

Press release

Real estate finance provider Hypo Real Estate Group has exceeded earnings expectations in 2003

- **Net income of EUR 116 million**
- **Successful start following spin-off in September 2003**
- **Restructuring of Germany portfolio partially better than planned**
- **Expectation of higher earnings and yield in 2004**

Munich, March 29th 2004: The MDax-listed Hypo Real Estate Group, one of the leading European providers of finance for commercial real estate, has exceeded earnings expectations in 2003. Hypo Real Estate Holding AG, as the parent company of the group, has reported a result of ordinary activities (result before taxes) of EUR 156 million. The most recently published management guidance was just over EUR 100 million.

The pro-forma figure for 2002 amounted to EUR 16 million; however, this figure is only comparable to a limited extent as the Hypo Real Estate Group only came into existence in September 2003 as a result of the spin-off of further parts of the commercial real estate financing activities of the HVB Group, and accordingly did not exist in its present-day form in the year 2002.

The net income in 2003 amounted to EUR 116 million (previous year pro-forma: EUR minus 11 million); after minority interest, consolidated net income amounted to EUR 115 million. This is equivalent to a return on equity after taxes of 2.8%.

The development in earnings has been boosted by the development in overall business which has been partially better than planned, and also by a one-time income of EUR 35 million attributable to the acquisition of minority interests in the former Westfälische Hypothekenbank. This was opposed by

restructuring expenses of EUR 86 million for the business segment Hypo Real Estate Germany. Net income also comprises a positive tax effect of EUR 19 million. This was attributable to the profit-and-loss transfer agreement signed in the year under review by Hypo Real Estate Holding AG and Württembergische Hypothekenbank AG.

Net interest income after provisions for losses on loans and advances amounted to EUR 422 million in the Hypo Real Estate Group (previous year pro-forma: EUR 165 million). The provisions for losses on loans and advances comprise a figure of EUR 460 million for the contractually agreed risk shelter provided by HVB AG to Hypo Real Estate Bank AG. Net commission income amounted to EUR 45 million (2002 pro-forma: EUR 11 million). General administrative expenses amounted to EUR 260 million (2002 pro-forma: EUR 235 million); this item contains for the first time the costs of Hypo Real Estate Holding AG and the newly established headquarters of the business unit Hypo Real Estate International in Dublin. The operating result of the group is stated as EUR 226 million (2002 pro-forma: EUR minus 42 million).

Georg Funke, Chairman of the Board of Managing Directors of Hypo Real Estate Holding AG: “We are very satisfied with the start which has been made by the Hypo Real Estate Group. We have met and in certain cases exceeded our strategic and business objectives. From the very first day of trading, our shares have achieved a positive performance and were admitted to the MDax after several months. The challenge is now to maintain and in certain areas to boost even further the speed and quality which has been attained for the group’s future development. This involves the following specific items for 2004: Strengthening our sales ability in international transactions, expanding our regional presence, rapid continuation of the

process of restructuring our Germany portfolio and expansion of our range of products for refinancing and transfer of risks.”

Development in the three business segments

Hypo Real Estate International has reported a result before taxes of EUR 87 million for 2003. The portfolio of commercial real estate financing was worth EUR 13 billion on 31 December of last year. It was again not necessary for any bad loan charges to be taken to the income statement in 2003, which again underlines the quality of the business model which has been tested for many years and which focuses on mid-size and large-volume transactions with high cash flows. The regional presence in 2003 was significantly expanded as a result of the acquisition of the commercial real estate financing portfolio in the USA of the HVB Group, and the focus this year will be on breaking into Asia with the opening of the locations in Tokyo and Hong Kong.

Württembergische Hypothekenbank has reported a sound profit before taxes of EUR 54 million for 2003. New mortgage lending was generated almost exclusively abroad; these activities expanded strongly by 63% to EUR 3.3 billion, one reason being the finance for the acquisition of the US portfolio of the HVB Group provided by Hypo Real Estate Bank International.

Hypo Real Estate Germany has reported a result before taxes of EUR minus 11 million, which was better than originally budgeted. This figure includes the risk shelter provided by the HVB AG of EUR 460 million. The total loan portfolio of Hypo Real Estate Germany including municipal loans as of 31 December 2003 amounted to EUR 74.4 billion, compared with EUR 88.8 billion on the same reference date last year. The figure was accordingly

lower than the target value of EUR 78 billion and the portfolio of non-strategic or non-performing loans has been reduced more quickly than originally planned. At the same time, margins in the remaining loan portfolio improved significantly.

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 expects profit before taxes to increase to between EUR 205 million and EUR 225 million in conjunction with an improvement in net return on equity to 3.5 to 4%.

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Hypo Real Estate Group

The Hypo Real Estate Group (HREG) is one of the largest European providers of commercial real estate finance. The HREG consists of the listed holding company (which does not have any operations), namely Hypo Real Estate Holding AG, with registered offices in Munich, and three operational business units: These are *Hypo Real Estate International* with registered offices in Dublin, *Württembergische Hypothekenbank AG (WürttHyp)* with registered offices in Stuttgart and *Hypo Real Estate Deutschland* in Munich. The business model of the new bank is cash-flow-oriented and transaction-driven. This means that every transaction is considered individually, and is the subject of a specific decision. There are no general statements regarding sectors, sites or property locations. The focus is on profitability and risk management, and market shares and volumes are less important.

Hypo Real Estate Group

Income statement by business segment

in €millions	HREI	WürttHyp	HREGE	Other consolidation	HREG
	2003	2003	2003	2003	2003
Net interest income	137	110	420	7	674
Provisions for losses on loans and advances	37	25	190	-	252
Net interest income after provisions for losses on loans and advances	100	85	230	7	422
Net commission income	55	-4	-6	-	45
General administrative expenses	64	31	152	13	260
Balance of other operating income/expenses	1	-2	22	-2	19
Operating result	92	48	94	-8	226
Net income from investments	-5	6	-2	-	-1
Balance of other income/expenses	-	-	-103	34	-69
thereof:					
Restructuring expenses	-	-	86	-	86
thereof: Additions to restructuring provisions	-	-	33	-	33
Result of ordinary activities/result before taxes	87	54	-11	26	156
Taxes on income	30	2	5	3	40
Net income	57	52	-16	23	116
Minority interests					1
Consolidated net income					115

Key ratios by business segment

in %	HREI	WürttHyp	HREGE	HREG
	2003	2003	2003	2003
Cost-income ratio (based on operating revenues)	33.2	29.8	34.9	35.2
Return on equity before taxes	6.6	8.5	-0.5	3.8
Return on equity after taxes (excl. amortisation of goodwill)	4.3	8.2	-0.7	2.8
Return on equity after taxes	4.3	8.2	-0.7	2.8
	Adjusted return on equity: 9.4 ¹⁾			

Summary of annual financial data

Income/expenses		
in €millions	2003	2002²⁾
Net interest income	674	670
Provisions for losses on loans and advances	252	505
Net interest income after provisions for losses on loans and advances	422	165
Net commission income	45	11
General administrative expenses	260	235
Balance of other operating income/expenses	19	17
Operating result	226	-42
Net income from investments	-1	62
Balance of other income/expenses	-69	-4
Result of ordinary activities/result before taxes	156	16
Taxes on income	40	27
Net income	116	-11

Notes:

- 1) The acquisition of the US real estate portfolio from the HVB Group was completed at the end of December, and accordingly had a very minor influence on operating earnings. If the equity charge and the standard risk costs set for the portfolio are eliminated, the adjusted return on equity at Hypo Real Estate Bank International would have been 9.4%. Under these circumstances, the group would have earned enough to cover its capital costs in the business segments Hypo Real Estate International and at Württembergische Hypothekenbank.
- 2) The financial data for the financial year 2002 are based on the segment data of the segment "Hypo Group" taken from the consolidated financial statements of HVB AG for the financial year 2002. They are only comparable to a limited extent with the items for the financial year 2003 as the Hypo Real Estate Group only came into existence in September 2003 as a result of the spin-off of the commercial real estate financing activities of the HVB Group, and accordingly did not exist in 2002 in its present-day form.

Further Information:

The annual report for 2003 of the Hypo Real Estate Group is available on the internet at www.hyporealestate.com from approx. 09:30 hours today onwards.

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