

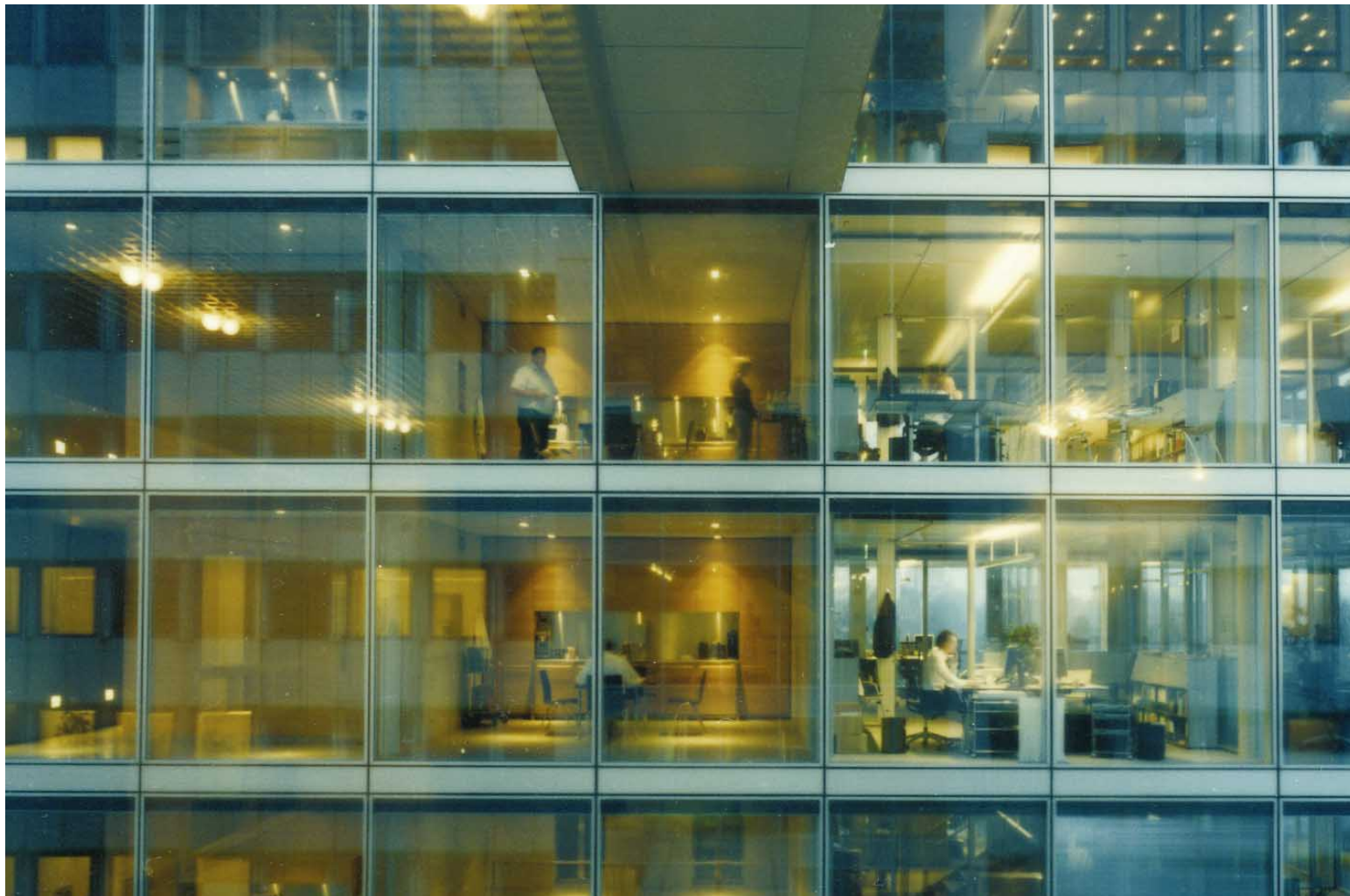


2005 Annual Report

Hypo Pfandbrief Bank International S.A.

2005 Annual Report

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Management Report

Hypo Pfandbrief Bank International S.A. (HPBI) was especially affected during the year under review by the restructuring within the Hypo Real Estate Group that was made known in the summer. The internationally active real estate financing business of the parent company, Hypo Real Estate Bank International, Dublin was transferred to Württembergische Hypothekbank AG, Stuttgart at the end of 2005 which was renamed Hypo Real Estate Bank International AG at the beginning of 2006. Since the parent company in Dublin no longer operates a real estate finance business and the new Hypo Real Estate Bank International has direct access to the Pfandbrief market, the advanced project for developing the Lettre de gage hypothécaire was stopped. Since Hypo Pfandbrief Bank International also no longer had to carry out the uncovered refinancing for the parent company to the previous degree, the Luxembourg subsidiary, run under a management sharing agreement, will be closed at the end of the first quarter of 2006. The issued bonds were transferred to the parent company in Dublin and to Hypo Real Estate Bank International AG in December 2005 respectively at the beginning of January 2006.

A component of the Hypo Real Estate Group restructuring was the creation of the new business area "Public Finance", which is represented by the parent

company in Dublin, which was renamed "Hypo Public Finance Bank" at the beginning of 2006. Hypo Pfandbrief Bank International S.A. will play a major role in this business area, since, after examining the alternatives, a clear decision was made to concentrate the (coverable) public finance business of Hypo Public Finance Bank in Luxembourg. In order to demonstrate this prominent role and the even closer relationship to the parent company, Hypo Public Finance Bank issued a guarantee for Hypo Pfandbrief Bank on 4 January 2006 and, as a result, the rating agency Standard and Poor's raised the counterparty rating to A- (outlook: stable) and the short term rating to A-2. Our Pfandbriefe continue to be rated AAA.

The position of Hypo Pfandbrief Bank International as the centre of competence for the public finance business of Hypo Public Finance is thus clearly defined. Through close cooperation with all departments of Hypo Public Finance Bank, our capacities and processes can be made leaner and more directly focused on the business. Thus within the framework of the restructuring, the rating process of public entities within Hypo Real Estate Group were redistributed so that the Credit Research Team located in Luxembourg was dissolved at the end of the year.

The Board of Directors of HPBI has met three times to discuss and decide on the matters for which there is a reporting obligation under our Articles of Association and rules. Such matters include decisions on staff procedures and credit limits. The discussions also focussed on the strategic positioning and development of HPBI within the Hypo Real Estate Group as well as on the corporation with the parent company Hypo Real Estate Bank International, Dublin.

Lending operations

In the year under review, we acquired claims of € 933 m (previous year € 594 m) including € 677 m (previous year € 449 m) in securities issued by public sector borrowers. This accrual is offset by disposals in the form of redemptions, maturities and sales of € 987 m (previous year € 526 m). Derivative finance instruments were implemented to hedge against risks of changes in the market.

Funding operations

Covered bearer and registered public sector Pfandbriefe (Lettres de gage publiques) were issued in a nominal value of € 842 m (previous year € 2,011 m). Bearer bonds with no obligation to cover as well as subordinate funds were not issued as in the previous year.

In addition to drawings in EUR, we issued in USD and JPY. The bearer issues were floated within the framework of our MTN programme (Programme for the Issuance of Debt Instruments).

Out of our issues in circulation, nine were scheduled for repayment during the year under review, totalling € 1,411 m (previous year € 1,221 m).

Our commercial paper programme was utilised by year's end with € 65 m (previous year € 122 m). The average maturity of the CP issued over the course of the previous year came to 135 days. The new issues were denominated in CHF and in EUR.

Balance movements and earnings

The balance sheet total amounts to € 7,093 m and is thus within the range of the previous year (€ 7,094 m).

The inventory of receivables, including securities, amounts to € 6,160 m. This is a decrease of 3.7 % in comparison with the previous year (€ 6,398 m).

The refinancing capital amounted to € 6,787 m. This is 0.3 % more than the previous year (€ 6,767 m).

Despite the narrow interest rate margins during the year, net interest income slightly exceeded that of the previous year (+1.9 %). With a very conservative risk policy, the interest rate development was used to achieve additional income from the sale of loans against borrowers' notes and securities from the investment portfolio. The staff members recruited in 2004, above all in the Credit Research Department, created a personnel expense (+23.1 %) for an entire year for the first time.

We want to completely assign the net income recorded for the year to reserves in order to strengthen our capital basis.

Net income and profit appropriation

After taxes, we achieved a net income of € 5,550 k for the year (previous year € 4,602 k).

This corresponds to an increase of 20.6 %.

Income statement in report form in thousands of €

		31.12.2005	Previous year
Net interest income		7,365	7,231
Commission income		-631	-636
Net earnings from financial transactions		755	25
Personnel expenses	2,079		1,689
Other administrative expenses	2,238		2,346
Depreciations on property, plant and equipment	36		133
Current expenses		4,353	4,168
Other operating earnings/expenses		3,758	210
Operating result before risk provisions		6,894	2,662
Balance on write-downs and write-ups on securities		1,272	3,420
Risk provision		1,250	150
Operating result after risk provision		6,916	5,933
Taxes		1,366	1,331
Net income for the year		5,550	4,602

We will recommend to the Annual General Meeting that EUR 280 k is allocated to the statutory reserves and EUR 5,270 k to retained earnings.

Risk report

Our Risk Controlling Unit, which reports directly to the management, has kept pace with the bank's growth and has further developed the risk measurement and management systems accordingly in response to the constantly evolving internal and external requirements. The core functions of this unit are:

- to measure and monitor, on a daily basis, market, credit, counterparty, foreign exchange and liquidity risks, using the value at risk approach
- daily calculation of economic performance
- independent monitoring of the parameters used to measure risk and performance
- to refine and implement our management concepts.

The on-going improvements to our measurement and management systems and our integration into the Hypo Real Estate Group risk management framework have given the bank an effective risk management tool.

We have set up appropriate reporting lines and control measures in order to monitor and control individual risks. We would mention the following by way of example:

LIQUIDITY RISK

We are in partnership with a number of well-performing banks in order to meet our short-term liquidity requirements. We produce a statement every day of all future cash flows and cumulative balances, broken down by individual currency, to show the management of short-term payment obligations. A daily assessment of our assets and liabilities is also conducted on the basis of liquidity categories and time scales in order to manage and limit liquidity risks in the short-term, and for the purposes of medium- to long-term planning.

COUNTERPARTY RISKS (CREDIT AND COUNTRY RISKS)

Our counterparty and credit exposure is restricted to public sector borrowers and OECD banks. The counterparty risks from derivative business is presented regularly on the basis of gross replacement values, that is to say, the positive net present values obtained using the marked-to-market method. The utilisation of all credit lines is available for each individual counterparty and also in aggregated form online (intraday) on a market value basis.

MARKET RISKS

As part of our asset/liability management, the interest rate risk for the bank's overall position is monitored on a daily basis. Risk Controlling determines the risk position and financial performance every day and checks that the established limits are adhered to. The management receives information on risks and performance daily. In order to manage and quantify the interest rate risk, we apply the risk sensitivities and the value-at-risk concept introduced within the Group, on the basis of a 99 % level of confidence, with an assumed 10 day holding period. The average exposure to interest rate risks was € 1.7 m.

There were no significant currency risks. All assets and liabilities and off-balance sheet transactions are taken into account in the risk assessment.

In addition to the Risk Management Unit, with its focus on market, counterparty, liquidity and operational risks, our Credit Research - Public Sector Unit concentrates until 31 December 2005 on analysis of credit quality in the public sector, the attractiveness of the public sector borrowers involved, going beyond the analysis of credit-worthiness alone, as well as region-specific and level-specific financing solutions within the OECD area.

Credit-worthiness is assessed on the basis of a scoring model, which takes into account not only political, economical and budgetary factors, as well as regulatory conditions, but also qualitative aspects of the borrower unit. The internal evaluation of the (potential) borrowers goes hand in hand with constant monitoring of credit-relevant information which can be useful as an early indicator of potential risks and credit trends.

On one level, therefore, Credit Research provides information about possible credit risks in our bank's portfolio and also provides a sound basis for the pricing of potential new investments by the Treasury department at country, regional and product level, within the management of the portfolio. The credit, information and decision-making processes are organised on the basis of the "Minimum requirements for the Credit Business of Credit Institutions" introduced in Germany.

Other information

Hypo Real Estate Bank International has provided a letter of comfort to Hypo Pfandbrief Bank International. This was replaced by a guarantee from Hypo Public Finance Bank on 4 January 2006. In the IFRS financial statement of Hypo Real Estate Holding, we will be fully consolidated through Hypo

Real Estate Bank International AG and from 1 January 2006 onwards additionally through Hypo Public Finance Bank.

Outlook

The restructuring of Hypo Real Estate Group repositioned Hypo Pfandbrief Bank International with a clear mission. The guarantee letter of the parent company and closer integration of our company into the new public finance business area improves our starting position. We want to use this to significantly build up our business in 2006 with the careful expansion of the credit spectrum and to continue the very positive trend in the results.

No events of particular significance as regards the asset, financial and operating position over the past financial year have arisen since the end of this financial year.

Business trends and earnings have continued to proceed as expected since 31 December 2005.

February 2006
The Board of Directors



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Annual Financial Statements

BALANCE SHEET AS AT 31 DECEMBER 2005

Assets in €			
		31.12.2005	Previous year
Cash in hand, Balances at Central Banks and Postal Check Offices		707	4,402,738
Receivables from banks		1,414,709,506	1,351,727,256
Municipal loans or loans guaranteed by public institutions	607,009,531		635,850,549
Other receivables	807,699,975		715,876,707
of which: payable on demand	11,268,586		91,055,318
Receivables from customers		696,419,703	572,271,780
Municipal loans or loans guaranteed by public institutions	676,675,841		552,313,575
Other receivables	19,743,862		19,958,205
Bonds and other fixed-income securities		4,048,861,918	4,473,567,873
Public sector issuers	2,130,846,652		2,230,099,414
Other issuers	1,781,148,166		2,071,257,521
Own issues	136,867,100		172,210,938
Property, plant and equipment		90,420	110,163
Other assets		799,336	535,214
Accruals and deferrals		932,522,576	691,709,848
Total assets		7,093,404,166	7,094,324,872

Annual Financial Statements

INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2005

Expenses in €				
			31.12.2005	Previous year
Interest paid and similar expenses			492,541,640	524,926,139
Fee and commission expenses			631,447	635,650
General administrative expenses			4,316,825	4,035,437
Personnel expenses		2,078,989		1,689,037
of which for wages and salaries	1,076,150			1,364,984
of which for social security	328,292			169,899
of which for retirement pensions	260,431			122,589
Other staff expenses	674,547			154,154
Other administrative expenses		2,237,836		2,346,400
Amortisation and depreciation of intangible assets and property, plant and equipment			36,352	132,703
Other operating expenses			57,962	17,845
Write-downs and provisions for receivables and appropriations to provisions for contingent liabilities and credit risks			1,250,000	150,000
Write-downs and provisions for securities held as investments			1,052,556	62,500
Taxes on income from ordinary activities			1,365,801	1,331,000
Result for the financial year			5,550,000	4,601,842
Total expenses			506,802,583	535,893,116

Income in €			31.12.2005	Previous year
Interest earned and similar income			499,906,928	532,157,399
of which from fixed-income securities		229,814,358		245,648,149
Net income from financial transactions			754,634	24,864
Other operating income			3,816,242	227,981
Income from reversal of write-downs on securities held as investments, participating interests and shares in affiliated companies			2,324,779	3,482,872
of which profits from the sale of fixed-income securities held as investments		2,324,779		3,482,872
Total income			506,802,583	535,893,116

Auditors' Report

Following our appointment by the Board of Directors we have audited the attached annual accounts of Hypo Pfandbrief Bank International S.A. for the year ended 31 December 2005 and have read the related management report. These annual accounts and the management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to check the consistency of the management report with them.

We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Hypo Pfandbrief Bank International S.A. as of 31 December 2005 and of the results of its operations for the year then ended.

The management report is in accordance with the annual accounts.

Luxembourg, 13 February 2006
KPMG Audit
Réviseurs d'Entreprises

Thomas Feld
Christian Brüne

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**1. | General
comments**

Hypo Pfandbrief Bank International S.A. (HPBI) was founded on 27 July 1999 in Luxembourg under the original name Pfandbrief Bank International S.A. (PBI). On 14 September 1999, a licence to operate the bank as a mortgage credit bank (banque d'émission de lettres de gage) in accordance with Luxembourg law was issued by the Finance Minister of the Grand Duchy of Luxembourg.

The entry in the Commercial Registry followed on 16 August 1999 under number 71104 (Section B). The legal basis for the operation of a mortgage credit bank is laid down in the "Law of 5 April 1993 on the Financial Sector" (in version valid at the time) in Articles 12-1 to 12-9.

The bank was originally founded by Bayerische Hypo- und Vereinsbank AG (HVB) and its German mortgage bank subsidiaries, each with a similar capital share through a holding company.

Within the framework of the reorganisation of the HVB Group in 2003, the commercial real estate business was separated in a so-called spin off and bundled with other mortgage bank activities into Hypo Real Estate Group. In this transformation process, all shares of HPBI were transferred to Hypo Real Estate Bank International, Dublin.

The capital shares in the bank are now completely held by Hypo Real Estate Bank International, with the exception of one share, which is held by a trustee. The subscribed capital of the bank is completely deposited. The name of the bank was changed as of 1 September 2004 to Hypo Pfandbrief Bank International S.A., in order to highlight the fact that it is part of the Hypo Real Estate Group.

Hypo Pfandbrief Bank International S.A. is integrated into the consolidated financial statement of Hypo Real Estate Holding AG as well as into the subgroup consolidated financial statement of Hypo Real Estate Bank International, Dublin. The financial statements are available at the headquarters of the respective companies in Munich and Dublin.

**2. | Balance sheet
presentation and
valuation methods**

The balancing and valuation methods of the bank are in compliance with the valid regulations of the Grand Duchy of Luxembourg and especially the Law of 17 June 1992 regarding the Financial Statement and the Consolidated Financial Statement of Credit Institutions ("Law"). The classification schema of the balance sheet which differs from the Law is based on the recommendations that CSSF issued for annual financial statements for mortgage credit banks.

The capital currency is the euro (€).

Provisions

The bank always follows the policy of setting up specific provisions in order to cover risks of loss and default on existing claims.

In compliance with the tax regulations in Luxembourg, the option of a general provision has been used to provide against latent credit risks. The upper limit of 1.25 % of the risk-weighted counterparty risks which must be observed in this respect is utilised in part.

2.1 Fixed assets

Property, plant and equipment

Property plant and equipment are stated in the balance sheet at acquisition cost or production cost, less accumulated depreciations. Property, plant and equipment are subject to value impairment over time, which is accounted for with scheduled depreciations. The depreciations are measured according to normal operating life.

The value adjustment rates applied as at the balance sheet date can be read off the table below.

The assets acquired with acquisition/production costs of up to € 870 or with a useful life of less than one year were fully depreciated in the year acquired.

	Rate of adjustment	Method
Office and business equipment	20.00 %	linear
Computer equipment	33.33 %	linear

Financial assets

The holding of bonds and other fixed-income securities, which are intended to permanently serve the business and which fulfil the conditions of the bank regulators, are evaluated at acquisition costs or, in the case of a foreseeable long-term devaluation, at the lower stock market or market price in relation to the so-called “retention principle”. All securities of the cover fund are evaluated at acquisition costs. Securities which are covered by interest rate swaps (asset swap) have also been evaluated at acquisition costs.

The other fixed-income securities have been evaluated at the lower stock market or market price.

Premiums and discounts are distributed pro rata over the remaining term of the securities in the income statement.

2.2 Current Assets

Bonds and other fixed-income securities

Bonds and other fixed-income securities which are not classified as financial assets are entered at acquisition cost and allocated to liquid assets in full.

The securities are valued on the basis of the strict lowest value principle in accordance with the “retention principle”. The values are then shown at the lower stock market price as at the balance sheet date or, if this cannot be established, at the probable sale value or the price which best reflects the value of the securities.

Redeemed own bonds which are hedged by way of an asset swap are valued at acquisition cost.

Receivables

Receivables are shown at their nominal values. Interest accrued, but which is not yet due, is entered under accruals on the asset side of the balance sheet. Premiums and discounts are accrued according to their term.

2.3 Liabilities/Provisions

Liabilities are entered at their nominal or repayment amount, provisions at the amount required on the basis of reasonable commercial estimates.

2.4 Acquisition or production costs of similar stock items and all fungible assets, including securities

The bank uses the weighted average price method to determine the acquisition cost.

2.5 Currency conversion

Assets and liabilities not denominated in euros are converted into the capital currency at the middle spot rate of the balance sheet date.

Income and expenses in foreign currency are converted into the capital currency at the relevant daily rate.

The effects arising from these valuation principles are taken into account in the income statement.

Covered spot and forward items are valued without effect on the income statement. The imparity principle is applied to the valuation results from uncovered items.

2.6 Valuation of financial derivatives

Derivative financial instruments are recorded on the date of the deal conclusion as off-balance sheet items. They are valued at market prices, on the relevant trading date, unless they are being used to hedge against the bank's market risks.

3. Notes on the assets

3.1 Presentation of assets as at 31 December 2005

Maturity schedule

in thousands of €	Receivables from credit institutions (including Central Bank balances)		Receivables from customers	
	31.12.2005	Previous year	31.12.2005	Previous year
Payable on demand	11,269	95,458	13	13
Up to 3 months	816,883	655,488	-	16,192
More than 3 months to 1 year	87,367	51,417	30,678	-
More than 1 year to 5 years	222,025	328,335	453,577	138,119
More than 5 years	277,166	225,432	212,152	417,948
Total	1,414,710	1,356,130	696,420	572,272
Of which subordinated claims	-	-	-	-

The receivables payable on demand from credit institutions include balances with the Central Bank of € 1 k.

Receivables from credit institutions include return claims arising from lent securities of € 533,681 k.

3.2 Presentation of receivables and/or bonds and other fixed-income securities vis-à-vis associate companies or companies with which there is a holding relationship

in thousands of €	Associate companies		Companies with which there is a holding relationship	
	31.12.2005	Previous year	31.12.2005	Previous year
Receivables from credit institutions	225,000	240,000	-	-
Receivables from customers	-	-	-	-
Bonds and other fixed-income securities	226,837	312,181	-	-
Total	451,837	552,181	-	-
Of which own bonds	136,867	172,211	-	-
Of which subordinated claims	-	-	-	-

3.3 Breakdown on the basis of standardised risk weightings

Calculation of balance sheet risk volume in thousands of €			
	Nominal amount	Weighting	Risk equivalent
Asset items covered by cash deposits internally	469,000	0 %	–
Secured by local administrative bodies of Zone A (20 % weighting)	20,287	20 %	4,057
Due from central governments and central banks of Zone A	1,723,065	0 %	–
Due from regional and local governments (0 % weighting)	1,491,914	0 %	–
Due from regional and local governments (20 % weighting)	985,229	20 %	197,046
Due from credit institutions of Zone A ≤ 1 year	519,263	20 %	103,853
Due from credit institutions of Zone A > 1 year	147,386	20 %	29,477
Bonds of credit institutions as per circular 10/2000, Part VIII, Point 10.2.	559,764	10 %	55,975
Due from multinational development banks	204,898	20 %	40,980
Receivables from other customers	19,826	100 %	19,826
Collection items	107	20 %	21
Accruals	50,987	50 %	25,493
Property, plant and equipment	90	100 %	90
Other assets	307	100 %	307
Total	6,192,105		477,125

Derivatives in thousands of €			
	Replacement value *)	Weighting	Risk equivalent
Deals without netting			
Interest-related deals ≤ 1 year remaining term	–	20 %	–
Interest-related deals > 1 year ≤ 5 years remaining term	2,818	20 %	564
Interest-related deals > 5 years remaining term	9,920	20 %	1,984
Exchange rate-related deals ≤ 1 year remaining term	–	20 %	–
Exchange rate-related deals > 1 year ≤ 5 years remaining term	360	20 %	72
Exchange rate-related deals > 5 years remaining term	19,665	20 %	3,933
Deals with netting	42,765	20 %	8,533
Total	75,528		15,106

*) For explanatory note, see point 5.

3.4 Information on credit risk

Receivables and bonds and other fixed-income securities are classified as follows as at the balance sheet date:

in thousands of €					
Remaining term	≤ 1 year	> 1 year ≤ 5 years	> 5 years ≤ 10 years	> 10 years	Total
Credit institutions					
Europe	1,146,132	538,755	650,267	4,073	2,339,227
Japan	1	21,174	48,870	–	70,045
Canada	17,000	–	–	–	17,000
USA	11,500	–	19,947	–	31,447
Total	1,174,633	559,929	719,048	4,073	2,457,719
Public sector borrowers (not including credit institutions)					
Europe	81,493	616,127	1,105,261	1,148,968	2,951,849
Japan	44,911	72,011	65,940	61,167	244,029
Canada	9,185	49,245	87,203	239,956	385,589
USA	45,658	18,700	16,493	20,213	101,064
Total	181,247	756,083	1,274,897	1,470,304	3,682,531
Other borrowers (not including credit institutions)					
Europe	–	19,741	–	–	19,741
Total	–	19,741	–	–	19,741
Overall total	1,355,880	1,335,753	1,993,981	1,474,377	6,159,991

3.5 Bonds and other fixed-income securities and holdings

in thousands of €		
	31.12.2005	Previous year
Listed securities	3,950,552	4,350,029
Unlisted securities	98,310	123,539
Total	4,048,862	4,473,568

The bonds and other fixed-income securities becoming due in the following year stand at € 419,447 k.

Bonds of a Eurozone Member State of the European Union eligible for refinancing at a Central Bank of the Eurozone stand at a nominal € 2,814 m as at the balance sheet date.

The “Bonds” holding is broken down as follows:

in thousands of €		
	31.12.2005	Previous year
Financial assets	3,911,995	4,101,361
Liquid assets	136,867	372,207
Total	4,048,862	4,473,568

As at the balance sheet date, the accumulated premiums stand at € 4,499 k, accumulated discounts are shown as € 3,773 k. Repurchase commitments under sale and repurchase agreements stand at € 1,004,315 k.

3.6 Other assets

Other assets mainly consist of the outstanding claim on the Association Momentanée (ASMO), which handles the settlement of administrative expenses between HPBI and Hypo Real Estate Bank International, Luxembourg branch. Both entities are run under the same management by HPBI.

3.7 Accruals

Accruals mainly involve interest rate accruals and premium and discount depreciations arising from the issuing and lending business. Discounts from the issue business stand at € 716,922 k.

4. Notes on liabilities

4.1 Presentation of liabilities as at 31 December 2005

Maturity schedule

in thousands of €	Liabilities to credit institutions		Liabilities to customers	
	31.12.2005	Previous year	31.12.2005	Previous year
Payable on demand	29,719	1,921	–	–
Up to 3 months	1,793,320	1,186,869	10,000	25,000
More than 3 months to 1 year	–	25,000	–	3,000
More than 1 year to 5 years	5,000	–	95,700	–
More than 5 years	20,000	40,000	975,708	673,857
Total	1,848,039	1,253,790	1,081,408	701,857

Of the liabilities to credit institutions, € 1,004,315 k arises from sale and repurchase agreements.

Debts evidenced by certificates as at 31.12.2005 in thousands of €				
	Public sector Pfandbriefe	Other bonds	Other	Total
Payable on demand	–	–	–	–
Up to 3 months	428,609	–	60,000	488,609
More than 3 months to 1 year	628,752	–	5,000	633,752
More than 1 year to 5 years	2,624,649	–	–	2,624,649
More than 5 years	110,406	–	–	110,406
Total	3,792,416	–	65,000	3,857,416

Securitized liabilities falling due in the next year amount to € 1,122,361 k.

4.2 Presentation of liabilities to associate companies or companies with which there is a holding relationship

Liabilities to associate companies consist of short-term money market business to an amount of € 229 m.

4.3 Other liabilities

Other liabilities as at the balance sheet date mainly consist of outstanding payments for various accounts.

4.4 Deferred income

Deferred income mainly consists of interest deferrals and premiums and discounts.

4.5 Provisions

The other provisions shown were set up for liabilities to staff existing as at the balance sheet date, together with liabilities to third parties applying to the previous financial year (audit costs, consultation costs, etc.). In addition provisions were set up for reasons of restructuring.

4.6 Subordinated liabilities

As at 28 December 2000, the bank accepted a “silent participation” of € 9,000 k. The term was indefinite, with profit-related interest. For bank regulatory purposes, this had to be classified as upper Tier II capital. With effect from 1 January 2003, the silent participation was converted into a subordinate debt issue. The interest is still profit-related, the term remains indefinite, and the regulatory classification is upper Tier II capital. In the year under review, interest of € 790 k was charged to the income statement.

On 18 May 2001, the bank issued subordinated debt of € 15,000 k. The subordinated debt which is to be repaid in instalments as from 18 May 2017 will finally be repaid on 18 May 2026, the interest rate being 6.8 % p.a. The subordinated debt was increased by € 10,000 k to € 25,000 k on 30 January 2002 with the same loan conditions. In the year under review, interest of € 1,700 k was charged to the income statement. For bank regulatory purposes, this is classified as supplementary Tier II capital.

4.7 Equity capital

The subscribed capital is € 66,000 k and is divided into 66,000 no par value registered shares.

Under the Luxembourg Law of 10 August 1915 on commercial companies, the bank must allocate a sum equivalent to at least 5 % of its annual net profit to a statutory reserve every year, until such time as the reserve reaches 10 % of the subscribed capital. No distribution may be made from the statutory reserve. As at the balance sheet date, there was a statutory reserve of € 875 k and retained earnings of € 13,097 k.

The bank exercises the tax credit option for property tax payment purposes. The retained earnings contain € 7,350 k for the property tax credit. Another appropriate allocation to reserves will be made for the year under review.

In accordance with the proposed appropriation of profit, a sum of € 280 k is to be allocated to the statutory reserves and € 5,270 k to retained earnings.

4.8 Assets deposited as security for own liabilities

Assets of a nominal value of € 155,000 k have been deposited with the Central Bank as security.

5. | Notes on the off-balance sheet items

Transactions in derivative instruments on the OTC market are effected exclusively for hedging purposes as part of the bank's asset/liability management process. No trading operations involving derivatives were conducted. We have, as a rule, entered into netting agreements with our trading partners in the derivative business as a risk reduction measure.

During the year under review, we included a very small number of interest rate and currency swaps in the cover pool. We have entered into contractual agreements with the counterparties concerned to regulate the duties of information and cooperation obligations. The procedure has been approved by the regulatory authority and the trustee.

At the end of 2005, the nominal volume of the outstanding off-balance sheet transactions was € 7,839 m, of which € 59 m involved associate companies. The counterparty risk arising from derivatives was determined, inter alia, on the basis of the gross replacement value (replacement costs). This is calculated as the total of all positive market values, not taking into account netting agreements. At the end of 2005, the counterparty risk defined in this way (maximum risk of default) was € 127 m, or 1.6 % of the outstanding nominal value. After netting agreements are taken into account, the counterparty risk is reduced to € 59 m.

If, in accordance with banking regulatory standards, the add-ons together with risk weightings are additionally taken into account for potential future risk, there is a counterparty risk using the market value method of € 15 m at the end of 2005. We shall also be very careful in the future to ensure that the counterparty risk is kept within tight confines through active management. Our counterparties in the derivative business are all OECD banks.

in millions of €						
	Nominal amount Remaining term ≤ 1 year	Nominal amount Remaining term ≤ 5 year	Nominal amount Remaining term > 5 years	Total nominal amount	Positive market values	Counter- party risks
Interest-related transactions						
Interest rate swaps (same currency)	733	3,000	2,381	6,114	72	
Interest rate options – purchases	21	141	51	213	8	
Interest rate options – sales	–	–	81	81	–	
Other interest rate contracts	–	–	–	–	–	
Currency-rated transactions						
Foreign exchange swaps	715	–	–	715	4	
Cross-Currency-Swaps	257	271	188	716	43	
Total	1,726	3,412	2,701	7,839	127	15

6. | Notes to the income statement

6.1 Geographical origin of income

The bank's income were primarily sourced from business relationships with counterparties registered in Europe.

6.2 Balance of expenses/income from financial transactions

This item contains the valuation of foreign currency positions and the results of foreign exchange transaction which were concluded for hedging reasons.

6.3 Other operating income

Other operating income mainly involves the release back of tax provisions for the previous year and income from the sale of receivables.

7. | Other explanatory notes

7.1 Staff

The average numbers of staff employed during the year were as follows:

Management, including departmental managers: 6.0

Other staff: 18.6

At the end of the year, the management team comprised two individuals. There were another 23 employees on the staff.

7.2 Payments and loans to management and supervisory bodies

No loans have been granted to members of the executive bodies (management) or to other members of the Board of Directors.

The members of the executive bodies (managers and departmental managers) were paid salaries totalling € 1,247.3 k for the financial year.

7.3 Deposit guarantee system

The bank is a member of the “Association pour la Garantie des Dépôts, Luxembourg” (AGDL) and, through this, a member of the deposit guarantee association of the banking sector in the Grand Duchy of Luxembourg. It is not necessary to set up a reserve.

7.4 Items not denominated in the balance sheet currency

The total amount of assets in foreign currency (not including euro currencies) is € 1,179,319 k. At the end of the year, liabilities in foreign currencies were € 1,321,291 k. These items are virtually all covered by currency and interest/currency swaps.

8. Asset overview

Asset overview in thousands of €							
	Acquisition costs	Accruals financial year	Disposals financial year	Depreciation financial year	Accumulated depreciation	Residual book value 31.12.2005	Residual book value Previous year
Office and business equipment	603.8	64.2	-482.6	-36.3	-95.0	90.4	110.2
of which computer equipment	332.0	30.3	-300.1	-14.0	-28.0	34.7	44.7
Investment securities	4,101,360.8	441,160.0	-630,526.0	-	-	3,911,994.8	4,101,360.8
Total	4,101,964.6	441,224.2	-631,008.6	-36.3	-95.0	3,912,085.2	4,101,471.0

9. Special information

Statement of covering assets held in accordance with Art. 12-1 to 12-9 of the Law of 5 April 1993 on the financial sector

The information is confined to the presentation of public sector Pfandbriefe. No mortgage-backed Pfandbriefe were issued. Derivative financial instruments with a total value of € 16,505 k were used for cover as at the balance sheet date.

9.1 Statement of covering assets for public sector Pfandbriefe

in €	
Covering assets	4,316,785,759
Substitute cover assets	
Securities	-
Bank balances	-
Total cover	4,316,785,759
In circulation	
Bearer securities	3,653,932,222
Registered securities	410,960,075
Total circulation (requiring cover)	4,064,892,297
Surplus cover	251,893,462

9.2 Additional breakdown

9.2.1 Covering assets

Standard cover in €	
Receivables from credit institutions	
Municipal loans or credits guaranteed by public institutions	536,332,018
Receivables from customers	
Municipal loans or credits guaranteed by public institutions	676,675,835
Bonds of public sector issuers or guaranteed by public institutions	2,557,306,058
Covered public sector Pfandbriefe	529,967,109
Derivative products	16,504,739
Sub-total	4,316,785,759
Substitute cover assets	
Other receivables from credit institutions	–
Bonds under Art. 42 (3) of the UCITS Act	–
Cash	–
Total	4,316,785,759

9.2.2 Cover pool

Breakdown according to size categories		
	Number	in €
Up to € 10 million	27	144,430,687
Up to € 25 million	31	566,744,234
Over € 25 million	66	3,605,610,838
Total		4,316,785,759

Breakdown by country		
	in €	as a %
Germany	1,558,592,748	36.1
Italy	348,600,846	8.1
Canada	346,245,120	8.0
Switzerland	320,661,822	7.4
Japan	262,663,115	6.1
International Organisations	234,557,828	5.5
Austria	234,416,867	5.4
Spain	217,250,245	5.0
Belgium	172,172,864	4.0
Portugal	168,000,000	3.9
USA	121,598,421	2.8
Finland	112,649,474	2.6
France	105,000,000	2.4
Luxembourg	52,000,000	1.2
Sweden	35,004,480	0.8
United Kingdom	24,414,418	0.6
Denmark	2,957,511	0.1
Total	4,316,785,759	100.0

9.2.3 Statement of covering assets by net present value

in millions of €				
	Cover fund	Public sector Pfandbriefe requiring cover *)	Surplus cover	as a %
Nominal	4,317	4,065	252	6.2
Net present value	4,716	4,125	591	14.3
Net present value if yield curve shifts				
+ 100 bp	4,544	4,046	498	12.3
- 100 bp	4,904	4,211	693	16.5

*) Lettres de gage publiques

9.3 Accruals and deferred income

in €	
Accruals	
Interest accruals	168,966,371
From issuing and lending business	726,852,675
Other	36,703,530
Total	932,522,576
Deferred income	
Interest deferrals	158,384,699
From issuing and lending business	4,930,697
Other	3,626,846
Total	166,942,242

9.4 Own public sector Pfandbriefe redeemed

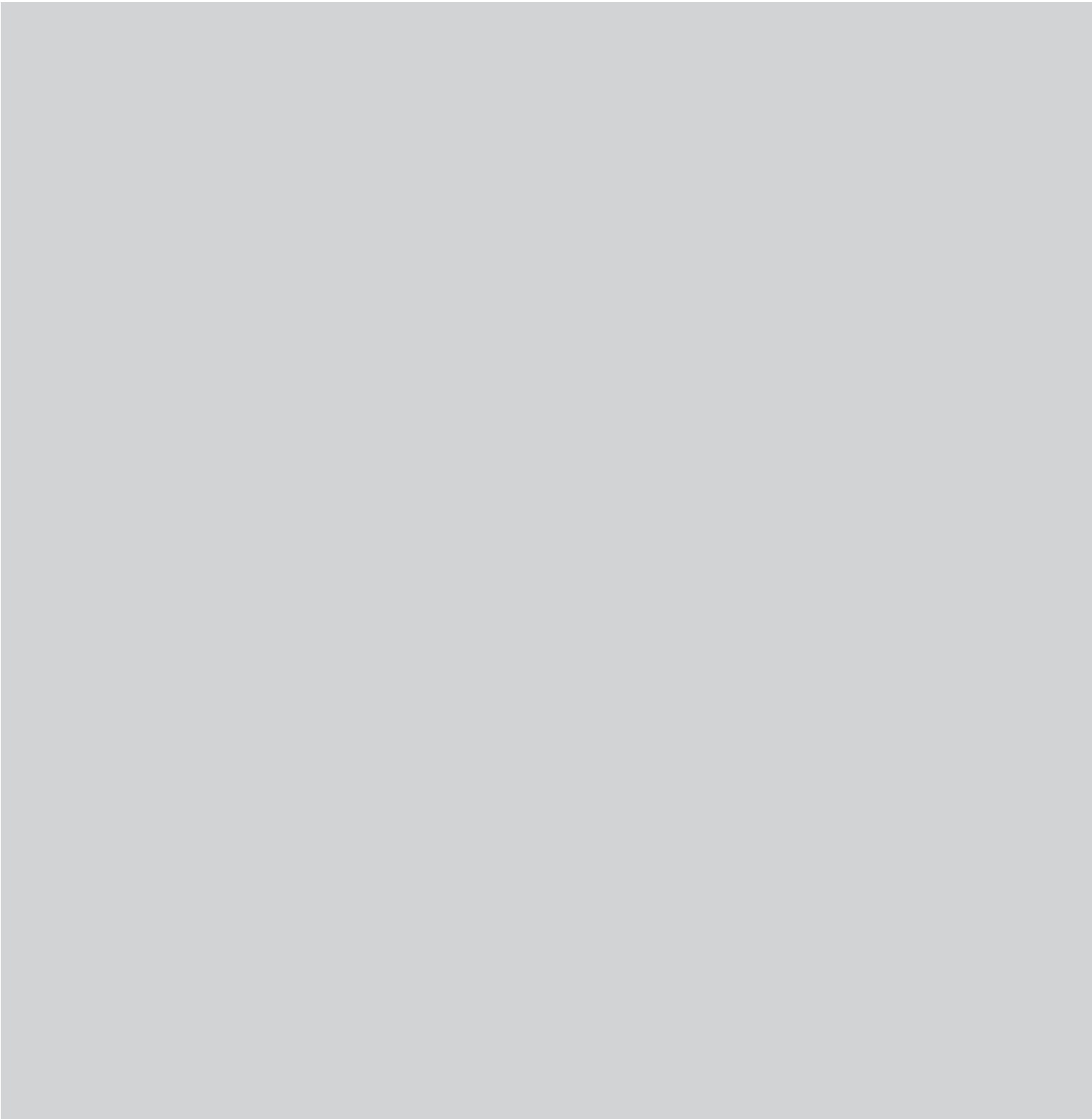
During the year under review, we redeemed nominal € 115.5 m of our own public sector Pfandbriefe for price regulatory purposes. A volume of € 146.5 m was redeemed as scheduled. A holding with a book value of € 136.9 m is shown as at the balance sheet date. Further placement in the market is planned, where current market conditions permit.

9.5 Interest arrears

The interest due from receivables and securities during the year has been received in full.

There are no arrears; no depreciations or adjustments have been made on interest.

Executive bodies



Board of Directors

Stephan Bub	Chairman of the Board Hypo Real Estate Bank International, NY-Westport (Chairman of the Board of Directors from 24 October 2005)
Eckehard Dettinger-Klemm	Member of the Board of Directors of Hypo Real Estate Bank International, Dublin up until 30 November 2005
Dr. Paul Eisele	Spokesman of the Board of Directors of Württembergische Hypothekenbank AG, Göppingen up until 30 November 2005
Dr. Markus Fell	Member of the Board of Directors of Hypo Real Estate Holding AG, München up until 30 November 2005
Ralph Brödel	Administrateur-Délégué, Trier up until 31 December 2005
James William Campbell	Member of the Board of Directors of Hypo Real Estate Bank International, Dublin from 1 December 2005
Heather Eileen Nesbitt	Member of the Board of Directors of Hypo Real Estate Bank International, Dublin from 1 December 2005
Orla Jane Maureen Catherine Nicholson	Head of Treasury of Hypo Real Estate Bank International, Dublin from 1 December 2005
Klaus Söllner	Administrateur-Délégué, Trier from 1 December 2005
Martin Schulte	Administrateur-Délégué, Trier

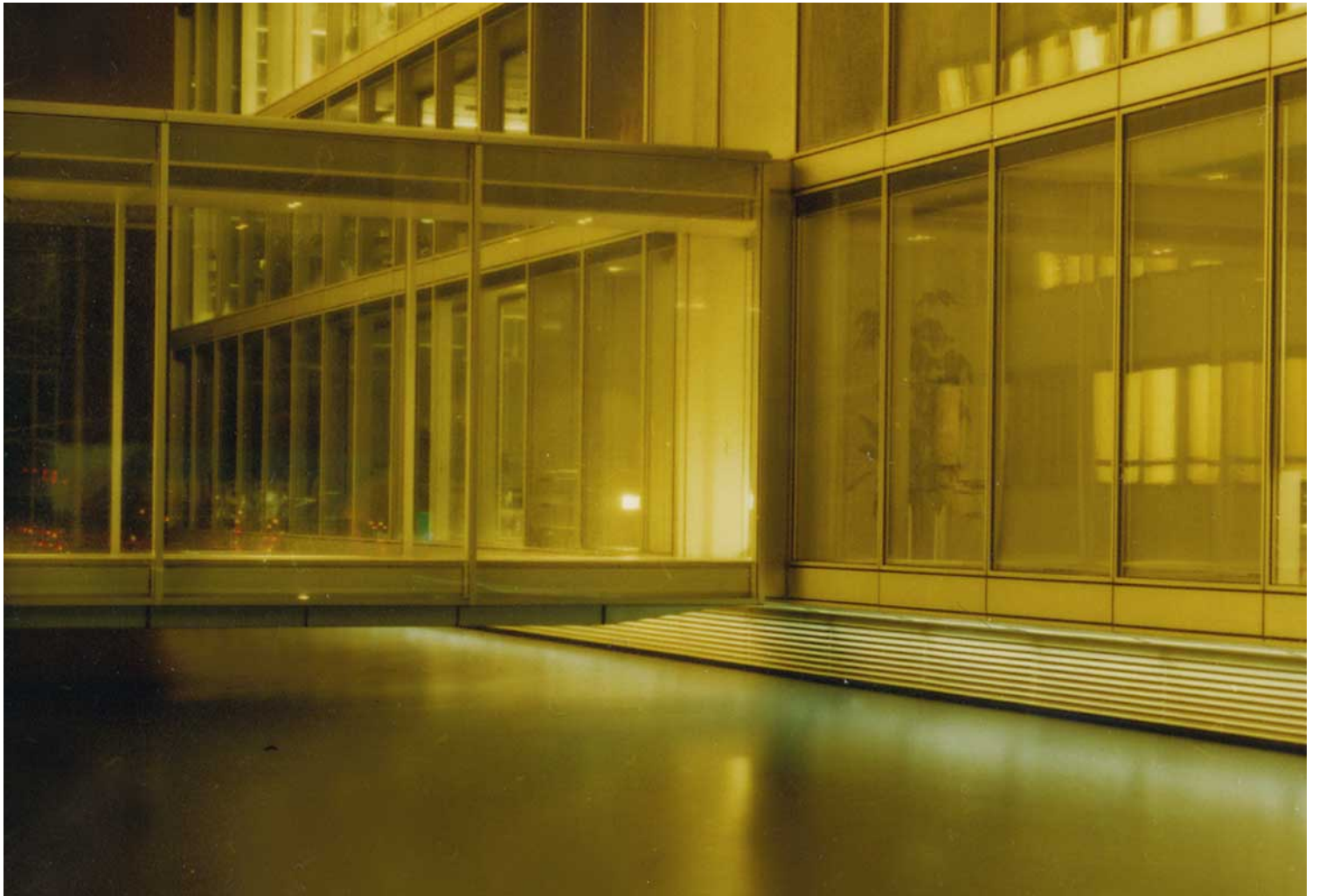
Management

Ralph Brödel	Administrateur-Délégué up until 31 December 2005
Martin Schulte	Administrateur-Délégué
Klaus Söllner	Administrateur-Délégué from 1 January 2006

Réviseur Spécial

PricewaterhouseCoopers S.à.r.l.

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