

## **Press release**

### **Hypo Real Estate Group reports 22% growth in net income before taxes in Q1 2007**

- **Targets for the first three months have been fully met and exceeded in certain cases**
- **Strong new business of EUR 6.5 billion higher than target**
- **Operating revenues up 12%**
- **Very successful start made by the new Asset Finance & Asset Management segment**
- **Forecasts confirmed for the whole of 2007**

**Munich, 10 May 2007:** Hypo Real Estate Group has made a successful start to financial 2007. The pattern of growth seen in recent years was continued in the first quarter. New business of EUR 6.5 billion was 25% up compared with the corresponding previous year figure (EUR 5.2 billion). There was also new business for syndications and securitisations of EUR 1.2 billion. In addition, a new phase of the company's development was initiated by the strategic decision to transform the Group into an Asset Finance House in the course of the next few years. The previous expectations for the whole of 2007 have been fully confirmed by the Management Board.

For the figures for the first quarter, the Hypo Real Estate Group has for the first time used the new segmentation announced at the end of January 2007:

- The Commercial Real Estate segment combines the domestic and international business in commercial real estate financing which previously had been reported separately.
- The Asset Finance & Asset Management segment comprises the asset-based finance transactions outside real estate financing, capital markets including the securitisation of real estate financing and asset management (management of credit risks for third parties).

The previous year figures have been adjusted appropriately and are fully equivalent.

### **Development in results of the Group Q1 2007**

- Consolidated net income before taxes amounted to EUR 172 million in the first three months, and was thus slightly higher than the pro-rata target of min. EUR 170 million. This constitutes growth of 22% compared with the figure in the corresponding previous year quarter (EUR 141 million).
- Consolidated net income amounted to EUR 130 million, representing growth of 25% compared with the previous year figure (EUR 104 million). The deferred tax expense attributable to capitalised losses carried forward is not included in these figures (EUR 23 million compared with EUR 14 million in Q1 2006). On this basis, return on equity after taxes is stated as 11.6% (whole of 2006: 9.9%); this means that the Group is moving in the range of 11% to 12% forecast for the whole of 2007.
- Operating revenues increased from EUR 264 million in the previous year quarter to EUR 295 million (+12%). This growth was spread over a broad base. Accordingly, net interest income (EUR 217 million, +10%) and net commission income (EUR 42 million, +24%) benefited from the strong growth in new business in the previous year and the loans extended in the course of the current year. Net trading income improved from EUR 11 million to EUR 15 million, reflecting the expanding activities of the Asset Finance & Asset Management segment.
- With additions of EUR 34 million to provisions for losses on loans and advances, Hypo Real Estate Group again demonstrated its risk-aware new business policy and the excellent quality of its financing portfolio in the first quarter. The figure was EUR 9 million lower than the corresponding previous year figure (-21%), and was also lower than the target range (EUR 38 to 40 million).
- General administrative expenses increased by 11% from EUR 80 million to EUR 89 million, but were slightly lower than the forecast. The increase is due to the expansion of the business base of the Group, with the setting up of new sources of earnings, for instance infrastructure financing, capital markets and asset management.
- The cost-income ratio (CIR), the ratio between operating revenues and general administrative expenses, improved further in the first quarter to 30.2% (full year 2006: 31.0%).

### **New business Q1 2007**

- In the first three months of 2007, the Group acquired new real estate financing business of EUR 6.2 billion, compared with EUR 5.2 billion in the previous year period. This is equivalent to growth of 19%, and exceeded the pro-rata target of EUR 5.5 billion. Business in Germany achieved a particularly positive performance. The average return after taxes across all new business is more than 13%.
- The other asset-based financing which only commenced in mid-2006, for instance infrastructure projects, generated new business of EUR 0.3 billion.
- In addition to new business totalling EUR 6.5 billion, Hypo Real Estate Group also acquired off-balance-sheet business (syndications and securitisations) of EUR 1.2 billion in the first quarter.

### **Development in volumes Q1 2007**

- The loan portfolio of the Group amounted to EUR 132.2 billion as of 31 March 2007, EUR 1.3 billion lower than at the end of 2006. In line with overall strategy, municipal loans and non-strategic real estate financing declined, whereas the volume of target business in real estate financing remained virtually constant.
- Total assets amounted to EUR 164.8 billion at the end of the first quarter, compared with EUR 161.6 billion as of 31 December 2006 (EUR +3.2 billion).

**Georg Funke, CEO of Hypo Real Estate Holding AG:** "The results of the first three months are a good basis which will enable us to meet our objectives in 2007. Hypo Real Estate Group is on a sustainable course of growth in terms of new business, operating revenues and net income. However, particular mention has to be made of the fact that we commenced the process of gradually transforming the Group into an Asset Finance House in the first quarter. The key factor in this respect is that we will also use our recognised know how for structuring, financing and placing asset-backed financing for assets other than commercial real estate financing. In this way, we will open up new growth opportunities, expand our earnings base and diversify our risk structure further."

## **Outlook for the whole of 2007**

The Management Board has fully confirmed its previous targets for 2007, and anticipates the following for the Group:

- New business in both segments (excl. syndications and securitisations) of more than EUR 25 billion (2006: EUR 28.5 billion); there is also an additional EUR 10 billion for securitisations and syndications; of this figure, approx. EUR 5 billion is attributable to the existing non-strategic Germany portfolio.
- Operating revenues expected to grow to more than EUR 1.2 billion (2006: EUR 1.08 billion).
- Net income before taxes to improve by around 20% or more to min. EUR 680 million (2006: EUR 571 million).
- Return on equity after taxes in a range of 11 to 12%.

## **Information concerning the segments**

### **Commercial Real Estate**

- The segment in which the former Hypo Real Estate International and Hypo Real Estate Germany segments have been combined since the beginning of the year generated net income before taxes of EUR 156 million in the first quarter which tends to be relatively weak due to seasonal factors; this figure is 10% higher than the corresponding previous year figure (EUR 142 million). The target for the full year is a range of EUR 630 million to EUR 650 million.
- In the first three months of the year, return on equity after taxes (excluding a deferred tax expense from capitalised losses carried forward of EUR 23 million) amounted to 11.6% (full year 2006: 10.8%). It is expected to rise to more than 12% in the whole of 2007.
- Portfolio quality improved further in the quarter under review. In line with the overall strategic focus, the volume of non-strategic real estate financing was reduced by EUR 0.5 billion compared with 31 December 2006; public finance declined by EUR 2.0 billion. The overall loan portfolio of the segment amounted to EUR 116.8 billion at the end of March 2007 (31 December 2006: EUR 119.6 billion).

### **Asset Finance & Asset Management**

- The newly created segment has made a very promising start to the year 2007. Net income before taxes of EUR 28 million was at the upper end of our forecasts. For the full year, the target for net income before taxes is EUR 90 to 110 million.
- In the starting quarter, operating revenues more than doubled to EUR 45 million (Q1 2006: EUR 21 million). This growth was attributable mainly to net interest income, which reflects the higher volume of infrastructure and other asset-based financing as well as the success of the newly established securitisation business.
- Return on equity after taxes amounted to 15.6% in the first quarter. It is expected to be between 14 and 15% in the whole of 2007.

**Press contact:**

Oliver Grub

Phone: +49 (0)89 203007 781

Fax: +49 (0)89 203007 772

E-mail: [oliver.gruss@hyporealestate.com](mailto:oliver.gruss@hyporealestate.com)

# Hypo Real Estate Group

## Income statement for the period from 1 January to 31 March 2007

Income/expenses in € million				
	1.1.-31.3.2007	1.1.-31.3.2006	Change	
			in € million	in %
Interest income	1,831	1,683	148	8.8
Interest expenses	1,614	1,486	128	8.6
<b>Net interest income</b>	<b>217</b>	<b>197</b>	<b>20</b>	<b>10.2</b>
Provisions for losses on loans and advances	34	43	-9	-20.9
<b>Net interest income after provisions for losses on loans and advances</b>	<b>183</b>	<b>154</b>	<b>29</b>	<b>18.8</b>
Commission income	50	45	5	11.1
Commission expenses	8	11	-3	-27.3
<b>Net commission income</b>	<b>42</b>	<b>34</b>	<b>8</b>	<b>23.5</b>
Net trading income	15	11	4	36.4
Net income from investments	19	20	-1	-5.0
General administrative expenses	89	80	9	11.3
Balance of other operating income/expenses	2	2	0	-
<b>Operating profit/loss</b>	<b>172</b>	<b>141</b>	<b>31</b>	<b>22.0</b>
Balance of other income/expenses	0	0	0	-
<b>Net income /loss before taxes</b>	<b>172</b>	<b>141</b>	<b>31</b>	<b>22.0</b>
Taxes on income	65	51	14	27.5
thereof:				
Deferred taxes on capitalised losses carried forward	23	14	9	64.3
<b>Net income/loss</b>	<b>107</b>	<b>90</b>	<b>17</b>	<b>18.9</b>
<b>attributable to:</b>				
Equity holders (consolidated profit)	107	90	17	18.9
Minority interest	0	0	0	-
	<b>107</b>	<b>90</b>	<b>17</b>	<b>18.9</b>

## Income statement, broken down by business segment

Income/expenses in € million					
		CRE	AF&AM	Other/ consolidation	HREG
Net interest income	1.1.-31.3.2007	201	20	-4	217
	1.1.-31.3.2006	195	7	-5	197
Provisions for losses on loans and advances	1.1.-31.3.2007	33	1	0	34
	1.1.-31.3.2006	43	0	0	43
<b>Net interest income after provisions for losses on loans and advances</b>	<b>1.1.-31.3.2007</b>	<b>168</b>	<b>19</b>	<b>-4</b>	<b>183</b>
	<b>1.1.-31.3.2006</b>	<b>152</b>	<b>7</b>	<b>-5</b>	<b>154</b>
Net commission income	1.1.-31.3.2007	35	7	0	42
	1.1.-31.3.2006	32	2	0	34
Net trading income	1.1.-31.3.2007	0	15	0	15
	1.1.-31.3.2006	0	11	0	11
Net income from investments	1.1.-31.3.2007	16	3	0	19
	1.1.-31.3.2006	19	1	0	20
General administrative expenses	1.1.-31.3.2007	65	16	8	89
	1.1.-31.3.2006	62	11	7	80
Balance of other operating income/expenses	1.1.-31.3.2007	2	0	0	2
	1.1.-31.3.2006	1	0	1	2
<b>Operating profit/loss</b>	<b>1.1.-31.3.2007</b>	<b>156</b>	<b>28</b>	<b>-12</b>	<b>172</b>
	<b>1.1.-31.3.2006</b>	<b>142</b>	<b>10</b>	<b>-11</b>	<b>141</b>
Balance of other income/expenses	1.1.-31.3.2007	0	0	0	0
	1.1.-31.3.2006	0	0	0	0
<b>Net income/loss before taxes</b>	<b>1.1.-31.3.2007</b>	<b>156</b>	<b>28</b>	<b>-12</b>	<b>172</b>
	<b>1.1.-31.3.2006</b>	<b>142</b>	<b>10</b>	<b>-11</b>	<b>141</b>
Taxes on income <sup>1)</sup>	1.1.-31.3.2007	36	6	0	42
	1.1.-31.3.2006	35	2	0	37
<b>Nett income/loss<sup>1)</sup></b>	<b>1.1.-31.3.2007</b>	<b>120</b>	<b>22</b>	<b>-12</b>	<b>130</b>
	<b>1.1.-31.3.2006</b>	<b>107</b>	<b>8</b>	<b>-11</b>	<b>104</b>

<sup>1)</sup> Excluding the effects from capitalised losses carried forward totalling € 23 million in HREG (Q1 2006: € 14 million)

## Key ratios, broken down by business segment

in %				
		CRE	AF&AM	HREG
Cost-income ratio (based on operating revenues)	1.1.-31.3.2007	25.6	35.6	30.2
	1.1.-31.12.2006	25.6	47.9	31.0
Return on equity after taxes <sup>1)</sup>	1.1.-31.3.2007	11.6	15.6	11.6
	1.1.-31.12.2006	10.8	9.7	9.9

<sup>1)</sup> Excluding the effects from capitalised losses carried forward and income of capitalised corporate income tax claims

## Balance sheet figures, broken down by business segment

Assets und Liabilities in € million					
		CRE	AF&AM	Other/ consolidation	HREG
Total assets	31.3.2007	135,959	31,435	-2,554	164,840
	31.12.2006	135,204	28,404	-2,015	161,593
Total liabilities	31.3.2007	132,772	30,830	-2,240	161,362
	31.12.2006	132,060	27,824	-1,736	158,148

Volume of lending in € million					
		CRE	AF&AM	Other/ consolidation	HREG
Loans and advances to other banks	31.3.2007	10,759	1,332	-459	11,632
	31.12.2006	11,063	892	-460	11,495
Loans and advances to customers	31.3.2007	76,425	3,286	0	79,711
	31.12.2006	77,385	4,236	-19	81,602
Contingent liabilities	31.3.2007	1,198	74	0	1,272
	31.12.2006	1,658	73	0	1,731
<b>Total</b>	<b>31.3.2007</b>	<b>88,382</b>	<b>4,692</b>	<b>-459</b>	<b>92,615</b>
	<b>31.12.2006</b>	<b>90,106</b>	<b>5,201</b>	<b>-479</b>	<b>94,828</b>

Risk-weighted assets in € billion					
		CRE	AF&AM		HREG
On-balance-sheet assets	31.3.2007	58.8	5.0		63.5
	31.12.2006	57.5	3.7		61.1
Off-balance-sheet assets	31.3.2007	4.9	0.5		5.4
	31.12.2006	4.6	0.4		5.1
Counterparty risks in the trading book	31.3.2007	0.0	0.4		0.4
	31.12.2006	0.0	0.2		0.2
<b>Total</b>	<b>31.3.2007</b>	<b>63.7</b>	<b>5.9</b>		<b>69.3</b>
	<b>31.12.2006</b>	<b>62.1</b>	<b>4.3</b>		<b>66.4</b>

## Key capital ratios [based on German Commercial Code (HGB)], broken down by business

Capital ratios in %					
		CRE	AF&AM		HREG
Core capital ratio	31.3.2007	6.6	6.3		6.7
	31.12.2006 <sup>1)</sup>	6.7	8.4		7.0
Equity capital ratio	31.3.2007	9.0	15.0		9.6
	31.12.2006 <sup>1)</sup>	9.1	20.3		10.0
Equity funds ratio	31.3.2007	8.9	8.8		8.9
	31.12.2006 <sup>1)</sup>	9.0	10.3		9.3

<sup>1)</sup> As per approved annual financial statements and after profit distribution

## Summary of quarterly financial data

Hypo Real Estate Group					
	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007
<b>Operating performance</b> (in € million)					
Operating revenues	264	266	270	282	295
Net interest income	197	198	208	208	217
Net commission income	34	35	33	43	42
Net trading income	11	6	14	7	15
Net income from investments	20	26	14	26	19
Balance of other operating income/expenses	2	1	1	-2	2
Provisions for losses on loans and advances	43	44	36	36	34
General administrative expenses	80	79	86	90	89
Balance of other income/expenses (excluding restructuring expenses)	0	0	0	0	0
Net income/loss before taxes (excluding restructuring expenses)	141	143	148	156	172
Restructuring expenses	0	0	0	17	0
Net income/loss before taxes	141	143	148	139	172
Net income/loss <sup>1)</sup>	104	105	109	111	130
<b>Key indicators</b>					
Total volume of lending (in € billion)	91.7	91.4	93.9	94.8	92.6
Risk assets compliant with BIS rules (in € billion)	58.1	59.8	64.8	66.4	69.3
Core capital ratio compliant with BIS rules (in %)	7.6	7.4	6.9	7.0 <sup>2)</sup>	6.7
Volume of new business <sup>3)</sup> (in € billion)	5.2	6.6	6.5	10.2	6.5
Employees	1,176	1,172	1,206	1,229	1,234

<sup>1)</sup> Excluding the effects from capitalised losses carried forward and income of capitalised corporate income tax claims

<sup>2)</sup> As per approved annual financial statements and after profit distribution

<sup>3)</sup> Real estate financing business and infrastructure/asset-based finance excluding off-balance-sheet-business

Commercial Real Estate					
	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007
<b>Operating performance</b> (in € million)					
Operating revenues	247	242	250	267	254
Net interest income	195	194	205	201	201
Net commission income	32	27	29	39	35
Net trading income	0	0	0	0	0
Net income from investments	19	22	14	26	16
Balance of other operating income/expenses	1	-1	2	1	2
Provisions for losses on loans and advances	43	43	36	34	33
General administrative expenses	62	60	66	70	65
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	142	139	148	163	156
Net income/loss <sup>1)</sup>	107	105	111	138	120
<b>Key indicators</b>					
Total volume of lending (in € billion)	89.3	89.1	91.4	90.1	88.4
Risk assets compliant with BIS rules (in € billion)	56.1	57.4	61.5	62.1	63.7
Core capital ratio compliant with BIS rules (in %)	7.6	7.4	6.9	6.7 <sup>2)</sup>	6.6
Volume of new business <sup>3)</sup> (in € billion)	5.2	6.2	6.1	9.1	6.2
Employees	938	941	974	980	966

<sup>1)</sup> Excluding the effects from capitalised losses carried forward and income of capitalised corporate income tax claims

<sup>2)</sup> As per approved annual financial statements

<sup>3)</sup> Real estate financing business excluding off-balance-sheet-business

**Asset Finance & Asset Management**

	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007
<b>Operating performance</b> (in € million)					
Operating revenues	21	26	25	24	45
Net interest income	7	7	7	13	20
Net commission income	2	8	4	4	7
Net trading income	11	6	14	7	15
Net income from investments	1	4	0	0	3
Balance of other operating income/expenses	0	1	0	0	0
Provisions for losses on loans and advances	0	1	0	2	1
General administrative expenses	11	11	13	11	16
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	10	14	12	11	28
Net income/loss	8	10	10	8	22
<b>Key indicators</b>					
Total volume of lending (in € billion)	2.5	2.5	2.8	5.2	4.7
Risk assets compliant with BIS rules (in € billion)	2.1	2.4	3.2	4.3	5.9
Core capital ratio compliant with BIS rules (in %)	14.7	13.6	10.6	8.4 <sup>1)</sup>	6.3
Volume of new business <sup>2)</sup> (in € billion)	0.0	0.4	0.4	1.1	0.3
Employees	170	161	158	167	180

<sup>1)</sup> As per approved annual financial statements

<sup>2)</sup> Infrastructure-/asset-based finance