

Press release

Hypo Real Estate Group sets the scene for further growth

- **Real estate financier has published financial statements for 2006**
- **Adjusted consolidated net income stated as EUR 429 million**
- **Total new business of more than EUR 34 billion considerably higher than expectations**
- **Return on equity after taxes up to 9.9%**
- **Further considerable earnings growth expected for 2007**
- **Approx. EUR 300 million hybrid capital will be raised in H1 2007**
- **Georg Funke: "Consistent progress towards becoming an asset finance house has been started"**

Munich, 14 March 2007: Following a very successful year in 2006, the Hypo Real Estate Group has now set the scene for a new development phase. As a result of consistently developing the business model from being a financier of large volume commercial real estate and towards that of a more broadly asset based asset finance house for various asset classes, the Group will develop additional growth and establish the conditions necessary for a further increase in profitability.

The Group has today published the annual financial statements for 2006, after having announced the preliminary data on 29/30 January 2007. Net income before taxes amounted to EUR 571 million in 2006. At EUR 34.2 billion, total new business – including securitisations and syndications as well as financing of other asset classes – exceeded expectations considerably. Shareholders are to benefit from the positive development in business by way of a 50% increase in the dividend to EUR 1.50 per share, which will be proposed by the Management Board and Supervisory Board to the annual general meeting on 23 May 2007 (previous year: EUR 1.00 per share).

Income statement for 2006: Group

- Total **operating revenues** (the sum of net interest income and net commission income, net trading income, net income from investments and the balance of other operating income/expenses) have increased by 14% to EUR 1.08 billion (2005: EUR 946 million). They were accordingly higher than the budget figure of EUR 1 billion.
 - All major revenue types have contributed to this growth. **Net interest income** improved by approx. 12% to EUR 811 million (2005: EUR 722 million), due to the strong new business of previous years and also due to an improved average margin in the German real estate financing portfolio. **Net commission income** increased by 16% to EUR 145 million (2005: EUR 125 million), also as a result of the contribution to results made by Hypo Public Finance Bank in Dublin which commenced operations at the beginning of 2006. **Net trading income and net income from investments** have also improved.
- Despite the considerable growth in the portfolio, **provisions for losses on loans and advances** increased only slightly to EUR 159 million (2005: EUR 151 million).
- **General administrative expenses** increased by approx. 6% from EUR 317 million to EUR 335 million, mainly due to the expansion of the segments Hypo Real Estate International and Hypo Public Finance Bank. As a result of the stronger growth in operating revenues, the **cost-income ratio** improved by 2.5 percentage points to 31.0 %.
- **Consolidated net income before taxes** is reported as EUR 571 million, approx. 29% higher than the corresponding previous year figure of EUR 443 million. The two figures both include a positive effect attributable to the change in the accounting policy for measuring allowances for losses on loans and advances (EUR 30 million compared with EUR 35 million in the previous year) and the negative effect attributable to restructuring expenses (EUR 17 million compared with EUR 34 million). Adjusted by

these effects, net income before taxes amounted to EUR 558 million, and was thus completely within the range of EUR 550 to 560 million.

- **Net income after taxes** amounted to EUR 542 million, and was thus approx. 43% higher than the corresponding previous year figure (EUR 380 million). This includes deferred tax income from capitalised losses carried forward of EUR 51 million (2005: EUR 46 million). As announced at the end of last year, so-called income of capitalised corporate income tax claims of EUR 62 million were also recognised within the framework of the company tax reform. Adjusted by both effects, consolidated net income increased by 28% to EUR 429 million (2005: EUR 334 million).
- **Return on equity after taxes** – also adjusted by the two positive tax effects – amounted to 9.9% (2005: 8.1%), and was considerably higher than the originally announced target of at least 9.0%.

New business 2006

New real estate financing business in 2006 increased to EUR 26.6 billion, and thus considerably exceeded the already high previous figure of EUR 22.3 billion (+19%). Growth was particularly strong in the USA, Great Britain and in Germany. This figure does not include the international financing portfolio (EUR 3.3 billion) acquired from **AHBR** in the summer of 2006. A further EUR 2.4 billion of new business was acquired as a result of **securitisations and syndications**. And the newly established segment Hypo Public Finance Bank contributed EUR 1.9 billion to **infrastructure and asset-based** financing. Overall, new business in the Group amounted to EUR 34.2 billion.

Balance sheet development 2006: Group

- **Total volume of lending** increased to EUR 94.8 billion as of 31 December 2006, compared with EUR 92.4 billion at the end of 2005 (+3%).
- **Risk weighted assets** increased by EUR 10.1 billion compared with the previous reference date, namely to EUR 66.4 billion. This was due to the strong new business and the acquisition of the AHBR portfolio.

- At the end of 2006, the Hypo Real Estate Group reported **equity funds** of approx. EUR 6.7 billion, compared with EUR 6.3 billion at the end of the previous year. The **core capital ratio** was a sound 7.0% (31 December 2005: 7.8 %), and the **equity funds ratio** was 9.3 % (31 December 2005: 10.8 %).

Information concerning the business development in 2006 of the segments

Commercial Real Estate

As announced on 29/30 January 2007, domestic and international business in commercial real estate financing has been combined in the new reporting segment "Commercial Real Estate" since the beginning of the current financial year. Several key financials for 2006 on the basis of pro-forma figures are set out in the following:

- The new segment generated **operating revenues** of approx. EUR 1.01 billion (*segment Hypo Real Estate International EUR 639 million + segment Hypo Real Estate Germany EUR 367 million*), approx. 13% more than in the year 2005 (EUR 891 million). The growth driver in this respect was net interest income (+13%).
- **Net income before taxes** improved by 22% from EUR 485 million to EUR 592 million (*segment Hypo Real Estate International EUR 423 million + segment Hypo Real Estate Germany EUR 169 million*).
- **Return on equity after taxes** adjusted by the tax exceptional effects increased from 9.7% to 10.8%. Return on equity after taxes for international business amounted to 13.3%, and the corresponding figure for business in Germany was 7.7%.

Hypo Public Finance Bank (Asset Finance & Asset Management)

- This segment commenced operations at the beginning of 2006, and has reported a successful first financial year. As a result of commencing business with infrastructure financing and also by expanding capital market business, the Group's activities have been diversified by way of extending the value chain.

- **Operating revenues** increased by 60% to EUR 96 million (2005: EUR 60 million), not least as a result of better net commission income (EUR +15 million compared with the previous year).
- **Net income before taxes** amounted to EUR 47 million. It was more than double the previous year figure (EUR 18 million) and also considerably higher than the target range of EUR 25 to 35 million.
- **Return on equity after taxes** improved from 7.9% to 9.7%.

Outlook for 2007

For financial 2007, the Management Board expects that the Group will be able to continue the positive business development of previous years. This means the following in specific terms:

- **New business** in real estate financing and in infrastructure financing/asset-based finance is expected to be at least EUR 25 billion with an average return (IRR) of 13% after taxes. Securitisation and Syndication business is expected to reach at least EUR 10 billion (thereof EUR 5 billion out of the existing, non-strategic German portfolio).
- **Operating revenues** are expected to rise to more than EUR 1.2 billion, primarily as a result of growth in net interest income and net commission income.
- **Provisions for losses on loans and advances** are expected to be between EUR 150 and 160 million, roughly in line with the corresponding previous year figure.
- **General administrative expenses** are expected to increase moderately to EUR 360 to EUR 370 million.
- The **cost-income ratio** is expected to decline further to below 30%.
- **Net income before taxes** is expected to be at least EUR 680 million, involving growth of at least 20%.
- A range of 11 to 12% has been set as the target for **return on equity after taxes**.
- The **core capital ratio** is expected to be 7.0% in 2007. This figure has assumed an issue of hybrid capital. The plan is to raise approx. EUR 300 million of hybrid capital in the first half of this year.

Strategic growth measures

As communicated at the end of January of this year, the Management Board and Supervisory Board of Hypo Real Estate Holding have defined the main steps and measures necessary for initiating a new phase of growth at the Hypo Real Estate Group. The key points are as follows:

- **Diversifications of asset classes:** Without losing its profile as a financier of larger volume commercial real estate with world-wide operations and also without neglecting growth opportunities in this business, the Hypo Real Estate Group will also apply its financial engineering knowledge to other asset classes such as roads and mobile assets. The purpose is to broaden the earnings base and the risk profile of the Group. The crucial factor is that it has to be possible for future cash flows of the loans covered by assets to be forecast reliably.
- **Strengthening of distribution channels:** The distribution channels into the secondary markets (such as securitisation business) which were set up last year are to be established as a new value driver of the Group. The traditional buy-and-hold strategy will accordingly be increasingly replaced by a buy and distribute strategy.
- The value chain is to be extended by **expanding asset management**. This comprises the management of financing risks which are backed mainly by real estate as assets.
- **Active portfolio management** will be introduced at Hypo Real Estate Holding with the aim of optimising the risk and return profile of the existing portfolio. In the past, the operating entities have been responsible for management.
- In addition to the combination of the previous segments Hypo Real Estate International and Hypo Real Estate Germany to form the segment "**Commercial Real Estate**", a second segment "**Asset Finance and Asset Management**" has also been created. This comprises all asset-based finance activities (apart from real estate financing), capital markets and asset management. The new segment organisation does not have any impact on the legal structure of the Group with the three entities Hypo Real Estate Bank International

AG in Stuttgart, Hypo Real Estate Bank AG, Munich, and Hypo Public Finance Bank, Dublin.

Georg Funke, CEO of Hypo Real Estate Holding AG: "The Hypo Real Estate Group has shown what it is capable of in 2006. The considerable growth in operations, the further reduction in the cost-income-ratio and the significant increase in results are the signs of a successful financial year. We have every reason to be satisfied with what we have achieved. Now it is time for the next phase of development, in which the Group will gradually change from being a real estate financier and become an asset finance house. We have already commenced this consistent strategic further development by way of numerous organisational changes".

Press contact:
Hypo Real Estate Group
Oliver Gruß
Telephone: +49 (0)89 203007 781
Telefax: +49 (0)89 203007 772
Email: oliver.gruss@hyporealestate.com

Hypo Real Estate Group (IFRS)

Income statement for the period from 1 January to 31 December 2006

Income/expenses in € million				
	2006	2005	Change	
			in € million	in %
Interest income	7,504	7,111	393	5.5
Interest expenses	6,693	6,389	304	4.8
Net interest income	811	722	89	12.3
Provisions for losses on loans and advances	159	151	8	5.3
Net interest income after provisions for losses on loans and advances	652	571	81	14.2
Commission income	190	171	19	11.1
Commission expenses	45	46	-1	-2.2
Net commission income	145	125	20	16.0
Net trading income	38	27	11	40.7
Net income from investments	86	67	19	28.4
General administrative expenses	335	317	18	5.7
Balance of other operating income/expenses	2	5	-3	-60.0
Operating profit/loss	588	478	110	23.0
Balance of other income/expenses	-17	-35	18	51.4
thereof:				
Restructuring expenses	17	34	-17	-50.0
Net income /loss before taxes	571	443	128	28.9
Taxes on income	29	63	-34	-54.0
thereof:				
Deferred taxes on capitalised losses carried forward	-51	-46	-5	-10.9
Income of capitalised corporate income tax claims	-62	0	-62	> -100.0
Net income/loss	542	380	162	42.6
attributable to:				
Equity holders (consolidated profit)	542	380	162	42.6
Minority interest	0	0	0	0.0
	542	380	162	42.6

Hypo Real Estate Group
Income statement by business segment

Income/expenses in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
Net interest income	2006	464	331	34	-18	811
	2005	384	320	25	-7	722
Provisions for losses on loans and advances	2006	43	113	3	0	159
	2005	29	122	0	0	151
Net interest income after provisions for losses on loans and advances	2006	421	218	31	-18	652
	2005	355	198	25	-7	571
Net commission income	2006	125	2	18	0	145
	2005	123	-1	3	0	125
Net trading income	2006	0	0	38	0	38
	2005	1	0	26	0	27
Net income from investments	2006	48	33	5	0	86
	2005	25	39	3	0	67
General administrative expenses	2006	173	85	46	31	335
	2005	156	98	42	21	317
Balance of other operating income/expenses	2006	2	1	1	-2	2
	2005	-1	1	3	2	5
Operating profit/loss	2006	423	169	47	-51	588
	2005	347	139	18	-26	478
Balance of other income/expenses	2006	0	0	0	-17	-17
	2005	-1	0	0	-34	-35
thereof: Restructuring expenses	2006	0	0	0	17	17
	2005	0	0	0	34	34
Net income/loss before taxes	2006	423	169	47	-68	571
	2005	346	139	18	-60	443
Taxes on income ¹⁾	2006	106	25	11	0	142
	2005	59	38	2	10	109
Nett income/loss¹⁾	2006	317	144	36	-68	429
	2005	287	101	16	-70	334

¹⁾ Excluding the effects from capitalised losses carried forward totalling €51 million in HREG (2005: €46 million) and income of capitalised corporate income tax claims amounting €62 million

Hypo Real Estate Group

Summary of quarterly financial data

Hypo Real Estate Group					
	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006
Operating performance (in € million)					
Operating revenues	250	264	266	270	282
Net interest income	193	197	198	208	208
Net commission income	31	34	35	33	43
Net trading income	1	11	6	14	7
Net income from investments	28	20	26	14	26
Balance of other operating income/expenses	-3	2	1	1	-2
Provisions for losses on loans and advances	38	43	44	36	36
General administrative expenses	89	80	79	86	90
Balance of other income/expenses (excluding restructuring expenses)	0	0	0	0	0
Net income/loss before taxes (excluding restructuring expenses)	123	141	143	148	156
Restructuring expenses	34	0	0	0	17
Net income/loss before taxes	89	141	143	148	139
Net income/loss ¹⁾	75	104	105	109	111
Key indicators					
Total volume of lending (in € billion)	92.4	91.7	91.4	93.9	94.8
Risk assets compliant with BIS rules (in € billion)	56.3	58.1	59.8	64.8	66.4
Core capital ratio compliant with BIS rules (in %)	7.8 ²⁾	7.6	7.4	6.9	7.0 ²⁾
New real estate financing business (in € billion)	8.0	5.2	6.2	6.1	9.1
Employees	1,233	1,176	1,172	1,206	1,229

¹⁾ Excluding the effects from capitalised losses carried forward and income of capitalised corporate income tax claims

²⁾ As per approved annual financial statements and after profit distribution

Hypo Real Estate International					
	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006
Operating performance (in € million)					
Operating revenues	145	157	155	155	172
Net interest income	101	114	112	120	118
Net commission income	36	31	28	27	39
Net trading income	-2	0	0	0	0
Net income from investments	12	11	15	7	15
Balance of other operating income/expenses	-2	1	0	1	0
Provisions for losses on loans and advances	7	14	14	7	8
General administrative expenses	44	41	40	44	48
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	94	102	101	104	116
Net income/loss ¹⁾	93	76	77	77	87
Key indicators					
Total volume of lending (in € billion)	37.7	38.4	39.4	40.9	40.5
Risk assets compliant with BIS rules (in € billion)	31.6	31.4	32.5	35.6	35.7
Core capital ratio compliant with BIS rules (in %)	7.5 ²⁾	7.7	7.4	6.7	6.4 ³⁾
New real estate financing business (in € billion)	6.2	3.8	4.7	4.4	7.1
Employees	474	455	466	494	503

¹⁾ Excluding the effects from capitalised losses carried forward and income of capitalised corporate income tax claims

²⁾ Based on allocated capital

³⁾ As per approved annual financial statements

Hypo Real Estate Group

Summary of quarterly financial data (cont'd)

Hypo Real Estate Germany					
	4 th quarter 2005	1 st quarter 2006	2 nd quarter 2006	3 rd quarter 2006	4 th quarter 2006
Operating performance (in € million)					
Operating revenues	92	90	87	95	95
Net interest income	85	81	82	85	83
Net commission income	-3	1	-1	2	0
Net trading income	0	0	0	0	0
Net income from investments	13	8	7	7	11
Balance of other operating income/expenses	-3	0	-1	1	1
Provisions for losses on loans and advances	31	29	29	29	26
General administrative expenses	25	21	20	22	22
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	36	40	38	44	47
Net income/loss ¹⁾	26	31	28	34	51
Key indicators					
Total volume of lending (in € billion)	53.6	53.8	52.3	52.9	52.0
Risk assets compliant with BIS rules (in € billion)	24.0	25.5	25.8	26.9	27.3
Core capital ratio compliant with BIS rules (in %)	7.7 ²⁾	7.2	7.1	6.8	6.7 ²⁾
New real estate financing business (in € billion)	1.8	1.4	1.5	1.7	2.0
Employees	520	483	475	480	477

¹⁾ Excluding the effects from capitalised losses carried forward and income of capitalised corporate income tax claims

²⁾ As per approved annual financial statements

Hypo Public Finance Bank					
	4 th quarter 2005	1 st quarter 2006	2 nd quarter 2006	3 rd quarter 2006	4 th quarter 2006
Operating performance (in € million)					
Operating revenues	15	21	26	25	24
Net interest income	10	7	7	7	13
Net commission income	-2	2	8	4	4
Net trading income	3	11	6	14	7
Net income from investments	3	1	4	0	0
Balance of other operating income/expenses	1	0	1	0	0
Provisions for losses on loans and advances	0	0	1	0	2
General administrative expenses	14	11	11	13	11
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	1	10	14	12	11
Net income/loss	3	8	10	10	8
Key indicators					
Total volume of lending (in € billion)	1.6	2.5	2.5	2.8	5.2
Risk assets compliant with BIS rules (in € billion)	2.0	2.1	2.4	3.2	4.3
Core capital ratio compliant with BIS rules (in %)	15.0 ¹⁾	14.7	13.6	10.6	8.4 ²⁾
Employees	175	170	161	158	167

¹⁾ Based on allocated capital

²⁾ As per approved annual financial statements

Hypo Real Estate Group

Key ratios by business segment

Key ratios in %					
		HREI	HREGe	HPFB	HREG
Cost-income ratio (based on operating revenues)	2006	27.1	23.2	47.9	31.0
	2005	29.3	27.3	70.0	33.5
Return on equity after taxes ¹⁾	2006	13.3	7.7	9.7	9.9
	2005	12.9	5.7	7.9	8.1

¹⁾ Excluding the effects from capitalised losses carried forward and income of capitalised corporate income tax claims

Balance sheet figures

Total assets in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
	31.12.2006	57,419	81,964	28,404	-6,194	161,593
	31.12.2005	52,695	86,279	19,139	-5,774	152,339

Volume of lending in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
	31.12.2006	40,451	51,990	5,201	-2,814	94,828
	31.12.2005	37,667	53,567	1,550	-416	92,368

Key capital ratios [based on German Commercial Code (HGB)]					
		HREI	HREGe	HPFB	HREG
Risk-weighted assets in € billion	31.12.2006	35.7	27.3	4.3	66.4
	31.12.2005	31.6	24.0	2.0	56.3
Core capital ratio ¹⁾ in %	31.12.2006	6.4	6.7	8.4	7.0
	31.12.2005	7.5	7.7	15.0	7.8

¹⁾ As per approved annual financial statements and after profit distribution

Further information:

The annual report for 2006 of the Hypo Real Estate Group is available on the internet at www.hyporealestate.com.

The accounts press conference of the Hypo Real Estate Group will be held today, at 10.00 hours a.m., on the premises of Hypo Real Estate Holding AG, Unsöldstraße 2, 80538 Munich.