

## **Press release**

### **Hypo Real Estate Group has continued its successful business development**

- **Consolidated net income before taxes up 25 %**
- **Full-year target for new business in Germany already exceeded**
- **Forecasts for 2006 confirmed in full**

**Munich, 8 November 2006:** The Hypo Real Estate Group has again continued its successful business development in the third quarter of 2006 and, after the first nine months of the current year, is fully on target to meet the main profit ratios, and is ahead of budget in certain cases. The international financier of large-volume commercial real estate has reported strong growth in all three business segments, combined with increasing profitability. New real estate financing business has achieved a positive performance. For the business year 2006, the Management Board has fully confirmed the forecasts which were specified on the occasion of the announcement of the six-month figures.

### **Group development after nine months in 2006**

- Consolidated net income before taxes – the key parameter of profitability of the Hypo Real Estate Group – increased by 25% between January and September 2006 compared with the corresponding previous year period, namely from EUR 327 million to EUR 410 million. Net income before taxes was accordingly ahead of the pro-rata budgeted minimum figure of EUR 398 million.
- Consolidated net income after taxes is stated as EUR 305 million (corresponding previous year period: EUR 243 million; +26%). This figure does not include deferred taxes on capitalised losses carried forward (EUR 21 million) which have to be stated in accordance with IFRS regulations.
- Return on equity after taxes for the first three quarters increased to 9.3% compared with 8.0% in the whole of 2005 (excluding the restructuring expenses incurred last year).

- Operating revenues have increased from EUR 668 million in the first nine months of last year to EUR 778 million. This is equivalent to growth of 16%, and is spread across all main revenue types (net interest income and net commission income, net trading income and net income from investments). The 16% increase in net interest income (from EUR 501 million to EUR 581 million) reflects the successful new business of the previous year and the improved average margin in German business. Because the Hypo Real Estate Group took advantage of further favourable market conditions for realising capital gains, net income from investments increased from EUR 39 million to EUR 60 million.
- The main expense positions in the first nine months developed as expected. Additions to provisions for losses on loans and advances amounted to EUR 123 million, compared with EUR 112 million in the equivalent previous year period (+10 %), due to the international financing portfolio which has expanded appreciably. General administrative expenses increased by 7%, from EUR 228 million to EUR 245 million, as a result of the expansion of Hypo Real Estate International and Hypo Public Finance Bank.
- The considerable growth in operating revenues combined with the moderate development in costs lead to a further improvement in the cost-income ratio in the group. In the first nine months of this year, this ratio was 31.5% compared with 34.9% in the whole of 2005 (based on operating revenues).

#### **New business (real estate financing)**

The volume of new business in real estate financing at the group acquired in the first nine months of 2006 amounted to EUR 17.5 billion, and was considerably higher than the corresponding previous year figure (EUR 14.3 billion) and also slightly better than expectations. At Hypo Real Estate International, new business amounted to EUR 12.9 billion, compared with EUR 13.3 billion in the first nine months of 2005. The business segment Hypo Real Estate Germany achieved a very positive performance: New real estate financing business increased, in line with the much stronger momentum of business in Germany, from EUR 1.0 billion in the previous year period to EUR 4.6 billion.

The full-year target of EUR 4 billion has accordingly been exceeded after nine months. As a result of the positive development in the first three quarters, the Management Board is confident of meeting its target of approx. EUR 22 billion for new business of the group in the whole of 2006.

### **Balance sheet development**

As of 30 September 2006, total assets of the Hypo Real Estate Group amounted to EUR 158.6 billion, equivalent to growth of EUR 6.1 billion compared with the end of 2005. In line with overall strategy, the volume of public sector loans declined. On the other hand, real estate loans increased as a result of strong new business and the international business of Allgemeine Hypothekbank Rheinboden AG (AHBR) which has been acquired and booked since July. As a result of the increasing activities of Hypo Public Finance Bank, assets held for trading purposes also increased compared with the previous reference date (EUR +4.2 billion).

As of 30 September 2006, the group continues to report sound capitalisation despite the expansion. The core capital ratio is stated as 6.9% (31 December 2005: 7.8 %), and the equity funds ratio amounted to 9.6% (31 December 2005: 10.8 %).

### **Consolidated net income for Q3 2006**

- In the third quarter, consolidated net income before taxes amounted to EUR 140 million, and was thus 25% higher than the figure for the same previous year quarter (EUR 112 million)
- Net income after taxes (excluding the effects of capitalised losses carried forward) amounted to EUR 104 million (Q3 2005: EUR 82 million; +27%).
- Operating revenues totalled EUR 262 million compared with EUR 233 million in the equivalent previous year period (+12%), mainly due to higher net interest income.
- New business amounted to EUR 6.1 billion, compared with EUR 6.0 billion in the strong third quarter of 2005.

## **Outlook for 2006**

Following the performance achieved in the first nine months, the Management Board has fully confirmed its forecasts for the whole of 2006:

- Consolidated net income before taxes to increase to EUR 550 to 560 million (2005: EUR 442 million; adjusted by restructuring expenses).
- Return on equity after taxes to increase to more than 9%.
- Operating revenues to rise to more than EUR 1 billion (2005: EUR 909 million).

**Georg Funke, CEO of Hypo Real Estate Holding AG:** "After nine months, everything is indicating that the Hypo Real Estate Group will meet its budgeted targets for 2006, and will perform even better in certain cases. A further important aspect is that, so far this year, we have made major strategic progress which will constitute the basis for future growth. This includes expansion of our sales performance abroad, for instance by way of further regional expansion into the markets of Asia. However, the new segment Hypo Public Finance Bank has also rapidly picked up pace and exceeded our expectations. All in all, we have every reason to look forward optimistically to the future of our group."

## **Information concerning the segments**

### **Hypo Real Estate International**

This segment, which combines the entire international real estate financing business of the group since the beginning of the year, has continued its expansion in the first nine months. This has included the acquisition of the international portfolio of AHBR and the start-up of operating activities in Mumbai in India. In October, Hypo Real Estate Capital Singapore Corp. Private Ltd. was established in Singapore, thus creating the necessary conditions for opening an office in this location.

The segment generated net income before taxes of EUR 307 million between January and September 2006; this figure was at the upper end of the target range (nine months 2005: EUR 252 million; +22%). At 12.9%, return on equity after taxes repeated the high level seen in the business year 2005.

Operating revenues increased by 21% compared with the corresponding previous year period, namely from EUR 387 million to EUR 467 million. The cost-income ratio improved further to 26.8% (full year 2005: 29.3%).

### **Hypo Real Estate Germany**

New business in the first nine months has expanded strongly compared with the previous year, and considerably exceeded expectations. The new transactions are characterised by a sound risk and return ratio; the return calculated for all new business (real estate financing) amounted to around 13% after tax.

Net income before taxes amounted to EUR 100 million in the first three quarters, and was accordingly in the upper range of the pro-rata target of EUR 90 to 105 million. Compared with the figure in the previous year period (EUR 76 million), net income before taxes has increased by 32%. Adjusted by the effects of capitalised losses carried forward, return on equity after taxes increased to 5.3% between January and September of this year (full year 2005: 4.2%).

Operating revenues increased by 5% compared with the corresponding previous year period, namely from EUR 239 million to EUR 250 million. As a result of higher operating revenues combined with lower general administrative expenses, the cost-income ratio improved appreciably to 25.2% (full year 2005: 30.4%).

### **Hypo Public Finance Bank**

In this segment, a strong performance was achieved particularly by the newly established segments of infrastructure finance and asset-based finance. As a syndication partner, the bank was involved in major transactions in the fields of transportation, energy and petrochemicals in Europe and in the Middle East.

With net income before taxes of EUR 36 million in the first nine months, the segment has not only doubled its net income before taxes compared with the equivalent previous year period (EUR 17 million); it has already exceeded the range of EUR 25 to 35 million set as the target for the business year 2006.

Return on equity after taxes amounted to 10.7% between January and September (previous year period: 7.9%). Operating revenues increased from EUR 45 million in the first nine months of 2005 to EUR 72 million. New business generated in the first nine months amounted to EUR 3.4 billion (H1 2006: EUR 2.1 billion). This includes a figure of EUR 0.8 billion (H1 2006: EUR 0.4 billion) for infrastructure financing and asset-based finance.

Assets under management/administration amounted to EUR 32.2 billion as of 30.09.2006 (H1 2006: EUR 22.1 billion).

**Press contact:**

Oliver Grub

Telephone: +49 (0)89 203007 781

Telefax: +49 (0)89 203007 772

Email: [oliver.gruss@hyporealestate.com](mailto:oliver.gruss@hyporealestate.com)

# Hypo Real Estate Group

## Income statement for the period from 1 January to 30 September 2006

Income/expenses in € million				
	1.1.-30.9.2006	1.1.-30.9.2005	Change	
			in € million	in %
Interest income	5,191	4,890	301	6.2%
Interest expenses	4,610	4,389	221	5.0%
<b>Net interest income</b>	<b>581</b>	<b>501</b>	<b>80</b>	<b>16.0%</b>
Provisions for losses on loans and advances	123	112	11	9.8%
<b>Net interest income after provisions for losses on loans and advances</b>	<b>458</b>	<b>389</b>	<b>69</b>	<b>17.7%</b>
Commission income	132	127	5	3.9%
Commission expenses	30	33	-3	-9.1%
<b>Net commission income</b>	<b>102</b>	<b>94</b>	<b>8</b>	<b>8.5%</b>
Net trading income	31	26	5	19.2%
Net income from investments	60	39	21	53.8%
General administrative expenses	245	228	17	7.5%
Balance of other operating income/expenses	4	8	-4	-50.0%
<b>Operating profit/loss</b>	<b>410</b>	<b>328</b>	<b>82</b>	<b>25.0%</b>
Balance of other income/expenses	0	-1	1	100.0%
<b>Net income/loss before taxes</b>	<b>410</b>	<b>327</b>	<b>83</b>	<b>25.4%</b>
Taxes on income excluding deferred taxes on capitalised losses carried forward	105	84	21	25.0%
<b>Net income/loss after taxes excluding deferred taxes on capitalised losses carried forward</b>	<b>305</b>	<b>243</b>	<b>62</b>	<b>25.5%</b>
Deferred taxes on capitalised losses carried forward	21	22	-1	-4.5%
<b>Net income/loss after taxes including deferred taxes on capitalised losses carried forward</b>	<b>284</b>	<b>221</b>	<b>63</b>	<b>28.5%</b>
<b>attributable to:</b>				
Equity holders (consolidated profit)	284	221	63	28.5%
Minority interest	0	0	0	0.0%
	<b>284</b>	<b>221</b>	<b>63</b>	<b>28.5%</b>

## Income statement for the period from 1 July to 30 September 2006

Income/expenses in € million				
	1.7.-30.9.2006	1.7.-30.9.2005	Change	
			in € million	in %
Interest income	1,774	1,639	135	8.2%
Interest expenses	1,574	1,468	106	7.2%
<b>Net interest income</b>	<b>200</b>	<b>171</b>	<b>29</b>	<b>17.0%</b>
Provisions for losses on loans and advances	36	41	-5	-12.2%
<b>Net interest income after provisions for losses on loans and advances</b>	<b>164</b>	<b>130</b>	<b>34</b>	<b>26.2%</b>
Commission income	43	44	-1	-2.3%
Commission expenses	10	11	-1	-9.1%
<b>Net commission income</b>	<b>33</b>	<b>33</b>	<b>0</b>	<b>0.0%</b>
Net trading income	14	12	2	16.7%
Net income from investments	14	16	-2	-12.5%
General administrative expenses	86	79	7	8.9%
Balance of other operating income/expenses	1	1	0	0.0%
<b>Operating profit/loss</b>	<b>140</b>	<b>113</b>	<b>27</b>	<b>23.9%</b>
Balance of other income/expenses	0	-1	1	100.0%
<b>Net income/loss before taxes</b>	<b>140</b>	<b>112</b>	<b>28</b>	<b>25.0%</b>
Taxes on income excluding deferred taxes on capitalised losses carried forward	36	30	6	20.0%
<b>Net income/loss after taxes excluding deferred taxes on capitalised losses carried forward</b>	<b>104</b>	<b>82</b>	<b>22</b>	<b>26.8%</b>
Deferred taxes on capitalised losses carried forward	-3	5	-8	>-100.0%
<b>Net income/loss after taxes including deferred taxes on capitalised losses carried forward</b>	<b>107</b>	<b>77</b>	<b>30</b>	<b>39.0%</b>
<b>attributable to:</b>				
Equity holders (consolidated profit)	107	78	29	37.2%
Minority interest	0	-1	1	100.0%
	<b>107</b>	<b>77</b>	<b>30</b>	<b>39.0%</b>

## Income statement, broken down by business segment

Income/expenses in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
Net interest income	1.1.-30.9.2006	346	226	21	-12	581
	1.1.-30.9.2005	283	207	15	-4	501
Provisions for losses on loans and advances	1.1.-30.9.2006	35	87	1	0	123
	1.1.-30.9.2005	22	90	0	0	112
<b>Net interest income after provisions for losses on loans and advances</b>	<b>1.1.-30.9.2006</b>	<b>311</b>	<b>139</b>	<b>20</b>	<b>-12</b>	<b>458</b>
	<b>1.1.-30.9.2005</b>	<b>261</b>	<b>117</b>	<b>15</b>	<b>-4</b>	<b>389</b>
Net commission income	1.1.-30.9.2006	86	2	14	0	102
	1.1.-30.9.2005	87	2	5	0	94
Net trading income	1.1.-30.9.2006	0	0	31	0	31
	1.1.-30.9.2005	3	0	23	0	26
Net income from investments	1.1.-30.9.2006	33	22	5	0	60
	1.1.-30.9.2005	13	26	0	0	39
General administrative expenses	1.1.-30.9.2006	125	63	35	22	245
	1.1.-30.9.2005	112	73	28	15	228
Balance of other operating income/expenses	1.1.-30.9.2006	2	0	1	1	4
	1.1.-30.9.2005	1	4	2	1	8
<b>Operating profit/loss</b>	<b>1.1.-30.9.2006</b>	<b>307</b>	<b>100</b>	<b>36</b>	<b>-33</b>	<b>410</b>
	<b>1.1.-30.9.2005</b>	<b>253</b>	<b>76</b>	<b>17</b>	<b>-18</b>	<b>328</b>
Balance of other income/expenses	1.1.-30.9.2006	0	0	0	0	0
	1.1.-30.9.2005	-1	0	0	0	-1
<b>Net income/loss before taxes</b>	<b>1.1.-30.9.2006</b>	<b>307</b>	<b>100</b>	<b>36</b>	<b>-33</b>	<b>410</b>
	<b>1.1.-30.9.2005</b>	<b>252</b>	<b>76</b>	<b>17</b>	<b>-18</b>	<b>327</b>
Taxes on income <sup>1)</sup>	1.1.-30.9.2006	77	20	8	0	105
	1.1.-30.9.2005	58	17	4	5	84
<b>Net income/loss<sup>1)</sup></b>	<b>1.1.-30.9.2006</b>	<b>230</b>	<b>80</b>	<b>28</b>	<b>-33</b>	<b>305</b>
	<b>1.1.-30.9.2005</b>	<b>194</b>	<b>59</b>	<b>13</b>	<b>-23</b>	<b>243</b>

<sup>1)</sup> Excluding the effects from capitalised losses carried forward totalling € 21 million in Hypo Real Estate Group in the period 1.1.-30.9.2006 (1.1.-30.9.2005: € 22 million)

## Key ratios, broken down by business segment

in %						
		HREI	HREGe	HPFB	HREG	
Cost-income-ratio (based on operating revenues)	1.1.-30.9.2006	26.8	25.2	48.6	31.5	
	1.1.-31.12.2005	29.3	30.4	70.0	34.9	
Return on equity after taxes <sup>1)</sup>	1.1.-30.9.2006	12.9	5.3	10.7	9.3	
	1.1.-31.12.2005	12.9	4.2	7.9	7.4	

<sup>1)</sup> 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	30.9.2006	58,453	81,959	23,468	-5,317	158,563
	31.12.2005	52,695	86,400	19,139	-5,774	152,460
Total liabilities	30.9.2006	55,875	81,118	23,085	-4,898	155,180
	31.12.2005	50,268	85,543	18,920	-5,471	149,260

Volume of lending in € million						
		HREI	HREGe	HPFB	Other/ consolidation	HREG
	30.9.2006	40,923	52,921	2,778	-2,688	93,934
	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
	30.9.2006	35.6	26.9	3.2	64.8
	31.12.2005	31.6	24.0	2.0	56.3

Core capital ratio in %					
		HREI	HREGe	HPFB	HREG
	30.9.2006	6.7	6.8	10.6	6.9
	31.12.2005 <sup>1)</sup>	7.5	7.7	15.0	7.8

<sup>1)</sup> As per approved annual financial statements and after profit distribution

## Summary of quarterly financial data

Hypo Real Estate Group					
	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006
<b>Operating performance (in € million)</b>					
Operating revenues	233	241	257	259	262
Net interest income	171	184	190	191	200
Net commission income	33	31	34	35	33
Net trading income	12	1	11	6	14
Net income from investments	16	28	20	26	14
Balance of other operating income/expenses	1	-3	2	1	1
Provisions for losses on loans and advances	41	37	43	44	36
General administrative expenses	79	89	80	79	86
Balance of other income/expenses (excluding restructuring expenses)	-1	0	0	0	0
Net income/loss before taxes (excluding restructuring expenses)	112	115	134	136	140
Restructuring expenses	0	34	0	0	0
Net income/loss before taxes	112	81	134	136	140
Net income/loss <sup>1)</sup>	82	70	100	101	104
<b>Key indicators</b>					
Total volume of lending (in € billion)	93.9	92.4	91.7	91.4	93.9
Risk assets compliant with BIS rules (in € billion)	53.2	56.3	58.1	59.8	64.8
Core capital ratio compliant with BIS rules (in %)	7.8	7.8 <sup>2)</sup>	7.6	7.4	6.9
New real estate financing business (in € billion)	6.0	8.0	5.2	6.2	6.1
Employees	1,258	1,233	1,176	1,172	1,206

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

<sup>2)</sup> As per approved annual financial statements and after profit distribution

**Hypo Real Estate International**

	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006
<b>Operating performance (in € million)</b>					
Operating revenues	135	145	157	155	155
Net interest income	99	101	114	112	120
Net commission income	30	36	31	28	27
Net trading income	2	-2	0	0	0
Net income from investments	3	12	11	15	7
Balance of other operating income/expenses	1	-2	1	0	1
Provisions for losses on loans and advances	11	7	14	14	7
General administrative expenses	41	44	41	40	44
Balance of other income/expenses	-1	0	0	0	0
Net income/loss before taxes	82	94	102	101	104
Net income/loss <sup>1)</sup>	61	93	76	77	77
<b>Key indicators</b>					
Total volume of lending (in € billion)	37.5	37.7	38.4	39.4	40.9
Risk assets compliant with BIS rules (in € billion)	28.4	31.6	31.4	32.5	35.6
Core capital ratio compliant with BIS rules (in %)	8.1 <sup>2)</sup>	7.5 <sup>2)</sup>	7.7	7.4	6.7
New real estate financing business (in € billion)	5.7	6.2	3.8	4.7	4.4

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

<sup>2)</sup> Based on allocated capital

**Hypo Real Estate Germany**

	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006
<b>Operating performance (in € million)</b>					
Operating revenues	77	83	83	80	87
Net interest income	67	76	74	75	77
Net commission income	-3	-3	1	-1	2
Net trading income	0	0	0	0	0
Net income from investments	13	13	8	7	7
Balance of other operating income/expenses	0	-3	0	-1	1
Provisions for losses on loans and advances	30	30	29	29	29
General administrative expenses	23	25	21	20	22
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	24	28	33	31	36
Net income/loss <sup>1)</sup>	18	21	27	24	29
<b>Key indicators</b>					
Total volume of lending (in € billion)	54.9	53.6	53.8	52.3	52.9
Risk assets compliant with BIS rules (in € billion)	22.8	24.0	25.5	25.8	26.9
Core capital ratio compliant with BIS rules (in %)	8.1	7.7 <sup>2)</sup>	7.2	7.1	6.8
New real estate financing business (in € billion)	0.3	1.8	1.4	1.5	1.7

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

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

**Hypo Public Finance Bank**

	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	2nd Quarter 2006	3rd Quarter 2006
<b>Operating performance (in € million)</b>					
Operating revenues	22	15	21	26	25
Net interest income	6	10	7	7	7
Net commission income	6	-2	2	8	4
Net trading income	10	3	11	6	14
Net income from investments	0	3	1	4	0
Balance of other operating income/expenses	0	1	0	1	0
Provisions for losses on loans and advances	0	0	0	1	0
General administrative expenses	10	14	11	11	13
Balance of other income/expenses	0	0	0	0	0
Net income/loss before taxes	12	1	10	14	12
Net income/loss	9	3	8	10	10
<b>Key indicators</b>					
Total volume of lending (in € billion)	1.5	1.6	2.5	2.5	2.8
Risk assets compliant with BIS rules (in € billion)	2.5	2.0	2.1	2.4	3.2
Core capital ratio compliant with BIS rules (in %)	8.0 <sup>1)</sup>	15.0 <sup>1)</sup>	14.7	13.6	10.6

<sup>1)</sup> Based on allocated capital