

Press release

Hypo Real Estate Group publishes financial statements for 2007 with a pro-forma pre-tax profit of € 862 million for the new joint Group

- **2007 strong new business in all core segments, rapid integration of DEPFA Bank**
- **Performance in 2007 affected by numerous extraordinary factors, particularly the impairments on US CDOs and the DEPFA acquisition**
- **Figures thus in line with preliminary details released in January**
- **Public Finance has made a very promising start in 2008, moderate new business in Real Estate Financing**
- **Further serious turmoil on the international financing markets mean that it is difficult to make a specific assessment of the further development of business**

Munich, 27 March 2008: The Hypo Real Estate Group, an international provider of financing solutions for commercial real estate, the public sector and infrastructure projects has today published its financial statements for 2007. On the occasion of today's accounts press conference, CEO Georg Funke has said that the Group has adequate capital base for further growth. As far as can be seen at present, capital increases are not necessary according to Georg Funke. In his opinion however, the further deterioration in market conditions which has occurred since the beginning of the year means that "great caution" has to be observed with regard to statements concerning the future development of business and operations on the market.

Summary of business development in 2007

In 2007, the Hypo Real Estate Group reported a positive operating performance in its core areas of business. In terms of strategy, a new phase in the company's history commenced with the acquisition of DEPFA Bank plc which was completed at the beginning of October. The integration of DEPFA has proceeded more rapidly and less expensively than originally planned. The main legal and structural measures for restructuring have now been completed or have been implemented to a large extent.

The results of the Group were affected by numerous extraordinary effects in 2007, partially as a result of the acquisition of DEPFA and partially as a result of the crisis on the capital and financing markets which became even more serious in the second half of the year.

Pro-forma earnings figures for 2007

In order to ensure that the figures can be compared on a like-for-like basis, reference is made to pro-forma figures of the income statement in the following. The corresponding principles of the Institut der Wirtschaftsprüfer (IDW) have been used in this respect. This assessment has assumed that DEPFA Bank has been part of the Group since 1 January 2006. In reality, DEPFA was initially consolidated on 2 October 2007.

- On a pro-forma basis, the Group generated a pre-tax profit of € 862 million in 2006, compared with € 1.06 billion in the previous year (-18.5%). This decline is attributable to numerous extraordinary factors. On an adjusted basis, pre-tax profit was only slightly lower than the corresponding previous year figure (-2.9%).
- The extraordinary effects include in particular:
 - Impairments of € 301 million recognised in the income statement in relation to Collateralized Debt Obligations (CDO) portfolios (thereof € 295 million US CDOs and € 6 million European Credit Linked Investments; this is shown under net trading income and net income from investments;
 - Income of € 90 million from the sale of a non-strategic real estate portfolio to ING-DiBA.
- Operating revenues (sum of net interest income and similar income, net commission income, net trading income, net income from financial investments, net income from hedge relationships and the balance of other operating income/expenses) were reported as €1.46 billion, which

was lower than the corresponding previous year figure (€ 1.84 billion; - 20.7 %). This was due to the impairments on CDOs which were recognised in the income statement and which resulted in a considerable deterioration in net trading income and net income from financial investments. On the other hand, net interest income was supported by the strong new business in real estate-, public sector-, and infrastructure finance as well as the profit from the sale of the non-strategic real estate portfolio. Despite reflecting charges arising from interest positions of DEPFA, net interest income and similar income increased by 21 % to € 1.47 billion. Net commission income, thanks to good new business, improved by more than 31 % to € 234 million.

- Provisions for losses on loans and advances are shown as a reversal of € 61 million, following an allocation of € 159 million in 2006. This development reflects the positive development of the portfolio quality, enabling the reserves in the portfolio-based allowances to be reversed. As it was the case last year, no new provisions for losses on loans and advances had to be created at DEPFA in 2007.
- General administrative expenses increased by 13 % from € 580 million to € 656 million. A major factor behind this increase was staff recruitment at DEPFA and the initial consolidation of the US-Broker DEPFA First Albany Securities LLC.
- The cost-income ratio was 44.8 % (2006: 31.5%).

Earnings figures for 2007 shown in the income statement

- The reported income statement of the Hypo Real Estate Group, in which the results of DEPFA were only included from 2 October 2007 onwards and were thus not included in the previous period, shows consolidated pre-tax profit of € 587 million (2006: € 571 million, +2.8 %). The figures are only comparable to a very limited extent as a result of the numerous consolidation- and extraordinary effects.

- Net income after taxes was reported as € 457 million, 15.7 % lower than the corresponding previous year figure of € 542 million.
- On a stand-alone basis, the Hypo Real Estate Group had announced a target of at least € 680 million for pre-tax profit at the beginning of 2007. If the reported figure of € 587 million is adjusted by the contribution to earnings of DEPFA after the point of consolidation (€ 59 million) and also by all one-off effects which are not attributable to operating business, pre-tax profit came in at € 691 million, which illustrates the good operating performance in the core areas of business.

Further key financials

- As a result of the acquisition of DEPFA, the total assets of the Group increased from € 161.6 billion as of 31 December 2006 to € 400.2 billion at the end of 2007.
- The Hypo Real Estate Group reports adequate capitalization as of 31 December 2007. The core capital ratio amounted to 7.0 % (31 December 2006: 7.0 %), the equity ratio amounted to 9.4 % (31 December 2006: 9.3 %). This capitalization is adequate for funding further operating growth. As far as can be seen at present therefore, capital measures are not necessary.

Dividend proposal: € 0.50 per share

As communicated on 15 January 2008, the Management Board and Supervisory Board of Hypo Real Estate Holding AG will submit a proposal to the annual general meeting for a dividend of € 0.50 per share to be paid for financial 2007 (2006: € 1.50). The purpose of this pay-out policy is to ensure sound capitalization.

Overview of the portfolios of the Group

- The strategic real estate financing portfolio amounted to € 65.6 billion (31 December 2006: € 62.2 billion). New business in real estate financing had a positive impact in this respect; At € 32.1 billion, this was considerably higher than the corresponding previous year figure (€ 26.6 billion) and also considerably higher than the announced target of € 23.5 billion. Spread over all new business, the internal rate of return (IRR) was more than 14% - and the trend was rising towards the end of the year.
- The Hypo Real Estate Group anticipated structural changes in key real estate markets such as the USA, Spain and Great Britain at an early stage, and has been reducing its exposure in these markets since the end of 2006. At the end of 2007, total problem loans amounted to 2.7 % of the real estate financing portfolio.
- Public finance amounted to € 229.0 billion at the end of 2007 (31 December 2006 incl. DEPFA: € 244.2 billion). The decline was attributable to sales of bonds and receivables which had increased in value. New business (incl. DEPFA) amounted to € 575 billion, a decline of € 4.2 billion compared with the previous year.
- Infrastructure finance (incl. DEPFA) reported a volume of € 18.4 billion as of 31 December 2007 (31 December 2006 : € 10.1 billion). The strong increase is attributable to the good new business (incl. DEPFA € 12.3 billion, compared with € 8.1 billion in the previous year). This is a pleasant step towards generating the critical mass the Group plans to achieve by pooling the activities in both houses
- The capital markets portfolio amounted to € 18.3 billion compared with € 5.6 billion as of 31 December 2006. This increase is attributable i.a. to an expansion of business with financial institutions and with sovereigns. As already announced the non strategic trading activities of DEPFA have

been stopped. The future activities shall primarily support the core business Commercial Real Estate, Public Sector- and Infrastructure Finance.

- The portfolio of US CDOs was affected by impairments of € 390 million in the financial statements for 2007 (of which € 295 million recognised directly in the income statement), and the market situation for this asset class has deteriorated even further so far this year. The possibility of further impairments cannot be precluded at present for the remainder of the year. The book value of the US CDO portfolio is currently stated at just under € 1 billion.
Besides the US CDOs, the Group has further so-called European "Credit Linked Investments" in its book, such as CDOs, CLOs and CSOs. The book values of the products, including the US CDOs, is approx. € 1.8 billion. This is equivalent to just approx. 0.5 % of the Group's total assets of € 400 billion.
- The Hypo Real Estate Group holds "Real Estate Linked Investments" such as CMBS and RMBS products with a total volume of approx. € 3.2 billion with a direct link to the core business of the Group. The securities feature sound quality in terms of rating, creditworthiness and default risks. Their risk quality is consistent with the accustomed high standards in our real estate financing. Accordingly, the Group is currently not anticipating any charges on earnings arising from credit risks. However, changes in the market prices of the securities have to be shown in the revaluation reserve.

Outlook for 2008

The Group has achieved different starts to the year in 2008 with its core areas of business. In the field of public finance (Public Sector & Infrastructure Finance segment), new business has been achieving a positive performance in January and February, both in terms of volume and the profitability of the business. In infrastructure finance, new business made a moderate start in the first two months of the year. In commercial real estate financing (Commercial Real Estate segment), new business has been moderate. However, in view of the current market climate, Hypo Real Estate has adopted a conservative approach and has concentrated on new business eligible for Pfandbrief coverage. There was a continuation of the trend in the development of margins which was commensurate with the level of risk involved and which was reported in the fourth quarter of 2007. Capital market operations of the Group (Capital Markets & Asset Management segment) were characterised by the very difficult market conditions, and reported a weak performance in the first two months of the year.

The planning for financial 2008 which was prepared at the end of 2007 was based on various assumptions, including the assumption that there will be no major deterioration in credit and refinancing spreads. The targets communicated on the basis of this planning on 15 January 2008 were subject to the proviso that there would be no unforeseen negative events of major significance for the Group.

Indeed, spreads have widened even further so far this year, and this of course has consequences for the Group's business. The international financing markets are still fragile and, in certain areas, are not capable of functioning or are only capable of functioning to a very limited extent. In addition, the signs of a major economic slowdown in the USA and also in Europe have increased. In this situation, it is not possible to make a reliable assessment of the development of the capital and financial markets in the near future. This means that it is also not

possible to preclude the possibility of further charges for the Hypo Real Estate Group.

The Management Board is anticipating a continuation of the positive performance of operations in 2008. Growth is expected to be generated particularly with the public finance and infrastructure finance activities which have been considerably strengthened by DEPFA, where growth in financing portfolios is expected. As far as can be seen at present, a stable portfolio development is expected in the field of commercial real estate financing.

Overall, the conditions for the Hypo Real Estate Group have become more difficult since the beginning of 2008. It is thus not possible to preclude the possibility that the forecasts for financial 2008 will not be entirely met.

Georg Funke, CEO of Hypo Real Estate Holding AG: "The current climate on the financing markets is posing a major challenge for all banks and thus also for the Hypo Real Estate Group. Caution has to be exercised. The aim is to bring our Group safely through this unparalleled market crisis. However, the extremely difficult climate must not disguise the achievement of our Group in terms of operations and strategy in 2007. Following the acquisition of DEPFA Bank, the new Hypo Real Estate Group has a sound and well-balanced business model which provides excellent opportunities for growth in the medium and long term."

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