

Press release

Hypo Real Estate Group continues course for success in 2005

- **Return on equity after taxes (adjusted by restructuring expenses): 8.0%**
- **Consolidated net income before taxes of EUR 408 million is within the budgeted range, despite one-off charge**
- **Adjusted net income up from EUR 168 million to EUR 313 million**
- **New business of EUR 22.3 billion up by more than 75% compared with last year**
- **Successful new start to Germany business**
- **Significant dividend increase to EUR 1 per share**
- **New Group structure has been successfully implemented**
- **Further considerable increase in earnings expected in 2006**

Munich, 29 March 2006: The Hypo Real Estate Group has continued its course of success in 2005, and has met or exceeded its economic targets. The international real estate financier which has been listed in the DAX since December of last year has considerably exceeded its own expectations in terms of new business, has reported significantly higher earnings, as was the case last year, and consequently plans to almost triple the dividend for 2005. For the current financial year 2006, the Management Board, as announced in January, expects to see a further significant increase in earnings.

New business in the Group

Real estate financing new business amounted to EUR 22.3 billion last year, and thus exceeded not only the previous year figure (EUR 12.6 billion); it also considerably exceeded the budgeted figure of EUR 13.5 billion. All three segments performed considerably better than budget. The strong growth is attributable to the greater penetration of existing and new international markets as well as the good start made by Hypo Real Estate Germany, which only resumed new business in the autumn of 2004.

Development in earnings, Group

- Consolidated net income before taxes for 2005 amounted to EUR 408 million, and was thus within the target range of EUR 400 million to EUR 425 million, and was 84.6% up compared with the previous year figure (EUR 221 million). This figure includes one-off charges of EUR 34 million attributable to the reorganisation of the new Group structure which has been effective since 1 January 2006. Without this exceptional factor, consolidated net income before taxes would have been EUR 442 million, thus considerably higher than the original forecast.
- Reported net income – excluding the deferred tax effects from capitalised losses carried forward – increased from EUR 168 million to EUR 313 million (+86.3%). Including these effects, the increase was from EUR 271 million to EUR 359 million (+32.5%).
- Return on equity after taxes on the basis of adjusted net income doubled to 8.0% (excluding restructuring expenses), and was at the upper end of the target range of 7.5% to 8.0%. Including restructuring expenses, return on equity after taxes adjusted by the deferred tax effects amounted to 7.4%. Accordingly, as announced, the Hypo Real Estate Group has for the first time covered its capital costs, two years earlier than originally planned on the occasion of the spin-off from HVB AG.
- Operating revenues totalled EUR 909 million in line with the budget, an increase of 8.9% (2004: EUR 835 million).
 - Net interest income increased by 0.3% to EUR 685 million; the positive growth in the international portfolio compensated for the negative impact on interest income due to the significant downsizing of the domestic portfolio which has taken place in recent years.
 - Provisions for losses on loans and advances amounted to EUR 149 million, and were considerably lower than the corresponding previous year figure (EUR 276 million; this figure included a risk shelter of EUR 130 million provided by HVB), and were significantly lower than budget (EUR

180 million to EUR 190 million). The decline is attributable to the consistent portfolio streamlining in Germany and also the risk-aware new business policy.

- The main drivers behind the good earnings performance of the Group, apart from the net interest income resulting from good real estate financing new business, were as follows:
 - Net commission income, which improved by 33.0% to EUR 125 million, and which benefited from the strong new business;
 - Net trading income improved from EUR 11 million to EUR 27 million as a result of the increasingly successful activities of the capital markets unit and
 - Net income from investments improved by EUR 20 million to EUR 67 million as a result of the positive capital market climate.

Q4 2005

For the fourth quarter of 2005, the Hypo Real Estate Group has reported net income before taxes (excluding restructuring expenses) of EUR 115 million, 74.2% up compared with the figure for the same previous year quarter (EUR 66 million). Including restructuring expenses incurred in connection with the reorganisation of the Group, net income for the quarter (excluding the deferred tax effects from capitalised losses carried forward) of EUR 70 million was considerably higher than the corresponding previous year figure for the quarter (EUR 48 million), but of course was lower than in the first three quarters excluding restructuring expenses.

Profit distribution

As announced on 25 January, the Management Board and Supervisory Board will propose to the shareholders' meeting on 8 May 2006 that a dividend of EUR 1.00 per share be paid for 2005 as a result of the good earnings performance. This is roughly equivalent to a three-fold increase compared with the previous year figure (EUR 0.35 per share). This means that 42.8% of the consolidated net income adjusted by the tax effects from capitalised

losses carried forward would be paid out in the form of a dividend, and the Hypo Real Estate Group accordingly already meets the objective range of 40 - 50%.

Balance sheet development

- Consolidated assets as of 31 December 2005 amounted to EUR 152.5 billion, EUR 4.3 billion higher than the corresponding figure at the end of 2004. Higher trading assets (particularly in capital markets) as well as higher financial investments were opposed to the decline in public sector loans (which are not consistent with overall strategy) at Hypo Real Estate Germany.
- Total volume of lending declined further by EUR 6.7 billion to EUR 92.4 billion as a result of the reduction in public sector loans at Hypo Real Estate Germany.
- Risk assets increased by EUR 5.3 billion to EUR 56.3 billion as a result of strong new business.
- As a result of increased risk assets, the core capital ratio declined from 8.3% to 7.8%; the equity funds ratio declined from 11.7% to 10.8%. Despite these declines, the Group still enjoys very sound capital backing on the balance sheet date.

Outlook for 2006

As announced, the Hypo Real Estate Group has had a new Group structure since 1 January 2006.

- Following the combination of the international real estate financing portfolios from Hypo Real Estate Bank International in Dublin and from Württembergische Hypothekenbank AG, the Group's entire international business is now pooled at Hypo Real Estate Bank International AG (the former WürttHyp) which is based in Stuttgart.
- Hypo Real Estate Bank AG in Munich acts as the centre of competence for the German market.
- The former Hypo Real Estate Bank International in Dublin now trades as Hypo Public Finance Bank, which offers investors a comprehensive range of services in the field of state financing (e.g.

infrastructure projects), capital market business (innovative financing products) and asset management for institutional clients.

The Management Board expects that the new structure will further boost the Group's efficiency in the markets and will also further reduce the cost-income ratio.

In terms of the various markets, demand in Germany for large-volume real estate financing is expected to rise again for the first time in many years in 2006. Outside Germany, the focus will increasingly shift away from established markets such as Europe and the USA towards growth countries such as Japan, India and Korea. The Hypo Real Estate Group is taking account of this development by way of a specific policy of expansion in the Asia-Pacific region. Overall, the Hypo Real Estate Group expects to generate new business of the same order of magnitude as seen in 2005.

On the above basis, the Management Board expects to see consolidated net income before taxes increase by at least 20% in 2006, starting from the previous year figure of EUR 442 million which was adjusted by restructuring expenses. This means that net income before taxes would be at least EUR 530 million. Return on equity after taxes is expected to rise to more than 9%.

Georg Funke, CEO of Hypo Real Estate Holding AG: "The Hypo Real Estate Group in 2005 has smoothly continued the excellent performance seen since the spin-off from HVB in 2003, and has continued its story of success. We have established a position of strength which enables us to take advantage of growth opportunities wherever they arise and wherever they are consistent with our risk and return requirements. We have also identified such opportunities at the new Hypo Public Finance Bank, whose activities we intend to considerably expand in the course of the next years. Know-how, flexibility, speed of action and pleasure in innovation will continue to characterise our actions."

Information concerning the segments

(in the structures valid until the end of 2005)

Hypo Real Estate International

- New business with real estate financing increased significantly in 2005 from EUR 9.8 billion to EUR 15.1 billion. Of this figure, Europe accounted for EUR 9.6 billion and America/Asia accounted for EUR 5.5 billion. The market success demonstrates the effectiveness of the regional sales platforms for Europe, America and Asia which were introduced at the beginning of 2005.
- Operating revenues increased by 26.8% from EUR 365 million to EUR 463 million, due to excellent new business, which however is not yet fully generating interest. As was the case in the previous year, no individual allowances were incurred in relation to the financing portfolio in 2005, underlining the high quality of the portfolio.
- Net income before taxes for the business segment expanded from EUR 195 million by EUR 93 million to EUR 288 million. Return on equity after taxes increased by 2.9 percentage points to 13.0% (excluding the effects from capitalised losses carried forward).
- The segment used a wide range of funding resources in 2005, and adapted its funding base to the growth in lending business. This included the "Medium Term Note"- programme which has been increased to a total of EUR 15 billion, and out of which bonds of EUR 3.5 billion were issued in the year under review, the issue of further tranches under the EUR 3 billion "commercial paper" programme and the issue of an EUR 2 billion "Certificat de Dépôts" programme constituted under French law.

Württembergische Hypothekenbank (WürttHyp)

- In order to optimise the Group structure, it was decided that outside shareholders (representing approx. 2% of share capital) would be squeezed out at WürttHyp in 2005; this resolution was successfully implemented, and in consequence Hypo Real Estate Holding AG

held 100% of shares in the subsidiary at the end of the year under review.

- In 2005, WürttHyp reported real estate new financing business of EUR 4.4 billion compared with EUR 2.5 billion in 2004 (+76 %). This new business was generated almost exclusively in the markets of Western Europe and in the USA. In consequence, operating revenues increased from EUR 116 million to EUR 129 million.
- Net income before taxes increased from EUR 60 million to EUR 76 million. WürttHyp benefited again from its stable, low risk and Pfandbrief-based business model. Return on equity after taxes improved from 9.0% to 11.0%.

Hypo Real Estate Germany

- Following the resumption of new business in the autumn of 2004, Hypo Real Estate Bank AG made an impressive return to the German real estate financing market. With new business of EUR 2.8 billion, the budgeted figure of EUR 1 billion was comfortably exceeded. Not only the volume but also the size and quality of individual financing arrangements demonstrate that the bank has again quickly become a leading address on the German market for large-volume commercial real estate financing.
- Operating revenues declined as expected to EUR 322 million from EUR 358 million in the previous year, due to the portfolio which was streamlined in line with overall strategy.
- Provisions for losses on loans and advances were reduced by EUR 100 million to EUR 120 million thanks to the drastic improvement in portfolio quality. The previous year figure was also the last time that a risk shelter of EUR 130 million provided by HVB to the bank was reflected in the figure.
- The cost-income ratio declined by 4.8 percentage points to 30.4% as a result of leaner structures and a reduced cost base.
- The segment has reported net income before taxes of EUR 104 million for 2005, thus reporting a positive figure for the first time since the spin-off from HVB (2004: EUR -9 million). Return on

equity after taxes (excluding the effects from capitalised losses carried forward) advanced from -0.5% to +4.2%.

Press contact:

Hypo Real Estate Group

Oliver Grub

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 2005

Income/expenses in € million				
	2005	2004	Change	
			in € million	in %
Interest income	7,074	6,945	129	1.9
Interest expenses	6,389	6,262	127	2.0
Net interest income	685	683	2	0.3
Provisions for losses on loans and advances	149	276	-127	-46.0
Net interest income after provisions for losses on loans and advances	536	407	129	31.7
Commission income	171	163	8	4.9
Commission expenses	46	69	-23	-33.3
Net commission income	125	94	31	33.0
Net trading income	27	11	16	>100.0
Net income from investments	67	47	20	42.6
General administrative expenses	317	315	2	0.6
Balance of other operating income/expenses	5	0	5	>100.0
Operating profit/loss	443	244	199	81.6
Balance of other income/expenses	-35	-23	-12	-52.2
thereof:				
Restructuring expenses	34	21	13	61.9
Net income/loss before taxes	408	221	187	84.6
Taxes on income	49	-50	99	>100.0
thereof:				
Deferred taxes on capitalised losses carried forward	-46	-103	57	55.3
Net income/loss	359	271	88	32.5
attributable to:				
Equity holders (consolidated profit)	359	270	89	33.0
Minority interests	0	1	-1	-100.0
	359	271	88	32.5

Hypo Real Estate Group

Income statement by business segment

Income/expenses in € million					
	HREI	WürttHyp	HREGe	Other/ Consolidation	HREG
Net interest income					
2005	287	122	283	-7	685
2004	224	108	354	-3	683
Provisions for losses on loans and advances					
2005	11	18	120	0	149
2004	33	23	220	0	276
Net interest income after provisions for losses on loans and advances					
2005	276	104	163	-7	536
2004	191	85	134	-3	407
Net commission income					
2005	135	-9	-1	0	125
2004	126	-6	-25	-1	94
Net trading income					
2005	27	0	0	0	27
2004	11	0	0	0	11
Net income from investments					
2005	12	16	39	0	67
2004	3	14	31	-1	47
General administrative expenses					
2005	163	35	98	21	317
2004	136	33	126	20	315
Balance of other operating income/expenses					
2005	2	0	1	2	5
2004	1	0	-2	1	0
Operating profit/loss					
2005	289	76	104	-26	443
2004	196	60	12	-24	244
Balance of other income/expenses					
2005	-1	0	0	-34	-35
2004	-1	0	-21	-1	-23
thereof:					
Restructuring expenses					
2005	0	0	0	34	34
2004	0	0	21	0	21
Net income/loss before taxes					
2005	288	76	104	-60	408
2004	195	60	-9	-25	221
Taxes on income ¹⁾					
2005	60	1	24	10	95
2004	47	1	1	4	53
Net income/loss¹⁾					
2005	228	75	80	-70	313
2004	148	59	-10	-29	168

¹⁾ Excluding the effects from capitalised losses carried forward of €46 million in Hypo Real Estate Group in 2005 (2004: €103 million)

Hypo Real Estate Group

Summary of quarterly financial data

Hypo Real Estate Group					
	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005
Operating performance (in € million)					
Operating revenues	220	210	225	233	241
Net interest income	176	165	165	171	184
Net commission income	10	23	38	33	31
Net trading income	6	7	7	12	1
Net income from investments	33	11	12	16	28
Balance of other operating income/expenses	-5	4	3	1	-3
Provisions for losses on loans and advances	55	35	36	41	37
General administrative expenses	86	73	76	79	89
Balance of other income/expenses (excluding restructuring expenses)	-13	0	0	-1	0
Net income/loss before taxes (excluding restructuring expenses)	66	102	113	112	115
Restructuring expenses	0	0	0	0	34
Net income/loss before taxes	66	102	113	112	81
Net income/loss ¹⁾	48	78	83	82	70
Key indicators					
Total volume of lending (in € billion)	99.1	96.2	95.6	93.9	92.4
Risk assets compliant with BIS rules (in € billion)	51.0	51.1	52.9	53.2	56.3
Core capital ratio compliant with BIS rules (in %)	8.3 ²⁾	8.2	7.9	7.8	7.8 ²⁾
Employees	1,311	1,287	1,259	1,258	1,233

¹⁾ Excluding the effects from capitalised losses carried forward ²⁾ As per approved annual financial statements and after profit distribution

Hypo Real Estate International					
	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005
Operating performance (in € million)					
Operating revenues	89	102	109	128	124
Net interest income	60	65	65	74	83
Net commission income	23	29	31	39	36
Net trading income	6	7	7	12	1
Net income from investments	2	0	5	2	5
Balance of other operating income/expenses	-2	1	1	1	-1
Provisions for losses on loans and advances	-9	2	0	7	2
General administrative expenses	40	37	37	42	47
Balance of other income/expenses	-1	0	0	-1	0
Net income/loss before taxes	57	63	72	78	75
Net income/loss ¹⁾	42	47	52	56	73
Key indicators					
Total volume of lending (in € billion)	17.8	17.9	19.6	20.1	20.1
Risk assets compliant with BIS rules (in € billion)	17.3	17.8	19.9	20.2	21.2
Core capital ratio compliant with BIS rules (in %)	9.2 ²⁾	10.1	9.1	8.9	8.9 ²⁾
Employees	504	499	484	492	452

¹⁾ Excluding the effects from capitalised losses carried forward ²⁾ As per approved annual financial statements

Hypo Real Estate Group

Summary of quarterly financial data (cont.)

Württembergische Hypothekbank					
	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005
Operating performance (in € million)					
Operating revenues	32	32	32	29	36
Net interest income	26	30	33	31	28
Net commission income	-2	-2	-2	-3	-2
Net trading income	0	0	0	0	0
Net income from investments	9	4	1	1	10
Balance of other operating income/expenses	-1	0	0	0	0
Provisions for losses on loans and advances	9	3	6	4	5
General administrative expenses	9	8	7	9	11
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	14	21	19	16	20
Net income/loss	13	19	19	14	23
Key indicators					
Total volume of lending (in € billion)	20.5	20.3	20.4	19.5	19.5
Risk assets compliant with BIS rules (in € billion)	10.1	10.5	10.6	10.7	12.4
Core capital ratio compliant with BIS rules (in %)	7.1 ¹⁾	6.8	6.8	6.7	6.3 ¹⁾
Employees	171	178	179	179	197

¹⁾ As per approved annual financial statements

Hypo Real Estate Deutschland					
	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005
Operating performance (in € million)					
Operating revenues	99	77	85	77	83
Net interest income	90	72	68	67	76
Net commission income	-10	-3	8	-3	-3
Net trading income	0	0	0	0	0
Net income from investments	22	7	6	13	13
Balance of other operating income/expenses	-3	1	3	0	-3
Provisions for losses on loans and advances	55	30	30	30	30
General administrative expenses	31	24	26	23	25
Balance of other income/expenses	-11	0	0	0	0
Net income/loss before taxes	2	23	29	24	28
Net income/loss ¹⁾	0	19	22	18	21
Key indicators					
Total volume of lending (in € billion)	62.2	59.2	56.7	54.9	53.6
Risk assets compliant with BIS rules (in € billion)	24.2	23.4	23.0	22.8	24.0
Core capital ratio compliant with BIS rules (in %)	8.4 ²⁾	7.9	8.0	8.1	7.7 ²⁾
Employees	592	560	544	534	520

¹⁾ Excluding the effects from capitalised losses carried forward ²⁾ As per approved annual financial statements

Hypo Real Estate Group

Key ratios by business segment

Key ratios in %				
	HREI	WürttHyp	HREGe	HREG
Cost-income ratio (based on operating revenues)				
2005	35.2	27.1	30.4	34.9
2004	37.3	28.4	35.2	37.7
Return on equity after taxes ¹⁾				
2005	13.0	11.0	4.2	7.4
2004	10.1	9.0	-0.5	4.0

¹⁾ Excluding the effects from capitalised losses carried forward

Balance sheet figures

Total assets in € million					
	HREI	WürttHyp	HREGe	Other/ Consolidation	HREG
31.12.2005	33,338	38,378	86,400	-5,656	152,460
31.12.2004	23,072	34,583	91,978	-1,505	148,128

Total volume of lending in € million					
	HREI	WürttHyp	HREGe	Other/ Consolidation	HREG
31.12.2005	20,141	19,451	53,567	-791	92,368
31.12.2004	17,811	20,518	62,197	-1,414	99,112

Key capital ratios compliant with BIS rules				
	HREI	WürttHyp	HREGe	HREG
Risk-weighted assets (in € billion)				
31.12.2005	21.2	12.4	24.0	56.3
31.12.2004	17.3	10.1	24.2	51.0
Core capital ratio ¹⁾ (in %)				
31.12.2005	8.9	6.3	7.7	7.8
31.12.2004	9.2	7.1	8.4	8.3

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

Further information:

The annual report for 2005 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, on the premises of Hypo Real Estate Holding AG, Unsöldstraße 2, 80538 Munich.