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Hypo Real Estate Group achieves strong growth in earnings in the first quarter

- **Net income before taxes: EUR 55 million after three months**
- **Hypo Real Estate International has doubled pre-tax earnings**
- **Unchanged forecast for the whole of 2004**

Munich, May 12, 2004 – Hypo Real Estate Holding AG has achieved considerable growth in earnings in the first quarter of 2004. Net income before taxes amounted to EUR 55 million in the first three months, compared with the pro-rata prior year figure (1/4 of 2003) of EUR 39 million (+41%). Adjusted for the one-off effect in the prior year of buying the WestHyp minority shares (“Lucky Buy”), the improvement in net income before taxes was 83%. Consolidated profit improved to EUR 41 million from the pro-rata prior year figure of EUR 29 million (+41%). Quarterly earnings per share are stated as EUR 0.31 (pro-rata 2003: EUR 0.22 per share).

For the first three months, the group has reported net interest income of EUR 166 million (pro-rata 2003: EUR 168 million). Provisions for losses on loans and advances are stated as EUR 71 million (pro-rata 2003: EUR 63 million). Excluding the risk shelter of HVB AG however, the addition to loan-loss provisions compared with last year was reduced significantly by EUR 74 million to EUR 104 million. General administrative expenses amounted to EUR 72 million (pro-rata 2003: EUR 65 million). This reflected the higher expenses incurred for expanding the bank's international presence. Accordingly, return on equity at the Hypo Real Estate Group (after taxes) amounted to 4.0% (2003: 2.8%). The cost-income ratio amounted to 37.7% (2003: 35.2%). Compared with the end of last year, the total assets declined by EUR 1.6 billion to EUR 151.3 billion, mainly as a result of the consistent down-sizing of the domestic portfolio in the German business segment.

Development in the three business segments

The earnings situation has improved in all business segments of the group.

The growth in earnings is attributable primarily to the segment **Hypo Real Estate International (HREI)**. Compared with the pro-rata prior year figure of EUR 22 million, net income before taxes in this segment has more than doubled to EUR 46 million, one reason being the initial incorporation of the US real estate financing portfolio which was acquired at the end of 2003. Net interest income amounted to EUR 50 million (pro-rata 2003: EUR 34 million). It was again not necessary to book any specific loan loss provisions but EUR 11 million in general risk provisioning (pro-rata 2003: EUR 9 million) were set aside. As a result of the process of expanding the international presence and incorporating US activities, general administrative expenses increased to EUR 26 million compared with the pro-rata prior year figure of EUR 16 million. Nevertheless, the cost-income ratio has improved to 31.3% (previous year: 33.2%). Return on equity after taxes amounted to 9.6% (2003: 4.3%).

The segment **Wuerttembergische Hypothekenbank (WuerttHyp)** experienced the usual sound development in business, and achieved net income before taxes of EUR 16 million in the first quarter (pro-rata 2003: EUR 13 million). Net interest income amounted to EUR 26 million (pro-rata 2003: EUR 27 million). General administrative expenses were unchanged at EUR 8 million. Compared with the pro-rata prior year figure, the addition to provisions for losses on loans and advances declined by EUR 1 million to EUR 5 million. Return on equity after taxes improved to 10.1% (2003: 8.2%).

As expected, the scheduled down-sizing of the domestic loan portfolio reduced operating revenues in the segment **Hypo Real Estate Germany (HREGe)**. Quarterly net income before taxes in this segment amounted to EUR minus 1 million (pro-rata 2003: EUR minus 3 million). The provisions for losses on loans and advances in the segment comprise a pro-rata figure of EUR 32.5 million from the risk shelter of HVB AG. The bank's loan portfolio declined in line with the strategy and amounted to EUR 89.6 billion on March 31, 2004 compared with EUR 92.9 billion on December 31, 2003.

Outlook for 2004

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

Hypo Real Estate Group - Income statement by business segment (IFSR) ⁽¹⁾

EUR million	HREI	WuerttHyp	HREGe	Other/ consolidation	HREG
Net interest income					
01.01.-31.03.2004	50	26	91	-1	166
¼ of 2003	34	27	105	2	168
Provisions for losses on loans and advances					
01.01.-31.03.2004	11	5	55	-	71
¼ of 2003	9	6	48	-	63
Net interest income after provisions for losses on loans and advances					
01.01.-31.03.2004	39	21	36	-1	95
¼ of 2003	25	21	57	2	105
Net commission income					
01.01.-31.03.2004	32	-4	-4	-	24
¼ of 2003	14	-1	-2	-	11
General administrative expenses					
01.01.-31.03.2004	26	8	33	5	72
¼ of 2003	16	8	38	3	65
Balance of other operating income /expenses					
01.01.-31.03.2004	1	-	-	-	1
¼ of 2003	-	-	6	-1	5
Operating profit/loss					
01.01.-31.03.2004	46	9	-1	-6	48
¼ of 2003	23	12	23	-2	56
Net income from investments					
01.01.-31.03.2004	-	7	4	-	11
¼ of 2003	-1	1	-	-	-
Balance of other income/expenses					
01.01.-31.03.2004	-	-	-4	-	-4
¼ of 2003	-	-	-26	9	-17
thereof:					
Restructuring expenses					
01.01.-31.03.2004	-	-	2	-	2
¼ of 2003	-	-	22	-	22
thereof:					
Additions to restructuring provisions					
01.01.-31.03.2004	-	-	1	-	1
¼ of 2003	-	-	8	-	8
Profit/loss from ordinary activities / net income/loss before taxes					
01.01.-31.03.2004	46	16	-1	-6	55
¼ of 2003	22	13	-3	7	39
Taxes on income					
01.01.-31.03.2004	13	-	-	1	14
¼ of 2003	8	-	1	1	10
Net income/loss					
01.01.-31.03.2004	33	16	-1	-7	41
¼ of 2003	14	13	-4	6	29
Minority interest					
01.01.-31.03.2004					-
¼ of 2003					-
Consolidated profit					
1.1.-31.3.2004					41
¼ von 2003					29

(1) Since Hypo Real Estate Holding AG only came into existence when it was entered in the commercial register on September 29, 2003 and numerous restructuring measures took place in the year 2003, we have used the pro-rata values from the audited consolidated financial statements for the period ending December 31, 2003 as previous year values in this interim report in order to improve comparability.

Hypo Real Estate Group Key ratios by business segment

%	HREI	WuerttHyp	HREGe	HREG
Cost-income ratio (based on operating revenues)				
01.01.-31.03.2004	31.3	36.4	37.9	37.7
31.12.2003	33.2	29.8	34.9	35.2
Return on equity after taxes (net of amortization of goodwill)				
01.01.-31.03.2004	9.6	10.1	-0.2	4.0
31.12.2003	4.3	8.2	-0.7	2.8
Return on equity after taxes				
01.01.-31.03.2004	9.6	10.1	-0.2	4.0
31.12.2003	4.3	8.2	-0.7	2.8

Hypo Real Estate Group: Balance sheet figures

(EUR million)	31.3.2004	31.12.2003
Total volume of lending	107,381	113,726
Balance sheet total	151,294	152,877