisory Board until 31.1.2007)		Shearman & Sterling LLP, New York/USA (Of Counsel) Arnhold and S. Bleichroeder Holdings, Inc., New York/USA (Director) eCollege.com, Inc., Chicago/USA (Director)

Consolidated remuneration paid to members of Hypo Real Estate Holding AG's Management Board	2006					2005
	Basic salary	General expenses ¹⁾	Deferred compensation	Profit-related components	Total	Total
in € thousand						
Georg Funke, Chairman	800	68	14	2,200	3,082	2,878
Stephan Bub	450	77	—	900	1,427	1,215
Dr. Paul Eisele	450	60	—	900	1,410	1,346
Dr. Markus Fell	450	59	11	1,000	1,520	1,382
Frank Lamby	450	44	—	1,000	1,494	1,365
Total²⁾	2,600	308	25	6,000	8,933	8,186

¹⁾ Includes, within limits, general expenses for fringe benefits, which underlie taxation and abroad also social security

²⁾ In addition individual contracts for pension commitments exist amounting to a percentage of the annual fixed remuneration

Pension commitments to members of Hypo Real Estate Holding AG's Management Board	2006	
	Provisions for pensions as of 31.12.	Additions to provisions for pensions
in € thousand		
Georg Funke, Chairman	2,005	598
Stephan Bub	394	394
Dr. Paul Eisele ¹⁾	2,592	150
Dr. Markus Fell	392	120
Frank Lamby	744	214
Total	6,127	1,476

¹⁾ Due to service seniority at Hypo Real Estate Bank International AG pension entitlement is in the balance sheet of Hypo Real Estate Bank International AG

Consolidated remuneration paid to members of Hypo Real Estate Holding AG's Supervisory Board	2006					2005
	Basic compensation	Compensation for function in the Nomination Committee	Remuneration for function in the Audit Committee	Value added tax	Total	Total
in € thousand						
Kurt F. Viermetz, Chairman	175	20	—	37	232	118
Dr. Ferdinand Graf von Ballestrem (until 30 September)	70	—	20	14	104	81
Dr. Frank Heintzeler (from 14 November)	12	—	3	3	18	—
Antoine Jeancourt-Galignani	70	—	20	17	107	81
Dr. Pieter Korteweg	70	10	—	15	95	77
Robert H. Mundheim	70	10	—	15	95	70
Prof. Dr. Klaus Pohle	105	10	40	30	185	117
Total	572	50	83	131	836	544

Remuneration paid to persons with key functions in the Group (Senior Management) ¹⁾	2006			2005
	Total fixed remuneration ²⁾	Profit-related components ³⁾	Total	Total
in € thousand				
Total	6,705	13,132	19,837	7,779

¹⁾ Members of the Management Board and executive vice presidents of the subsidiaries (excl. members of the Management Board of Hypo Holdings) as well as managers of Hypo Real Estate Systems GmbH and the heads of department of Hypo Real Estate Holding AG

²⁾ Includes, within limits, general expenses for fringe benefits, which underlie taxation and abroad also social security

³⁾ Profit-related remuneration for the year 2006, but partially paid 2007

Of the expenses incurred for the members of the Management Board, € 5,613 thousands have affected income of Hypo Real Estate Holding AG.

In 2006, the members of the Supervisory Board of Hypo Real Estate Holding AG did not receive any compensation for personal services. On the reference date for the financial statements, there were no receivables in respect of members of the Supervisory Board.

The following table sets out shares and share derivatives of Hypo Real Estate Holding AG which have been purchased or sold by members of the Supervisory Board and Management Board of Hypo Real Estate Holding AG in accordance with the disclosure obligation pursuant to section 15 a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) (directors' dealings):

Directors' Dealing (§ 15 a WpHG)	
	Antoine Jeancourt-Galignani
Function as Member of the Executive bodies	Member of the Supervisory Board
Type of transaction	Purchase
Description of financial instrument	Hypo Real Estate Holding AG bearer share
ISIN/WKN of financial instrument	DE0008027707/802770
Date of transaction	30.3.06
Place of transaction	Paris
Price	56.195 €
Number of items	2,000
Description of underlying financial instrument	—
ISIN/WKN	—
Strike price	—
Price multiplier	—
Expiration date	—

On 31 December 2006, the members of the Management Board and Supervisory Board together held less than 1 % of the total shares issued by Hypo Real Estate Holding AG. Georg Funke holds 30,876 shares. The stock of shares of Kurt F. Viermetz accounts for 50,000 shares.

Group membership

Name and registered offices of companies in which the company owns at least 20 % as well as details of the extent of the capital stake, shareholders' equity and result of the last financial year for which financial statements are available. The list of shareholdings of Hypo Real Estate Holding AG as of 31 December 2006 is enclosed as an appendix. Additionally it will be published at electronic federal bulletin (elektronischer Bundesanzeiger).

Munich, 27 February 2007

Hypo Real Estate Holding Aktiengesellschaft

The Management Board

Georg Funke
(Chairman)

Stephan Bub

Dr. Paul Eisele

Dr. Markus Fell

Thomas Glynn
(Deputy Member)

Dr. Robert Grassinger
(Deputy Member)

Frank Lamby

Bettina von Oesterreich
(Deputy Member)

Enclosures to the Notes

Development of Fixed Assets	Aquisition/production costs				Balance 31.12.2006
	Balance 1.1.2006	Additions	Disposals	Reclassifications	
in €					
Intangible assets					
Licenses and software	1,211,166.32	3,049,818.37	—	—	4,260,984.69
Property, plant and equipment					
Operational and office equipment	1,571,049.29	346,517.85	—	—	1,917,567.14
Financial assets					
Shares in affiliated companies	4,367,566,410.55	42,868,933.71	69,408,539.55	—	4,341,026,804.71
Loans to affiliated companies	—	90,000,000.00	—	—	90,000,000.00
Security investments	—	89,868,791.57	—	—	89,868,791.57
	4,367,566,410.55	222,737,725.28	69,408,539.55	—	4,520,895,596.28
	4,370,348,626.16	226,134,061.50	69,408,539.55	—	4,527,074,148.11

Depreciation/Amortisation			Carrying amounts		
Balance 1.1.2006	Depreciation/ Amortisation of the financial year	Disposals	Balance 31.12.2006	1.1.2006	31.12.2006
383,277.07	752,034.22	—	1,135,311.29	827,889.25	3,125,673.40
581,553.91	412,785.88	—	994,339.79	989,495.38	923,227.35
1,000,000.00	—	—	1,000,000.00	4,366,566,410.55	4,340,026,804.71
—	—	—	—	—	90,000,000.00
—	—	—	—	—	89,868,791.57
1,000,000.00	—	—	1,000,000.00	4,366,566,410.55	4,519,895,596.28
1,964,830.98	1,164,820.10	—	3,129,651.08	4,368,383,795.18	4,523,944,497.03

Holdings of Hypo Real Estate Holding AG Name and place of business	Interest in %		Currency	Total asset in thousand	Equity in thousand	Net income/ loss in thousand	Alternative financial year
	total Sec 16 (4) Stock Corp. Akt	of which held indirectly					
Subsidiaries							
Consolidated subsidiaries							
Banks and financial institutions							
Domestic banks and financial institutions							
Hypo Real Estate Bank AG, Munich	100.00 %	—	€	73,272,784	1,964,809	128,561	—
Hypo Real Estate Bank International AG, Stuttgart	100.00 %	—	€	57,225,870	2,393,529	¹⁾	—
Foreign banks and financial institutions							
Hypo Public Finance USA Inc., New York	100.00 %	100.00 %	US\$	803,574	53,331	4,262	—
Hypo Capital Markets Inc., New York	100.00 %	100.00 %	US\$	5,671	4,502	234	—
Hypo Pfandbrief Bank International S.A., Luxembourg	99.99 %	99.99 %	€	9,294,998	106,722	6,200	—
Hypo Public Finance Bank, Dublin	99.99 %	99.99 %	€	27,199,150	1,803,908	177,322	—
Hypo Real Estate Capital Hong Kong Corp. Limited, Hongkong	100.00 %	100.00 %	HK\$	577,282	-14,551	-24,551	—
Hypo Real Estate Capital India Corp., Private Ltd., Mumbai	100.00 %	100.00 %	INR	394,378	278,848	—	—
Hypo Real Estate Capital Singapore Corporation Private Ltd., Singapore	100.00 %	100.00 %	SG\$	1,730	1,545	-473	—
Other consolidated subsidiaries							
Collineo Asset Management GmbH, Dortmund	100.00 %	100.00 %	€	16,182	13,280	2,315	—
Collineo Asset Management USA Inc., New York	100.00 %	100.00 %	US\$	2,895	1,053	294	—
Hypo Real Estate Transactions S.A.S., Paris	100.00 %	100.00 %	€	242,889	-6	-34	—
Hypo Property Investment (1992) Ltd., London	100.00 %	100.00 %	GB£	40	—	—	—
Hypo Property Investment Ltd., London	100.00 %	100.00 %	GB£	340	340	6	—
Hypo Property Participation Ltd., London	100.00 %	100.00 %	GB£	200	200	—	—
Hypo Property Services Ltd., London	100.00 %	100.00 %	GB£	102	102	1	—
Hypo Real Estate Capital Corp., New York	100.00 %	100.00 %	US\$	5,072,318	402,713	13,788	—
Hypo Real Estate Capital Japan Corp., Tokyo	100.00 %	100.00 %	JP¥	205,594,241	16,925,408	7,957	—
Hypo Real Estate Capital Ltd., London	100.00 %	100.00 %	GB£	55,778	53,798	1,517	—
Hypo Real Estate Investment Banking Ltd., London	100.00 %	100.00 %	GB£	474	205	5	—

¹⁾ Profit/loss transfer to partners due to profit-and-loss-transfer agreement

Holdings of Hypo Real Estate Holding AG	Interest in %			Total asset in thousand	Equity in thousand	Net income/ loss in thousand	Alternative financial year
	total Sec 16 (4) Stock Corp. Akt	of which held indirectly	Currency				
Isar East 60th Street LLC, New York	100.00 %	100.00 %	US\$	6,639	—	—	—
Isar Gotham West 38th Street LLC, New York	100.00 %	100.00 %	US\$	6,540	1	—	—
Isar RP Member LLC, New York	100.00 %	100.00 %	US\$	—	—	—	—
Isar Two Columbus LLC, New York	100.00 %	100.00 %	US\$	806	—	—	—
Liffey 451 LLC, New York	100.00 %	100.00 %	US\$	3,670	3,269	998	—
The Greater Manchester Property Enterprise Fund Ltd., London	100.00 %	100.00 %	GB£	123	123	—	—
WH-Erste Grundstücks GmbH & Co. KG, Schoenefeld	94.00 %	94.00 %	€	165,167	114,047	1,933	—
WH-Zweite Grundstücks GmbH & Co. KG, Schoenefeld	100.00 %	94.00 %	€	58,105	58,097	-211	—
Zamara Investments Ltd., Gibraltar	100.00 %	100.00 %	GB£	10,395	10,395	468	—
Non-consolidated subsidiaries							
Other non-consolidated subsidiaries							
Frappant Altona GmbH, Munich	94.00 %	94.00 %	€	11,424	25	²⁾	—
FUNDUS Gesellschaft für Grundbesitz und Beteiligungen mbH, Munich	94.00 %	94.00 %	€	4,043	904	¹⁾	—
Gfi-Gesellschaft für Immobilienentwicklung und -verwaltung mbH, Stuttgart	100.00 %	100.00 %	€	347	178	27	1.1.– 31.12.2005
GGV Gesellschaft für Grundbesitzverwaltung und Immobilien-Management mbH, Munich	93.95 %	93.95 %	€	2,100	2,072	¹⁾	—
Högni Portfolio GmbH, Munich	100.00 %	100.00 %	€	25	25	—	—
Hypo Dublin Properties Limited, Dublin	100.00 %	100.00 %	€	7	-84	71	1.1.– 31.12.2004
Hypo Real Estate Systems GmbH, Stuttgart	100.00 %	—	€	11,020	3,111	1,984	1.1.– 31.12.2005
IMMO Immobilien Management Beteiligungsgesellschaft mbH, Munich	100.00 %	100.00 %	€	31	31	1	—
IMMO Immobilien Management GmbH & Co. KG, Munich	94.00 %	94.00 %	€	66,388	-181	-9,084	—
IMMO Invest Gewerbe GmbH, Munich	100.00 %	100.00 %	€	26	26	¹⁾	—
IMMO Invest Real Estate GmbH, Munich	100.00 %	100.00 %	€	29	28	¹⁾	—
IMMO Invest Wohnwirtschaft GmbH, Munich	100.00 %	100.00 %	€	23	23	¹⁾	—
IMMO Trading GmbH, Munich	100.00 %	100.00 %	€	1,829	525	¹⁾	—

¹⁾ Profit transfer by shareholders on the basis of profit and loss transfer agreements²⁾ Profit transferred by Meridies Grundbesitz- und Bauabgesellschaft mbH, Munich, on the basis of the profit and loss transfer agreement

Holdings of Hypo Real Estate Holding AG	Interest in %			Currency	Total asset in thousand	Equity in thousand	Net income/ loss in thousand	Alternative financial year
	total Sec16 (4) Stock Corp. Akt	of which held indirectly						
Name and place of business								
Meridies Grundbesitz- und Bauungsgesellschaft mbH, Munich	94.00 %	94.00 %	€	923	78	¹⁾	—	
PBI-Beteiligungs-GmbH i.L., Munich	100.00 %	83.33 %	€	51,817	51,538	8	1.1.– 31.12.2005	
Ragnarök Vermögensverwaltung AG & Co. KG, Munich	94.00 %	94.00 %	€	67,102	–3,880	–3,880	—	
WestHyp Immobilien Holding GmbH, Munich	100.00 %	100.00 %	€	965	598	–296	1.1.– 31.12.2005	
WGS Wohn- und Grundbesitz Stendal GmbH, Stendal	100.00 %	100.00 %	€	229	122	81	1.1.– 31.12.2005	
WH-Erste Grundstücks Verwaltungs GmbH, Schoenefeld	100.00 %	100.00 %	€	279	225	117	1.1.– 31.12.2005	
WH-Zweite Grundstücks Verwaltungs GmbH, Schoenefeld	100.00 %	100.00 %	€	20	19	–1	1.1.– 31.12.2005	
WHI Württemberger Hypo Immo- bilienbewertungs- und Beratungs- gesellschaft mbH, Stuttgart	100.00 %	100.00 %	€	297	194	38	1.1.– 31.12.2005	
Other investments								
Banks and other financial institutions								
Stuttgarter Volksbank AG, Stuttgart	0.18 %	—	€	1,690,149	115,621	2,433	1.1.– 31.12.2005	
Other companies								
Aerodrom Bureau Verwaltungs GmbH, Berlin	32.00 %	32.00 %	€	666	—	–46	1.1.– 31.12.2005	
Ägir Vermögensverwaltung GmbH & Co. KG, Munich	0.01 %	0.01 %	€	27,010	26,789	–135	1.1.– 31.12.2005	
Airport Bureau Verwaltungs GmbH, Berlin	32.00 %	32.00 %	€	305	—	–372	1.1.– 31.12.2005	
Amorfos Grundstücksgesellschaft mbH & Co. KG, Gruenwald	2.50 %	2.50 %	€	33,592	–12,088	934	1.1.– 31.12.2005	
Babcock & Brown Limited, Sydney	2.20 %	2.20 %	AUS\$	859,812	597,709	23,938	1.1.– 31.12.2005	
Burleigh Court (Barnsley) Management Limited, London	20.00 %	20.00 %	GB£	—	—	—	—	
Deutsches Theater Grund- und Hausbesitz GmbH, Munich	3.30 %	3.30 %	€	11,531	2,143	142	1.1.– 31.12.2005	
GWG Gemeinnützige Wohnstätten- und Siedlungsgesellschaften mbH, Munich	> 0 %	> 0 %	€	905,381	181,059	11,990	1.1.– 31.12.2005	
Illit Grundstücks-Verwaltungs- gesellschaft mbH & Co. KG, Gruenwald	5.00 %	5.00 %	€	71,779	–13,971	–1,633	1.1.– 31.12.2004	
Inula Grundstücks-Verwaltungs- gesellschaft mbH & Co. KG, Gruenwald	10.00 %	10.00 %	€	104,368	–47,976	241	1.1.– 31.12.2005	
KOROS Grundstücks-Verwaltungs GmbH & Co. KG, Gruenwald	2.50 %	2.50 %	€	20,846	—	206	1.1.– 31.12.2005	
LEG Landesentwicklungsgesellschaft Nordrhein-Westfalen GmbH, Duesseldorf	> 0 %	> 0 %	€	1,396,500	170,114	–21,295	1.1.– 31.12.2005	

¹⁾ Profit/loss transfer to partners due to profit-and-loss-transfer agreement

Holdings of Hypo Real Estate Holding AG	Interest in %		Currency	Total asset in thousand	Equity in thousand	Net income/ loss in thousand	Alternative financial year
	total Sec 16 (4) Stock Corp. Akt	of which held indirectly					
Name and place of business							
LHI Immobilienfonds Verwaltungs GmbH & Co. Objekt Hettstedt KG, Munich	5.09 %	5.09 %	€	13,721	-4,006	696	1.1.– 31.12.2005
Projektentwicklung Schönefeld Ver- waltungsgesellschaft mbH, Stuttgart	50.00 %	50.00 %	€	29	28	—	1.1.– 31.12.2005
SANO Grundstücks-Vermietungs- gesellschaft mbH & Co. Objekt Dresden KG, Duesseldorf	33.33 %	33.33 %	€	15,901	-3,967	-412	1.1.– 31.12.2005
SOMA Grundstücks-Vermietungs- gesellschaft mbH & Co. Objekt Darmstadt KG, Duesseldorf	33.33 %	33.33 %	€	33,977	-6,157	-677	1.1.– 31.12.2005
SP Projektentwicklung Schönefeld GmbH & Co. KG, Stuttgart	50.00 %	50.00 %	€	30,161	29,286	-86	1.1.– 31.12.2005
Vierte Airport Bureau Center KG Airport Bureau Verwaltungs GmbH & Co., Berlin	32.00 %	32.00 %	€	12,164	—	290	1.1.– 31.12.2005
WILMA Bouwfonds Bauprojekte GmbH & Co. "An den Teichen" KG, Ratingen	5.00 %	5.00 %	€	130	54	-69	1.1.– 31.12.2005
Wisus Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich	33.00 %	33.00 %	€	12,460	-3,547	-166	1.1.– 31.12.2005

Exchange rates

as of 31.12.2006

Australia	1 € =	AU\$ 1.6691
Great Britain	1 € =	GB£ 0.6715
Hongkong	1 € =	HK\$ 10.2409
India	1 € =	INR 58.235
Japan	1 € =	JP¥ 156.93
Singapore	1 € =	SG\$ 2.0202
USA	1 € =	US\$ 1.3170

We have rendered our unqualified audit opinion as follows:

“Auditor’s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of the Hypo Real Estate Holding AG, Munich, for the business year from January 1, 2006 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [“Handelsgesetzbuch: German Commercial Code”] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in determination of audit proce-

dures. The effectiveness of the accounting related internal control system and evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.”

Munich, March 1, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Paskert	Peter
Wirtschaftsprüfer	Wirtschaftsprüfer

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