

Press release

Hypo Real Estate Group continues strong earnings growth in Q3 2005

- **Consolidated net income before taxes after nine months has more than doubled to EUR 327 million**
- **New business considerably ahead of budget**
- **Germany business is increasingly picking up pace**
- **Forecast for full year confirmed without reservation**
- **Restructuring of group is proceeding as planned**

Munich, November 10th 2005: In the first nine months of 2005, the Hypo Real Estate Group has more than doubled consolidated net income before taxes. All key financials after three quarters were in line with or slightly better than pro-rata budget. The international financier of commercial real estate generated group-wide new business of EUR 14.3 billion between January and September; of this figure, EUR 6.0 billion alone was attributable to the third quarter. This means that the full-year target of around EUR 13.5 billion in total has been attained after nine months, and will accordingly be considerably exceeded by the end of the year.

Group development nine months 2005

In the first nine months, consolidated net income before taxes amounted to EUR 327 million, and was accordingly ahead of pro-rata budget. Net income before taxes of EUR 155 million in the previous year period was more than doubled. Nine-month net income adjusted by the deferred taxes from capitalised losses carried forward of EUR 22 million amounted to EUR 243 million compared with EUR 120 million in the same period of 2004. Including the deferred-tax effect, net income amounted to EUR 221 million. Adjusted earnings per share amounted to EUR 1.81 compared with EUR 0.89 in the same previous year period. Unlike the situation last year, the fact that Hypo Real Estate Holding AG increased its holding in Württembergische Hypothekenbank to 100% meant that no minority interests occurred this year. Return on equity after taxes of the Group

adjusted by the tax effect improved to 7.7% (full year 2004: 4.0%). It is thus within the target range of 7.5 to 8% for the whole of 2005. This means that the Hypo Real Estate Group will cover its capital costs for the first time.

The development in total operating revenues (total of net interest income and net commission income, net trading income, net income from investments and the balance of other operating income/expenses) in the first nine months reflects the successful new business and the intensified activities of the Capital Markets unit. Accordingly, despite the very much reduced portfolio at Hypo Real Estate Bank AG, total operating revenues improved by EUR 53 million (9%) to EUR 668 million (nine months 2004: EUR 615 million).

Net interest income of EUR 501 million was only slightly lower (EUR -6 million) than the corresponding figure for the previous year because new business in Germany and abroad was not able to entirely compensate for the downsizing of the Germany portfolio at Hypo Real Estate Bank AG. Net trading income improved from EUR 5 million to EUR 26 million, and is mainly attributable to the Capital Markets unit. Net income from investments amounts to EUR 39 million compared with EUR 14 million in the same previous year period.

After three quarters, the addition to provisions for losses on loans and advances amounted to EUR 112 million, and were considerably lower than pro-rata budget and EUR 109 million lower than the corresponding previous year figure. If the pro-rata risk shelter of EUR 97.5 million provided by HVB AG to Hypo Real Estate Bank AG (which was contained in last year's figures) is disregarded, the addition declined by around EUR 207 million – a clear indication of the dramatic improvement in the portfolio quality of domestic business.

General administrative expenses of EUR 228 million were at the lower end of expectations and slightly below the corresponding previous year figure (EUR 229 million). Additional expenses incurred for international expansion were opposed by positive effects from the restructuring of

Germany business. The cost-income ratio for the first nine months improved from 37.7% for the whole of 2004 to 34.1%.

The total volume of lending of the Group as of 30 September 2005 amounted to EUR 93.9 billion, and was accordingly EUR 5.3 billion lower than the corresponding figure as of 31 December 2004. The consolidated total assets of the Hypo Real Estate Group as of 30 September 2005 increased compared with the corresponding previous year figure by EUR 2.8 billion to EUR 151.0 billion, due mainly to stronger trading activities.

Group development third quarter 2005

Consolidated net income before taxes in the third quarter of 2005 amounted to EUR 112 million (third quarter 2004: EUR 41 million). Consolidated net income (excluding the effect from capitalised losses carried forward) amounted to EUR 82 million (previous year period: EUR 36 million). Total operating revenues have increased gradually in 2005 to EUR 233 million in the third quarter (EUR 201 million in the previous year).

Forecast for financial 2005

The Management Board has fully confirmed its previous forecasts for financial 2005. It still expects to see consolidated net income before taxes improve 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% (2004: 4.0%). Despite an additional requirement of EUR 30 to 35 million for provisions, which will be recognised in the annual financial statements, the forecast for net income before taxes is expected to be met. As was announced in August 2005, this provision will be set aside for the ongoing reorganisation of the Hypo Real Estate Group.

New Group structure is on the way

In August of this year, Hypo Real Estate Holding AG announced a far-reaching restructuring of the group in order to boost its viability on the markets and reduce the level of complexity in the group. The restructuring envisages that world-wide international business will be pooled in the

Stuttgart-based subsidiary Württembergische Hypothekenbank. For this purpose, with effect from 1 January 2006, the entire international real estate financing portfolio of Hypo Real Estate Bank International will be transferred to Württembergische Hypothekenbank, which will subsequently be renamed Hypo Real Estate Bank International AG.

German financing arrangements of Württembergische Hypothekenbank will be transferred to Hypo Real Estate Bank AG in Munich, which will pool the entire domestic business as the second pillar of the group. The existing Hypo Real Estate Bank International will continue Capital Markets activities from Dublin as "Hypo Public Finance Bank", and these activities will be extended to include public sector finance. Organisational and legal preparations for restructuring the group are proceeding as planned, the aim is for the restructuring process to be completed in the first half of 2006.

Georg Funke, Chairman of the Management Board of Hypo Real Estate Holding AG: "The Hypo Real Estate Group is continuing to pick up pace. We have already beaten our ambitious targets for new business at all three operating entities. We will continue to focus on growth and – apart from more extensive penetration of our core markets in Europe and North America – are continuously working on developing new markets. The reform of our group structures, which has received a very positive echo on the capital markets, will mean that we will further expand our position of strength which we have built up since the spin-off from HVB in 2003."

Information concerning the business segments

Hypo Real Estate International

The business segment continued the success of the strong second quarter in the third quarter 2005. Net income before taxes amounted to EUR 213 million in the first nine months (previous year period: EUR 138 million), and was thus above expectations. As a result of strong new business, total operating revenues improved from EUR 276 million in the previous year to EUR 339 million. The addition to provisions for losses on loans and advances declined from EUR 42 million to EUR 9 million; no individual

allowances were incurred. New business at Hypo Real Estate International amounted to EUR 10.3 billion in the first nine months, of which EUR 4.4 billion was attributable to the third quarter. This means that our target of EUR 10 billion for the full year has already been slightly exceeded.

Württembergische Hypothekenbank

With net income before taxes of EUR 56 million between January and September 2005, Württembergische Hypothekenbank has beaten the pro-rata budget (previous year period: EUR 46 million). Total operating revenues increased from EUR 84 million to EUR 93 million (+11%).

As usual, new business was acquired almost exclusively abroad, and amounted to EUR 3 billion after nine months, which means that the full-year target of EUR 2.5 billion has already been exceeded.

Hypo Real Estate Germany

Net income before taxes of EUR 76 million for the first nine months of 2005 was in line with pro-rata budget. The previous year figure of EUR -11 million was very much affected by the restructuring of the business segment which was completed in 2004. As a result of the considerably reduced loan portfolio, total operating revenues of EUR 239 million were EUR 20 million lower than the corresponding previous year figure.

With new business of EUR 1 billion taken on, the business segment has met its full-year target for new business after three quarters. This figure does not yet include the financing arrangement for CommerzLeasing und Immobilien Gruppe (CLI). Here the bank provided debt capital of more than EUR 1 billion, of which it will take a large portion on its own book. This deal was signed in October and demonstrates how quickly Hypo Real Estate Bank AG has again become a leading player in commercial real estate financing in Germany.

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Hypo Real Estate Group

Operating performance (IFRS)

Income/expenses in € million					
	HREI	WürttHyp	HREGe	Other/ Consoli- dation	HREG
Net interest income					
1.1.-30.9.2005	204	94	207	-4	501
1.1.-30.9.2004	164	82	264	-3	507
Provisions for losses on loans and advances					
1.1.-30.9.2005	9	13	90	-	112
1.1.-30.9.2004	42	14	165	-	221
Net interest income after provisions for losses on loans and advances					
1.1.-30.9.2005	195	81	117	-4	389
1.1.-30.9.2004	122	68	99	-3	286
Net commission income					
1.1.-30.9.2005	99	-7	2	-	94
1.1.-30.9.2004	103	-4	-15	-	84
Net trading income					
1.1.-30.9.2005	26	-	-	-	26
1.1.-30.9.2004	5	-	-	-	5
Net income from investments					
1.1.-30.9.2005	7	6	26	-	39
1.1.-30.9.2004	1	5	9	-1	14
General administrative expenses					
1.1.-30.9.2005	116	24	73	15	228
1.1.-30.9.2004	96	24	95	14	229
Balance of other operating income/expenses					
1.1.-30.9.2005	3	-	4	1	8
1.1.-30.9.2004	3	1	1	-	5
Operating income/loss					
1.1.-30.9.2005	214	56	76	-18	328
1.1.-30.9.2004	138	46	-1	-18	165
Balance of other income/expenses					
1.1.-30.9.2005	-1	-	-	-	-1
1.1.-30.9.2004	-	-	-10	-	-10
Net income/loss before taxes					
1.1.-30.9.2005	213	56	76	-18	327
1.1.-30.9.2004	138	46	-11	-18	155
Taxes on income ¹⁾					
1.1.-30.9.2005	58	4	17	5	84
1.1.-30.9.2004	32	-	-1	4	35
Net income/loss¹⁾					
1.1.-30.9.2005	155	52	59	-23	243
1.1.-30.9.2004	106	46	-10	-22	120

¹⁾ Excluding the effects from capitalised losses carried forward

Key ratios

in %				
	HREI	WürttHyp	HREGe	HREG
Cost-income ratio (based on operating revenues)				
1.1.-30.9.2005	34.2	25.8	30.5	34.1
1.1.-31.12.2004	37.3	28.4	35.2	37.7
Return on equity after taxes ¹⁾				
1.1.-30.9.2005	12.0	10.3	4.2	7.7
1.1.-31.12.2004	10.1	9.0	-0.5	4.0

¹⁾ Excluding the effects from capitalised losses carried forward

Balance sheet figures

Volume of lending in € million

	HREI	WürttHyp	HREGe	Other/ Consoli- dation	HREG
30.9.2005	20,099	19,490	54,892	-628	93,853
31.12.2004	17,811	20,518	62,197	-1,414	99,112

Total assets in € million

					HREG
30.9.2005					150,975
31.12.2004					148,128

Key capital ratios compliant with BIS rules

Risk-weighted assets in € billion

	HREI	WürttHyp	HREGe	HREG
30.9.2005	20.2	10.7	22.8	53.2
31.12.2004	17.3	10.1	24.2	51.0

Core capital ratio in %

	HREI	WürttHyp	HREGe	HREG
30.9.2005	8.9	6.7	8.1	7.8
31.12.2004 ¹⁾	9.2	7.1	8.4	8.3

¹⁾ As per approved annual financial statements

Summary of quarterly financial data

Hypo Real Estate Group

	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005
Operating performance (in € million)					
Operating revenues	201	220	210	225	233
Net interest income	161	176	165	165	171
Net commission income	35	10	23	38	33
Net trading income	3	6	7	7	12
Net income from investments	-1	33	11	12	16
Balance of other operating income/expenses	3	-5	4	3	1
Provisions for losses on loans and advances	75	55	35	36	41
General administrative expenses	80	86	73	76	79
Balance of other income/expenses	-5	-13	-	-	-1
Net income/loss before taxes	41	66	102	113	112
Net income/loss ¹⁾	36	48	78	83	82
Key indicators					
Total volume of lending (in € billion)	106.2	99.1	96.2	95.6	93.9
Risk assets compliant with BIS rules (in € billion)	52.5	51.0	51.1	52.9	53.2
Core capital ratio compliant with BIS rules (in %)	7.8	8.3 ²⁾	8.2	7.9	7.8
Employees	1,417	1,311	1,287	1,259	1,258

¹⁾ Excluding the effects from capitalised losses carried forward ²⁾ As per approved annual financial statements

Summary of quarterly financial data (cont'd)

Hypo Real Estate International					
	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005
Operating performance (in € million)					
Operating revenues	97	89	102	109	128
Net interest income	53	60	65	65	74
Net commission income	41	23	29	31	39
Net trading income	3	6	7	7	12
Net income from investments	-2	2	-	5	2
Balance of other operating income/expenses	2	-2	1	1	1
Provisions for losses on loans and advances	15	-9	2	-	7
General administrative expenses	38	40	37	37	42
Balance of other income/expenses	-	-1	-	-	-1
Net income/loss before taxes	44	57	63	72	78
Net income/loss ¹⁾	34	42	47	52	56
Key indicators					
Total volume of lending (in € billion)	18.2	17.8	17.9	19.6	20.1
Risk assets compliant with BIS rules (in € billion)	16.8	17.3	17.8	19.9	20.2
Core capital ratio compliant with BIS rules (in %)	8.7	9.2 ²⁾	10.1	9.1	8.9
Employees	502	504	499	484	492

¹⁾ Excluding the effects from capitalised losses carried forward ²⁾ As per approved annual financial statements

Württembergische Hypothekbank					
	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005
Operating performance (in € million)					
Operating revenues	28	32	32	32	29
Net interest income	28	26	30	33	31
Net commission income	1	-2	-2	-2	-3
Net trading income	-	-	-	-	-
Net income from investments	-2	9	4	1	1
Balance of other operating income/expenses	1	-1	-	-	-
Provisions for losses on loans and advances	5	9	3	6	4
General administrative expenses	9	9	8	7	9
Balance of other income/expenses	-	-	-	-	-
Net income/loss before taxes	14	14	21	19	16
Net income/loss ¹⁾	14	13	19	19	14
Key indicators					
Total volume of lending (in € billion)	19.5	20.5	20.3	20.4	19.5
Risk assets compliant with BIS rules (in € billion)	9.4	10.1	10.5	10.6	10.7
Core capital ratio compliant with BIS rules (in %)	7.5	7.1 ¹⁾	6.8	6.8	6.7
Employees	173	171	178	179	179

¹⁾ As per approved annual financial statements

Hypo Real Estate Germany					
	3rd Quarter 2004	4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005
Operating performance (in € million)					
Operating revenues	78	99	77	85	77
Net interest income	82	90	72	68	67
Net commission income	-7	-10	-3	8	-3
Net trading income	-	-	-	-	-
Net income from investments	3	22	7	6	13
Balance of other operating income/expenses	-	-3	1	3	-
Provisions for losses on loans and advances	55	55	30	30	30
General administrative expenses	28	31	24	26	23
Balance of other income/expenses	-5	-11	-	-	-
Net income/loss before taxes	-10	2	23	29	24
Net income/loss ¹⁾	-3	-	19	22	18
Key indicators					
Total volume of lending (in € billion)	69.2	62.2	59.2	56.7	54.9
Risk assets compliant with BIS rules (in € billion)	26.9	24.2	23.4	23.0	22.8
Core capital ratio compliant with BIS rules (in %)	7.7	8.4 ²⁾	7.9	8.0	8.1
Employees	698	592	560	544	534

¹⁾ Excluding the effects from capitalised losses carried forward ²⁾ As per approved annual financial statements