

Press release

Hypo Real Estate Group publishes preliminary full-year figures for 2007

- **Combined adjusted pre-tax profit of € 1.24 billion**
- **Positive operating performance in the Group's core business segments reflects strong new business**
- **Non-recurring charge of € 295 million recognised in Q4, to account for impairment on the CDO exposure**
- **Cautiously optimistic outlook for the current year**
- **Georg Funke: "Results demonstrate the strength and soundness of our business model and risk policy."**

Munich, 15 January 2008: Hypo Real Estate Group recorded a positive operating performance in its core business segments in 2007, having entered into a new phase of its corporate history with the acquisition of DEPFA BANK, completed in early October.

Based on combined results including the full-year figures of DEPFA BANK, the new Group's preliminary 2007 **adjusted pre-tax profit** amounted to € 1.24 billion (2006: € 1.23 billion). This figure does not include € 50 million in expenses for the acquisition and integration of DEPFA BANK, and a € 390 million charge (of which € 295 million was recognised in the income statement) taken during the fourth quarter, to account for the impairment of the Group's exposure of US collateralised debt obligations (CDOs).

The Group's positive performance was driven by strong operative business in its core segments Commercial Real Estate Finance, Public Finance and Infrastructure Finance, combined with a small exposure to high-risk asset classes. At € 32.0 billion, **new business** in Real Estate Finance outperformed the budget target of € 22 billion by € 10.0 billion or 45%, clearly showing the continued improvements in the Group's sales power. Faced with the US sub-prime crisis, market participants became more sensitive to a more risk-adequate pricing. Hypo Real Estate Group was thus able to significantly

enhance margins during the second half of the year, boosting the **yield on new real estate finance business** to more than 15% during the fourth quarter (measured using the risk-adjusted internal rate of return - IRR). Combined new Public Finance business grew from € 50.7 billion to € 57.4 billion (up 13%), whilst the interest margin rose from 17bp in the first half of 2007 to 28bp in the second half of the year (margin details relate to DEPFA). The Infrastructure Finance segment generated € 11.8 billion in new business, with stable margins.

Including non-recurring effects, the Group's combined pre-tax profit for 2007 amounted to € 890 million. The factors influencing results are outlined below:

- Continued weakness in international financial markets – as a result of the US sub-prime crisis – required a revaluation of the Group's CDO investments. A key indicator for this revaluation was the significant scope of rating downgrades which have been affecting this asset class over recent weeks. In line with its conservative accounting policy, Hypo Real Estate Group recognised € 390 million in impairment losses on its US CDO portfolio in the fourth quarter of 2007. € 295 million of this charge was recognised in the income statement, whereas € 95 million related to portfolio-based provisions recognised earlier.

The combined **provisions for losses on loans and advances** developed favourably in 2007, down by a third to €105 million (2006: € 159 million).

- Income and expenses associated with the acquisition of DEPFA BANK amounted to net expenditure of €-50 million in 2007. The net figure comprises € 100 million in measurement gain on the mandatory convertible bond; € 25 million in costs for financing the

transaction, and € 125 million in restructuring costs for the integration of DEPFA. As the recognised restructuring costs also cover measures to be implemented in 2008, no further expenses are expected for the current year.

Group results for 2007 were burdened by distortions on the international financial markets, which resulted in a negative net trading income incurred during the second half of the year. The combined **net trading income** for the full year was a € 60 million loss. The majority of these losses was attributable to trading positions held by DEPFA, which are no longer in line with the Group's strategy: as announced, these activities will be discontinued entirely during the first quarter of 2008. At € 645 million, combined **general administrative expenses** were 15% higher than in the previous year (2006: € 563 million), mainly reflecting the strong expansion in the Group's operative business.

The sale of a non-strategic portfolio of performing real estate loans to ING DiBa AG, agreed upon in August 2007, resulted in a profit contribution of € 90 million in the fourth quarter.

Proposed dividend of 50 cents per share

Subject to approval of the financial statements, the Management Board and Supervisory Board of Hypo Real Estate Holding AG intend to propose to the Annual General Meeting to distribute a dividend of 50 cents per share for 2007 (2006: € 1.50). This conservative dividend policy will help secure a sound capitalisation of Hypo Real Estate Group. This will enable the Group to actively pursue opportunities for profitable growth in its core businesses, which are available in the present market scenario, without having to raise capital.

DEPFA integration process ahead of schedule - higher cost savings in 2008

Progress made with the integration of DEPFA BANK into the Hypo Real Estate Group is ahead of schedule: the cost savings which will result from the integration are thus anticipated to occur at an earlier stage than planned.

Material legal and structural steps for restructuring the combined Group have either been completed or largely implemented. Specifically, this includes the following measures:

- DEPFA BANK plc transferred DEPFA Deutsche Pfandbriefbank AG to Hypo Real Estate Holding AG. Also Hypo Real Estate International AG transferred Dublin-based Hypo Public Finance Bank to DEPFA BANK plc.
- Within the scope of concentrating global activities in the Commercial Real Estate [Finance] segment, the registered office of Hypo Real Estate International AG was transferred from Stuttgart to Munich, where Hypo Real Estate Holding AG and Hypo Real Estate Bank AG are located. The move of operative units has largely been completed.
- As announced, DEPFA's proprietary trading activities which are not in line with the combined group's strategy will be terminated by the end of the first quarter of 2008.
- Steps to optimise the Group's international sales network (including the merging of units at the same location) are being implemented, and will realise further cost savings.

Positive outlook for 2008

Given the improved framework for on-balance sheet lending, and in spite the challenging financial markets environment, the Management Board is cautiously optimistic for the current financial year. Growth momentum is

envisaged particularly in the Public Finance and Infrastructure Finance segments, reflecting the benefits of the DEPPFA acquisition. The Commercial Real Estate [Finance] portfolio is expected to remain stable.

General administrative expenses for 2008 are forecast at between € 550 million and € 600 million. Thanks to synergy effects resulting from the integration of DEPPFA, the figure will thus be significantly lower than in 2007. **Provisions for losses on loans and advances** are expected to be higher than the € 105 million figure reported for 2007.

Based on the assumptions set out above, the Management Board envisages 2008 Group **pre-tax profit** at between € 1.0 billion and € 1.2 billion. **Group return on equity after taxes** is expected between 10% and 12%. The Group is thus well on track towards achieving its target net return on equity of 15% by 2010.

Georg Funke, CEO of Hypo Real Estate Holding AG, said that 2007 was a successful year for the Group, "both in our operative business and regarding our strategic position. Strong new business and the positive operating performance in our core business segments show that our business model is sound and attractive. Our decision to recognise impairment losses on our CDO portfolio, reflecting continued turbulence triggered by the sub-prime crisis, is in line with our risk policy, which has traditionally been conservative. Our focus was to create transparency for the capital markets at a very early stage. Looking at the burdens which numerous renowned financial services providers have incurred as a result of the market crisis – some of which were dramatically higher – we can affirm that our restrictive risk strategy adopted over recent years has turned out to be correct. Following the acquisition of DEPPFA, we now have a well-balanced portfolio

of businesses which will contribute to a positive performance during the current year."

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Note to editors:
Invitation to a conference call

The figures published in this release are provisional and unaudited.

The press conference to present the financial statements and annual report 2007 is scheduled for 27 March 2008.

Hypo Real Estate Group

In Mio. €	2006	2007	Effects from DEPFA acquisition	2007
Total operating revenues	1.956	1.990	-25	1.965
- thereof: net trading income	178	-60		-60
Provisions for losses on loans and advances	159	105		105
General administrative expenses	563	645		645
Balance of other income/expenses	0	-5	100	95
Pre-tax profit¹⁾	1.234	1.235	75	1.310
Impairment on CDO exposure	0			295
Restructuring expenses	17		125	125
Pre-tax profit	1,217		-50	890

1) Excluding the effects from impairment on CDO exposure and restructuring expenses