

## Press Release

### **Hypo Real Estate Group has reported a strong first half in 2005 and plans to streamline its Group structure**

- **Consolidated net income before taxes up 89% to EUR 215 million**
- **New business of EUR 8.3 billion above expectations**
- **Real estate financier plans to combine its entire international business in its subsidiary WürttHyp after the reform of the Pfandbrief act**
- **This will result in greater effectiveness on the markets, lower complexity in the Group and strong cost savings**
- **Strengthening of Germany as a financial location and also of Stuttgart**
- **New initiative in public finance from Dublin**
- **Outlook for 2005 confirmed despite one-off costs due to Group streamlining, medium-term forecast upgraded**

**Munich, 10 August 2005** – In the first half of 2005, the Hypo Real Estate Group has reported strong earnings growth which was fully in line with its ambitious plans. The Group's new business of EUR 8.3 billion was above expectations, as the figure originally budgeted for the full year was approx. EUR 13.5 billion. The international financier of commercial real estate is planning far-reaching restructuring for the Group, which will increase its effectiveness on the markets and will further improve the earnings situation in the medium term.

#### **Development of Group in H1 2005**

In H1 2005, the Group reported net income before taxes of EUR 215 million, which is equivalent to growth of 89% compared with the equivalent previous year period (EUR 114 million). After taxes, net income at the six-month point increased by 92% from EUR 84 million to EUR 161 million. This figure does not include a deferred tax expense of EUR 17 million from capitalised losses carried forward. This results (excl. minority interest of EUR 1 million) in earnings per share of EUR 1.19 (previous-year period: EUR 0.62). Return on equity after taxes (adjusted by the tax effect)

improved to 7.7% (full year 2004: 4.0%), and is within the target range of 7.5 to 8% for the full year in 2005. This means that the Hypo Real Estate Group has covered its capital costs.

Operating revenues (the sum of net interest income, net commission income, net trading income, net income from investments and the balance of other operating income/expenses) increased by 5.1% in H1 from EUR 414 million in the previous year to EUR 435 million. Net interest income of EUR 330 million was lower than the corresponding previous-year figure (EUR 346 million), because new business in Q2 was not yet fully interest-bearing. All other items of operating revenues improved appreciably compared with the corresponding previous-year figures.

The addition to provisions for losses on loans and advances amounted to EUR 71 million, and accordingly more than halved compared with the previous-year figure (down by EUR 75 million from EUR 146 million), which included a pro-rata risk shelter of EUR 65 million provided by HVB AG to Hypo Real Estate Bank AG.

General administrative expenses of EUR 149 million were roughly in line with the figure seen in the first half of 2004. Higher operating revenues and a stable cost situation saw the cost-income ratio improve from 37.7% in 2004 to 34.3%.

The lending volume declined from EUR 99.1 billion as of 31 December 2004 to EUR 95.6 billion, whereby growth in the international portfolio is opposed by further downsizing of the Germany portfolio. Despite the lower lending volume, total consolidated assets at the Hypo Real Estate Group amounted to EUR 153.3 billion as of 30 June 2005, up EUR 5.2 billion compared with the figure as of 31 December 2004. For instance, stronger trading activities at

“Capital Markets” resulted in higher trading positions; security purchases increased the portfolio of investments.

### **Development in Q2 2005**

For the second quarter of 2005, Hypo Real Estate Group reports consolidated net income before taxes of EUR 113 million (previous-year period EUR 59 million). Consolidated net income (excl. the effects from capitalised losses carried forward) for the second quarter stood at EUR 83 million (previous year period EUR 43 million). Excluding minority interest of EUR 1 million consolidated profit is EUR 82 million.

### **Information concerning the segments**

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

New business at Hypo Real Estate Bank International amounted to EUR 5.9 billion in H1, and EUR 3.6 billion of this figure was attributable to Q2. The target for the full year is EUR 10 billion. The increasing momentum of new business shows that the new organisation and sales structure implemented at the beginning of the year, with the three platforms of Europe, America and Asia is having an effect and is producing success.

Net income before taxes improved in the first six months by 43.6% from EUR 94 million last year to EUR 135 million. Operating revenues were reported as EUR 211 million (+17.9%); it has to be borne in mind that new business written in the period under review was only partially interest bearing.

#### **Württembergische Hypothekenbank**

Württembergische Hypothekenbank (WürttHyp) has written new business of EUR 1.7 billion in H1 2005 (of which approx. EUR 900 million in Q2); this means that the segment should be able to at least reach its full-year target of

EUR 2.5 billion. As has been the case in previous years, new business is attributable almost exclusively to other European countries. The development in earnings was very positive: Net income before taxes improved by 25% in the first six months from EUR 32 million in the previous year to 40 million. Operating revenues improved by 14.3% to EUR 64 million.

### **Hypo Real Estate Germany**

With new business of around EUR 700 million written in the first half (of which approx. EUR 400 million in Q2), it is already evident that the segment will outperform the original full-year target of EUR 1 billion in the first full year after new business was resumed by Hypo Real Estate Bank AG – whilst complying with the familiar strict risk guidelines. Net income before taxes was reported as EUR 52 million in H1, compared with EUR -1 million in the corresponding previous-year period. The strategy of considerably downsizing the portfolio last year resulted in a 10.5% decrease in operating revenues to EUR 162 million. However, as a result of the better portfolio quality, provisions for losses on loans and advances also declined appreciably (-45.5% to EUR 60 million). As a result of restructuring, general administrative expenses declined by 25.4% to EUR 50 million.

### **Future Group structure**

In addition, Hypo Real Estate Holding AG has announced plans to restructure the Group in order to boost its effectiveness in the markets and to reduce the overall level of complexity in the Group. The plans envisage that worldwide international business will be combined in the Stuttgart-based subsidiary Württembergische Hypothekenbank. Instead of three operational banks, the Group will in future operate its real estate financing business from only two banks. There will thus be an even greater distinction between German and international business, as international business in future will be run from a single entity.

- It is planned that WürttHyp will take over the interest in Hypo Real Estate Bank International in Dublin and
- with effect from 1 January 2006 the entire international real estate financing portfolio of Hypo Real Estate Bank International will be transferred to WürttHyp.
- WürttHyp will then be renamed Hypo Real Estate Bank International AG and will be responsible for the worldwide international business of the Group.
- German financing arrangements of WürttHyp will be transferred to Hypo Real Estate Bank AG which, as the second pillar of the Group, will be responsible for all German business.
- The former Hypo Real Estate Bank International will continue capital markets activities from Dublin under the name “Hypo Public Finance Bank“ and as a subsidiary of the new Hypo Real Estate Bank International; these activities will be extended to include public sector finance. This public finance business will comprise public-sector lending, infrastructure financing, municipal project financing and forfeiting.
- Hypo Real Estate Holding AG in Munich will continue to act as the holding company responsible for the overall Group.

### **Numerous advantages due to restructuring**

With the restructuring which is expected to be completed in H1 2006, the Hypo Real Estate Group will also take advantage of the benefits of the new Pfandbrief act, which came into force on 19 July 2005. The act will extend the bank license of WürttHyp and will open up further scope for action beyond Pfandbrief-based business. Overall, the new structure offers numerous advantages:

- The combination of international real estate financing business will again considerably reduce the overall level of complexity in the Hypo Real Estate Group, reduce duplicated functions and further accelerate operational processes. The tried-and-tested and powerful structures of WürttHyp can be used in future for the entire international business of the Group. The existing sales structure of Hypo Real Estate Bank International, with the three platforms for Europe, Asia and the USA, will be unchanged.
- The future Hypo Real Estate Bank International will be able to combine Pfandbrief-based business and uncovered business. This will boost effectiveness in the markets – not least on the refinancing side.
- The structure will allow to offer the entire range of products and services to international customers from a single source.
- There will be a clear and transparent distinction between German and international business. In addition, there will also be complete cost and earnings transparency in future with regard to the capital markets/public finance activities.
- With a real estate financing portfolio of EUR 27.2 billion, the new Hypo Real Estate Bank International will be one of the leading international players. With shareholders' equity of EUR 2.3 billion, and a core capital ratio of approx. 8.3%, it will have a sound capital base which will permit adequate growth opportunities (pro-forma figures as of 30 June 2005).
- The planned net cost savings from the restructuring amount to approx. EUR 25 million per annum; these savings are opposed by one-off costs of EUR 30 to 35 million, and a corresponding provision will be set aside in the financial statements for 2005.

Overall, according to plans, the leaner Group structure will result in the number of persons employed at the Hypo Real Estate Group declining by approx. 140 from the current figure of approx. 1,260 to around 1,120 in H1 2006.

### **Strengthening of Germany as a financial location and Stuttgart**

The strengthening of Germany as a financial location and Stuttgart is demonstrated by the future number of employees at Hypo Real Estate Bank International. The number of persons employed at the bank with registered office in Stuttgart will increase worldwide from the current figure of approx. 180 to around 475 as a result of commencing international business and operational growth.

### **Changes in the Management Boards of the subsidiaries**

The restructuring will also result in changes in the Management Boards of the subsidiaries of Hypo Real Estate Holding AG. The Management Board of the future **Hypo Real Estate Bank International** will consist of Dr. Paul Eisele (Spokesman), Dr. Robert Grassinger (Deputy Spokesman, Treasury/Capital Markets), Jürgen Fenk (sales - international platforms), Manfred Weil (sales "Platform Stuttgart/Württhyp") and Friedrich Ladda (portfolio Germany). This team will be enhanced by Frau Bettina von Scheven, who previously worked at Deutsche Bank in London, and who will be responsible for risk management no later than from 1 January 2006 onwards. Stephan Bub will be the CEO of the new **Hypo Public Finance Bank** in Dublin. The board of this bank will also comprise Tom Glynn (Deputy CEO, Treasury), Heather Nesbitt (CFO) and James Campbell (COO/IT). Herr Eckehard Dettinger-Klemm will join the Management Board of **Hypo Real Estate Bank AG** as of 1 January 2006, where he will be responsible for Treasury. Some of these announced appointments as well as

separate restructuring measures still have to be approved by the relevant supervisory authorities.

### **Forecast for the whole of 2005 and outlook**

Despite the additional charges of EUR 30 to 35 million attributable to one-off costs of the restructuring, the Management Board is confirming its previous forecasts for the whole of 2005. The Management Board is still predicting 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 will be the first year that the Hypo Real Estate Group will cover its capital costs – two years sooner than originally planned when the Group was spun off from the HVB Group in the autumn of 2003.

In the medium term, the planned Group structure will have a positive impact on the earnings situation of the Hypo Real Estate Group as a result of the cost savings, greater growth opportunities and optimisation of the capital ratios. For this reason, the Management Board is raising its forecast for return on equity after taxes in 2007 to a range of 11 to 12%. The previous aim was 10 to 11%.

**Georg Funke, Chairman of the Management Board of Hypo Real Estate Holding AG:** “Change and flexibility are key parameters of our Group. With the new structure, we will take advantage of the opportunities arising from the new Pfandbrief act in Germany, and will boost the competitiveness of the Hypo Real Estate Group. The fact that we will combine our international operations in the future Hypo Real Estate Bank International will enhance the profitability of our Group. It also shows how Germany as a financial location can be strengthened by the right political reforms.”

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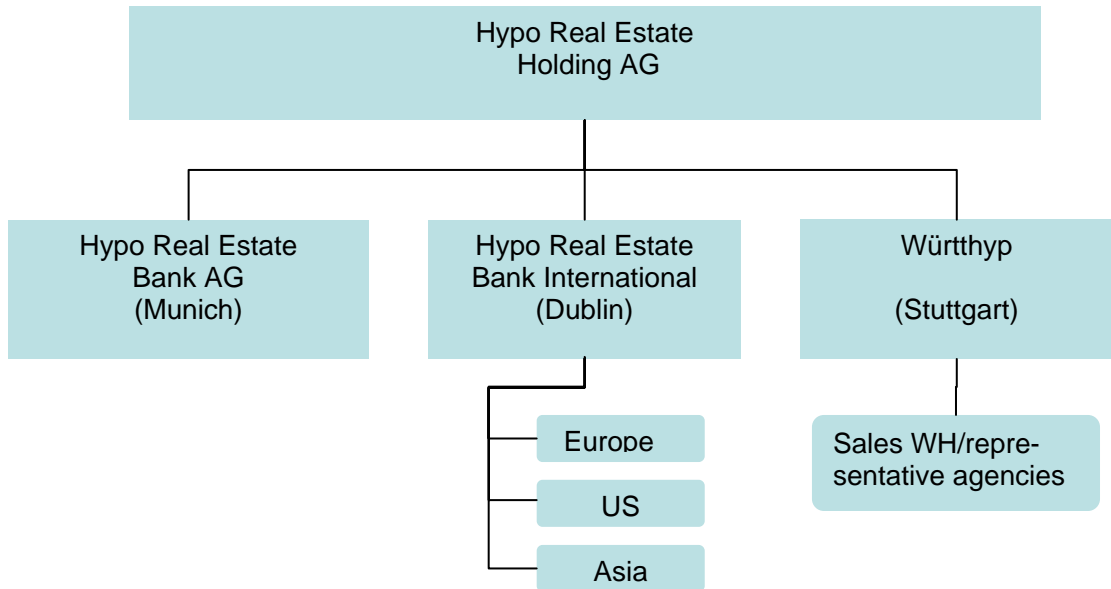
**Notes for editors:**

Further information concerning today's release will be announced in a telephone press conference with Georg Funke, Chairman of the Management Board of Hypo Real Estate Holding AG, and Dr. Markus Fell, CFO. Please contact the Press Department for further details.

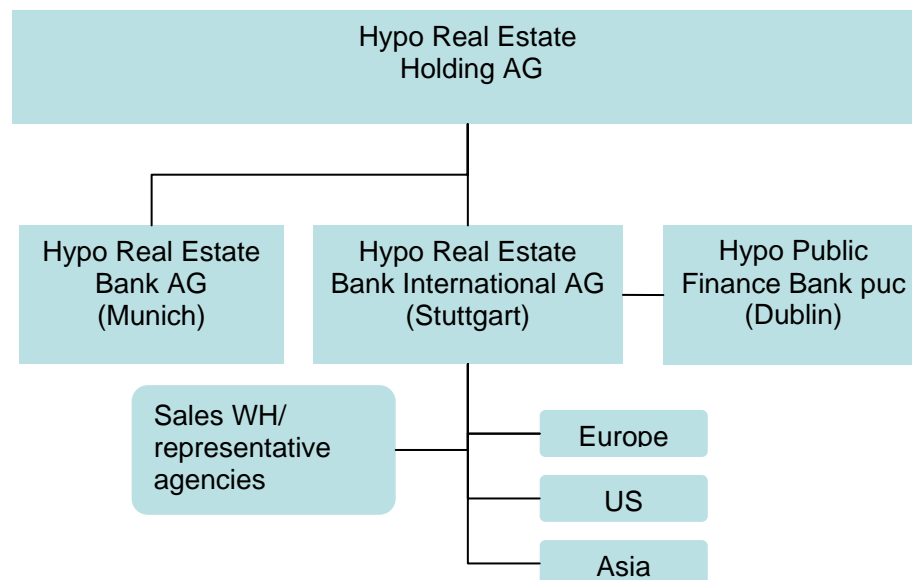
# Hypo Real Estate Group

## Diagrams of Group structure

### Current structure



### Target structure



## Hypo Real Estate Group Operating performance (IFRS)

Income/expenses in € million					
	HREI	WürttHyp	HREGe	Other/ Consoli- dation	HREG
Net interest income					
1.1.-30.6.2005	130	63	140	-3	330
1.1.-30.6.2004	111	54	182	-1	346
Provisions for losses on loans and advances					
1.1.-30.6.2005	2	9	60	-	71
1.1.-30.6.2004	27	9	110	-	146
<b>Net interest income after provisions for losses on loans and advances</b>					
<b>1.1.-30.6.2005</b>	<b>128</b>	<b>54</b>	<b>80</b>	<b>-3</b>	<b>259</b>
<b>1.1.-30.6.2004</b>	<b>84</b>	<b>45</b>	<b>72</b>	<b>-1</b>	<b>200</b>
Net commission income					
1.1.-30.6.2005	60	-4	5	-	61
1.1.-30.6.2004	62	-5	-8	-	49
Net trading income					
1.1.-30.6.2005	14	-	-	-	14
1.1.-30.6.2004	2	-	-	-	2
Net income from investments					
1.1.-30.6.2005	5	5	13	-	23
1.1.-30.6.2004	3	7	6	-1	15
General administrative expenses					
1.1.-30.6.2005	74	15	50	10	149
1.1.-30.6.2004	58	15	67	9	149
Balance of other operating income/expenses					
1.1.-30.6.2005	2	-	4	1	7
1.1.-30.6.2004	1	-	1	-	2
<b>Operating income/loss</b>					
<b>1.1.-30.6.2005</b>	<b>135</b>	<b>40</b>	<b>52</b>	<b>-12</b>	<b>215</b>
<b>1.1.-30.6.2004</b>	<b>94</b>	<b>32</b>	<b>4</b>	<b>-11</b>	<b>119</b>
Balance of other income/expenses					
1.1.-30.6.2005	-	-	-	-	-
1.1.-30.6.2004	-	-	-5	-	-5
<b>Net income/loss before taxes</b>					
<b>1.1.-30.6.2005</b>	<b>135</b>	<b>40</b>	<b>52</b>	<b>-12</b>	<b>215</b>
<b>1.1.-30.6.2004</b>	<b>94</b>	<b>32</b>	<b>-1</b>	<b>-11</b>	<b>114</b>
Taxes on income <sup>1)</sup>					
1.1.-30.6.2005	36	2	11	5	54
1.1.-30.6.2004	22	-	6	2	30
<b>Net income/loss<sup>1)</sup></b>					
<b>1.1.-30.6.2005</b>	<b>99</b>	<b>38</b>	<b>41</b>	<b>-17</b>	<b>161</b>
<b>1.1.-30.6.2004</b>	<b>72</b>	<b>32</b>	<b>-7</b>	<b>-13</b>	<b>84</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.-30.6.2005	35.1	23.4	30.9	34.3
1.1.-31.12.2004	37.3	28.4	35.2	37.7
Return on equity after taxes <sup>1)</sup>				
1.1.-30.6.2005	11.7	11.4	4.4	7.7
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

### **Volume of lending in € million**

	HREI	WürttHyp	HREGe	Other/ Consoli- dation	HREG
31.06.2005	19,630	20,379	56,739	-1,154	95,594
31.12.2004	17,811	20,518	62,197	-1,414	99,112

### **Total assets in € million**

	HREG
31.06.2005	153,337
31.12.2004	148,128

## Key capital ratios compliant with BIS rules

### **Risk-weighted assets in € billion**

	HREI	WürttHyp	HREGe	HREG
30.6.2005	19.9	10.6	23.0	52.9
31.12.2004	17.3	10.1	24.2	51.0

### **Capital ratios in %**

	HREI	WürttHyp	HREGe	HREG
30.6.2005	9.1	6.8	8.0	7.9
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**

	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005
<b>Operating performance (in € million)</b>					
Operating revenues	212	201	220	210	225
Net interest income	180	161	176	165	165
Net commission income	25	35	10	23	38
Net trading income	2	3	6	7	7
Net income from investments	4	-1	33	11	12
Balance of other operating income/expenses	1	3	-5	4	3
Provisions for losses on loans and advances	75	75	55	35	36
General administrative expenses	77	80	86	73	76
Balance of other income/expenses	-1	-5	-13	-	-
Net income/loss before taxes	59	41	66	102	113
Net income/loss <sup>1)</sup>	43	36	48	78	83
<b>Key indicators</b>					
Total volume of lending (in € billion)	105.5	106.2	99.1	96.2	95.6
Risk assets compliant with BIS rules (in € billion)	51.8	52.5	51.0	51.1	52.9
Core capital ratio compliant with BIS rules (in %)	7.9	7.8	8.3 <sup>2)</sup>	8.2	7.9
Employees	1,463	1,417	1,311	1,287	1,259

<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 (cont'd)

Hypo Real Estate International					
	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005
<b>Operating performance (in € million)</b>					
Operating revenues	96	97	89	102	109
Net interest income	61	53	60	65	65
Net commission income	30	41	23	29	31
Net trading income	2	3	6	7	7
Net income from investments	3	-2	2	-	5
Balance of other operating income/expenses	-	2	-2	1	1
Provisions for losses on loans and advances	16	15	-9	2	-
General administrative expenses	32	38	40	37	37
Balance of other income/expenses	-	-	-1	-	-
Net income/loss before taxes	48	44	57	63	72
Net income/loss <sup>1)</sup>	39	34	42	47	52
<b>Key indicators</b>					
Total volume of lending (in € billion)	15.9	18.2	17.8	17.9	19.6
Risk assets compliant with BIS rules (in € billion)	15.1	16.8	17.3	17.8	19.9
Core capital ratio compliant with BIS rules (in %)	9.6	8.7	9.2 <sup>2)</sup>	10.1	9.1
Employees	464	502	504	499	484

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

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

Württembergische Hypothekenbank					
	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005
<b>Operating performance (in € million)</b>					
Operating revenues	27	28	32	32	32
Net interest income	28	28	26	30	33
Net commission income	-1	1	-2	-2	-2
Net trading income	-	-	-	-	-
Net income from investments	-	-2	9	4	1
Balance of other operating income/expenses	-	1	-1	-	-
Provisions for losses on loans and advances	4	5	9	3	6
General administrative expenses	7	9	9	8	7
Balance of other income/expenses	-	-	-	-	-
Net income/loss before taxes	16	14	14	21	19
Net income/loss	16	14	13	19	19
<b>Key indicators</b>					
Total volume of lending (in € billion)	19.0	19.5	20.5	20.3	20.4
Risk assets compliant with BIS rules (in € billion)	9.2	9.4	10.1	10.5	10.6
Core capital ratio compliant with BIS rules (in %)	7.0	7.5	7.1 <sup>1)</sup>	6.8	6.8
Employees	174	173	171	178	179

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

Hypo Real Estate Germany					
	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005
<b>Operating performance (in € million)</b>					
Operating revenues	90	78	99	77	85
Net interest income	91	82	90	72	68
Net commission income	-4	-7	-10	-3	8
Net trading income	-	-	-	-	-
Net income from investments	2	3	22	7	6
Balance of other operating income/expenses	1	-	-3	1	3
Provisions for losses on loans and advances	55	55	55	30	30
General administrative expenses	34	28	31	24	26
Balance of other income/expenses	-1	-5	-11	-	-
Net income/loss before taxes	-	-10	2	23	29
Net income/loss <sup>1)</sup>	-6	-3	-	19	22
<b>Key indicators</b>					
Total volume of lending (in € billion)	71.5	69.2	62.2	59.2	56.7
Risk assets compliant with BIS rules (in € billion)	27.8	26.9	24.2	23.4	23.0
Core capital ratio compliant with BIS rules (in %)	7.6	7.7	8.4 <sup>2)</sup>	7.9	8.0
Employees	784	698	592	560	544

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

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