

## **Press release**

### **Hypo Real Estate Group with strong growth in earnings in the first quarter of 2005**

- **Real estate financier has reported net income before taxes of EUR 102 million**
- **Hypo Real Estate Germany operating in the black for the first time**
- **Business development overall as expected**
- **Outlook for the whole of 2005 confirmed**

**Munich, 13 May 2005:** In the first quarter of 2005, the Hypo Real Estate Group has achieved strong growth in earnings and profitability compared with the corresponding previous year period. The development in net income at the international financier of commercial real estate is thus overall in line with the ambitious plans. All three business segments saw their net income improve, business in Germany is now operating in the black. New business (real estate financing) in the group attained a total volume of more than EUR 3.3 billion compared with EUR 1.2 billion in the same previous year period. The group was very successful in terms of refinancing in the first quarter of 2005. The managing board has fully confirmed the objectives for the full year in 2005 which were originally communicated in March.

#### **Development in net income at the group – 1<sup>st</sup> quarter 2005**

In the first three months, consolidated net income before taxes increased from EUR 55 million in the first quarter of 2004 to EUR 102 million. Consolidated net income – excluding a deferred tax expense from capitalised losses carried forward of EUR 9 million – amounted to EUR 78 million compared with EUR 41 million in the equivalent previous year period. Return on equity after taxes in the group was accordingly stated as 7.6% (2004: 4.0%). Earnings per share for the quarter came in at EUR 0.58 (previous year period: EUR 0.31).

Including the effect from capitalised losses carried forward, after taxes net income amounted to EUR 69 million; this is equivalent to earnings per share of EUR 0.51.

Operating revenues (including net income from investments) at the group were reported as EUR 210 million in the first three months. Despite the significant reduction in the domestic portfolio which took place in the course of 2004, operating revenues were EUR 8 million higher than the corresponding figure for the same previous year period as a result of the growth in the international portfolio. It has to be borne in mind that new business in the first quarter is normally weaker. Net trading income, attributable mainly to "Capital Markets", contributed EUR 7 million to operating revenues.

The addition to provisions for losses on loans and advances (EUR 35 million) was much lower than the corresponding previous year figure (EUR 71 million). General administrative expenses of EUR 73 million were virtually unchanged compared with the previous year (EUR 72 million). Within this context, the cost-income ratio improved from 37.7% in 2004 to 34.8%.

#### **Balance sheet development: Group**

Consolidated total assets of the Hypo Real Estate Group amounted to EUR 146.9 billion as of 31 March 2005, which was EUR 1.2 billion lower than the figure stated as of the end of 2004. Total lending volume declined by EUR 2.9 billion to EUR 96.2 billion. At Hypo Real Estate Germany, total lending volume declined by EUR 3.0 billion. On the other hand, total lending volume at Württembergische Hypothekenbank (EUR -0.2 billion) and Hypo Real Estate International (EUR +0.1 billion) was virtually unchanged compared with the end of 2004.

The core capital ratio was virtually unchanged at a very strong level, namely 8.2% compared with 8.3% at the end of 2004; this was also true for the equity funds ratio of 11.5% (31 December 2004: 11.7%).

### **Outlook for the whole of 2005**

For the whole of 2005, the Management Board is still forecasting that consolidated net income before taxes will increase to EUR 400 to 425 million, compared with EUR 221 million in 2004, combined with return on equity after taxes of 7.5 to 8%. On this basis, 2005 would be the first time that the Hypo Real Estate Group covered its capital costs – two years earlier than originally planned on the occasion of the spin-off of the group from the HVB Group in the autumn of 2003.

### **Georg Funke, chairman of the managing board of Hypo Real Estate Holding AG:**

"Following the rapid and far-reaching changes which have taken place during the past one and a half years, the aim is now to ensure that the Hypo Real Estate Group continues to achieve further sound growth. We will focus on growth, profitability and innovative ability. The figures reported for the first quarter demonstrate that we are moving in the right direction. We are fully on schedule, and are convinced that we will meet our strategic and business objectives for the full year."

### **Information concerning the business segments**

#### **Hypo Real Estate International**

Hypo Real Estate International reported new business of EUR 2.3 billion in the first three months (previous year period: EUR 0.7 billion).

In order to take account of the increasing need for refinancing, Hypo Real Estate Bank International extended the medium-term notes programme, which was set up at the beginning of 2004, for issuing bonds from the original figure of EUR 10 billion to EUR 15 billion. As of 31 March 2005, bonds with a total volume of around EUR 6.2 billion had been issued within the framework of the MTN programme.

In the first three months of 2005, the business segment reported net income before taxes of EUR 63 million, compared with EUR 46 million in the same previous year period, and is thus on schedule (on a pro-rata basis) to meet the figure budgeted for the full year, namely a range of between EUR 250 and 270 million. Operating revenues increased from EUR 83 million to EUR 102 million as a result of international expansion and the associated portfolio growth in the segment, and also as a result of increasing contributions made by "Capital Markets". There were no individual allowances for bad debt incurred in the first quarter of 2005 in the business segment. Additions to provisions for losses on loans and advances amounted to EUR 2 million (previous year period: EUR 11 million). General administrative expenses increased from EUR 26 million to EUR 37 million as a result of the international expansion and the new segment "Capital Markets" which was set up.

#### **Württembergische Hypothekenbank**

New business at Württembergische Hypothekenbank (WürttHyp) amounted to around EUR 0.8 billion in the first three months, and was accordingly above expectations. A figure of EUR 2.5 billion is budgeted for the full year. In terms of refinancing, the subsidiary set standards on the capital market with the issue of a jumbo municipal Pfandbrief with a volume of EUR 1.5 billion and a term of 10 years. In the first quarter, Württembergische Hypothekenbank generated net income before taxes of EUR 21 million (previous year period: EUR 16 million) and was accordingly ahead of the pro-rata budgeted figure. Operating revenues increased from EUR 29 million to EUR 32 million. Net income before taxes for the full year is still expected to fall within the budgeted range.

Hypo Real Estate Holding AG will take advantage of the statutory option of a "squeeze out", i.e. it will increase its holding in WürttHyp to 100% by way of taking over the shares currently held by minority shareholders in return for a cash settlement. This means that WürttHyp can be delisted from the stock exchange, which will further simplify the complexity of processes in the Hypo Real Estate Group. The corresponding resolution has been adopted at the shareholders' meeting of WürttHyp on 12 May 2005.

### **Hypo Real Estate Germany**

Following the successful completion of restructuring, Hypo Real Estate Germany generated new business of around EUR 0.3 billion in the first quarter. There were also new business commitments of EUR 0.3 billion. This means that the segment is moving in the right direction in order to attain its objective of EUR 1 billion for new business in the full year.

Hypo Real Estate Bank AG acts as the centre of competence within the group for commercial real estate financing for the German market. In order to establish a presence in all target regions, a branch was opened in Berlin in February; this was followed on 1 April by the establishment of offices in Hamburg. There are also plans to open a sales branch in Düsseldorf. With the successful placing of a jumbo mortgage Pfandbrief with a volume of EUR 1.5 billion in March, Hypo Real Estate Bank AG has made an impressive return to the capital market.

The segment has for the first time reported strong net income before taxes, namely EUR 23 million (compared with EUR -1 million in the corresponding previous year period); this figure was almost in line with the pro-rata budgeted figure. A range of EUR 95 million to EUR 105 million has been budgeted for the full year. As expected, operating revenues of EUR 77 million were lower than the corresponding figure in the previous year period (EUR 91 million); this is attributable to the reduction in the portfolio which has since taken place. The addition to provisions for losses on loans and advances of EUR 30 million has declined appreciably (previous year period: EUR 55 million). Most of this effect is attributable to the streamlining of the portfolio and the portfolio sales. If the risk shelter provided by HVB AG (EUR 32.5 million on a pro-rata basis) which was included for the last time in the previous year figure, the decline in provisions for losses on loans and advances amounted to EUR 57.5 million. General administrative expenses also declined to EUR 24 million as a result of restructuring (first quarter of 2004: EUR 33 million).

The cost-income ratio improved to 31.2% (2004: 35.2%).

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## Hypo Real Estate Group

### Operating performance (IFRS)

| Income/expenses in € million   |           |           |           |                              |            |
|--|-----------|-----------|-----------|------------------------------|------------|
|  | HREI      | WürttHyp  | HREGe     | Other/<br>consoli-<br>dation | HREG       |
| Net interest income  |           |           |           |                              |            |
| 1.1.-31.3.2005   | 65        | 30        | 72        | -2                           | 165        |
| 1.1.-31.3.2004   | 50        | 26        | 91        | -1                           | 166        |
| Provisions for losses on loans and advances                                  |           |           |           |                              |            |
| 1.1.-31.3.2005   | 2         | 3         | 30        | -                            | 35         |
| 1.1.-31.3.2004   | 11        | 5         | 55        | -                            | 71         |
| <b>Net interest income after provisions for losses on loans and advances</b> |           |           |           |                              |            |
| <b>1.1.-31.3.2005</b>  | <b>63</b> | <b>27</b> | <b>42</b> | <b>-2</b>                    | <b>130</b> |
| <b>1.1.-31.3.2004</b>  | <b>39</b> | <b>21</b> | <b>36</b> | <b>-1</b>                    | <b>95</b>  |
| Net commission income  |           |           |           |                              |            |
| 1.1.-31.3.2005   | 29        | -2        | -3        | -1                           | 23         |
| 1.1.-31.3.2004   | 32        | -4        | -4        | -                            | 24         |
| Net trading income   |           |           |           |                              |            |
| 1.1.-31.3.2005   | 7         | -         | -         | -                            | 7          |
| 1.1.-31.3.2004   | -         | -         | -         | -                            | -          |
| Net income from investments  |           |           |           |                              |            |
| 1.1.-31.3.2005   | -         | 4         | 7         | -                            | 11         |
| 1.1.-31.3.2004   | -         | 7         | 4         | -                            | 11         |
| General administrative expenses  |           |           |           |                              |            |
| 1.1.-31.3.2005   | 37        | 8         | 24        | 4                            | 73         |
| 1.1.-31.3.2004   | 26        | 8         | 33        | 5                            | 72         |
| Balance of other operating income/expenses                                   |           |           |           |                              |            |
| 1.1.-31.3.2005   | 1         | -         | 1         | 2                            | 4          |
| 1.1.-31.3.2004   | 1         | -         | -         | -                            | 1          |
| <b>Operating income/loss</b>   |           |           |           |                              |            |
| <b>1.1.-31.3.2005</b>  | <b>63</b> | <b>21</b> | <b>23</b> | <b>-5</b>                    | <b>102</b> |
| <b>1.1.-31.3.2004</b>  | <b>46</b> | <b>16</b> | <b>3</b>  | <b>-6</b>                    | <b>59</b>  |
| Balance of other income/expenses   |           |           |           |                              |            |
| 1.1.-31.3.2005   | -         | -         | -         | -                            | -          |
| 1.1.-31.3.2004   | -         | -         | -4        | -                            | -4         |
| <b>Net income/loss before taxes</b>  |           |           |           |                              |            |
| <b>1.1.-31.3.2005</b>  | <b>63</b> | <b>21</b> | <b>23</b> | <b>-5</b>                    | <b>102</b> |
| <b>1.1.-31.3.2004</b>  | <b>46</b> | <b>16</b> | <b>-1</b> | <b>-6</b>                    | <b>55</b>  |
| Taxes on income <sup>1)</sup>  |           |           |           |                              |            |
| 1.1.-31.3.2005   | 16        | 2         | 4         | 2                            | 24         |
| 1.1.-31.3.2004   | 13        | -         | -         | 1                            | 14         |
| <b>Net income/loss<sup>1)</sup></b>  |           |           |           |                              |            |
| <b>1.1.-31.3.2005</b>  | <b>47</b> | <b>19</b> | <b>19</b> | <b>-7</b>                    | <b>78</b>  |
| <b>1.1.-31.3.2004</b>  | <b>33</b> | <b>16</b> | <b>-1</b> | <b>-7</b>                    | <b>41</b>  |

<sup>1)</sup> Excluding the effects from capitalised losses carried forward

### Key ratios

| in %  |      |          |       |      |  |
|---|------|----------|-------|------|--|
|   | HREI | WürttHyp | HREGe | HREG |  |
| Cost-income ratio (based on operating revenues) |      |          |       |      |  |
| 1.1.-31.3.2005                                  | 36.3 | 25.0     | 31.2  | 34.8 |  |
| 1.1.-31.12.2004                                 | 37.3 | 28.4     | 35.2  | 37.7 |  |
| Return on equity after taxes <sup>1)</sup>      |      |          |       |      |  |
| 1.1.-31.3.2005                                  | 12.0 | 11.4     | 3.9   | 7.6  |  |
| 1.1.-31.12.2004                                 | 10.1 | 9.0      | -0.5  | 4.0  |  |

<sup>1)</sup> Excluding the effects from capitalised losses carried forward

## Balance sheet figures

| Total assets in € million |  |  |  |  |             |
|---------------------------|--|--|--|--|-------------|
|                           |  |  |  |  |             |
|                           |  |  |  |  | <b>HREG</b> |
| 31.3.2005                 |  |  |  |  | 146,947     |
| 31.12.2004                |  |  |  |  | 148,128     |

| Total lending volume in € million |        |          |        |                              |        |
|-----------------------------------|--------|----------|--------|------------------------------|--------|
|                                   | HREI   | WürttHyp | HREGe  | Other/<br>consoli-<br>dation | HREG   |
| 31.3.2005                         | 17,922 | 20,252   | 59,244 | -1,198                       | 96,220 |
| 31.12.2004                        | 17,811 | 20,518   | 62,197 | -1,414                       | 99,112 |

## Key capital ratios compliant with BIS rules

| Risk-weighted assets in € billion |      |          |       |      |  |
|-----------------------------------|------|----------|-------|------|--|
|                                   | HREI | WürttHyp | HREGe | HREG |  |
| 31.3.2005                         | 17.8 | 10.5     | 23.4  | 51.1 |  |
| 31.12.2004                        | 17.3 | 10.1     | 24.2  | 51.0 |  |

| Core capital ratio in %  |      |          |       |      |  |
|--------------------------|------|----------|-------|------|--|
|                          | HREI | WürttHyp | HREGe | HREG |  |
| 31.3.2005                | 10.1 | 6.8      | 7.9   | 8.2  |  |
| 31.12.2004 <sup>1)</sup> | 9.2  | 7.1      | 8.4   | 8.3  |  |

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

## Summary of quarterly financial data

| Hypo Real Estate Group                              |                     |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | 1st quarter<br>2004 | 2nd quarter<br>2004 | 3rd quarter<br>2004 | 4th quarter<br>2004 | 1st quarter<br>2005 |
| <b>Operating performance (in € million)</b>         |                     |                     |                     |                     |                     |
| Operating revenues                                  | 202                 | 212                 | 201                 | 220                 | 210                 |
| Net interest income                                 | 166                 | 180                 | 161                 | 176                 | 165                 |
| Net commission income                               | 24                  | 25                  | 35                  | 10                  | 23                  |
| Net trading income                                  | -                   | 2                   | 3                   | 6                   | 7                   |
| Net income from investments                         | 11                  | 4                   | -1                  | 33                  | 11                  |
| Balance of other operating income/expenses          | 1                   | 1                   | 3                   | -5                  | 4                   |
| Provisions for losses on loans and advances         | 71                  | 75                  | 75                  | 55                  | 35                  |
| General administrative expenses                     | 72                  | 77                  | 80                  | 86                  | 73                  |
| Balance of other income/expenses                    | -4                  | -1                  | -5                  | -13                 | -                   |
| Net income/loss before taxes                        | 55                  | 59                  | 41                  | 66                  | 102                 |
| Net income/loss <sup>1)</sup>                       | 41                  | 43                  | 36                  | 48                  | 78                  |
| <b>Key indicators</b>                               |                     |                     |                     |                     |                     |
| Total volume of lending (in € billion)              | 107.4               | 105.5               | 106.2               | 99.1                | 96.2                |
| Risk assets compliant with BIS rules (in € billion) | 51.9                | 51.8                | 52.5                | 51.0                | 51.1                |
| Core capital ratio compliant with BIS rules (in %)  | 7.9                 | 7.9                 | 7.8                 | 8.3 <sup>2)</sup>   | 8.2                 |
| Employees   | 1,449               | 1,463               | 1,417               | 1,311               | 1,287               |

<sup>1)</sup> Excluding the effects from capitalised losses carried forward

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

## Summary of quarterly financial data

| Hypo Real Estate International                      |                     |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | 1st quarter<br>2004 | 2nd quarter<br>2004 | 3rd quarter<br>2004 | 4th quarter<br>2004 | 1st quarter<br>2005 |
| <b>Operating performance (in € million)</b>         |                     |                     |                     |                     |                     |
| Operating revenues                                  | 83                  | 96                  | 97                  | 89                  | 102                 |
| Net interest income                                 | 50                  | 61                  | 53                  | 60                  | 65                  |
| Net commission income                               | 32                  | 30                  | 41                  | 23                  | 29                  |
| Net trading income                                  | -                   | 2                   | 3                   | 6                   | 7                   |
| Net income from investments                         | -                   | 3                   | -2                  | 2                   | -                   |
| Balance of other operating income/expenses          | 1                   | -                   | 2                   | -2                  | 1                   |
| Provisions for losses on loans and advances         | 11                  | 16                  | 15                  | -9                  | 2                   |
| General administrative expenses                     | 26                  | 32                  | 38                  | 40                  | 37                  |
| Balance of other income/expenses                    | -                   | -                   | -                   | -1                  | -                   |
| Net income/loss before taxes                        | 46                  | 48                  | 44                  | 57                  | 63                  |
| Net income/loss <sup>1)</sup>                       | 33                  | 39                  | 34                  | 42                  | 47                  |
| <b>Key indicators</b>                               |                     |                     |                     |                     |                     |
| Total volume of lending (in € billion)              | 15.9                | 15.9                | 18.2                | 17.8                | 17.9                |
| Risk assets compliant with BIS rules (in € billion) | 14.1                | 15.1                | 16.8                | 17.3                | 17.8                |
| Core capital ratio compliant with BIS rules (in %)  | 10.3                | 9.6                 | 8.7                 | 9.2 <sup>2)</sup>   | 10.1                |
| Employees   | 417                 | 464                 | 502                 | 504                 | 499                 |

<sup>1)</sup> Excluding the effects from capitalised losses carried forward

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

| Württembergische Hypothekbank                       |                     |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | 1st quarter<br>2004 | 2nd quarter<br>2004 | 3rd quarter<br>2004 | 4th quarter<br>2004 | 1st quarter<br>2005 |
| <b>Operating performance (in € million)</b>         |                     |                     |                     |                     |                     |
| Operating revenues                                  | 29                  | 27                  | 28                  | 32                  | 32                  |
| Net interest income                                 | 26                  | 28                  | 28                  | 26                  | 30                  |
| Net commission income                               | -4                  | -1                  | 1                   | -2                  | -2                  |
| Net trading income                                  | -                   | -                   | -                   | -                   | -                   |
| Net income from investments                         | 7                   | -                   | -2                  | 9                   | 4                   |
| Balance of other operating income/expenses          | -                   | -                   | 1                   | -1                  | -                   |
| Provisions for losses on loans and advances         | 5                   | 4                   | 5                   | 9                   | 3                   |
| General administrative expenses                     | 8                   | 7                   | 9                   | 9                   | 8                   |
| Balance of other income/expenses                    | -                   | -                   | -                   | -                   | -                   |
| Net income/loss before taxes                        | 16                  | 16                  | 14                  | 14                  | 21                  |
| Net income/loss                                     | 16                  | 16                  | 14                  | 13                  | 19                  |
| <b>Key indicators</b>                               |                     |                     |                     |                     |                     |
| Total volume of lending (in € billion)              | 19.1                | 19.0                | 19.5                | 20.5                | 20.3                |
| Risk assets compliant with BIS rules (in € billion) | 8.8                 | 9.2                 | 9.4                 | 10.1                | 10.5                |
| Core capital ratio compliant with BIS rules (in %)  | 7.4                 | 7.0                 | 7.5                 | 7.1 <sup>1)</sup>   | 6.8                 |
| Employees   | 174                 | 174                 | 173                 | 171                 | 178                 |

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

## Summary of quarterly financial data

| <b>Hypo Real Estate Germany</b>                     |                             |                             |                             |                             |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>1st Quarter<br/>2004</b> | <b>2nd Quarter<br/>2004</b> | <b>3rd Quarter<br/>2004</b> | <b>4th Quarter<br/>2004</b> | <b>1st Quarter<br/>2005</b> |
| <b>Operating performance (in € million)</b>         |                             |                             |                             |                             |                             |
| Operating revenues                                  | 91                          | 90                          | 78                          | 99                          | 77                          |
| Net interest income                                 | 91                          | 91                          | 82                          | 90                          | 72                          |
| Net commission income                               | -4                          | -4                          | -7                          | -10                         | -3                          |
| Net trading income                                  | -                           | -                           | -                           | -                           | -                           |
| Net income from investments                         | 4                           | 2                           | 3                           | 22                          | 7                           |
| Balance of other operating income/expenses          | -                           | 1                           | -                           | -3                          | 1                           |
| Provisions for losses on loans and advances         | 55                          | 55                          | 55                          | 55                          | 30                          |
| General administrative expenses                     | 33                          | 34                          | 28                          | 31                          | 24                          |
| Balance of other income/expenses                    | -4                          | -1                          | -5                          | -11                         | -                           |
| Net income/loss before taxes                        | -1                          | -                           | -10                         | 2                           | 23                          |
| Net income/loss <sup>1)</sup>                       | -1                          | -6                          | -3                          | -                           | 19                          |
| <b>Key indicators</b>                               |                             |                             |                             |                             |                             |
| Total volume of lending (in € billion)              | 73.5                        | 71.5                        | 69.2                        | 62.2                        | 59.2                        |
| Risk assets compliant with BIS rules (in € billion) | 29.3                        | 27.8                        | 26.9                        | 24.2                        | 23.4                        |
| Core capital ratio compliant with BIS rules (in %)  | 7.2                         | 7.6                         | 7.7                         | 8.4 <sup>2)</sup>           | 7.9                         |
| Employees   | 814                         | 784                         | 698                         | 592                         | 560                         |

<sup>1)</sup> Excluding the effects from capitalised losses carried forward

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

### **Further information:**

The interim report for the period ending 31 March 2005 of the Hypo Real Estate Group can be viewed today from approx. 07:00h am onwards in the internet at [www.hyporealestate.com](http://www.hyporealestate.com).