

Press release

Hypo Real Estate Group has published preliminary figures for 2006

- **Dividend to rise by 50 percent to EUR 1.50 per share**
- **Consolidated net income before taxes: EUR 571 million**
- **New real estate business of EUR 26.6 billion considerably above budget**
- **New company phase for further company growth and increased profitability is beginning**
- **Three new deputy members of the Management Board have been appointed**

Munich, 29.01.2007: The Hypo Real Estate Group has reported a very successful year 2006 and plans to considerably increase the dividend in line with its existing distribution policy. The Management Board and Supervisory Board of Hypo Real Estate Holding AG accordingly intend to propose to the Annual General Meeting on 23 May 2007 that a dividend of EUR 1.50 per share should be paid for financial 2006 (previous year: EUR 1.00 per share).

Preliminary figures

- Consolidated net income before taxes (EBT) amounted to EUR 571 million in 2006 – based on preliminary unaudited figures– and were 28.9% higher than the previous year figure of EUR 443 million. Both figures include a positive effect attributable to a 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 a negative effect attributable to restructuring expenses (EUR 17 million compared with EUR 34 million). Adjusted by these two factors, consolidated net income before taxes amounted to EUR 558 million, and were thus fully in line with our announced target range of EUR 550 to 560 million. Compared with the correspondingly adjusted previous year figure of EUR 442 million, result growth is 26.2%.

- This positive development in business was based on the increase in **operating revenues** (sum of net interest income and net commission income, net trading income, net income from investments and balance of other operating income / expenses) to EUR 1,082 million compared with EUR 946 million in 2005 (+14.4%), combined with moderate development in expenses. This is reflected in the cost-income ratio which declined to 31.0% (2005: 33.5%).
- Additions to **provisions for losses on loans and advances** amounted to EUR 159 million (previous year: EUR 151 million). Following the successful portfolio streamlining in recent years, portfolio-based provisions for losses on loans and advances increased as planned, due to the increased portfolio.
- **General administrative expenses** amounted to EUR 335 million (2005: EUR 317 million). The increase in general administrative expenses is attributable to the further regional expansion as well as the expansion of the Hypo Public Finance Bank segment.

New business

New real estate financing business amounted to EUR 26.6 billion in 2006. The Group thus has succeeded in considerably exceeding the objective of repeating the already high previous year level of EUR 22.3 billion. New business of EUR 9.1 billion was acquired in the fourth quarter alone (previous year: EUR 8.0 billion). New business at business segment Hypo Real Estate International amounted to 20.0 billion (previous year figure for the segments Hypo Real Estate International und Württembergische Hypothekbank: EUR 19.5 billion), and new business at business segment Hypo Real Estate Germany amounted to EUR 6.6 billion (previous year: EUR 2.8 billion). Including the international financing portfolio acquired from AHBR in the summer of 2006 (approx. EUR 3.3 billion) as well as off-balance-sheet business (securitisation/syndication) totalling approx. EUR 2.4

billion, new business in real estate financing amounted to approx. EUR 32.3 billion. In addition, asset-based and infrastructure financing of approx. EUR 1.9 billion was also acquired at business segment Hypo Public Finance Bank.

Outlook for 2007

For the current financial year, the Management Board expects that the positive development in business will continue. On the basis of the strong new business in 2006 and the growth measures which have been introduced, consolidated net income before taxes of at least EUR 680 million have been set as the target for 2007. As has already been announced, return on equity after taxes is expected to be between 11 and 12%. New business in real estate financing and in infrastructure financing / asset-based finance is expected to be at least EUR 25 billion (excl. the off-balance-sheet business securitisation and syndication).

Steps defined for the new growth phase of the group

As initially announced in October of last year, consolidated return on equity after taxes is forecast to rise to more than 13% in the year 2009, combined with a cost-income ratio of less than 28%. The Management Board and Supervisory Board have defined the main steps and measures for the new growth phase of the group which is now beginning:

- The Hypo Real Estate Group will step up the pace of its existing policy of broadening its business base. In addition to financing large-volume commercial real estate, financial engineering know how will be strengthened and also applied to other asset classes. In this way, the earnings base of the group is to be broadened, and its risk profile is to be further diversified. Initial steps in 2006 were the establishment of infrastructure financing and asset-based finance.

- The segments Hypo Real Estate International and Hypo Real Estate Germany will be combined at the beginning of the financial year to form the segment “Commercial Real Estate”. This takes account of the successful establishment of German business and the international focus of customers. A distinction between domestic and international business is accordingly no longer necessary. The legal structure of the group with the three entities of Hypo Real Estate Bank International AG in Stuttgart, Hypo Real Estate Bank AG, Munich, and Hypo Public Finance Bank, Dublin, will be retained despite the new segmentation.
- In addition, the distribution channels for financing which have been set up last year will also be established as a key value driver of the group. This comprises for instance the expansion of securitisation, which will reduce the balance sheet volume and release equity for further growth. The aim is to allocate the group's equity consistently on the basis of the best yield opportunities. The value chain also includes strengthening asset management, which comprises the management of finance risks which are based on real estate as assets. Asset-based finance activities outside real estate financing, the activities at Capital Markets and asset management are pooled in the segment "Asset Finance und Asset Management".
- Group-wide portfolio management will be established in the holding company in order to optimise the risk and earnings potential of the group. This will be responsible for managing the entire existing portfolio of the bank; in the past this function has been the responsibility of the operating entities.

Georg Funke, CEO of Hypo Real Estate Holding AG: "The year 2006 has fully satisfied our ambitious expectations, and has exceeded them in certain cases. The Hypo Real Estate Group is now following a course of sustainable growth in which we are starting the next phase. For this purpose, we are further developing our successful business model and are optimising our structure. We have clear objectives and know how to meet these objectives. In the course of the next few years, the Hypo Real Estate Group will consistently utilise its know how in the field of asset-based finance business in order to generate further growth, boost profitability and further diversify its risk structure".

Management Board changes at the group

As part of the strategic further development of the group, the Management Board of the holding company, which has previously comprised Messrs. Georg Funke, Stephan Bub, Dr. Markus Fell, Dr. Paul Eisele and Frank Lamby, will be extended to include three deputy members. Dr. Eisele will step down from the Management Board. There will also be changes in the Management Boards of the subsidiaries:

- **Dr. Paul Eisele** will step down from the Management Board of the Holding as of 31 May 2007, and will also step down from the Management Board of Hypo Real Estate Bank International AG as of 30 June 2007. In February, he will step down from his position as board spokesman of Hypo Real Estate Bank International, and will also step down from his positions as chairman of Hypo Public Finance Bank and as a member of the Supervisory Board of Hypo Real Estate Bank AG. After celebrating his 60th birthday, Dr. Eisele expressed a wish to retire from active service. The Supervisory Board has complied with this request, and would like to thank Dr.

Eisele for the work which he has performed for the benefit of the Hypo Real Estate Group.

- **Frank Lamby** will assume responsibility for the "Commercial Real Estate Origination" unit on the Management Board of the Holding and will become the new spokesman of Hypo Real Estate Bank International AG. At Hypo Real Estate Bank AG, he will move over from the Management Board to the Supervisory Board.
- **Dr. Robert Grassinger** was appointed as deputy member of the Management Board of the Holding as of 1 February 2007. At the holding company, Dr. Grassinger will assume responsibility for group-wide funding of covered as well as uncovered issues (Pfandbriefe, lettres de gage, jumbos and MTN issues) as well as interest scheduling on the bank book. He will also succeed Frank Lamby as board spokesman at Hypo Real Estate Bank AG.
- **Tom Glynn** has also been appointed as deputy member of the Management Board of the Holding, where he will be responsible for asset management.
- And finally, **Bettina von Oesterreich** has been appointed as deputy member of the Management Board of Hypo Real Estate Holding AG. In addition to her function as Chief Risk Officer of Hypo Real Estate Bank International AG, she will also assume responsibility as Group Chief Risk Officer.
- **Georg Funke** is to assume the function of Chairman at Hypo Public Finance Bank as the successor of Dr. Paul Eisele (subject to approval by the Irish Financial Regulator).
- **Harin Thaker** will be appointed to the Management Board of Hypo Real Estate Bank International AG as of 1 February 2007. Mr. Thaker operates the European real estate financing of the group from

London, and will continue to be responsible for this business in the Management Board of Hypo Real Estate Bank International.

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Information for editors:

The figures published in this document are provisional and not officially certified.

The accounts press conference for the publication of the annual report for 2006 is to be held on 14 March 2007.

Hypo Real Estate Group

	2006	Budget 2006	2005
Operating performance (in € million)			
Operating revenues	1,082	> 1,000	946
Provisions for losses on loans and advances	159		151
General administrative expenses	335		317
Net income/loss before taxes before effects ¹⁾	558	550-560	442
Net income/loss before taxes	571		443

¹⁾ excluding the effects from change in accounting policy for allowances for loans and advances amounting to € 30 million (2005: € 35 million) and restructuring expenses amounting to € 17 million (2005: € 34 million)

Hypo Real Estate Group

	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006
Operating performance (in € million)				
Operating revenues	264	266	270	282
Provisions for losses on loans and advances	43	44	36	36
General administrative expenses	80	79	86	90
Restructuring expenses	-	-	-	17
Net income/loss before taxes	141	143	148	139