

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

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Telephone conference on the occasion of the publication of the
quarterly figures on 9 August 2006

The spoken word is applicable

Good morning, ladies and gentlemen,

welcome to our telephone conference on the occasion of the publication of our figures for the first half of 2006. I am joined by Dr. Markus Fell, our CFO, in order to answer your questions. Today, we only have positive news for you:

- Our group is still completely on course. In the first half of this year, we have improved all major parameters of success, significantly so in certain cases.
- We have met our business objectives and have achieved significant strategic progress.
- The Hypo Real Estate Group has smoothly continued its success story of recent years, and has again proved to be reliable with its forecasts.

Because you are all in possession of the extensive figures for the second quarter and the first half, I should like at this point to consider only the most important highlights – starting from the business point of view.

- In the first six months, the Hypo Real Estate Group has generated new real estate financing business of EUR 11.4 billion with an average return of more than 13% after taxes. This is equivalent to growth of 37% in terms of volume compared with the strong figure for the same previous year period. We have considerably expanded new business abroad and also at home. This is also shown by the fact that the new group structure, which we implemented at the beginning of this year, is producing the desired effect; it is enhancing our viability on the markets. New business in the first half is a good foundation for meeting our full-year objective. This is still the aim to acquire a real estate financing volume roughly equivalent to that seen last year, namely EUR 22.3 billion. On the basis of the transactions which have already been committed or which are in the pipeline, I am confident that we will meet this objective.

- Consolidated net income before taxes – our major earnings parameter – amounted to EUR 270 million in the first six months, and is thus 26% higher compared with the previous year figure. This result was split almost equally over the first and second quarters.

The basis for the increase in earnings was much higher operating revenues as well as a moderate and lower increase in general administrative expenses. Operating revenues increased by 19% to EUR 516 million, on the basis of all major types of revenue – net interest income, net commission income, net trading income and net income from investments. This is a positive development, as on previous occasions I had emphasised that future revenue growth in our group will primarily have to result from success in operating business and to a lesser extent from cost savings. The first half has demonstrated that we are precisely on such a course.

- Return on equity after taxes after six months was 9.2%, which is higher than the figure of 9%, which we have set ourselves as the objective for the full year. As you also will be aware, our aim is still to achieve profitability of between 11 and 12% next year. I also consider that the group is still on course to meet this objective. We stand by our forecasts.

Ladies and gentlemen,

in the first six months, we have also undertaken major steps from the strategic point of view.

This includes for instance continuing and stepping up the pace of international expansion. An important measure in this respect was the purchase of the international business of Allgemeine Hypothekbank Rheinboden AG – or in short AHBR. This involved a portfolio of approx. EUR 3.5 billion, consisting of 140 real estate financing arrangements; these were performing loans, as I wish to explicitly state again.

The financing arrangements are spread over 13 European countries, and one third alone is attributable to Great Britain. The acquisition is in line with our strategic objective of strengthening the proportion of international financing and extending the geographical mix in the portfolio in line with the policy of risk diversification.

As you will certainly have heard, there were occasional doubts in the market as to whether the transaction can really be completed as a result of internal issues at AHBR. For our part, we were always confident in this respect, and this confidence was not without justification in the final analysis. Today, I can report to you that we completed the purchase of the AHBR portfolio in July on time and as planned. However, this purchase has of course not yet had any effect on the figures for the first half of 2006.

The extension of our range of products and services is a further example of key strategic progress. A central role in this respect is played by Hypo Public Finance Bank which is based in Dublin, and which has constituted a separate segment since the beginning of this year as part of the reorganisation of the group. The bank offers a wide range of products and services in the fields of public finance and capital markets to private and professional investors. We are moving in the right direction in this respect. For instance, new business in the first six months amounted to EUR 2.1 billion. The business base has been extended, for instance as a result of the launch of infrastructure financing and asset-based finance.

New business in this respect as of 30.6.2006 amounted to EUR 0.4 billion. A further volume of 0.75 billion has already been approved. Asset management also performed well. Assets under management/administration amounted to EUR 22.1 billion as of 30.6.2006 – these are all figures with which we are not dissatisfied. And the performance of Capital Markets in the first half was also in line with our expectations – despite the difficult climate on markets.

In brief: The new segment has already picked up considerable pace, although it is still in the initial phase of being established.

There are however unmistakable signs of the positive trend: With net income before taxes of EUR 24 million, the segment Hypo Public Finance Bank has easily exceeded the pro-rata budgeted figure for the first half.

Ladies and gentlemen,

before I proceed to the forecast for the full year, I should like to briefly address a subject which is also becoming increasingly significant in reporting of the media. This involves the margin situation in our sector. It is correct to observe that in some markets, and I am speaking not only of Germany in this respect, the margin situation has become more difficult. This is a general market trend which is thus affecting all real estate financiers.

However, we are not overconcerned about the situation because the margins which can be achieved in real estate financing depend on the general standing of a real estate financier in the market. Customers appreciate speed, competence, flexibility and reliability in their financing partner – characteristics which are a fundamental aspect of the perception of the Hypo Real Estate Group. These are competitive advantages which can be calculated in pounds and pence. We are expecting that such "soft factors" might result in a margin difference of up to 10 basis points.

There are also reasons why we are not excessively concerned, because unlike many of our competitors, we are also able to reduce our refinancing costs, in other words the costs of our bonds and Pfandbriefe (mortgage bonds), considerably so in certain cases. This reflects the major progress which our group has made since the spin-off from HypoVereinsbank in 2003, for instance the rapid restructuring of Germany business, the reorganization of the group or the establishment of international business. This success is also reflected in the multiple rating improvements carried out by all well-known rating agencies for all group companies.

A good example of the positive development in our refinancing costs is the jumbo Pfandbrief with a volume of EUR 1.25 billion which was issued at the end of July by Hypo Real Estate Bank International; the spread is 4 basis points below mid-swap and is thus lower than the historical average. Previously, the spread of similar Pfandbriefe has been considerably higher than mid-swap.

And finally, the Hypo Real Estate Group has further possibilities – which have so far not been fully utilised – of further boosting profitability. Accordingly, there is considerable scope for expanding activities in securitisation and syndication – in other words for strengthening "off-balance-sheet business".

For the Hypo Real Estate Group, this means that the margins may be under pressure in certain cases, but we have ways and means of ensuring that our return will continue to be on target.

Ladies and gentlemen,

I should now like to turn to our full year forecast. Following the excellent first half, we are optimistic that the Hypo Real Estate Group will meet its business objectives for the full year in 2006.

I should again like to explicitly confirm the forecasts which we made at the beginning of the year.

1. We are still assuming operating revenues of more than EUR 1 billion.
2. We are confirming our expectation of boosting net income before taxes by at least 20%. Based on the previous year figure of EUR 442 million adjusted for restructuring expenses, this would be equivalent to profit of at least EUR 530 million.
3. We also consider that return on equity after taxes will exceed 9% for the full twelve-month period.

Our group is still on the right course. With this knowledge, we are looking forward optimistically to the second half and subsequent years.

I should like to thank you for your interest. My colleague on the Management Board Dr. Fell and myself would now be pleased to answer your questions.
