

## Press release

### **Hypo Real Estate Group fully on course after nine months 2007**

- **Successful completion of the acquisition of DEPFA Bank plc has resulted in a unique strategic focus on commercial real estate, public finance and infrastructure financing**
- **Pre-tax profit on a stand-alone basis reported as EUR 527 million, 22 % up compared with the previous year**
- **Pre-tax profit excl. one-off merger related costs of DEPFA on a stand-alone basis: EUR 394 million**
- **Combined pre-tax profit of the new group reported as EUR 921 million after three quarters**
- **Georg Funke: "Hypo Real Estate is emerging strengthened from the recent market crisis"**

**Munich, 7 November 2007:** In the third quarter, the Hypo Real Estate Group continued its positive operating performance of the first six months. Operating performance after nine months is fully on course.

As a result of the acquisition of DEPFA Bank plc, the group also completed a very important stage in its development in the third quarter: The acquisition has resulted in a leading provider of financing solutions for commercial real estate, the public sector and infrastructure finance, which is unique in the world in this strategic form. The transaction with a volume of EUR 5.7 billion was announced on 23 July, and was successfully completed on 2 October 2007.

From this date onwards, DEPFA Bank will be fully consolidated in the figures of the Hypo Real Estate Group. Accordingly, the Hypo Real Estate Group as well as DEPFA still report figures on a stand-alone basis for the third quarter and for the first nine months.

### **Hypo Real Estate Group – Group performance nine months 2007**

- The group reports pre-tax profit of EUR 592 million on a stand-alone basis. This figure includes exceptional income of EUR 65 million

attributable to the mandatory convertible bond issued in the third quarter for partially financing the DEPFA acquisition. The income is attributable to the market valuation of the embedded derivative based on shares of Hypo Real Estate Holding AG. Adjusted by this effect, pre-tax profit increased by 22.0 % from EUR 432 million in the previous year period to EUR 527 million, and was thus higher than the pro-rata forecast of min. EUR 510 million published at the beginning of 2007.

- The group has reported net income of EUR 485 million (first nine months 2006: EUR 297 million). Adjusted by the deferred tax income attributable to capitalised losses carried forward (EUR 66 million), the tax expense due to the revaluation according to the corporate tax reform act (EUR 27 million) and the income after taxes attributable to the market valuation of the derivative embedded in the mandatory convertible bond (EUR 44 million), net income is stated as EUR 402 million, equivalent to an increase of 26.4 % compared with the corresponding previous year figure of EUR 318 million. This is equivalent to an improved adjusted return on equity after taxes of 11.6 %, which is thus fully within the original target range of the group for the whole of 2007 on a stand-alone basis (11 to 12 %).
- Operating revenues (the sum of net interest income, net commission income, net trading income, net income from investments and the balance of other operating income/expenses) improved by 9.9 % from EUR 800 million in the same previous year period to EUR 879 million. They were thus slightly lower than the pro-rata forecast of min. EUR 900 million. This was due to net trading income and net income from investments which were weaker in the third quarter due to the recent turmoil on the international financial markets. However,

a positive development in net interest income (+10.6 % compared with previous year) and net commission income (+39.2 % compared with previous year) as a result of the strong new business more than compensated for this.

- Compared with the equivalent previous period, additions to provisions for losses on loans and advances declined considerably from EUR 123 million to EUR 81 million (-34.1 %); this documents the further improvement in portfolio quality.
- General administrative expenses increased from EUR 245 million by 10.6 % to EUR 271 million, due to the expansion of real estate financing business and the establishment of new sources of income, such as from asset-based and infrastructure finance activities.
- The Hypo Real Estate Group has reported very positive new business (Real Estate Finance and Infrastructure /Asset-Based Finance) of EUR 26.8 billion for the first nine months (previous year period: EUR 18.3 billion, +46.4 %). This means that the minimum target of EUR 25 billion originally forecast for the full year has already been exceeded after three quarters. The Commercial Real Estate segment, which has been responsible for worldwide commercial real estate financing since the beginning of this year, accounted for EUR 25.3 billion between January and September (previous year period: EUR 17.5 billion, +44.5 %). The Asset Finance & Asset Management segment, which was also established at the beginning of the year, achieved new business of EUR 1.5 billion (nine months 2006: EUR 0.8 billion, +87.5 %).

### **Hypo Real Estate Group – Group development third quarter 2007**

- Excluding the income from the DEPFA acquisition, the group has reported pre-tax profit of EUR 172 million for the third quarter (third quarter 2006: EUR 148 million, +16.2 %).
- Net income is reported at EUR 266 million (previous year period: EUR 112 million). Adjusted by deferred taxes on capitalised losses carried forward and the effects of the corporate tax reform act and the DEPFA acquisition, net income for the quarter amounted to EUR 135 million (equivalent previous year figure: EUR 109 million).
- Operating revenues totalled EUR 274 million, compared with EUR 270 million in the same previous year quarter. Higher contributions made by net interest income and in particular net commission income were opposed by declines in net trading income and net income from investments due to market conditions.
- Additions to provisions for losses on loans and advances declined appreciably to EUR 17 million (third quarter 2006: EUR 36 million). General administrative expenses were limited to EUR 85 million, as a result of strict cost control policy (third quarter 2006: EUR 86 million).
- At EUR 10.3 billion, new business even exceeded the already good figure reported for the second quarter (EUR 10.0 billion), and was considerably higher than the figure reported for the first three months (EUR 6.5 billion).

### **DEPFA Bank plc**

The result of DEPFA BANK plc was very much influenced by two developments in the first nine months of 2007: Namely one-off costs incurred in connection with the acquisition by the Hypo Real Estate Group, which had already been recognised in the third quarter and which will be

recorded as equity adjustment with the first time consolidation of DEPFA in Q4; and also the revaluation of positions in proprietary trading which had become necessary as a result of market conditions.

DEPFA's client activities continued to perform well, with a new business volume of EUR 50 billion (Public Sector Finance incl. Infrastructure Finance) in the first nine months. In particular, the Budget Finance and Infrastructure Finance segment were able to continue their good performance, and enjoy an attractive transaction pipeline.

#### **DEPFA Bank – Group developments nine months 2007**

- For the first nine months, DEPFA has reported pre-tax profit (excl. one-off merger-related costs) of EUR 394 million compared with EUR 494 million in the equivalent previous year period. Not included are merger-related costs of EUR 92 million which have been booked in the third quarter.
- The DEPFA Group has reported nine-month net income of EUR 370 million (previous year period: EUR 384 million). This figure excludes the one-off merger related costs of EUR 81 million after taxes. Taking this figure into account nine-month net income states at EUR 289 million.
- Operating revenues in the first nine months amounted to EUR 605 million (previous year period: EUR 661 million). The main factors in this respect were a weak net trading income in difficult market conditions (EUR -19 million compared with EUR 112 million) and the decline in net interest income (EUR 291 million compared with EUR 318 million), primarily as a result of expenses incurred for hedging open trading positions. Portfolio management of DEPFA continued to generate stable profits, they rose from EUR 207 million

to EUR 293 million (+41.5%). The bank was able to benefit from the strong focus of institutional investors on high-quality assets.

- Total operating expenses (excl. one-off merger related costs) amounted to EUR 211 million thus – due to the ongoing international expansion in core business areas - being higher than the corresponding previous year figure (EUR 167 million).

#### **DEPFA Bank – Group development third quarter 2007**

- For the third quarter of 2007, DEPFA has reported a pre-tax profit of EUR 80 million (excl. one-off merger related costs; third quarter 2006: EUR 134 million).
- Net income amounted to EUR 121 million (excl. merger related costs; third quarter 2006: EUR 110 million).
- Operating revenues totalled EUR 154 million, compared with EUR 187 million in the corresponding quarter of the previous year. The decline is mainly due to the negative net trading income to EUR -39 million.
- Total operating expenses (excluding merger related costs) totalled EUR 74 million (third quarter 2006: EUR 53 million).

#### **Combined figures for the new group**

- On the basis of combined figures, the Hypo Real Estate Group including DEPFA achieved a pre-tax profit (adjusted by the effects of the DEPFA transaction) of EUR 921 million in the first nine months of 2007 (previous year period: EUR 926 million, -0.5%).
- Operating revenues of EUR 1.48 billion were up 1.6%, and provisions for losses on loans and advances of EUR 81 million were down 34.1%, and were opposed by 17% growth in general administrative expenses to EUR 482 million.

- Combined net income amounted to EUR 772 million, and was 10% up compared with the previous year figure (EUR 702 million).

### **Outlook**

After the scheduled completion of the DEPFA acquisition on 2 October 2007, DEPFA Bank plc will be recognised from that day onward in the income statement of the Hypo Real Estate Group. As previously announced, the aim is to expand DEPFA as a wholly-owned subsidiary of Hypo Real Estate Holding AG, maintaining the brand which enjoys a very strong reputation in the market, and form the centre of competence of the new group for public and infrastructure finance as well as for capital markets and asset management. As has also been announced, this will also result in changes in the corporate structure. Because the businesses of the Hypo Real Estate Group and of DEPFA are to a large extent complementary and because they already have very efficient organisations, the Management Board is assuming that most of the integration measures can be completed by the end of this year or that the process of quickly completing the integration process is initiated by then.

The subprime crisis has resulted in a certain disillusionment on the real estate market; however, it has also simultaneously led to a more conservative risk assessment, and margins and earnings consequently tend to be more commensurate in relation to the risk involved. In the core business of commercial real estate, the Management Board is anticipating sustainably strong demand in major key markets. Prospects in Public Finance are also still considered to be positive.

The result for the fourth quarter of 2007 will be influenced by financing and restructuring costs in connection with the DEPFA acquisition; however,

these costs will be opposed by initial positive contributions to earnings made by the new subsidiary. Overall, the Management Board is predicting – as already announced - consolidated net return on equity after taxes of around 12 % for the full year. 2010, return on equity after taxes is expected to attain a level of more than 15%.

**Georg Funke, CEO of Hypo Real Estate Holding AG:** "We are pleased that we have succeeded in convincing the market of the benefits and opportunities of the DEPFA acquisition, and that we have also been able to complete this transaction which is so important for our company on schedule. After nine months, operations of the Hypo Real Estate Group are in line with expectations and in certain cases, for instance as far as new business is concerned, have even exceeded our expectations. The business activities which were the reasons why we acquired DEPFA are performing well, and are in line with our expectations. Even if we have not been able to entirely avoid the effects of the turmoil on the financial markets, the recent problems on the real estate and finance markets have emphasised the particular strength and sound nature of our business model, either in terms of the low risk profile of Public Finance, the attractiveness of the Pfandbrief as a long-term investment instrument which is resistant to crises, or the need to ensure adequate pricing for risk. The Hypo Real Estate Group has thus emerged strengthened from the recent market crisis."

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