

Q3

Interim Report at September 30, 2003

FINANCIAL HIGHLIGHTS

KEY INDICATORS	1/1-9/30/2003	
Return on equity after taxes (excl. amortization of goodwill)	%	1.5
Return on equity after taxes	%	1.5
Cost-income-ratio (based on operating revenues)	%	36.4

EARNINGS	1/1-9/30/2003	
Operating profit	€ m	138
Net income	€ m	47
Earnings per share (excl. amortization of goodwill)	€	0.34
Earnings per share	€	0.34

BALANCE SHEET FIGURES	9/30/2003	
Total assets	€ bn	160.9
Total lending volume	€ bn	113.0
Shareholders' equity (excl. changes in valuation of financial instruments)	€ bn	4.1

	9/30/2003	
Employees		1,503

Legal Disclaimer Hypo Real Estate Holding AG opened its doors for business on September 29, 2003 when the spin-off was entered in the Commercial Register maintained by Munich District Court under entry number HRB 149393. All the financial information described in the present interim report was prepared on the basis of the corporate accounting principles of HVB Group and derived from their books and records. The financial information presented here is not based on the corporate accounting principles to be applied by the new Hypo Real Estate Group in the future. In light of what is currently known, it can nevertheless be assumed that applying the corporate accounting principles would not have a significant influence on the assets, financial, and earnings situation shown.

Hypo Real Estate Holding AG will prepare its accounts in accordance with the applicable requirements of the International Accounting Standards Board (IASB). The International Financial Reporting Standards (IFRS) published by the IASB comprise the International Accounting Standards (IAS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) together with the standards and interpretations published by the IASB.

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One of the leading providers of commercial real estate finance in Europe emerges

We have a number of highly eventful weeks and months behind us. On October 6, 2003, the stock of the new Hypo Real Estate Holding AG was listed on the stock exchanges in Frankfurt and Vienna for the first time. Just a few days earlier, the company had been entered in the Commercial Register. Thus our company saw the first light of day. Right from the outset, it is one of the leading providers of commercial real estate finance in Europe.

We have set up the new provider of real estate finance in record time. It was just in March of this year that the executive boards of HypoVereinsbank resolved to pool the commercial real estate operations (excluding the relevant domestic portfolio of HVB) in a new corporate group and to hive the result off as a listed company. In this way, a number of complex transactions were required to complete the spin-off. We have successfully mastered these tasks; the extremely tight schedule has been met with no delays.

The Hypo Real Estate Group is now a completely independent corporate group ready to go its own way on the real estate and capital markets. We are convinced that we represent an attractive investment opportunity for investors taking a longer view. We have a profitable business model targeting large-volume transactions with commercial real estate loans that has proved its worth over the years. Our operating units – Hypo Real Estate Bank International, Württembergische Hypothekbank AG (WürttHyp), and Hypo Real Estate Bank AG – each have a solid capital base, lean and efficient structures, and a committed, talented workforce. In short, the Hypo Real Estate Group has everything it takes to systematically exploit the tremendous opportunities arising from its independence.

Before the first day of trading in our stock, Munich Re had decided to sell its holding of 26.3 % of the capital stock of Hypo Real Estate Holding AG to institutional investors. The Board of Managing Directors welcomed this step. We take it as a vote of confidence that prestigious investors were prepared to invest significant sums in our company in even before the listing took place. This demonstrates that we have succeeded in communicating the advantages and opportunities inherent in our business model to the capital market. Following the sale of Munich Re's holding and part of

AV-Z's holding, 100 % of the shares in our company are now free float, according to the definition used by the Deutsche Börse. Thus Hypo Real Estate Holding is a public corporation in the truest sense of the word.

We would like to welcome you to the very first interim report of Hypo Real Estate Group. After the first nine months of 2003, we are able to report that the corporate group has performed within the range of our expectations overall. We have made good progress on the planned paring back of the domestic loan portfolio, an activity we will continue to pursue. Hypo Real Estate Bank International and WürttHyp have delivered the kind of positive contributions to net income we have come to expect from them. All in all, the corporate group recorded a net income before taxes of € 90 million for the first nine months.

A number of important steps have been taken in the third quarter and also in the first few weeks after the end of the period under review to strategically realign the structure of the Hypo Real Estate Group and set the stage for future growth:

- | In July of this year, Hypo Real Estate Bank AG acquired 100 % of the shares in Westfälische Hypothekenbank AG (WestHyp). The decision was then made to absorb WestHyp into Hypo Real Estate Bank AG. The merger and the associated cost reductions and efficiency improvements are an integral part of the announced restructuring of the domestic loan portfolio. The merger was completed when entered in the Commercial Register on November 3, 2003.
- | In August, the holding company increased its participating interest in WürttHyp by a further 9 % or slightly more to reach 94 %. Already in April of this year, an initial increase in the interest of around 7 % was completed. The holding now stands at around 97 %. At an extraordinary general meeting held on October 30, 2003, the shareholders of WürttHyp approved the conclusion of a profit-and-loss transfer agreement with DIA Vermögensverwaltungs-GmbH, a subsidiary of the holding company.
- | FGH-Bank was sold to Netherlands-based Rabobank on October 24. The disinvestment, which takes retroactive effect from January 1, 2003, enables our corporate group to further sharpen its strategic profile toward large-volume commercial loans.

Following the completed spin-off and the successful start on the stock exchanges, we can now bring our strengths as an international provider of real estate finance to bear for the benefit of high-profile, up-market clients. After having to spend a lot of time dealing with internal issues over the last few months, we are now devoting our full attention to serving our target markets again.

As already communicated on many occasions, the Hypo Real Estate Group is focusing primarily on international operations. In line with this focus, we have decided that Hypo International will open an office in Amsterdam to cover the Dutch market next spring. Preparations to enter the markets in Japan are in full swing. And the Board of Managing Directors is continuing to negotiate the takeover of HVB's existing commercial real estate portfolio in the United States. A corresponding memorandum of understanding was already signed in August. We expect the negotiations to come to a rapid conclusion in the fourth quarter of 2003. Purchasing the existing U.S. portfolio would represent a significant strengthening of our operations in one of the key international markets.

Income statement

FROM JANUARY 1 TO SEPTEMBER 30, 2003

in € millions

	1/1-9/30/2003
Income/expenses	
Net interest income	499
Provisions for losses on loans and advances	189
Net interest income after provisions for losses on loans and advances	310
Net commission income	14
Trading profit	0
General administrative expenses	187
Balance of other operating income/expenses	1
Operating result	138
Net income from investments	-13
Amortization of goodwill	0
Balance of other income/expenses	-35
thereof:	
Restructuring expenses	53
Additions to restructuring provisions	14
Result of ordinary activities – net income/loss before taxes	90
Taxes on income	43
Net income/loss	47
Minority interest	-1
Profit/loss	46
Earnings per share (excl. amortization of goodwill) in €	0.34
Earnings per share in €	0.34

Trend in earnings

The Hypo Real Estate Group is being shown at September 30, 2003 without FGH Bank, which was sold on October 24.

Operating income The operating income of Hypo Real Estate Group has remained constant during the course of the fiscal year. The total in the third quarter was slightly higher than that of the second quarter and amounted to € 514 million in the first nine months of the year.

The decline in net interest income attributable to the sharp reduction in the portfolio of Hypo Germany was compensated by corresponding gains in the two other operating units.

Loan-loss provisions Additions to loan-loss provisions totaling € 189 million are shown at September 30, 2003 as a prorated net amount of € 345 million after offsetting the risk shelter provided by HVB in favor of Hypo Germany. No specific provisions have been required at Hypo International to this date. A general provision has been formed as a precautionary measure to match the calculated standard risk costs. Since these expenses are not tax-deductible, the tax item increased accordingly in the third quarter. Additions to loan-loss provisions at WürttHyp were made according to plan.

Operating profit The operating profit has risen slightly compared with the first two quarters in the third quarter and amounted to € 138 million at September 30, 2003.

Other income and expenses Expenses for restructuring rose € 18 million in the third quarter to reach € 67 million for the first nine months.

Taxes on income Taxes on income increased at an above-average rate in the third quarter due to the formation of the non-deductible general provision and amounted to € 43 million.

Trends in the individual segments

INCOME STATEMENT BY SEGMENTS

from January 1 to September 30, 2003 in € millions

	Group	Other/ Consolidation	Hypo International	WürttHyp	Hypo Germany
Income/expenses					
Net interest income	499	6	105	81	307
Provisions for losses on loans and advances	189	0	30	16	143
Net interest income after provisions for losses on loans and advances	310	6	75	65	164
Net commission income	14	0	29	-7	-8
Trading profit	0	0	0	0	0
General administrative expenses	187	7	40	22	118
Balance of other operating income/expenses	1	1	2	2	-4
Operating result	138	0	66	38	34
Net income from investments	-13	0	-2	3	-14
Amortization of goodwill	0	0	0	0	0
Balance of other income/expenses thereof:	-35	23	0	0	-58
Restructuring expenses	53	12	0	0	41
Additions to restructuring provisions	14	0	0	0	14
Result of ordinary activities net income/loss before taxes	90	23	64	41	-38

Segment reporting

Hypo International With net income before taxes of € 64 million, the Hypo International segment is within the budgetary framework set.

The commercial operations of Hypo Real Estate Bank International (Hypo International) were adversely affected by the complex spin-off process from HVB in the first nine months 2003, and particularly in the third quarter. The capacities tied up in these activities meant that market opportunities could not be exploited with the kind of consistency that is normally demonstrated.

At € 29 million, net commission income remained below plan, for instance, as the fees and commission earned on new business failed to reach the usual levels. Net interest income was also slightly below plan, at € 105 million.

At the same time, developments on the cost side were positive, with general administrative expenses amounting to only € 40 million in the period from January to September, thus totaling less than originally planned.

In line with the successful business model and the strict risk standards of Hypo International, no write-downs on individual commitments were required in the first nine months. The stated additions to loan-loss provisions of € 30 million relate exclusively to the prorated total of the general risk provision planned for the year as a whole amounting to € 40 million.

WürttHyp WürttHyp generated a solid profit in the first nine months of 2003. Net interest income totaled € 81 million. Additions to loan-loss provisions totaled € 16 million in the nine-month period. General administrative expenses totaled € 22 million. WürttHyp recorded a net income before taxes of € 41 million for the first nine months.

Hypo Germany Hypo Germany has made good progress with the planned reduction of its loan portfolio. At the end of September 2003, the constantly declining lending volume (including public sector loans) totaled € 82 billion after € 89 billion at December 31, 2002.

The scheduled paring back of the loan portfolios inevitably resulted in lower interest income. Net interest income totaled € 307 million in the first nine months. Additions to loan-loss provisions are shown at € 143 million; this total includes the risk shelter provided by HVB totaling € 345 million on a prorated basis.

At € 118 million, the general administrative expenses of Hypo Germany remained within the budgetary framework in the first nine months. The fact that the effects arising from the ongoing job cuts will not be visible in the form of lower personnel expense before the next few quarters needs to be taken into account in this respect.

The additions to restructuring provisions totaling € 14 million reflect provisions for severance payments. Furthermore, restructuring expenses totaling € 41 million accrued during the nine-month period. The special depreciation charge taken on the existing computer system were the main item here.

Hypo Germany recorded a loss before taxes of € 38 million for the first nine months of 2003, taking into account the prorated utilization of the risk shelter provided by HVB.

Balance sheet

AS OF SEPTEMBER 30, 2003

in € millions

	9/30/2003
Assets	
Cash reserve	65
Placements with, and loans and advances to, other banks	27,864
thereof:	
Real estate loans	322
Public sector loans	18,588
Loans and advances to customers	87,300
thereof:	
Real estate loans	54,958
Public sector loans	30,527
Provisions for losses on loans and advances	-1,618
Investments	38,692
Property, plant and equipment	82
Intangible assets	78
Other assets	5,562
Tax assets	2,883
Total assets	160,908

AS OF SEPTEMBER 30, 2003

in € millions

	9/30/2003
Liabilities	
Deposits from other banks	19,669
Amounts owed to other depositors	8,144
Promissory notes and other liabilities evidenced by paper thereof:	116,548
Mortgage bonds (Hypothekendarlehen)	19,614
Public sector bonds (Öffentliche Darlehen)	59,708
Provisions	169
Other liabilities	9,513
Tax liabilities	1,767
Subordinated capital	2,371
Minority interest	69
Shareholders' equity	2,658
Subscribed capital	402
Additional paid-in capital	3,310
Retained earnings	346
Change in valuation of financial instruments	-1,446
Profit/loss (1/1-9/30/2003)	46
Total shareholders' equity and liabilities	160,908

Cash flow statement

CASHFLOW STATEMENT

in € millions

	2003
Cash and cash equivalents at January 1	114
Cash flow from operating activities	-3,754
Cash flow from investing activities	350
Cash flow from financing activities	3,355
Effect from exchange rate changes	0
Cash and cash equivalents at September 30	65

Number of employees

NUMBER OF EMPLOYEES AT SEPTEMBER 30, 2003

	9/30/2003
Hypo Real Estate Holding AG	34
Hypo Real Estate Bank International	251
Württembergische Hypothekenbank AG	176
Hypo Real Estate Bank AG (Germany)	1,042
Hypo Real Estate Group	1,503

Notes to the income statement

(1) OPERATING INCOME

in € millions

	1/1–9/30/2003
Net interest income	499
Net commission income	14
Trading profit	0
Balance of other operating income/expenses	1
Total	514

(2) PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

in € millions

	1/1–9/30/2003
Additions	206
Write-downs on loans and advances*	206
Provisions for guarantees and indemnities	0
Reversals	–16
Write-downs on loans and advances	–16
Provisions for guarantees and indemnities	0
Payments received for written-off loans	–1
Total	189

*Net of risk shelter provided by HVB totaling € 345 millions on a prorated basis.

(3) GENERAL AND ADMINISTRATIVE EXPENSES

in € millions

	1/1–9/30/2003
Personnel expense	100
Other administrative expenses	72
Depreciation and amortization on property, plant and equipment, and other assets	15
Total	187

(4) BALANCE OF OTHER OPERATING INCOME/EXPENSES

in € millions

	1/1-9/30/2003
Other operating income	18
Other operating expenses	17
Balance of other operating income/expenses	1

(5) BALANCE OF OTHER INCOME/EXPENSES

in € millions

	1/1-9/30/2003
Other income	35
Other expenses	70
thereof:	
Restructuring expenses	53
Additions to restructuring provisions	14
Balance of other income/expenses	-35

(6) TAXES ON INCOME

in € millions

	1/1-9/30/2003
Actual taxes	51
Deferred taxes	-8
Total	43

Notes to the balance sheet

(7) LENDING VOLUME

in € millions

	9/30/2003
Credits and loans to other banks	19,854
Credits and loans to customers	87,300
Contingent liabilities	5,847
Total	113,001

(8) CONTINGENT LIABILITIES AND OTHER COMMITMENTS

in € millions

	9/30/2003
Contingent liabilities*	5,847
guarantees and indemnity agreement	5,847
Other commitments	2,254
thereof:	
irrevocable credit commitments	2,253
Total	8,101

*The contingent liabilities are offset by equivalent contingent claims.

Quarterly report

INCOME STATEMENT FROM JULY 1 TO SEPTEMBER 30, 2003

in € millions

	7/1-9/30/2003
Income/expenses	
Net interest income	181
Provisions for losses on loans and advances	59
Net interest income after provisions for losses on loans and advances	122
Net commission income	0
Trading profit	0
General administrative expenses	71
Balance of other operating income/expenses	6
Operating result	57
Net income from investments	-15
Amortization of goodwill	0
Balance of other income/expenses	-18
thereof:	
Restructuring expenses	4
Additions to restructuring provisions	14
Result of ordinary activities – net income/loss before taxes	24

Executive boards of Hypo Real Estate Holding AG

Board of Managing Directors

Georg Funke, Chairman

Johann Berger

Dr. Paul Eisele

Dr. Markus Fell

Frank Lamby

Supervisory Board

Kurt F. Viermetz, Chairman

Dr. Ferdinand Graf von Ballestrem

Dr. Götz Wricke

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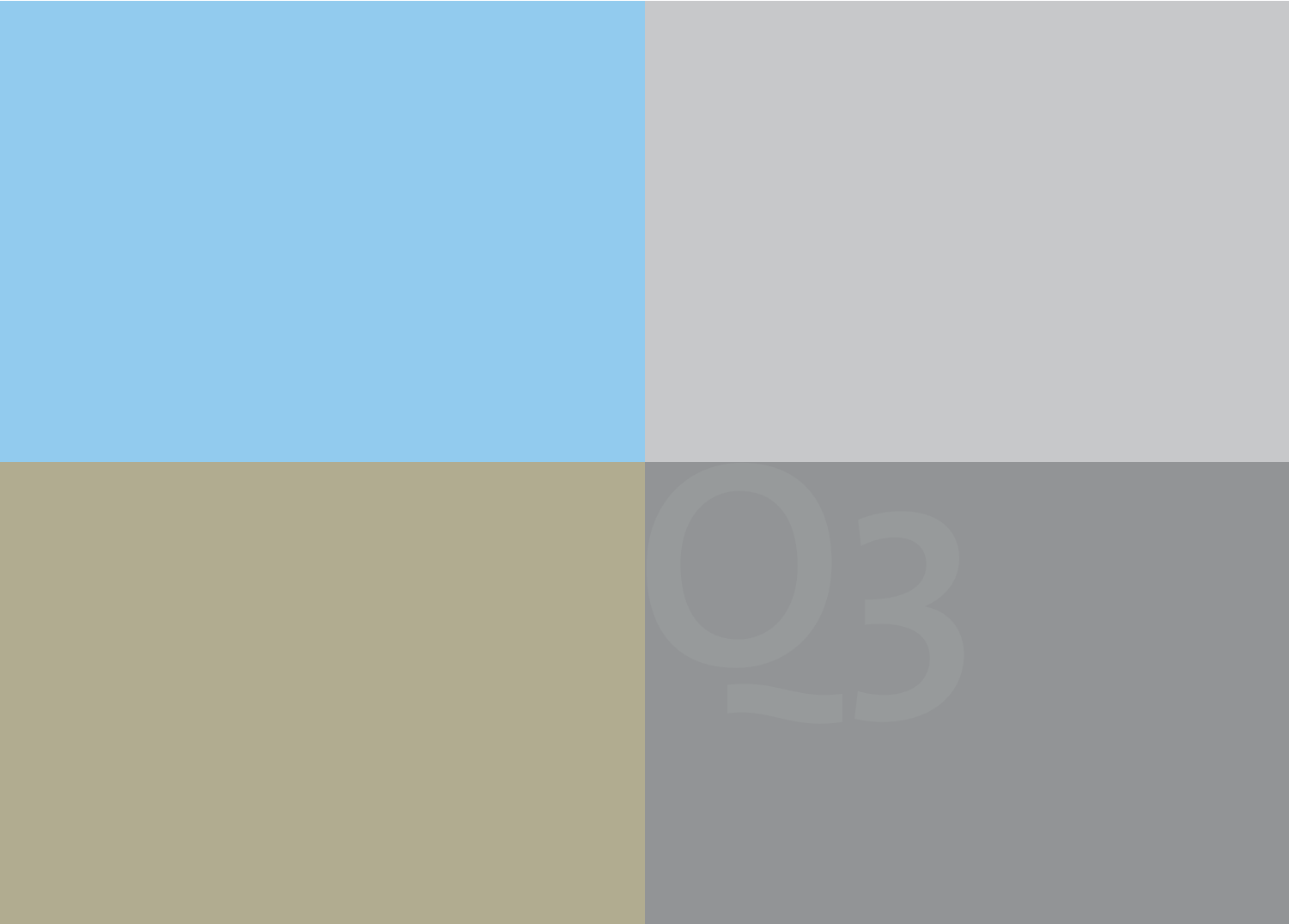
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