

**The Hypo Real Estate Group is
entering a new phase and is gradually becoming an
Asset Finance House**

**Speech Georg Funke
CEO
Hypo Real Estate Holding AG**

Annual General Meeting
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The spoken word is applicable

Chart 1: Welcome to the Annual General Meeting 2007

Dear shareholders, Ladies and Gentlemen,
dear friends of Hypo Real Estate Group,

I would like to welcome you – also on behalf of my colleagues on the Management Board – to the Annual General Meeting of Hypo Real Estate Holding AG. I should also like to welcome our business partners who are present, the shareholders' representatives, the banks and the representatives from the media.

I am pleased that you have been able to come to the Neue Messe in Munich.

The Annual General Meeting is known for its function of "reporting the position" of a company, as is the situation with ships on the high seas. Last year, I spoke about such a "position report", and you will today find that Hypo Real Estate Group has again made impressive progress last year, that it is aware precisely of its next objectives and – an even more important fact – that it is on the right course.

Ladies and Gentlemen,

let us begin with the progress made by our Group last year.

To start with a summary: In 2006 Hypo Real Estate Group has demonstrated its inherent potential. It has fully met all of its economic targets, and has even exceeded them in certain cases.

The year has smoothly continued the positive development which our Group has reported following the spin-off from HypoVereinsbank approximately four years ago. This may be illustrated by a glance at a few important parameters:

Chart 2: New business in 2006

New real estate financing business is a very important barometer for measuring our operational success. It shows the extent to which we are succeeding in translating our know how and our sales resources into tangible business.

We achieved major success in this respect in 2006: With new business of EUR 26.6 billion, we easily met our target of repeating the already high figure of the previous year, namely approximately EUR 22 billion. In the final analysis, we achieved growth of 19% compared with the previous year.

The regional structure of this new business is also very balanced: Our most important markets were Germany with 24%, Great Britain with 22%, the USA with 12% and Scandinavia with 10%.

A particularly positive aspect is that we have succeeded in considerably beating our new business target of EUR 4 billion in Germany. We acquired new business of EUR 6.6 billion in Germany, more than double the previous year figure of EUR 2.8 billion. This demonstrates that the German market continues to offer extremely attractive opportunities to our bank.

However, this very good level of new real estate financing business does not reflect the entire sales performance of the Group. This is because the figure for instance does not include the international business of Allgemeine Hypothekenbank Rheinboden AG - abbreviated: AHBR - which was acquired in mid-2006; this business is worth approximately EUR 3.3 billion. Also not included is securitisation and syndication business, with a new business volume of approximately EUR 2.4 billion. And our new activities in infrastructure and asset-based financing resulted in new business of EUR 1.9 billion.

All in all, the Group has generated new business of more than EUR 34 billion!

The development of margins in new business was a major subject last year. There was increasing concern that the changed interest rate situation and the generally more competitive environment in our sector might result in permanent pressure on margins. However, in our opinion, there is no need to dramatise this development.

Because, unlike many of our competitors, we are able to reduce our refinancing costs, in other words, the costs of our bonds and Pfandbriefe, also as a result of improved ratings. And the margins which can be generated in the final analysis also depend on the general appreciation of customers for their real estate financiers. This is because rapid, flexible, innovative and reliable solutions are competitive advantages which can also be expressed in terms of Euros and Cents.

For calculating the development in margins, the Hypo Real Estate Group uses the risk-adjusted internal rate of return or abbreviated IRR. In 2006, this ratio was stable at 14% for our international real estate financing business, and was also higher than our minimum target of 13%. And in new business in Germany, the return was stable at 13% and thus also higher than the minimum target of 12%. We can see: We have every reason to follow the discussion about margins attentively, although we can be relaxed about the subject.

Chart 3: A successful 2006

Ladies and Gentlemen,

last year, **consolidated net income before taxes**, which is our most important standard for the success of our business, increased to EUR 571 million. This is growth of approx. 29% compared with the previous year. One-off effects were included in both years: Positive effects attributable to a change in the accounting policy for measuring allowances for losses on loans and advances, and negative effects attributable to restructuring expenses.

However, even when adjusted by these exceptional factors, net income before taxes amounted to EUR 558 million, precisely within our forecast target range of EUR 550 to 560 million. We thus again provided a reliable performance and delivered what we had announced to the capital market.

Consolidated net income amounted to EUR 542 million. However, this figure includes positive exceptional factors totalling EUR 113 million; these were due to the effects from capitalised losses carried forward and income of capitalised corporate income tax claims as a result of the corporate tax reform. Adjusted by these effects, net income amounted to EUR 429 million, representing growth of 28% compared with 2005.

On the basis of this net income, **return on equity after taxes** amounted to 9.9%, and was accordingly significantly higher than the figure of 9% forecast for 2006. The improvement compared with the previous year figure was 1.8 percentage points, which is quite an impressive performance.

We have thus made major progress in terms of return on equity. Our objective is unchanged: Namely to exceed the level of 13% for the first time in 2009.

Chart 4: Major factors affecting the result for 2006

Ladies and Gentlemen,

what are the factors behind this further increase in earnings?

The sustainable success of our Group is without doubt to a large extent dependent on an expanding operational base. The 14% increase to EUR 1.08 billion achieved for **consolidated operating revenues** is thus pointing in the right direction. All types of income contributed to this positive growth. Two thirds of the growth were attributable to net interest income alone; strong new business in real estate financing and the much higher contribution to earnings made by Hypo Public Finance Bank had a corresponding impact in this respect.

Additions to **provisions for losses on loans and advances** were limited to EUR 159 million. This is growth of only approximately 5% which is a very moderate increase within the context of the portfolio growth. We are thus benefiting from our risk policy which continues to be very restrictive.

General administrative expenses also increased moderately, namely by 6% to EUR 335 million. Additional expenses attributable to international expansion were opposed by savings in Germany business resulting from the restructuring process which was completed.

The increase in operating revenues and the moderate growth in costs resulted in a further improvement in the cost-income ratio, which was reduced by 2.5 percentage points to 31.0%. We are thus moving in the right direction, but we have not yet reached our ultimate objective. By 2009, we still intend to achieve a cost-income ratio of less than 28%. However, we do not intend to meet this objective primarily by means of cost cutting; instead, we aim to do so mainly by expanding business and further growth.

Ladies and Gentlemen,

we have every reason to be satisfied with the past financial year. Everybody wishes to be involved in success – and indeed: In the case of Hypo Real Estate Group, this is the result of a tremendous team performance of management, Supervisory Board, senior executives and employees.

I therefore wish to express my thanks to all members of staff - and I know that many of you are in the room today – for what you have achieved in the past year, also on behalf of my colleagues on the Management Board. Our success would not have been possible without your commitment.

I would also like to thank the members of the Supervisory Board, who again provided advice and constructive criticism to the Management Board in 2006. It is natural that particularly the Chairman of the Management Board and the Chairman of the Supervisory Board have to maintain a very close interchange

of information. I should therefore like to particularly express my gratitude to you, Mr. Viermetz, for the efficient cooperation conducted in an atmosphere of mutual trust. I believe that it is no exaggeration to state that the Hypo Real Estate Group is a successful example of Corporate Governance experienced in reality.

Chart 5: Dividend increased by 50 %

As has been the case in previous years, the aim of the Management Board and Supervisory Board has been to ensure that you, our shareholders, participate appropriately in the increasing success of the company. We are therefore proposing a dividend of EUR 1.50 per share. This is equivalent to a dividend increase of 50% compared with the previous year figure of EUR 1.00. On the basis of this proposal, approximately 47% of consolidated net income adjusted by exceptional tax effects would be paid out to shareholders. The distribution ratio is accordingly within our target range of between 40 and 50% of consolidated net income. Please be assured that we will continue to follow the principle of a shareholder-friendly dividend policy in future.

Chart 6: Status quo – HREG

Ladies and Gentlemen,

the year 2006 saw the end of the first development phase of our Group, which commenced with the spin-off and the IPO in the autumn of 2003. We have achieved much in this first phase – much more than many observers considered that we were capable of achieving in the beginning. A new development phase is now starting in 2007.

- We have expanded international real estate financing business which is already very profitable, we have considerably boosted our sales performance and opened up markets of the future.
- We have restructured our Germany portfolio much more quickly than was originally planned, and just as quickly have ensured that new business in Germany has returned to a respectable level.

- We have consistently diversified our sources of income, for instance by setting up our activities in Capital Markets and Infrastructure Financing.
- We have constantly adapted the structure and organisation of the Group to meet changing requirements of the market, and have thus demonstrated our flexibility and proximity to the market.

Chart 7: World-wide growth market real estate financing

The progress which we have made in the past four years has by no means come to an end. There are also growth opportunities in the medium term and long term for our core business, namely large-volume commercial real estate financing. We have identified further considerable market potential in all countries in Europe, the USA and Asia which are relevant for us, and we of course intend to take advantage of this potential.

Please do not forget that we are operating in a sector which is very dynamic throughout the world. The enormous liquidity on the international capital markets is resulting in record investments in the European real estate sector. According to the estate agent Jones Lang LaSalle, investment capital of \$ 682 billion was channelled into commercial real estate markets in 2006, and \$ 305 billion of this figure was invested in the European markets. This was approximately 40 % more than in the previous year!

This trend is also increasingly benefiting the German market, which has a volume of approximately \$ 62 billion. In particular, private equity funds and real estate companies from the USA, Great Britain and Ireland are actively buying property in Germany.

The strong interest of international real estate investors in Germany means that international customs are becoming increasingly established on the German market. For instance, international investors generally focus on cash flow to a much greater extent than has previously been the case in German real estate financing business. The fixed financing forms which have long prevailed in the field of commercial real estate financing are being replaced or complemented

by structured financing arrangements. The use of derivatives is leading to more flexibility. The increasing capital market orientation of real estate markets is offering new possibilities and alternatives for banks, investors and developers. In the case of large transactions, real estate investment banking with syndications, securitisations and mezzanine solutions is now accompanying the traditional fixed-interest loan refinanced by way of Pfandbriefe. Demand for extremely flexible financing structures is also increasing as a result of the higher turnover frequency of the properties.

All of these factors, Ladies and Gentlemen, are international developments which are consistent with the business model and the special skills of our Group.

Chart 8: Growth measures HREG - Real estate financing

For the past two years, the real estate financing portfolio of Hypo Real Estate Group has been expanding: At the end of 2004, it amounted to EUR 59.7 billion, and this figure had risen to EUR 65.1 billion by the end of 2005; by the end of last year, it had risen to EUR 73.4 billion.

I am assuming that this trend will continue in the course of the next few years. In 2006, we implemented numerous measures in order to enhance our market presence. For this purpose, we have for instance expanded our presence in Asian markets, and specifically in Japan. And we are also increasingly focusing on Eastern Europe and Russia. In addition, the acquisition of the international commercial financing portfolio of AHBR was also an important step, whereby the portfolio already had a positive impact on consolidated net income in the year of acquisition.

And finally, our international presence has also been enhanced by our stake of 2.2% in Babcock & Brown Ltd. We have had many years of business relations with this globally operating investment and consultancy company based in Sydney, Australia, and this capital investment has underlined and enhanced these relations.

We have since generated considerable senior lending business in real estate financing as well as in asset finance as a result of these business relations.

To be brief: We have no cause to doubt the growth prospects of our existing business model.

Chart 9: Asset Finance House

Nevertheless, the Management Board last year intensively analysed the options available for strategic further development of Hypo Real Estate Group.

One key question was considered in this respect: How can we use the specific know how of our Group

- to extend the value chain
 - to open up additional areas of growth
 - to broaden our sources of income
 - to raise profitability to a new level
- and
- to diversify the risk structure of the Group.

The answer to these questions is the gradual **development of the Group into an Asset Finance House.**

When the preliminary data for the year 2006 were published, we announced the fundamental aspects of the strategy which is expected to characterised the next development phase of the Hypo Real Estate Group.

In recent months, we as the Management Board have extensively explained the modified business model in numerous discussions with investors, analysts and the media.

Our impression is that the business model has been positively received by the capital market, but that the special advantages and opportunities of this model have not yet been fully realised and appreciated.

And this is the reason why I would like to take this opportunity of explaining the individual measures in detail to you, dear shareholders.

Chart 10: Diversification of asset classes

First measure: We will diversify the asset classes. As detailed above, commercial real estate financing still features strong national as well as international potential. This business will thus continue to be the focal point of our activities!

However, if we consider the core of our performance and skill profile, our particular ability is to structure financing arrangements which are backed by assets, to finance them via our own balance sheet or to place them on the market where appropriate. This financial engineering is a major factor which distinguishes the Hypo Real Estate Group from a traditional type of mortgage bank.

The crucial factor for us is the cash flow which can be generated by the financed properties. Every transaction has to be evaluated on a stand-alone basis, i.e. it has to be intrinsically profitable.

However, this know-how is by no means limited to the asset "commercial real estate". Using the same system, we are able to finance other assets such as roads, hospitals, schools, universities as well as mobile assets such as railcars or aircraft, and we are also able to structure these financing arrangements accordingly and place them in the market.

We thus intend to become increasingly active with other asset classes. However, all transactions are subject to the minimum risk and return requirements which we apply to real estate financing. We proceed on a purely selective basis for specific opportunities: Anything which does not meet our requirements is not financed. The process of extending the asset classes takes place in a focussed and considered manner!

The consequence of extending the asset classes is that we will focus on so-called origination to an even greater extent in future, namely the generation of new business in financing. This is always "asset-based", in other words, we base every financing arrangement on clearly definable assets. Our results will thus in future be spread over a larger number of sources, and risks will also be diversified to a greater extent. This means that our earnings will become less volatile. This is certainly good news for you, Ladies and Gentlemen.

As a result of Hypo Public Finance Bank entering infrastructure financing, we have already taken initial steps to expand the basis of our business to include other asset classes. In this field, we expect to see a strong growth trend in the course of the next few years, in Europe and also in the USA. This is applicable particularly for the sectors of transportation and energy on which we are currently focussing.

Chart 11: Expansion of distribution channels

Second measure: We will strengthen our distribution channels. We consider that the distribution channels into the secondary markets are the new value driver in the Hypo Real Estate Group.

Securitisation and syndication are extremely important in this respect. By further expanding these off-balance-sheet transactions, we are able to reduce the balance sheet total of the Group and thus use capital more efficiently. In consequence, by using the secondary markets, we will use a buy-and-distribute strategy to enhance our traditional buy-and-hold principle.

The relatively simple principle in this respect is that capital has to be allocated in such a way that the best yield opportunities are always utilised. At the end of 2006, the Group's capital was completely tied up; this means that allocation from the point of view of yield considerations will become even more important.

There has occasionally been speculation that our current capital base is posing a limit to future growth. I would like to take this opportunity to assure you that this is not the case. Firstly, our capital is being continuously increased by the retained earnings. Secondly, we are able to further strengthen our capital base without any problem and at short notice. For instance, for the first time in the still recent history of our Group, we will take on so-called hybrid capital of between EUR 300 and EUR 350 million in the near future. For Hypo Real Estate Group, as a result of its size, profitability, creditworthiness and reputation, it is no problem to carry out appropriate capital measures in order to create further scope for action.

Chart 12: Expansion of asset management

Third measure: We are expanding asset management. In order to counter any misunderstandings: We of course do not use the term "asset management" to describe the management of large assets; instead, we use the term to describe the service, backed with corresponding products, of managing financing risks for third parties. Most of these risks are backed by real estate as assets. We are already operating such business successfully: Via various vehicles, Hypo Real Estate Group manages a volume of approx. EUR 32 billion for third parties. We launched numerous innovative products on the market in 2006. This form of asset management is a logical extension of our added-value chain.

Real Estate Investment Trusts (REITs) which are currently the subject of lively discussion also represent such a product. A current example in this respect is the Quadra Realty Trust, a financing company for commercial real estate in the USA structured in the form of a REIT, which was launched on the New York stock exchange in March of this year. The REIT is managed by our Group Company Hypo Real Estate Capital Corporation.

Overall, we have also identified excellent growth opportunities for asset management in the course of the next few years. This is because the increasing complexity of structured financing in conjunction with new asset classes which are being launched on the market will boost demand for professionally managed portfolios.

As a result of these strategic considerations, Hypo Real Estate Group will gradually develop from a real estate financier with a strong base in capital markets and public finance to an international **Asset Finance House** in the course of the next few years. The Group which will be expanded in this way will have a broader earnings base and a more balanced risk profile. We will also increase our earnings and profitability opportunities without having any negative impact on the Group's risk profile.

Chart 13: Organisation – divisional structure

Ladies and Gentlemen,

It is clear that the further development of the business model must have an impact on the organisation and structures of our Group. I should now like to briefly consider three aspects:

- The divisional structure of the Group
- The central functions of active portfolio management and funding as well as
- The new segmentation of our business.

In the new model, the management function of the Holding for the Group will be strengthened further. The Group will now be managed on a uniform basis from the Holding in accordance with the value chain. The legal entities, in other words the sub-banks Hypo Real Estate Bank International AG in Stuttgart, Hypo Real Estate Bank AG in Munich and Hypo Public Finance Bank in Dublin, will continue to exist, but this legal structure will become to a large extent insignificant.

In the final analysis, we thus take account of an idea which I have expressed on many occasions in the past: **The Hypo Real Estate Group is a single entity!**

The success of the whole is more important than the success of its parts.

Teamwork has priority, and individualism and isolated actions are not welcome in our Group! We will only be successful on a permanent basis if these principles determine the thoughts and actions of our employees. It is logical that the structure of the Group also has to take account of this fundamental idea.

Consequently, the Management Board of the Holding will become the body responsible for all strategic and operational decisions to an even greater extent than has been the case in the past. This was associated with the extension of the Management Board with effect from 1 February 2007 and a redistribution of functions.

Mr. Viermetz has already introduced the new members to you. The Management Board of the Holding will comprise seven persons; responsibilities are now based on clear divisional lines along our added-value chain.

Chart 14: Central responsibility for portfolio management and funding.

This management principle has meant that we have introduced central responsibility for several functions which were previously the responsibility of the operating entities.

Group-wide active portfolio management is accordingly being introduced at Hypo Real Estate Holding. It is responsible for optimising the risk and earnings profile of the existing portfolio. Management is also responsible for defining the risk strategy and limit-based management. Central portfolio management is a consequence of a clear "division of labour", which we will practise in our Group in future. World-wide sales is responsible for the acquisition of new business – and only for this aspect! After acquisition, the transactions are either entered in the balance sheet of the bank, or we transfer the transaction to Capital Markets and Asset Management for distribution.

The new active portfolio management is responsible for central monitoring and risk management in the Holding. We have recruited more staff in risk management for this purpose.

What is applicable for risk management also has to be applicable for **Funding**, which is now also an independent Holding division; this is because we can only ensure optimum funding for our business in conjunction with central management from the Holding. Such a solution is the only way to avoid problems of liaison and reduplication. Today, Hypo Real Estate Group is one of the large issuers of covered and uncovered issues in Europe. With the growth of our lending business, the need for an agreed procedure for issues is increasing. It is also necessary to operate as a *single* group with regard to debt investors and thus benefit from the excellent standing of Hypo Real Estate Group on the capital markets.

Chart 15: New segmentation

The extended business model has also resulted in changes in external reporting. At the start of 2007, we discontinued the former segmentation of our business with Hypo Real Estate International, Hypo Real Estate Germany and Hypo Public Finance Bank. Instead, we have created **two new reporting segments**.

In the "**Commercial Real Estate**" segment, we have combined our world-wide real estate financing business. Following the spin-off of our Group and during the phase of restructuring of our Germany portfolio, the distinction between Germany and foreign business was certainly correct, because it boosted internal and external transparency.

However, now that domestic business has been successfully re-established, it is no longer necessary for it to be reported separately. On the contrary, such a distinction appears to be artificial, because it is not consistent with the international character of our Group and the increasingly international focus of many of our customers.

This combination has by no means diminished the relevance of the German market for the Hypo Real Estate Group. Germany is and will continue to be an important market for us, but it will only be one of several strategic core markets. The combination will enable us to considerably simplify our structures and manage customer relations more efficiently.

The second segment of the Group is known as "**Asset Finance & Asset Management**", and is responsible for all distribution activities. It comprises the following:

- Asset-based finance business outside real estate financing business, including infrastructure financing;
- Capital market business - including the securitisation of real estate financing - and
- Asset management

Ladies and Gentlemen,

The changes in our business model, in organisation and structure and also in our reporting system require an extremely high degree of flexibility and commitment from our senior executives and employees. However, in recent years, we have frequently demonstrated that we are able to adapt quickly and with great care to the challenges of the market. This will again be the case on this occasion.

Chart 16: New headquarters of HREG

If we are to be able to cope with changes, the work environment of our employees must also be right. This is the purpose of the **planned merger of our locations in Munich** in a new building complex in a central location in the Munich district of Lehel. So as not to become involved with building work ourselves, we have decided to rent an appropriate building in a central location in Munich.

This complex, which is owned by the Versicherungskammer Bayern, is currently being thoroughly refurbished. It will be ready for occupancy in the year 2009. Approximately 600 employees who are currently still working at five different locations will then be housed under a single roof, and this will facilitate our work. I am certain that, with the so-called "Lehel Carré", we have found the ideal location: Modern, functional and also representative but without the pretentiousness of palatial company headquarters.

Ladies and Gentlemen,

The course which the Hypo Real Estate Group will take during the next few years has already been mapped out. The gradual development to an Asset Finance House is an attractive and forward-looking concept. This is the key, as we initially communicated in October of last year, to enable us to boost the return on equity after taxes of the Group above 13% in the year 2009. It is the key to enable us to continuously enhance the company value of Hypo Real Estate Group – which is the constant objective of all our actions. We have now provided the capital market with a clear concept specifying the measures with which we intend to achieve these objectives.

There is also a further aspect which I should like to emphasise clearly again. The process of becoming an Asset Finance House is a concept which we are able to implement out of our own resources. We do not require any acquisitions for this purpose. Everything which we require already exists within our Group. We ourselves are now responsible for taking advantage of our strengths and our resources.

Does this mean that the issue of additional purchases can be put aside for the Hypo Real Estate Group for the next few years? No, of course not! We will continue to keep our eyes open as we go through the world and assess whether there are any opportunities of strengthening our business model by external growth.

We have the capital resources and we also have the implementation skills for such growth, and nobody should underestimate our determination to act if a move makes strategic sense and is in particular financially attractive.

A positive aspect: We are not reliant on acquisitions as a result of our new business model. They represent an opportunity and not a necessity. And that, Ladies and Gentlemen, is a situation with which we on the Management Board are very pleased and we are looking forward to the future with confidence!

The year 2007 is a year of transition on this course. The aim is to implement the new structure and to ensure that it starts to operate as smoothly as possible. And after the end of the first quarter, I can now state: The process is running quickly and smoothly.

Chart 17: Item 6 on the agenda

Ladies and Gentlemen,

before I outline our expectations for the current financial year and the results of the first quarter, I would like first of all to consider item 6 on the agenda separately.

In this item, we request your authorisation to enable us to purchase treasury shares in a volume of up to 10% of the share capital. The shares can be acquired either via the stock exchange or by way of a public offer to our shareholders. This proposal is essentially equivalent to the authorisation which has been granted in previous years. It enables the company to adjust its capital to business requirements in order to enable a flexible response to be taken at short notice if business opportunities or obligations occur.

The authorisation for repurchasing shares requested in today's item 6 on the agenda is consistent with the standard at most German joint stock corporations. After the agenda had been published, a few shareholders commented on two points:

- The first point involves the range within which the company is permitted to buy back shares as part of a public offer. As was the case in previous years, we had specified a range of up to 20% in relation to the market price before the offer was announced. This range is now considered to be excessively high.
- The second point involves criticism of the extent to which the pre-emptive right can be excluded in relation to the possibilities of using the shares which are repurchased. The purpose of the proposed authorisation is to enable the company to retire the repurchased shares (which, as detailed above, are not permitted to exceed 10% of the share capital) or to sell them on via the stock exchange or by way of a public offer to all shareholders. In addition however, the Management Board – as is normally the case – is also to be authorised to use the shares for other specifically defined purposes, subject of the approval of the Supervisory Board on each occasion. Such applications may involve the treasury shares being used as an acquisition currency, for instance within the framework of acquiring equity participations in other companies, for servicing convertible bonds or for being placed with selected investors at a price which is close to the market price. In order to ensure that it is possible for these alternatives to be used at all, it is pre-emptive that the subscription right of shareholders is excluded.

When the Management Board and Supervisory Board adopted today's agenda, we based our decisions on the resolutions which had all been adopted with an overwhelming majority in the previous annual general meetings. We are convinced that our proposal to you involves a balanced model which meets market standards. Nevertheless, we have of course considered the individual items mentioned above very carefully and, in accordance with best Corporate Governance, we have decided to take account of the objections which have been submitted by way of a commitment of the Management Board. The Management Board of Hypo Real Estate Holding AG has thus decided to utilise the authorisation proposed to you under item 6 on the agenda only with the following restrictions:

- If treasury shares are purchased within the framework of a public offer directed to all shareholders or by way of a public invitation to submit an offer, the Management Board will utilise the proposed authorisation only if the offer price does not differ by more than 10% from the relevant market price – as defined in accordance with the authorisation.
- When using treasury shares, the Management Board will only utilise the possibility of excluding the pre-emptive right of shareholders up to a limit of 5% of the share capital.

Please take account of this explanation when casting your vote in relation to item 6 on the agenda.

Chart 18: Outlook for 2007 – key financials

As far as the business development of this year is concerned, we are convinced that there is again a successful year ahead of Hypo Real Estate Group. We again aim to set further **records in terms of results and return**.

When preliminary figures for 2006 were presented at the end of January, we communicated our expectations for the current year in great detail. Nothing has changed with respect to these forecasts:

- We aim to achieve **consolidated net income before taxes** of at least EUR 680 million. This would constitute growth of approx. 20% compared with the reported previous year figure of EUR 571 million.
- This further improvement in earnings will be attributable to the further growth in **operating revenues**, which we are forecasting to come in at more than EUR 1.2 billion.
- **Provisions for losses on loans and advances** are expected to be in a range of EUR 150 to 160 million, and thus roughly in line with the previous year figure.
- We are forecasting a range of EUR 360 to EUR 370 million for **general administrative expenses**; this would again be moderate growth.

- We are forecasting a range of 11 to 12% for **return on equity after taxes**, and this would be a further step in the direction of our medium-term target of 13%.
- And in terms of **new business**, we are forecasting a volume of at least EUR 25 billion in the two new segments of Commercial Real Estate and Asset Finance & Asset Management. There is also likely to be a further minimum of EUR 10 billion for securitisations and syndications, approximately half of which will be attributable to existing non-strategic financing arrangements of the Germany portfolio.

Chart 19: Key financials for Q1 2007

Ladies and Gentlemen,

The **results of the first quarter** have strengthened our confidence of being able to meet our forecasts for the full year. After the first three months, we have met and partially exceeded our targets.

- **New business** is running at EUR 6.5 billion, and is thus 25% higher than the figure of EUR 5.2 billion for the corresponding previous year quarter. Germany business in real estate financing has achieved a particularly positive performance. The average return after taxes for new real estate financing business is more than 13%.
- **Consolidated net income before taxes** has increased to EUR 172 million. Compared with the figure for the corresponding previous year quarter (EUR 141 million), this is equivalent to growth of 22%.
- **Consolidated net income** amounted to EUR 130 million, representing growth of 25% compared with the previous year figure. This does not include the deferred tax expense attributable to capitalised losses carried forward.
- On the basis of the above, **return on equity after taxes** is calculated as 11.6% compared with 9.9% in the whole of 2006. This means that the Group has reached the range of 11% to 12% which was forecast for the whole of 2007.

- Without wishing to go into details, the good development of business in the first quarter can be demonstrated by means of the following factors: Satisfactory 12% growth in operating revenues, a further significant decline in provisions for losses on loans and advances as a result of our stringent risk policy as well as moderate cost growth.

It has to be emphasised that the new business segment Asset Finance & Asset Management has already had a significant impact on our business success: The segment has more than doubled operating revenues to EUR 45 million, and this performance has been achieved as a result of the increasing volume of infrastructure and asset-based financing and securitisation business, as well as asset management.

Chart 20: Final chart - Claim

Ladies and Gentlemen,

at the beginning of my speech, I spoke about "position reports" which I would like to provide at this Annual General Meeting. In order to return to this image: I hope that I have been able to communicate to you the position which the Hypo Real Estate Group currently occupies and also the targets which it will move towards in the course of the next few years. I can assure you: The officers on the bridge are clear about the course to be taken, and they can rely on a competent and extremely motivated crew.

On the way to becoming a globally operating Asset Finance House, we will draw on those properties which have been crucial factors of success for our Group in recent years. Extensive knowledge of markets and customers, quality awareness, flexibility and implementation skills. These properties will continue to direct our actions in future.

With your help and with a clear concept, we intend to add further chapters to the successful story of the Hypo Real Estate Group.

My colleagues on the Management Board and I are now looking forward to lively discussions with you.

Thank you for your attention.
