

Press release

Hypo Real Estate Group boosted earnings strongly in 2004 and will pay a dividend for the first time

- **International real estate financier has met all and exceeded some strategic and financial targets**
- **Consolidated net income before taxes plus 42 % to EUR 221 million**
- **Adjusted net income plus 45 % to EUR 168 million**
- **A dividend of EUR 0.35 per share will be proposed to the shareholders' meeting**
- **It is expected that the group will cover its capital costs for the first time in 2005**

Munich, 15 March 2005: The MDAX-listed Hypo Real Estate Holding AG has reported a successful year in 2004, when it met all and exceeded some of its strategic and financial targets. The new business (real estate financing) of the group attained a total volume of EUR 12.6 billion. The internationally operating financier of large-volume commercial real estate was accordingly able to considerably boost consolidated result, and plans to pay a dividend for the first time. For the year 2005, the managing board is optimistic that, as announced, a further strong increase in earnings will enable the group to cover its capital costs for the first time.

Development in group earnings

- Consolidated net income before taxes in 2004 increased by 42% from EUR 156 million in the previous year to EUR 221 million, and was thus at the upper end of the forecast target range of EUR 205 to 225 million. This success was achieved despite additional expenses of EUR 15 million due to sales of real estate financing portfolios at Hypo Real Estate Germany .

- Reported consolidated net income amounted to EUR 271 million (previous year: EUR 116 million), equivalent to return on equity after taxes of 6.5%. This includes a positive effect attributable to deferred taxes on capitalised losses carried forward of EUR 103 million, of which EUR 80 million is attributable to Hypo Real Estate Bank AG. Adjusted by this positive effect, net income would have increased by 45% to EUR 168 million.
- Return on equity after taxes – adjusted by the deferred taxes on capitalised losses carried forward – amounted to 4.0% (previous year: 2.8%), and was thus at the upper end of the target range of 3.5% to 4%.
- The operating revenues of the group (the sum of net interest income, net commission income, net trading income and the balance of other operating income/expenses) amounted to EUR 788 million in 2004 (previous year: EUR 738 million).
- The addition to provisions for losses on loans and advances amounted to EUR 276 million (previous year: EUR 252 million), and was thus at the bottom end of expectations. This is the final year in which this item will be stated as a net figure after netting the risk shelter of EUR 130 million provided by HVB AG for Hypo Real Estate Bank AG. A risk shelter of EUR 460 million was netted last year. If the risk shelter is disregarded, the addition declined by EUR 306 million.
- General administrative expenses increased by 21% from EUR 260 million to EUR 315 million. This increase is attributable mainly to the costs incurred for international expansion, including the base effect of US business acquired at the end of 2003 – and the expansion of Capital Markets.

Q4 2004

- In Q4 2004, the group saw net income before taxes increase strongly from the pro-rata EUR 39 million in the previous year (1/4 of 2003) to EUR 66 million. Adjusted net income for the quarter – excluding the deferred taxes on capitalised losses carried forward - amounted to EUR 48 million compared with a pro-rata EUR 29 million in the previous year.
- Operating revenues amounted to EUR 187 million between October and December 2004 (1/4 of 2003: EUR 184 million). This figure also reflects the change -the negative impact- in the way in which part of the commission income of Hypo Real Estate Bank International is received.

Appropriation of profit

The managing board and supervisory board will propose to the shareholders' meeting on 20 May 2005 that a dividend of EUR 0.35 per share be paid for financial 2004. This will result in a total dividend payment of EUR 47 million, equivalent to around 28% of consolidated net profit adjusted by the deferred taxes on capitalised losses carried forward. The managing board has confirmed the company's aim of raising the dividend payment rate to up to 50% in the medium term.

Development in the consolidated balance sheet

- The total assets of the Hypo Real Estate Group as of 31 December 2004 amounted to EUR 148.1 billion, EUR 4.7 billion lower than the corresponding figure on the same reference date in 2003.
- Total lending volume declined by EUR 14.6 billion to EUR 99.1 billion. Growth in loans and advances at Hypo Real Estate International (plus EUR 2.9 billion) and WuerthHyp (plus EUR 1.1 billion) was opposed by a decline at Hypo Real Estate Germany of

EUR 14.2 billion due to the scheduled downsizing of the domestic portfolio and the portfolio sales.

- Risk assets declined by EUR 3.0 billion to EUR 51.0 billion. They are accordingly lower than the budgeted figure, as the domestic portfolio and thus the risk assets of Hypo Real Estate Germany have been reduced much more quickly than originally planned.
- With a core capital ratio of 8.3% (31 December 2003: 7.6%) and an equity funds ratio of 11.7% (31 December 2003: 11.5%), the group again reported a very comfortable capital cushion on the balance sheet reference date.

Outlook for the whole of 2005

For financial 2005, the managing board is assuming that the Hypo Real Estate Group will be able to generate consolidated net income before taxes within a range of EUR 400 to 425 million. Accordingly, as announced in September of last year, the group would be able in 2005 to cover its capital costs for the first time (7.5 to 8.0% after taxes).

Georg Funke, chairman of the managing board of Hypo Real Estate Holding AG: "In its first full year of trading after the spin-off from HypoVereinsbank, the Hypo Real Estate Group has made more progress than originally planned. We have made major progress with all of our key strategic tasks in 2004, we have considerably improved our earnings situation within the framework of our ambitious plans and have achieved a very good performance on the stock exchange. A new era has commenced for our company following the significant establishment of international business and the early completion of the restructuring process in Germany. Our main tasks for this year are as follows: Further expansion abroad, speedy expansion of new business in Germany, strengthening of our profile as a

solution-oriented provider of real estate transaction banking and stronger interoperation between our three business segments".

Information concerning the business segments

Hypo Real Estate International

- The new business volume in real estate financing business of EUR 9.8 billion (previous year: EUR 3.7 billion) reflects the much stronger sales performance in all established markets and expansion into new markets (including Japan).
- The good level of new business and the fact that income from the US real estate financing portfolio has been reflected in the income statement since the beginning of the year has resulted in operating revenues rising from EUR 193 million to EUR 362 million. Of this figure, net commission income accounted for 35% (previous year: 28%), underlining the investment bank nature of the business model of the Hypo Real Estate Group.
- Net income before taxes improved from EUR 87 million to EUR 195 million, and has accordingly more than doubled.
- The medium-term note (MTN) programme issued by Hypo Real Estate Bank International at the beginning of 2004 has been received very positively by the capital market. Overall, bonds worth EUR 3.9 billion were issued in 2004 within the framework of this programme. Funding has accordingly been brought into line with the bank's rapidly expanding lending business.

Wuerttembergische Hypothekenbank

- Wuerttembergische Hypothekenbank (WuerttHyp) reported the strongest level of new business (real estate financing) in its history in 2004, namely EUR 2.5 billion compared with EUR 2.1 billion in the previous year. As was the case in previous years, this was generated almost exclusively in the European target markets. International business now accounts for 62% of the real estate financing portfolio at the end of 2004, compared with 55% one year previously.
- With operating revenues of EUR 102 million, which was slightly lower than the corresponding previous year figure (EUR 104 million), WuerttHyp has reported an EUR 6 million increase in net income before taxes to EUR 60 million, and has again underlined its sound profitability.

Hypo Real Estate Germany

- The focus in 2004 was on the sale of a portfolio of performing and non-performing real estate loans with a volume of EUR 3.6 billion to an institutional investor. As result of this transaction which set standards in the sector - and indeed is the largest of this type in the world - the business segment was able to complete the restructuring process in the autumn (sooner than originally planned) and, following two years of abstinence, resumed new business. Hypo Real Estate Bank AG was able to continue this success, and sold a further portfolio of around EUR 394 million in October 2004.
- As expected, operating revenues last year declined as a result of these sales and the policy of downsizing unprofitable or non-strategic business; it fell from EUR 436 million to EUR 327 million.
- The addition to provisions for losses on loans and advances amounted to EUR 220 million. As detailed above, it is stated as a net figure after netting the risk shelter of EUR 130 million provided by

HVB AG to Hypo Real Estate Bank AG. In the previous year, when the risk shelter amounted to EUR 460 million, provisions for losses on loans and advances amounted to EUR 190 million. If the risk shelter is disregarded, the addition at Hypo Real Estate Germany declined by EUR 300 million.

- The net loss before taxes of the business segment of EUR 9 million (previous year: EUR 11 million) was in line with the budgeted figure. This amount includes additional expenses of EUR 15 million attributable to portfolio sales.

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Hypo Real Estate Group (IFRS)

Income statement for the period from 1 January to 31 December 2004

Income / expenses in € million				
	2004	2003	Change in € million	Change in %
Net interest income	683	674	+9	+1.3
Provisions for losses on loans and advances	276	252	+24	+9.5
Net interest income after provisions for losses on loans and advances	407	422	-15	-3.6
Net commission income	94	45	+49	>+100.0
Net trading income	11	-	+11	>+100.0
General administrative expenses	315	260	+55	+21.2
Balance of other operating income/expenses	-	19	-19	-100.0
Operating profit/loss	197	226	-29	-12.8
Net income from investments	47	-1	+48	>+100.0
Balance of other income/expenses	-23	-69	+46	+66.7
Net income/loss before taxes	221	156	+65	+41.7
Taxes on income	-50	40	-90	>-100.0
thereof:				
Deferred taxes on capitalised losses carried forward	-103	-	-103	>-100.0
Net income/loss	271	116	+155	>+100.0
attributable to:				
Equity holders (Consolidated profit/loss)	270	115	+155	>+100.0
Minority interest	1	1	-	-
	271	116	+155	>+100.0

Hypo Real Estate Group
Operating performance by business segment

Income / expenses in € million					
	HREI	WuerttHyp	HREGe	Other/ consolidation	HREG
Net interest income					
2004	224	108	354	-3	683
2003	137	110	420	7	674
Provisions for losses on loans and advances					
2004	33	23	220	-	276
2003	37	25	190	-	252
Net interest income after provisions for losses on loans and advances					
2004	191	85	134	-3	407
2003	100	85	230	7	422
Net commission income					
2004	126	-6	-25	-1	94
2003	55	-4	-6	-	45
Net trading income					
2004	11	-	-	-	11
2003	-	-	-	-	-
General administrative expenses					
2004	136	33	126	20	315
2003	64	31	152	13	260
Balance of other operating income /expenses					
2004	1	-	-2	1	-
2003	1	-2	22	-2	19
Operating profit/loss					
2004	193	46	-19	-23	197
2003	92	48	94	-8	226
Net income from investments					
2004	3	14	31	-1	47
2003	-5	6	-2	-	-1
Balance of other income/expenses					
2004	-1	-	-21	-1	-23
2003	-	-	-103	34	-69
thereof:					
Restructuring expenses					
2004	-	-	21	-	21
2003	-	-	86	-	86
Net income/loss before taxes					
2004	195	60	-9	-25	221
2003	87	54	-11	26	156
Taxes on income ¹⁾					
2004	47	1	1	4	53
2003	30	2	5	3	40
Net income/loss¹⁾					
2004	148	59	-10	-29	168
2003	57	52	-16	23	116

1) Excluding deferred taxes on capitalised losses carried forward

Hypo Real Estate Group

Summary of quarterly financial data

Hypo Real Estate Group					
Income / expenses in € million	1st quarter	2nd quarter	3rd quarter	4th quarter	1/4 of 2003 ²⁾
Net interest income	166	180	161	176	168
Provisions for losses on loans and advances	71	75	75	55	63
Net interest income after provisions for losses on loans and advances	95	105	86	121	105
Net commission income	24	25	35	10	11
Net trading income	-	2	3	6	-
General administrative expenses	72	77	80	86	65
Balance of other operating income/expenses	1	1	3	-5	5
Operating profit/loss	48	56	47	46	56
Net income from investments	11	4	-1	33	-
Balance of other income/expenses	-4	-1	-5	-13	-17
Net income/loss before taxes	55	59	41	66	39
Taxes on income ¹⁾	14	16	5	18	10
Net income/loss¹⁾	41	43	36	48	29
Key indicators	31.3.2004	30.06.2004	30.09.2004	31.12.2004	31.12.2003
Total volume of lending (in € bn)	107.4	105.5	106.2	99.1	113.7
Risk assets compliant with BIS rules (in € bn)	51.9	51.8	52.5	51.0	54.0
Core capital ratio compliant with BIS rules (in %)	7.9	7.9	7.8	8.3	7.6

Hypo Real Estate International					
Income / expenses in € million	1st quarter	2nd quarter	3rd quarter	4th quarter	1/4 of 2003 ²⁾
Net interest income	50	61	53	60	34
Provisions for losses on loans and advances	11	16	15	-9	9
Net interest income after provisions for losses on loans and advances	39	45	38	69	25
Net commission income	32	30	41	23	14
Net trading income	-	2	3	6	-
General administrative expenses	26	32	38	40	16
Balance of other operating income/expenses	1	-	2	-2	-
Operating profit/loss	46	45	46	56	23
Net income from investments	-	3	-2	2	-1
Balance of other income/expenses	-	-	-	-1	-
Net income/loss before taxes	46	48	44	57	22
Taxes on income ¹⁾	13	9	10	15	8
Net income/loss¹⁾	33	39	34	42	14
Key indicators	31.3.2004	30.06.2004	30.09.2004	31.12.2004	31.12.2003
Total volume of lending (in € bn)	15.9	15.9	18.2	17.8	17.8
Risk assets compliant with BIS rules (in € bn)	14.1	15.1	16.8	17.3	14.5
Core capital ratio compliant with BIS rules (in %)	10.3	9.6	8.7	9.2	8.9

1) Excluding deferred taxes on capitalised losses carried forward

2) Hypo Real Estate Holding AG came into existence by entry in the commercial register on 29 September 2003 and essential restructuring was completed in the year 2003. To improve comparability, the pro-rata figures from the audited consolidated financial statements for the period ending 31 December 2003 have been used as previous-year values.

Hypo Real Estate Group
Summary of quarterly financial data (cont.)

Wuerttembergische Hypothekenbank					
Income / expenses in € million	1st quarter	2nd quarter	3rd quarter	4th quarter	1/4 of 2003²⁾
Net interest income	26	28	28	26	27
Provisions for losses on loans and advances	5	4	5	9	6
Net interest income after provisions for losses on loans and advances	21	24	23	17	21
Net commission income	-4	-1	1	-2	-1
Net trading income	-	-	-	-	-
General administrative expenses	8	7	9	9	8
Balance of other operating income/expenses	-	-	1	-1	-
Operating profit/loss	9	16	16	5	12
Net income from investments	7	-	-2	9	1
Balance of other income/expenses	-	-	-	-	-
Net income/loss before taxes	16	16	14	14	13
Taxes on income	-	-	-	1	-
Net income/loss	16	16	14	13	13
Key indicators	31.3.2004	30.06.2004	30.09.2004	31.12.2004	31.12.2003
Total volume of lending (in € bn)	19.1	19.0	19.5	20.5	19.5
Risk assets compliant with BIS rules (in € bn)	8.8	9.2	9.4	10.1	9.4
Core capital ratio compliant with BIS rules (in %)	7.4	7.0	7.5	7.1	6.9

Hypo Real Estate Germany					
Income / expenses in € million	1st quarter	2nd quarter	3rd quarter	4th quarter	1/4 of 2003²⁾
Net interest income	91	91	82	90	105
Provisions for losses on loans and advances	55	55	55	55	48
Net interest income after provisions for losses on loans and advances	36	36	27	35	57
Net commission income	-4	-4	-7	-10	-2
Net trading income	-	-	-	-	-
General administrative expenses	33	34	28	31	38
Balance of other operating income/expenses	-	1	-	-3	6
Operating profit/loss	-1	-1	-8	-9	23
Net income from investments	4	2	3	22	-
Balance of other income/expenses	-4	-1	-5	-11	-26
Net income/loss before taxes	-1	-	-10	2	-3
Taxes on income ¹⁾	-	6	-7	2	1
Net income/loss¹⁾	-1	-6	-3	-	-4
Key indicators	31.3.2004	30.06.2004	30.09.2004	31.12.2004	31.12.2003
Total volume of lending (in € bn)	73.5	71.5	69.2	62.2	76.5
Risk assets compliant with BIS rules (in € bn)	29.3	27.8	26.9	24.2	30.6
Core capital ratio compliant with BIS rules (in %)	7.2	7.6	7.7	8.4	7.4

1) Excluding deferred taxes on capitalised losses carried forward

2) Hypo Real Estate Holding AG came into existence by entry in the commercial register on 29 September 2003 and essential restructuring was completed in the year 2003. To improve comparability, the pro-rata figures from the audited consolidated financial statements for the period ending 31 December 2003 have been used as previous-year values.

Hypo Real Estate Group

Key ratios by business segment

In %	HREI	WuerttHyp	HREGe	HREG
Cost-income ratio (based on operating revenues)				
2004	37.6	32.4	38.5	40.0
2003	33.2	29.8	34.9	35.2
Return on equity after taxes ¹⁾				
2004	10.1	9.0	-0.5	4.0
2003	4.3	8.2	-0.7	2.8

1) Excluding deferred taxes on capitalised losses carried forward

Balance sheet figures

Total assets (in €million)	HREG
31.12.2004	148,128
31.12.2003	152,877

Total volume of lending (in € million)	HREI	WuerttHyp	HREGe	Other/ consolidation	HREG
31.12.2004	17,811	20,518	62,197	-1,414	99,112
31.12.2003	17,777	19,460	76,489	-	113,726

Key capital ratios (compliant with BIS rules)	HREI	WuerttHyp	HREGe	HREG
Risk-weighted assets (in € billion)				
31.12.2004	17.3	10.1	24.2	51.0
31.12.2003	14.5	9.4	30.6	54.0
Core capital ratio ¹⁾ (in %)				
31.12.2004	9.2	7.1	8.4	8.3
31.12.2003	8.9	6.9	7.4	7.6

1) As per approved annual financial statements

Further Information:

The annual report for 2004 of the Hypo Real Estate Group is available on the internet at www.hyporealestate.com from approx. 07:00 hours today onwards.

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