

Press release

Hypo Real Estate Group has increased quarterly net income before taxes by 31%

- **Development of business has been as planned in the first three months of 2006**
- **Operating revenues up 22%**
- **New business of the Group: EUR 5.2 billion**
- **Forecast for full year has been confirmed**

Munich, 5 May 2006: In the first quarter of 2006, the Hypo Real Estate Group has further boosted its operating profitability and significantly improved consolidated net income. The consolidated net income before taxes of the real estate financier has increased by 31% compared with the corresponding previous year quarter to EUR 134 million. New real estate financing business in the seasonally weaker first quarter amounted to EUR 5.2 billion. Of this figure, EUR 3.8 billion was attributable to international business and EUR 1.4 billion was attributable to financing in Germany.

The Management Board has affirmed its forecast for the whole of 2006 without restriction.

New Group structure has been in force since 1 January 2006:

As announced, the Hypo Real Estate Group has had a new structure since 1 January 2006. The business is now managed in the following segments:

- Hypo Real Estate International (international commercial real estate financing)
- Hypo Real Estate Germany (commercial real estate financing, Germany) and
- Hypo Public Finance Bank (public finance and capital markets).

The previous year figures have been adjusted accordingly, and are fully comparable.

Development in earnings and return in Q1 2006

- The operating revenues of the Group (sum of net interest income and net commission income, net trading income and net income from investments as well as the balance of other operating income/expenses) amounted to EUR 257 million in the first quarter, compared with EUR 210 million in the corresponding previous year period. This is equivalent to a growth of 22%. The growth demonstrates the strong new real estate financing business of the previous year and drawings in the current year.
 - Net interest income between January and March increased from EUR 165 million in Q1 2005 to EUR 190 million. Net commission income has improved from EUR 23 million to EUR 34 million.
 - The increase in net trading income from EUR 7 million to EUR 11 million reflects the successful activities of Hypo Public Finance Bank.

- The addition to provisions for losses on loans and advances increased in the quarter under review from EUR 35 million to EUR 43 million. Following the successful portfolio streamlining in recent years, portfolio-based risk provisioning has increased as planned due to the expanded portfolio.

- In the general administrative expenses of EUR 80 million (Q1 2005: EUR 73 million), lower costs due to the completed restructuring of Hypo Real Estate Bank AG have been opposed by higher expenses attributable to international expansion. The cost-income ratio based on operating revenues, which is used as a measure of internal efficiency, improved significantly to 31.1% compared with 34.9% in the whole of 2005.

- The Hypo Real Estate Group has reported net income before taxes of EUR 134 million (Q1 2005: EUR 102 million), a gain of 31%.

- Net income amounted to EUR 100 million compared with EUR 78 million in the corresponding previous year quarter. This figure does not take account of a deferred tax expense from capitalised losses carried forward of EUR 14 million. This is equivalent to return on equity after taxes of 9.3% (full year 2005: 8.0%, excluding the one-off expense attributable to the re-organisation of the Group) and confirms the full-year target of more than 9%.

Development in volume in Q1 2006

- The total assets of the Group as of 31 March 2006 amounted to EUR 151.2 billion compared with EUR 152.5 billion at the end of 2005 (EUR -1.3 billion). Whereas public sector loans declined in line with the Group's strategy, real estate financing expanded. The trading activities of Hypo Public Finance Bank have resulted in higher trading assets (EUR +1.6 billion).
- The total volume of lending of the Group declined to EUR 91.7 billion as of 31 March 2006 (31 December 2005: EUR 92.4 billion).

Forecast for financial 2006

The Management Board has fully confirmed its previous forecasts for financial 2006.

- It still expects consolidated net income before taxes to increase by at least 20%, compared with the previous year figure of EUR 442 million which was adjusted by the one-off expense attributable to the re-organisation of the Group. The forecast net income before taxes is accordingly at least EUR 530 million.
- New business is expected to be roughly the same as the figure seen in 2005 (EUR 22.3 billion).
- Return on equity after taxes for the Group is expected to be more than 9%.

Georg Funke, CEO of Hypo Real Estate Holding AG: "The Hypo Real Estate Group has made a good start to 2006. A particularly positive aspect is that the considerable increase in net income is attributable mainly to higher operating revenues and not so much to lower expenses. This is showing the increasing success of our Group on the markets. In the first three months, we have created a good foundation for attaining our objectives for the full year."

Information concerning the segments

Hypo Real Estate International

- This segment, in which the entire international commercial real estate financing of the Group has been pooled since the beginning of the year, boosted operating revenues by EUR 34 million (28%) in the first quarter to EUR 157 million. The increase is attributable primarily to a strong increase in net interest income.
- Net income before taxes has risen from EUR 83 million (+23%) to EUR 102 million.

Hypo Real Estate Germany

- The segment is the centre of competence of the Group for commercial real estate financing in Germany. In the first three months, it generated operating revenues of EUR 83 million, equivalent to growth of 8% compared with the figure for the corresponding previous year period (EUR 77 million). This increase reflects the successful new real estate financing business in recent periods.
- Net income before taxes for the quarter amounted to EUR 33 million, and accordingly improved by EUR 10 million.

Hypo Public Finance Bank

- The segment, which is based in Dublin, offers investors a comprehensive range of public finance, infrastructure finance, other asset-backed finance and capital markets. Operating revenues in the first quarter almost doubled from EUR 11 million to EUR 21 million, after activities had been gradually expanded in

2005. The increase in operating revenues was attributable mainly to net trading income of EUR 11 million (Q1 2005: EUR 6 million).

- Net income before taxes for the quarter improved significantly from EUR 1 million to EUR 10 million.

Press contact:

Oliver Gruß

Fon: +49 (0)89 203007 781

Fax: +49 (0)89 203007 772

E-Mail: oliver.gruss@hyporealestate.com

Hypo Real Estate Group

Operating performance (IFRS)

Income/expenses in € million				
	1.1.-31.3.2006	1.1.-31.3.2005	Change	
			in € million	in %
Interest income	1,676	1,641	35	2.1
Interest expenses	1,486	1,476	10	0.7
Net interest income	190	165	25	15.2
Provisions for losses on loans and advances	43	35	8	22.9
Net interest income after provisions for losses on loans and advances	147	130	17	13.1
Commission income	45	35	10	28.9
Commission expenses	11	12	-1	-8.3
Net commission income	34	23	11	47.8
Net trading income	11	7	4	57.1
Net income from investments	20	11	9	81.8
General administrative expenses	80	73	7	9.6
Balance of other operating income/expenses	2	4	-2	-50.0
Operating profit/loss	134	102	32	31.4
Balance of other income/expenses	0	0	0	0.0
Net income/loss before taxes	134	102	32	31.4
Taxes on income	48	33	15	45.5
thereof:				
Deferred taxes on capitalised losses carried forward	14	9	5	55.6
Net income/loss	86	69	17	24.6
attributable to:				
Equity holders (consolidated profit)	86	69	17	24.6
Minority interest	0	0	0	0.0
	86	69	17	24.6

Operating performance

Income statement, broken down by business segment

Income/expenses in € million					
	HREI	HREGe	HPFB	Other/ consolidation	HREG
Net interest income					
1.1.-31.3.2006	114	74	7	-5	190
1.1.-31.3.2005	89	72	6	-2	165
Provisions for losses on loans and advances					
1.1.-31.3.2006	14	29	0	0	43
1.1.-31.3.2005	5	30	0	0	35
Net interest income after provisions for losses on loans and advances					
1.1.-31.3.2006	100	45	7	-5	147
1.1.-31.3.2005	84	42	6	-2	130
Net commission income					
1.1.-31.3.2006	31	1	2	0	34
1.1.-31.3.2005	27	-3	0	-1	23
Net trading income					
1.1.-31.3.2006	0	0	11	0	11
1.1.-31.3.2005	1	0	6	0	7
Net income from investments					
1.1.-31.3.2006	11	8	1	0	20
1.1.-31.3.2005	5	7	-1	0	11
General administrative expenses					
1.1.-31.3.2006	41	21	11	7	80
1.1.-31.3.2005	35	24	10	4	73
Balance of other operating income/expenses					
1.1.-31.3.2006	1	0	0	1	2
1.1.-31.3.2005	1	1	0	2	4
Operating profit/loss					
1.1.-31.3.2006	102	33	10	-11	134
1.1.-31.3.2005	83	23	1	-5	102
Balance of other income/expenses					
1.1.-31.3.2006	0	0	0	0	0
1.1.-31.3.2005	0	0	0	0	0
Net income/loss before taxes					
1.1.-31.3.2006	102	33	10	-11	134
1.1.-31.3.2005	83	23	1	-5	102
Taxes on income ¹⁾					
1.1.-31.3.2006	26	6	2	0	34
1.1.-31.3.2005	18	4	0	2	24
Net income/loss¹⁾					
1.1.-31.3.2006	76	27	8	-11	100
1.1.-31.3.2005	65	19	1	-7	78

¹⁾ Excluding the effects from capitalised losses carried forward totalling € 14 million in Hypo Real Estate Group in the 1st quarter 2006

Key ratios, broken down by business segment

in %				
	HREI	HREGe	HPFB	HREG
Cost-income ratio (based on operating revenues)				
1.1.-31.3.2006	26.1	25.3	52.4	31.1
1.1.-31.12.2005	29.3	30.4	70.0	34.9
Return on equity after taxes ¹⁾				
1.1.-31.3.2006	12.7	5.2	10.2	9.3
1.1.-31.12.2005	12.9	4.2	7.9	7.4

¹⁾ Excluding the effects from capitalised losses carried forward

Balance sheet figures per business segment

Assets und Liabilities in € million

	HREI	HREGe	HPFB	Other/ consolidation	HREG
Total assets					
31.3.2006	52,295	84,141	19,499	-4,720	151,215
31.12.2005	52,695	86,400	19,139	-5,774	152,460
Total liabilities					
31.3.2006	49,775	83,178	19,157	-4,157	147,953
31.12.2005	50,268	85,543	18,920	-5,471	149,260

Volume of lending in € million

	HREI	HREGe	HPFB	Other/ consolidation	HREG
31.3.2006	38,407	53,799	2,536	-2,998	91,744
31.12.2005	37,667	53,567	1,550	-416	92,368

Key capital ratios compliant with BIS rules

Risk-weighted assets in € billion

	HREI	HREGe	HPFB	HREG
31.3.2006	31.4	25.5	2.1	58.1
31.12.2005	31.6	24.0	2.0	56.3

Core capital ratio in %

	HREI	HREGe	HPFB	HREG
31.3.2006	7.7	7.2	14.7	7.6
31.12.2005 ¹⁾	7.5	7.7	15.0	7.8

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

Summary of quarterly financial data

Hypo Real Estate Group

	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006
Operating performance (in € million)					
Operating revenues	210	225	233	241	257
Net interest income	165	165	171	184	190
Net commission income	23	38	33	31	34
Net trading income	7	7	12	1	11
Net income from investments	11	12	16	28	20
Balance of other operating income/expenses	4	3	1	-3	2
Provisions for losses on loans and advances	35	36	41	37	43
General administrative expenses	73	76	79	89	80
Balance of other income/expenses (excluding restructuring expenses)	0	0	-1	0	0
Net income/loss before taxes (excluding restructuring expenses)	102	113	112	115	134
Restructuring expenses	0	0	0	34	0
Net income/loss before taxes	102	113	112	81	134
Net income/loss ¹⁾	78	83	82	70	100
Key indicators					
Total volume of lending (in € billion)	96.2	95.6	93.9	92.4	91.7
Risk assets compliant with BIS rules (in € billion)	51.1	52.9	53.2	56.3	58.1
Core capital ratio compliant with BIS rules (in %)	8.2	7.9	7.8	7.8 ²⁾	7.6
Employees	1287	1259	1258	1233	1176

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

Quarterly financial data

Hypo Real Estate International					
	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006
Operating performance (in € million)					
Operating revenues	123	129	135	145	157
Net interest income	89	95	99	101	114
Net commission income	27	30	30	36	31
Net trading income	1	0	2	-2	0
Net income from investments	5	5	3	12	11
Balance of other operating income/expenses	1	-1	1	-2	1
Provisions for losses on loans and advances	5	6	11	7	14
General administrative expenses	35	36	41	44	41
Balance of other income/expenses	0	0	-1	0	0
Net income/loss before taxes	83	87	82	94	102
Net income/loss ¹⁾	65	68	61	93	76
Key indicators					
Total volume of lending (in € billion)	36.3	38.5	37.5	37.7	38.4
Risk assets compliant with BIS rules (in € billion)	25.8	28.0	28.4	31.6	31.4
Core capital ratio compliant with BIS rules (in %)	8.9 ²⁾	8.3 ²⁾	8.1 ²⁾	7.5 ²⁾	7.7

¹⁾ Excluding the effects from capitalised losses carried forward ²⁾ Based on allocated capital

Hypo Real Estate Germany					
	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006
Operating performance (in € million)					
Operating revenues	77	85	77	83	83
Net interest income	72	68	67	76	74
Net commission income	-3	8	-3	-3	1
Net trading income	0	0	0	0	0
Net income from investments	7	6	13	13	8
Balance of other operating income/expenses	1	3	0	-3	0
Provisions for losses on loans and advances	30	30	30	30	29
General administrative expenses	24	26	23	25	21
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	23	29	24	28	33
Net income/loss ¹⁾	19	22	18	21	27
Key indicators					
Total volume of lending (in € billion)	59.2	56.7	54.9	53.6	53.8
Risk assets compliant with BIS rules (in € billion)	23.4	23.0	22.8	24.0	25.5
Core capital ratio compliant with BIS rules (in %)	7.9	8.0	8.1	7.7 ²⁾	7.2
Employees	560	544	534	520	483

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

Hypo Public Finance Bank					
	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006
Operating performance (in € million)					
Operating revenues	11	12	22	15	21
Net interest income	6	3	6	10	7
Net commission income	0	-1	6	-2	2
Net trading income	6	7	10	3	11
Net income from investments	-1	1	0	3	1
Balance of other operating income/expenses	0	2	0	1	0
Provisions for losses on loans and advances	0	0	0	0	0
General administrative expenses	10	8	10	14	11
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	1	4	12	1	10
Net income/loss	1	3	9	3	8
Key indicators					
Total volume of lending (in € billion)	1.5	1.6	1.5	1.6	2.5
Risk assets compliant with BIS rules (in € billion)	2.5	2.5	2.5	2.0	2.1
Core capital ratio compliant with BIS rules (in %)	8.0 ¹⁾	8.0 ¹⁾	8.0 ¹⁾	15.0 ¹⁾	14.7

¹⁾ Based on allocated capital