

Press release

Hypo Real Estate Group reports strong earnings growth in the first six months of 2004 – net income before taxes rose by 46 percent

- **Consolidated pre-tax profit of EUR 114 million in H1 2004**
- **New business accelerates**
- **Forecasts for the entire year confirmed in full**

Munich, 11 August 2004 – Hypo Real Estate Holding AG, the international commercial real estate financier, recorded a positive development of business during the first six months of 2004 and achieved a substantial increase in earnings. The new business of the MDax listed company accelerated noticeably during the second quarter, as expected. The income statement indicators for the Group as a whole developed according to or slightly above plan. The forecast for the entire year 2004 is being confirmed in full.

Group performance

For the first half of 2004, Hypo Real Estate Group reports consolidated net income before taxes of EUR 114 million, representing an increase of 46 % over the pro-rata prior year figure of EUR 78 million. Adjusted by the exceptional income item (“lucky buy”) generated in the prior year from the purchase of minority interests in the former WestHyp, net income before taxes even grew 90 %. During the first six months of 2004, consolidated net income increased by 45 % from EUR 58 million for the pro-rate prior year to EUR 84 million, corresponding to earnings per share of EUR 0.62 (pro-rata 2003: EUR 0.43).

From January to June, the Group’s operating revenues developed according to plan to reach EUR 399 million (+ 8 % over the pro-rata prior year figure). Higher earnings contributions from the US real estate financing portfolio,

which has been included since the beginning of the year, and from new international business were thereby offset by a decline in operating revenues caused by the scheduled downsizing of the domestic portfolio. The addition to provisions for losses on loans and advances was EUR 146 million, compared to EUR 126 million in the pro-rata prior year (+ 16 %). This figure already includes the pro-rata risk shelter in the amount of EUR 65 million (pro-rata prior year: EUR 230 million) provided by HVB AG to the benefit of Hypo Real Estate Bank AG. Excluding the risk shelter, the addition to provisions for losses on loans and advances fell by EUR 145 million in prior-year comparison.

For the second quarter of 2004, the Hypo Real Estate Group reports consolidated net income before taxes in the amount of EUR 59 million, representing an increase of 51 % over the pro-rata prior year figure (EUR 39 million). Consolidated net income for the second quarter stood at EUR 43 million, an increase of 48 % over the pro-rata prior year figure (EUR 29 million).

Group balance sheet

The consolidated total assets of Hypo Real Estate Group as of June 30, 2004, of EUR 148.5 billion were EUR 4.4 billion or just under 3% lower than at year-end 2003. The municipal loans which do not form part of the core business were reduced by EUR 3.8 billion, while the real estate financings grew by EUR 0.8 billion. Total lending volume declined by 7.2 % to EUR 105.5 billion. Core capital remained unchanged at EUR 4.1 billion, raising the core capital ratio (compliant with BIS rules) from 7.6 to 7.9 % in reporting date comparison. The equity funds ratio (compliant with BIS rules) rose slightly from 11.5 to 11.6 %.

Outlook for the full year 2004

On the basis of the successful performance during the first half-year, the Board of Management has confirmed in full its previous forecasts for 2004. Consolidated net income before taxes is to move in a corridor between EUR 205 million and EUR 225 million (2003: EUR 156 million), with a return on equity after taxes of 3.5 to 4% (2003: 2.8 %).

Georg Funke, Chairman of the Management Board of Hypo Real

Estate Holding AG: “After the first six months of 2004, the Group is fully on course. We have achieved and even slightly exceeded our ambitious plans. That our new business gained dynamism during the second quarter is especially positive. During the second half of the year, we will continue to accelerate the expansion of our international business. As regards the restructuring of our German business, we retain our expectation that this process may already be completed by the end of 2004 instead of during 2005.”

Information on the business segments

Hypo Real Estate International

During the first half of 2004, net income before taxes in the segment Hypo Real Estate International more than doubled to EUR 94 million compared to the pro-rata prior year figure (EUR 44 million). This was due mainly to the inclusion of the US real estate financing portfolio acquired at year-end 2003 and to the successful new business. Operating revenues consequently grew from EUR 97 million to EUR 176 million. As was already the case during the first quarter, there were no specific bad debt charges during the April to June period. A portfolio-based provision in the amount of EUR 27 million was performed as a precautionary measure for the first six months of 2004.

New business accelerated strongly during the second quarter, rising to EUR 3.7 billion for the half-year period. The return on equity after taxes as per June 30, 2003, was 10.1 % compared to 4.3 % as per December 31, 2003.

Württembergische Hypothekenbank

The segment Württembergische Hypothekenbank remained on its solid development, achieving semi-annual net income before taxes in the amount of EUR 32 million (2003 pro rata: EUR 27 million). Since special items raised earnings during the second quarter, mid-year performance can, however, not be projected for the year as a whole. At EUR 49 million, operating revenues were slightly below the pro-rata prior year figure (EUR 52 million).

Hypo Real Estate Germany

Despite the expected reduction in operating revenues, the segment Hypo Real Estate Germany was able to improve net income before taxes from minus EUR 6 million in the prior-year period to minus EUR 1 million during the first six months of 2004 as a result of targeted portfolio downsizing. Operating revenues consequently fell to EUR 175 million (pro-rata 2003: EUR 218 million). Provisions for losses on loans and advances (reported at net value after deduction of the HVB risk shelter in the pro-rata amount of EUR 65 million) stood at EUR 110 million, an increase of EUR 15 million over the pro-rata prior year figure of EUR 95 million, reported net of a pro-rata risk shelter of EUR 230 million. Excluding the risk shelter, the addition to loan loss provisions therefore declined by EUR 150 million.

During the first half-year 2004 Hypo Real Estate Germany made further progress in cutting back non-profitable or non-strategic financings. From January to June, the segment reduced its overall lending volume by EUR 5.0 billion. As per June 30, 2004, the total lending volume was EUR 71.5 billion.

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Hypo Real Estate Group ⁽¹⁾
Operating performance (IFRS)

in €million	HREI	WuerttHyp	HREGe	Other/ consolidation	HREG
Net interest income					
01.01.-30.06.2004	111	54	182	-1	346
½ of 2003	69	55	210	3	337
Provisions for losses on loans and advances					
01.01.-30.06.2004	27	9	110	-	146
½ of 2003	19	12	95	-	126
Net interest income after provisions for losses on loans and advances					
01.01.-30.06.2004	84	45	72	-1	200
½ of 2003	50	43	115	3	211
Net commission income					
01.01.-30.06.2004	62	-5	-8	-	49
½ of 2003	27	-2	-3	-	22
Trading profit					
01.01.-30.06.2004	2	-	-	-	2
½ of 2003	-	-	-	-	-
General administrative expenses					
01.01.-30.06.2004	58	15	67	9	149
½ of 2003	32	16	76	6	130
Balance of other operating income /expenses					
01.01.-30.06.2004	1	-	1	-	2
½ of 2003	1	-1	11	-1	10
Operating profit/loss					
01.01.-30.06.2004	91	25	-2	-10	104
½ of 2003	46	24	47	-4	113
Net income from investments					
01.01.-30.06.2004	3	7	6	-1	15
½ of 2003	-2	3	-1	-	-
Balance of other income/expenses					
01.01.-30.06.2004	-	-	-5	-	-5
½ of 2003	-	-	-52	17	-35
thereof:					
Restructuring expenses					
01.01.-30.06.2004	-	-	5	-	5
½ of 2003	-	-	43	-	43
thereof:					
Additions to restructuring provisions					
01.01.-30.06.2004	-	-	2	-	2
½ of 2003	-	-	17	-	17
Profit/loss from ordinary activities / net income/loss before taxes					
01.01.-30.06.2004	94	32	-1	-11	114
½ of 2003	44	27	-6	13	78
Taxes on income					
01.01.-30.06.2004	22	-	6	2	30
½ of 2003	15	1	2	2	20
Net income/loss					
01.01.-30.06.2004	72	32	-7	-13	84
½ of 2003	29	26	-8	11	58
Minority interest					
01.01.-30.06.2004					-1
½ of 2003					-

Profit					
1.1.-30.6.2004					83
½ von 2003					58

Key ratios

In %	HREI	WuerttHyp	HREGe	HREG
Cost-income ratio (based on operating revenues)				
01.01.-30.06.2004	33,0	30,6	38,3	37,3
2003	33,2	29,8	34,9	35,2
Return on equity after taxes				
01.01.-30.06.2004	10,1	10,1	-0,6	4,0
2003	4,3	8,2	-0,7	2,8

Balance sheet figures

Total assets (in €million)	HREG
30.6..2004	148.455
31.12.2003	152.877

Total volume of lending (in € million)	HREI	WuerttHyp	HREGe	Other/ consolidation	HREG
30.6..2004	15.903	18.992	71.496	-863	105.528
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 €bn)				
30.6..2004	15,1	9,2	27,8	51,8
31.12.2003	14,5	9,4	30,6	54,0
Core capital ratio (in %)				
30.6..2004	9,6	7,0	7,6	7,9
31.12.2003 ⁽²⁾	8,9	6,9	7,4	7,6

1) After execution of essential restructuring in connection with the spin-off from the HVB AG, Hypo Real Estate Holding AG came into existence by entry in the commercial register on September 29, 2003. To improve comparability, the pro-rata figures from the audited consolidated financial statements for the period ending 31 December 2003 were applied as previous year values in the Interim Report as of June 30, 2004.

2) According to the approved Annual Financial Statements as at December 31, 2003.

Summary of quarterly financial data

Hypo Real Estate Group	1st Quarter	2nd Quarter
Operating performance (in €million)		
Operating revenues	191	208
Provisions for losses on loans and advances	71	75
General administrative expenses	72	77
Net income from investments	11	4
Balance of other income/expenses	-4	-1
Net income before taxes	55	59
Net income	41	43
Key indicators	As per 31.3.2004	As per 30.6.2004
Total volume of lending (in €bn)	107,4	105,5
Risk weighted assets (compliant with BIS rules) (in €bn)	51,9	51,8
Core capital ratio (compliant with BIS rules) (in %)	7,9	7,9

Further information:

The Interim Report for the period ending 30 June 2004 of Hypo Real Estate Group can be viewed today from app. 08:30 hours onwards on the internet at www.hyporealestate.com.