

Press release

Hypo Real Estate Group still on course for growth in H1 2006

- **Consolidated net income before taxes plus 26% to EUR 270 million**
- **Operating revenues plus 19% to EUR 516 million**
- **New real estate financing business of EUR 11.4 billion fully in line with expectations**
- **New segment Hypo Public Finance Bank is picking up pace**
- **Confirmation of forecasts for the whole of 2006**

Munich, 9 August 2006 – In the first half of 2006, the Hypo Real Estate Group has improved all major parameters. The international financier of large-volume commercial real estate has succeeded in considerably boosting operating revenues and consolidated net income before taxes in line with expectations. New real estate financing business in the first six months was also fully in line with expectations, with a volume of EUR 11.4 billion and an average return of more than 13% after taxes. The new segment Hypo Public Finance Bank which was established at the beginning of the year (public finance and capital markets) has made a good start. For the full twelve-month period in 2006, the Management Board is confirming the earnings and return objectives announced at the beginning of the year.

Group development H1 2006

- The group has reported net income before taxes of EUR 270 million for the first six months of 2006, 26% higher than the corresponding previous year period (EUR 215 million).
- Net income after taxes amounted to EUR 201 million compared with EUR 161 million in H1 2005, equivalent to growth of 25%. These figures do not take account of non-cash-effective expenses of EUR 24 million from capitalised losses carried forward in accordance with IFRS regulations.
- Return on equity after taxes (excluding the effects from capitalised losses carried forward) amounted to 9.2% for the first half, and was

thus higher than the target specified for the full year (>9%; full year 2005: 7.4% excl. the effects from capitalised losses carried forward).

- As a result of strong new business and the improvement in average margins in the German portfolio, 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 in the first six months by 19% from EUR 435 million to EUR 516 million. The improvement was attributable to all major revenue types. Whereas net interest income in the first half of the previous year declined by 5%, it increased by 15% in the first six months in 2006 from EUR 330 million to EUR 381 million. There has been a positive development in net trading income, which increased by 21% to EUR 17 million thanks to the successful activities of Hypo Public Finance Bank. Net income from investments has doubled to EUR 46 million, reflecting capital gains realised from treasury activities.
- Provisions for losses on loans and advances are stated as EUR 87 million (previous year period: EUR 71 million); this 23% increase reflects the growth in the international real estate financing portfolio, and comprises portfolio-based allowances.
- General administrative expenses increased by EUR 10 million (7%) to EUR 159 million, whereby this growth was lower than the increase in operating revenues. Savings in Germany business were opposed by higher expenses in Hypo Real Estate International and Hypo Public Finance Bank due to expansion activities.
- In consequence, the cost-income ratio, which is the standard used for measuring the internal efficiency of the group, improved further from 34.3% in the first half of 2005 to 30.8%.

New business H1 2006

In the first six months of this year, the group acquired new real estate financing of EUR 11.4 billion compared with EUR 8.3 billion in the previous year period – equivalent to growth of 37%.

Of this figure, EUR 8.5 billion is attributable to international financing and EUR 2.9 billion is attributable to financing in Germany. With this volume of new business, the Hypo Real Estate Group is making excellent progress towards meeting its announced objective of approx. EUR 22 billion for the full year.

Balance sheet development H1 2006

Total assets of the group are stated as EUR 153.6 billion as of 30 June 2006, EUR 1.1 billion higher compared with the figure at the end of 2005. In line with overall strategy, public sector loans declined, whereas real estate financing increased. Higher trading assets have resulted from the increased level of activity at Hypo Public Finance Bank (EUR +2.8 billion).

With a figure of 7.4% for the core capital ratio (31 December 2005: 7.8%), and 10.4% for the equity funds ratio (31 December 2005: 10.8%), the Hypo Real Estate Group again reported very sound capital backing after six months.

Results for Q2 2006

- In the second quarter of the current financial year, the development in business has to a large extent been linear with regard to the first three months, and net income before taxes amounted to EUR 136 million (Q2 2005: EUR 113 million, +20%).
- Net income after taxes (excluding the effects from capitalised losses carried forward) amounted to EUR 101 million (Q2 2005: EUR 83 million, +22%).
- Operating revenues totalled EUR 259 million, compared with EUR 225 million in the same previous year quarter (+15%).
- At EUR 6.2 billion, new business was EUR 1 billion higher than in the first three months of 2006.

Outlook for 2006

In view of the excellent development in business during the first six months of the year, the Management Board has confirmed its forecasts for the full twelve-month period in 2006. It still expects to see net income before taxes in the group increase by at least 20% to more than EUR 530 million, based on a previous year figure of EUR 442 million adjusted by restructuring

expenses. Return on equity after taxes is expected to exceed 9%, and operating revenues should come in at more than EUR 1 billion.

Georg Funke, CEO of Hypo Real Estate Holding AG: "After the first six months of the current financial year, the Hypo Real Estate Group is still on course. We have fully met our business objectives despite the increased uncertainty on the capital markets in the second quarter and also despite the more difficult margin situation in real estate financing. This is documented by the strength which our group has built up in its markets. In terms of strategy, we have further diversified our business: Geographically primarily by way of the acquisition of the international business of AHBR, and in terms of our range of products by way of setting up the new business segment Hypo Public Finance Bank."

Information concerning the segments

Hypo Real Estate International

This segment, in which the entire international real estate financing business of the group has been combined since the beginning of the year, succeeded in meetings its ambitious sales and earnings targets in the first half of 2006. Net income before taxes amounted to EUR 203 million, equivalent to growth of 19% compared with the previous year figure (EUR 170 million). Operating revenues increased by 24% from EUR 252 million to EUR 312 million, primarily as a result of higher net interest income. Because growth in general administrative expenses was considerably lower than growth in operating revenues, the cost-income ratio declined further to 26.0% (full year 2005: 29.3%).

The strategic highlight of the first half was the acquisition of the international business of Allgemeine Hypothekbank Rheinboden AG (AHBR) with a volume of approx. EUR 3.5 billion; this was agreed in June and completed in July. The transaction involved approx. 140 real estate financing arrangements (performing loans) spread over 13 European countries. As a result of this acquisition, the Hypo Real Estate Group will be able to further expand the proportion of international financing in line with overall strategy. The purchase has not had any impact on the figures for the first half of 2006, because the transaction was only completed in July.

Hypo Real Estate Germany

Real estate financing business in Germany, which is pooled at Hypo Real Estate Bank AG, is increasingly picking up pace. New real estate financing business of EUR 2.9 billion generated in the first half was above expectations. Net income before taxes amounted to EUR 64 million, +23% compared with the corresponding figure in the first half of 2005 (EUR 52 million). At EUR 163 million, operating revenues were slightly higher than the corresponding previous year figure (EUR 162 million) despite the down-sized portfolio; this was due to the improved average margin. Because general administrative expenses were considerably lower than the corresponding previous year figure as a result of the completed restructuring of the segment, the cost-income ratio improved significantly to 25.2% (full year 2005: 30.4%).

Hypo Public Finance Bank

The new segment achieved a positive performance above expectations in the first half. New business amounted to EUR 2.1 billion. The basis of business was extended, for instance by way of the launch of infrastructure financing and asset-based finance. This new business as of 30.6.2006 amounted to EUR 0.4 billion. A further volume of EUR 0.75 billion has already been approved. There was also a positive development in asset management. Assets under management/administration amounted to EUR 22.1 billion as of 30.6.2006. Net income before taxes generated in the segment during the first six months (EUR 24 million; H1 2005: EUR 5 million) was considerably ahead of the pro-rata objective. Operating revenues doubled from EUR 23 million to EUR 47 million, with all major revenue types contributing.

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Hypo Real Estate Group

Income Statement for the Period from 1 January to 30 June 2006

Income/expenses in € million				
	1.1.-30.6.2006	1.1.-30.6.2005	Change	
			in € million	in %
Interest income	3,417	3,251	166	5.1
Interest expenses	3,036	2,921	115	3.9
Net interest income	381	330	51	15.5
Provisions for losses on loans and advances	87	71	16	22.5
Net interest income after provisions for losses on loans and advances	294	259	35	13.5
Commission income	89	83	6	7.2
Commission expenses	20	22	-2	-9.1
Net commission income	69	61	8	13.1
Net trading income	17	14	3	21.4
Net income from investments	46	23	23	100.0
General administrative expenses	159	149	10	6.7
Balance of other operating income/expenses	3	7	-4	-57.1
Operating profit/loss	270	215	55	25.6
Balance of other income/expenses	0	0	0	0.0
Net income/loss before taxes	270	215	55	25.6
Taxes on income excluding deferred taxes on capitalised losses carried forward	69	54	15	27.8
Net income/loss after taxes excluding deferred taxes on capitalised losses carried forward	201	161	40	24.8
Deferred taxes on capitalised losses carried forward	24	17	7	41.2
Net income/loss after taxes including deferred taxes on capitalised losses carried forward	177	144	33	22.9
attributable to:				
Equity holders (consolidated profit)	177	143	34	23.8
Minority interest	0	1	-1	-100.0
	177	144	33	22.9

Income Statement for the Period from 1 April to 30 June 2006

Income/expenses in € million				
	1.4.-30.6.2006	1.4.-30.6.2005	Change	
			in € million	in %
Interest income	1,741	1,609	132	8.2
Interest expenses	1,550	1,444	106	7.3
Net interest income	191	165	26	15.8
Provisions for losses on loans and advances	44	36	8	22.2
Net interest income after provisions for losses on loans and advances	147	129	18	14.0
Commission income	44	48	-4	-8.3
Commission expenses	9	10	-1	-10.0
Net commission income	35	38	-3	-7.9
Net trading income	6	7	-1	-14.3
Net income from investments	26	12	14	>100.0
General administrative expenses	79	76	3	3.9
Balance of other operating income/expenses	1	3	-2	-66.7
Operating profit/loss	136	113	23	20.4
Balance of other income/expenses	0	0	0	0.0
Net income/loss before taxes	136	113	23	20.4
Taxes on income excluding deferred taxes on capitalised losses carried forward	35	30	5	16.7
Net income/loss after taxes excluding deferred taxes on capitalised losses carried forward	101	83	18	21.7
Deferred taxes on capitalised losses carried forward	10	8	2	25.0
Net income/loss after taxes including deferred taxes on capitalised losses carried forward	91	75	16	21.3
attributable to:				
Equity holders (consolidated profit)	91	74	17	23.0
Minority interest	0	1	-1	-100.0
	91	75	16	21.3

Income Statement, broken down by business segment

Income/expenses in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
Net interest income						
	1.1.-30.6.2006	226	149	14	-8	381
	1.1.-30.6.2005	184	140	9	-3	330
Provisions for losses on loans and advances						
	1.1.-30.6.2006	28	58	1	0	87
	1.1.-30.6.2005	11	60	0	0	71
Net interest income after provisions for losses on loans and advances						
	1.1.-30.6.2006	198	91	13	-8	294
	1.1.-30.6.2005	173	80	9	-3	259
Net commission income						
	1.1.-30.6.2006	59	0	10	0	69
	1.1.-30.6.2005	57	5	-1	0	61
Net trading income						
	1.1.-30.6.2006	0	0	17	0	17
	1.1.-30.6.2005	1	0	13	0	14
Net income from investments						
	1.1.-30.6.2006	26	15	5	0	46
	1.1.-30.6.2005	10	13	0	0	23
General administrative expenses						
	1.1.-30.6.2006	81	41	22	15	159
	1.1.-30.6.2005	71	50	18	10	149
Balance of other operating income/expenses						
	1.1.-30.6.2006	1	-1	1	2	3
	1.1.-30.6.2005	0	4	2	1	7
Operating profit/loss						
	1.1.-30.6.2006	203	64	24	-21	270
	1.1.-30.6.2005	170	52	5	-12	215
Balance of other income/expenses						
	1.1.-30.6.2006	0	0	0	0	0
	1.1.-30.6.2005	0	0	0	0	0
Net income/loss before taxes						
	1.1.-30.6.2006	203	64	24	-21	270
	1.1.-30.6.2005	170	52	5	-12	215
Taxes on income ¹⁾						
	1.1.-30.6.2006	50	13	6	0	69
	1.1.-30.6.2005	37	11	1	5	54
Net income/loss¹⁾						
	1.1.-30.6.2006	153	51	18	-21	201
	1.1.-30.6.2005	133	41	4	-17	161

¹⁾ Excluding the effects from capitalised losses carried forward totalling € 24 million in Hypo Real Estate Group in the 1st half year 2006 (1st half year 2005: € 17 million)

Key ratios, broken down by business segment

in %						
		HREI	HREGe	HPFB	HREG	
Cost-income-ratio (based on operating revenues)						
	1.1.-30.6.2006	26.0	25.2	46.8	30.8	
	1.1.-31.12.2005	29.3	30.4	70.0	34.9	
Return on equity after taxes ¹⁾						
	1.1.-30.6.2006	12.9	4.9	10.8	9.2	
	1.1.-31.12.2005	12.9	4.2	7.9	7.4	

¹⁾ Excluding the effects from capitalised losses carried forward

Balance sheet figures, broken down by business segment

Assets und Liabilities in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
Total assets	30.6.2006	55,626	81,908	21,235	-5,209	153,560
	31.12.2005	52,695	86,400	19,139	-5,774	152,460
Total liabilities	30.6.2006	53,178	81,125	20,861	-4,799	150,365
	31.12.2005	50,268	85,543	18,920	-5,471	149,260

Volume of lending in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
	30.6.2006	39,387	52,283	2,476	-2,711	91,435
	31.12.2005	37,667	53,567	1,550	-416	92,368

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

Risk-weighted assets in € billion					
		HREI	HREGe	HPFB	HREG
	30.6.2006	32.5	25.8	2.4	59.8
	31.12.2005	31.6	24.0	2.0	56.3

Core capital ratio in %					
		HREI	HREGe	HPFB	HREG
	30.6.2006	7.4	7.1	13.6	7.4
	31.12.2005 ¹⁾	7.5	7.7	15.0	7.8

¹⁾ As per approved annual financial statements and after profit distribution

Summary of quarterly financial data

Hypo Real Estate Group					
	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006
Operating performance (in € million)					
Operating revenues	225	233	241	257	259
Net interest income	165	171	184	190	191
Net commission income	38	33	31	34	35
Net trading income	7	12	1	11	6
Net income from investments	12	16	28	20	26
Balance of other operating income/expenses	3	1	-3	2	1
Provisions for losses on loans and advances	36	41	37	43	44
General administrative expenses	76	79	89	80	79
Balance of other income/expenses (excluding restructuring expenses)	0	-1	0	0	0
Net income/loss before taxes (excluding restructuring expenses)	113	112	115	134	136
Restructuring expenses	0	0	34	0	0
Net income/loss before taxes	113	112	81	134	136
Net income/loss ¹⁾	83	82	70	100	101
Key indicators					
Total volume of lending (in € billion)	95.6	93.9	92.4	91.7	91.4
Risk assets compliant with BIS rules (in € billion)	52.9	53.2	56.3	58.1	59.8
Core capital ratio compliant with BIS rules (in %)	7.9	7.8	7.8 ²⁾	7.6	7.4
Employees	1,259	1,258	1,233	1,176	1,172

¹⁾ Excluding the effects from capitalised losses carried forward

²⁾ As per approved annual financial statements and after profit distribution

Hypo Real Estate International

	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006
Operating performance (in € million)					
Operating revenues	129	135	145	157	155
Net interest income	95	99	101	114	112
Net commission income	30	30	36	31	28
Net trading income	0	2	-2	0	0
Net income from investments	5	3	12	11	15
Balance of other operating income/expenses	-1	1	-2	1	0
Provisions for losses on loans and advances	6	11	7	14	14
General administrative expenses	36	41	44	41	40
Balance of other income/expenses	0	-1	0	0	0
Net income/loss before taxes	87	82	94	102	101
Net income/loss ¹⁾	68	61	93	76	77
Key indicators					
Total volume of lending (in € billion)	38.5	37.5	37.7	38.4	39.4
Risk assets compliant with BIS rules (in € billion)	28.0	28.4	31.6	31.4	32.5
Core capital ratio compliant with BIS rules (in %)	8.3 ²⁾	8.1 ²⁾	7.5 ²⁾	7.7	7.4

¹⁾ Excluding the effects from capitalised losses carried forward

²⁾ Based on allocated capital

Hypo Real Estate Germany

	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006
Operating performance (in € million)					
Operating revenues	85	77	83	83	80
Net interest income	68	67	76	74	75
Net commission income	8	-3	-3	1	-1
Net trading income	0	0	0	0	0
Net income from investments	6	13	13	8	7
Balance of other operating income/expenses	3	0	-3	0	-1
Provisions for losses on loans and advances	30	30	30	29	29
General administrative expenses	26	23	25	21	20
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	29	24	28	33	31
Net income/loss ¹⁾	22	18	21	27	24
Key indicators					
Total volume of lending (in € billion)	56.7	54.9	53.6	53.8	52.3
Risk assets compliant with BIS rules (in € billion)	23.0	22.8	24.0	25.5	25.8
Core capital ratio compliant with BIS rules (in %)	8.0	8.1	7.7 ²⁾	7.2	7.1
Employees	544	534	520	483	475

¹⁾ Excluding the effects from capitalised losses carried forward

²⁾ As per approved annual financial statements

Hypo Public Finance Bank

	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006
Operating performance (in € million)					
Operating revenues	12	22	15	21	26
Net interest income	3	6	10	7	7
Net commission income	-1	6	-2	2	8
Net trading income	7	10	3	11	6
Net income from investments	1	0	3	1	4
Balance of other operating income/expenses	2	0	1	0	1
Provisions for losses on loans and advances	0	0	0	0	1
General administrative expenses	8	10	14	11	11
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	4	12	1	10	14
Net income/loss	3	9	3	8	10
Key indicators					
Total volume of lending (in € billion)	1.6	1.5	1.6	2.5	2.5
Risk assets compliant with BIS rules (in € billion)	2.5	2.5	2.0	2.1	2.4
Core capital ratio compliant with BIS rules (in %)	8.0 ¹⁾	8.0 ¹⁾	15.0 ¹⁾	14.7	13.6

¹⁾ Based on allocated capital