

Press release

Hypo Real Estate Group closes the first quarter with a profit

- **Pre-tax profit of € 190 million, excl. effect from mandatory convertible bond pre-tax profit amounted to € 6 million**
- **Positive new business in public finance, sound new business with attractive margins in infrastructure and real estate financing**
- **Negative valuation changes affecting income totalling € 175 million for the CDO portfolio due to the further downturn in the market climate**
- **Market turmoil means that reliable statements concerning the further development of business in 2008 are not possible**

Munich, 6 May 2008: The Hypo Real Estate Group has completed the first quarter of financial 2008 with a positive result in an extremely difficult climate on the international capital and financing markets. The international provider of financing solutions for commercial real estate, the public sector and infrastructure financing has reported consolidated pre-tax profit of € 190 million for the first three months, after deducting an effect attributable to the mandatory convertible bond issued in connection with the DEPFA acquisition pre-tax profit amounted to € 6 million. Earnings benefited from a stable development of provisions for losses on loans and advances and synergies attributable to the speedy integration of DEPFA Bank which was acquired in 2007.

Because DEPFA has only been part of the Hypo Real Estate Group since 2 October 2007, reference is made to pro-forma figures in the following for ease of comparison for the year 2007.

Development in new business

- In Commercial Real Estate Financing, new business in the first quarter amounted to € 3.1 billion and was thus considerably lower than the corresponding previous year figure (€ 6.2 billion). Attractive margins were achieved, because the markets are focusing to a greater extent on the principle of pricing which is commensurate with the

level of risk involved. The internal rate of return after taxes of new business (IRR) was more than 15%.

- New business for Public Finance performed very positively in the quarter under review, and was stated as € 15.1 billion, equivalent to growth of 7% compared with the previous year quarter (€ 14.1 billion). This demonstrates the increasing attractiveness of this sound and low-risk business.
- New business in Infrastructure Finance amounted to € 1.6 billion (Q1 2007: € 2.5 billion).

Group development in the first quarter of 2008

- Operating revenues (the sum of net interest income and similar income, net commission income, net trading income, net income from financial investments, result from hedge relationships and the balance of other operating income/expense) amounted to € 184 million in the first three months of 2008, considerably lower than the corresponding previous year figure (€ 498 million). The decline is mainly due to net trading income and net income from financial investments, which are reflecting the effects of the current market turmoil.
- The item net interest income and similar income declined by € 40 million to € 299 million (previous year period: € 39 million). This decline is attributable to two factors: Firstly, net interest income includes less one-off income than was the case in the previous year period, and secondly, net interest income in the current quarter was burdened by the interest rate positioning of DEPFA which was already closed in the meantime.

- Net commission income amounted to € 35 million (Q1 2007: € 54 million). The result reflects the lower new business in real estate financing and lower income from asset management.
- Net trading income (€ -98 million compared with € 28 million in the previous year quarter) and net income from financial investments (€ -29 million compared with € 77 million in the previous year period) include negative valuation changes affecting income totalling € 175 million in relation to the group portfolio of collateralised debt obligations (CDOs). The valuation result affecting income reflects the spreads which widened considerably again in the first quarter as a result of the crisis on the capital and financing markets. The devaluation corresponds to around 10% of US-american and European CDOs reported on 31 December 2007. The model reserve in the amount of € 90 million which has been recognised in the income statement in 2007 for uncertainty with regard to the assumptions and estimates which have been made exists furthermore.
- Provisions for losses on loans and advances in the first quarter amounted to € 33 million, which was slightly lower than the corresponding previous year figure (€ 34 million). As was the case in the previous year period, it was not necessary for any further provisions for losses on loans and advances to be created at DEPFA.
- General administrative expenses of € 145 million were € 15 million lower than the corresponding previous year quarter. This underlines the considerable success achieved with the integration of DEPFA and the synergies which have already been achieved.
- Of the figure stated for the balance of other income/expenses, € 184 million relates to an effect attributable to the mandatory convertible bond for partially financing the DEPFA acquisition. The income is attributable to the fair value to be recognised in the income statement

of the derivative based on shares of Hypo Real Estate Holding AG embedded in the bond.

- The Group has reported pre-tax profit of € 190 million (previous year quarter: € 304 million). Adjusted by the market valuation of the derivative included in the mandatory convertible bond, pre-tax profit amounted to € 6 million.

The figure for pre-tax profit which is shown in the income statement for the first quarter of 2007 and which is only comparable to a limited extent and in which DEPFA was not included in the previous year amounted to € 172 million.

- After taxes of € 35 million – excluding the deferred tax expense of € 7 million attributable to capitalised losses carried forward – net income in the first quarter of 2008 amounted to € 155 million. After additional adjustment for the after-tax effects of the derivative embedded in the mandatory convertible bond (€ 137 million) and the valuation result of the CDO portfolio affecting income (€ 117 million), adjusted net income amounted to € 135 million, resulting in adjusted return on equity after taxes of 7.2%. Excluding the effects, net income amounted to € 148 million; this is completely attributable to the shareholders because there are no minority interests.

Asset and capital ratios as of 31 March 2008

- Total assets of the Hypo Real Estate Group amounted to € 392.1 billion as of 31 March 2008, compared with € 400.2 billion as of 31 December 2007.
- The total volume of lending amounted to € 257.4 billion, compared with € 256.2 billion at the end of 2007.
- At the end of March 2008, the Group reports financial investments of € 94.5 billion, equivalent to growth of € 5.6 billion compared with

the end of 2007 (€ 88.9 billion). Of the total volume, € 89.4 billion (31 December 2007: € 82.2 billion) was attributable to financial assets in the category "available for sale" (AfS). These are mainly government paper with a relatively low risk profile.

- The AfS revaluation reserve of € -1,296 million (31 December 2007: € -346 million) and the cash flow hedge reserve of € -1,287 million (31 December 2007: € -1,511 million) were netted directly with equity.
- The Hypo Real Estate Group reported a core capital ratio of 8.3% under Basel II on the balance sheet date (31 December 2007: 7.0% under Basel I, after profit distribution) as well as an own funds ratio of 10.9% (31 December 2007: 9.4% under Basel I, after profit distribution). The Group accordingly still reports sound capital backing which complies with the requirements of the rating agencies.

Result of the segments

- The Commercial Real Estate segment, which comprises German and international commercial real estate financing business, saw pre-tax profit increase from € 153 million to € 164 million in the first quarter of 2008. This was due to higher operating revenues, a constant development in provisions for losses on loans and advances and lower general administrative expenses.
- The Public Sector & Infrastructure Finance segment, which mainly comprises the public sector finance activities of DEPFA as well as infrastructure finance, reported pre-tax profit of € 172 million, which is equivalent to growth of 8% compared with the figure for the first quarter of 2007 (€ 160 million). Very positive performances in terms of net interest income and net trading income more than

compensated for a considerable decline in net income from financial investments due to lower sales of financial investments.

- The result of the Capital Markets & Asset Management segment reflected the effects of the turmoil on the international financial markets and the resultant deterioration in credit spreads. The segment closed the first quarter with pre-tax profit of € -19 million, compared with € 27 million in the same previous year period.

Outlook

The crisis in the capital and financing markets continued and became even more serious in certain cases in the first quarter of 2008; it is still impossible to make a reliable assessment of the conditions on the markets in the near term. The international financing markets are still fragile and are not capable of functioning in certain areas, or only to a limited extent. In this context, it is not possible to preclude the possibility of further problems for the financial sector – and thus also for the Hypo Real Estate Group – in the course of the next few quarters.

The Management Board is, in principle, anticipating a further positive development in its operating business.

However, as a result of the continuing volatile market development and the possible effects on the development of the Group's earnings, it is not possible at present to make any concrete statements regarding the further development of business in 2008.

On 16 April 2008, a group of investors coordinated by J.C. Flowers & Co. LLC announced that intends to submit a voluntary public offer to acquire 50,076,000 shares of Hypo Real Estate Holding AG. This is equivalent to

approximately 24.9% of the entire outstanding shares of the company, excluding the additional shares to be issued as a result of the mandatory convertible bond issued in 2007. The offer price is expected to be € 22.50 in cash per share of Hypo Real Estate Holding AG. The Management Board welcomes the offer in principle and supported the process of preparing the offer. However, the Management Board and Supervisory Board will only publish a final statement regarding the offer – and in particular with regard to the aspect of the adequacy of the offered price – on the basis of the offer document which has not yet been published by the bidder.

In addition, the Commercial Real Estate financing segment, as previously announced, will in future consist of only one legal entity with registered office in Munich. The preparations for merging Hypo Real Estate Bank International AG, Munich, into Hypo Real Estate Bank AG, Munich, are starting now.

Georg Funke, CEO of Hypo Real Estate Holding AG: "The first three months of 2008 have without doubt been the most difficult quarter for our sector for many years. Although the market turmoil has again had a negative impact on our earnings, the Hypo Real Estate Group has been affected by the current crisis to a comparatively lesser extent than many of our competitors. The problems must also not disguise the fact that operations in our core areas of business have been satisfactory and in certain cases have been pleasing. It is evident that the acquisition of DEPFA Bank which took place last year and with which we have considerably strengthened our public finance business has resulted in a well balanced business model for our Group, and we are already benefiting from this aspect."

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An analyst call will be held today at 08:30 hours with Dr. Markus Fell, CFO of the Hypo Real Estate Group; this will also be broadcast in the Internet under www.hyporealestate.com.