Hypo Real Estate
HOLDING

Annual Report 2005

Content

Financial Review of Hypo Real Estate Holding AG for the business year 2005

The requirements applicable to the financial review have been expanded by the Gesetz zur Einführung internationaler Rechnungslegungsstandards und zur Sicherung der Qualität der Abschlussprüfung (Bilanzrechtsreformgesetz – Law concerning the Introduction of International Accounting Standards and for assuring the Quality of auditing Financial Statements). The Deutsche Rechnungslegungs Standard (German accounting standard) No. 15 (DRS 15) sets out in detail the requirements applicable to financial reviews. The new regulations of the German Commercial Code (HGB) and of DRS 15 are initially applicable to the financial year commencing after 31 December 2004.

In order to comply with the requirements of the Bilanzrechtsreformgesetz and DRS 15, and also to enhance overall transparency, the Hypo Real Estate Holding AG has therefore changed the structure of the financial review compared with the annual report for 2004, and has considerably extended its scope.

Business and Conditions

Macro-economic conditions

In 2005, the world economy expanded as it had done in previous years. The economies of the US, China and particularly in Japan picked up considerable speed yet again, deepening the imbalances in global economic financing. The US's twin deficit in both the balance of trade and the government budget are still being financed by Asian economies' surpluses and by petrodollars which are seeking investment opportunities. A novel factor compared with last year is Europe's strengthening economy; this has become evident in the financial markets, but has not yet had a sufficient impact to improve employment.

This robust nature of the world economy is all the more surprising in that oil prices saw a record increase in 2005, resulting in an albeit moderate increase in inflation in the industrialised nations. Central banks felt compelled to initiate or continue a world-wide cycle of rate hikes, putting an end to central bank rates' all-time lows. Capital market rates, however, hardly responsed to this approach, and remained low. Real interest rates declined throughout the world accordingly declined, and rate structure curves flattened out.

Economic growth in Europe has not yet reached the momentum seen in other regions of the world, but it has taken hold and, more importantly, it has been accompanied by much better sentiment indicators in the economy, particularly towards the end of the year. Corporate earnings have improved appreciably, although wage incomes have not benefited correspondingly. The fact that consumer demand is still unsatisfactory in Europe acted as a brake on any more significant improvement in the economy including the labour market.

In Germany, economic recovery was initially more cautious. In addition to the export growth which is typical for Germany, and a state deficit which was not consistent with the treaty of Maastricht, there were finally signs of more investment, indicating the start of an upswing. The domestic economy was also boosted by the weaker Euro and share prices boomed. Gross domestic product rose by 0.9 % (2004: 1.6 %). The number of persons employed has also increased, although mainly as a result of job creation measures by the former federal government. On average, 4.9 million persons (11.6 %) were unemployed in 2005.

Economic figures Federal Republic of Germany

as of 22./28.2.2006		Q1 2005	Q2 2005	Q3 2005	Q4 2005
Gross domestic product	in € billion	557.5	558.8	561.5	563.8
Labour force population	in million	38.8	38.8	38.8	38.8
Unemployed	in million	4.9	4.9	4.9	4.7

Source: Deutsche Bundesbank; seasonally adjusted economic figures

Company-specific conditions

Organisational and legal structure of the Group

Hypo Real Estate Holding AG, based in Munich, conducts strategic governance and sets out business policy for the entire Hypo Real Estate Group. In addition, it secures access to capital markets.

As a governing holding company, it leads three banks with legally and operationally separate businesses which are, however, geared to business goals coordinated within the Group.

In the year under review, the subsidiaries were responsible for three precisely defined business segments:

- Hypo Real Estate Bank International, based in Dublin, is responsible for commercial structured real estate financing business in all international markets. Furthermore it oversees the business segment capital markets and provides asset management services amongst others.
- The main business of Württembergische Hypothekenbank, Stuttgart, is Pfandbrief-based commercial real estate financing in all international markets.
- Hypo Real Estate Bank AG, Munich, engages in commercial real estate financing in the German market.

The business segments were reshuffled as part of restructuring effective 1 January 2006. In preparing for this restructuring, changes in the management structure of the Hypo Real Estate AG were effected.

Thus Hypo Real Estate Holding AG's Management Board has accordingly been expanded as of 1 December 2005, Stephan Bub was appointed to the Management Board of Hypo Real Estate Holding AG, where he is responsible for Public Finance and Capital Markets activities.

The concept used by Hypo Real Estate Holding AG as the parent company for managing the Hypo Real Estate Group aims to enhance the value of the Hypo Real Estate Group. The value of the Group increases when return on equity of a control unit exceeds the capital costs, currently the group-wide average is at approx. 7.5%. The business segments constitute the control units.

Sustainability

Responsibility, integrity professionality – the Hypo Real Estate Group's business principles apply to all companies in the Group, and are a major factor in the success of our business. Transparent structures, clearly communicated corporate objectives and consistent implementation of such objectives result in sustained benefit for customers and investors.

In addition to the professional way in which economic factors are incorporated in entrepreneurial decisions, the sustained success of the company is also determined by the incorporation of non-financial performance indicators.

The protection of natural resources is a major basis of sustainable economic growth and social prosperity. In the Hypo Real Estate Group, care is taken to ensure that corporate activity contributes to an environment which is worth living in and preserves it. Specific objectives in this field have already been implemented by segments of the Group, for instance dedicated co-operation with manufacturers and suppliers which meet defined environmental protection requirements and which are correspondingly certified. The aim is to reduce strain on the environment by means of sensible and economically viable measures. The Hypo Real Estate Group has already considered some of the possible measures. For instance, it will promote reducing consumption of paper and will encourage greater use of paper-saving structures that reduce the amount of paper which is used. In addition, co-operation with environmentally certified service providers and the use of modern energy-saving equipment will be enhanced and made part of a systematic approach. All of these efforts of the Hypo Real Estate Holding AG have been recognised, as is evidenced by its inclusion in the major sustainability indices, such as the FTSE 4 Good and the Dow Jones Sustainability Index.

Development in earnings

The development in earnings of Hypo Real Estate Holding AG, as a finance holding company, is crucially influenced by the expenses relating to its business operation and the income from investments.

Hypo Real Estate Holding AG achieved an annual net income of € 481,442 thousands in the 2005 financial year, which was clearly marked by the first profit distributions by both affiliated companies, i. e. Hypo Real Estate Bank International, in an amount of € 205,000 thousands, and Hypo Real Estate Bank AG, in an amount of € 265,383 thousands. This result is significantly better than the € 17,048 thousands achieved in the previous year.

Other operating income includes a book profit of € 47,677 thousands, which represents a material individual item and is resulting from group-internal measures.

The income from investments amounted to a total of € 470,383 thousands in 2005. € 205,000 thousands thereof were attributable to profits paid by Hypo Real Estate Bank International. The amount paid represents the distributable retained earnings from 2004, amounting to € 82,000 thousands, and the disposable profit at 30 September 2005, amounting to € 123,000 thousands, increased by the release of the portfolio-based allowances, amounting to € 66 thousands. Hypo Real Estate Bank AG's dividend, amounting to € 265,383 thousands, will be paid from the company's profit available for distribution, which contains of the release of free additional paid-in capital amounting to € 212,000 thousands, in addition to the net income according to German Commercial Code (HGB).

Relating to the profit-and-loss transfer agreement with the Württembergische Hypothekenbank AG earnings of € 68,882 thousands have been recorded. After balancing this against a profit grant of € 53,000 thousands, earnings are € 15,882 thousands.

The total income resulting from the investment holdings in the three operational companies amounted to € 520,942 thousands. This figure was cut by payments of € 66,000 thousands into the current profit and loss account by subsidiaries, in connection with the release of and addition to portfolio-based allowances within the context of the transfer of business activities between the subsidiaries.

The income from investments is opposed by current expenses in connection with the steering and administration of investments.

Personnel expenses for the financial year amounted to € 13,360 thousands, compared with € 10,193 thousands in the previous year. The increase in personnel expenses on the one hand is caused by the fact that certain functions, which occurred repeatedly in the group, have been summarized in the company as a group function, and the number of employees has thereby increased. On the other hand, two of the Management Board members in the operating companies have resigned, in order to cater for the increased demand in steering of the finance holding, and also due to the inclusion in the DAX.

Depreciation on intangible fixed assets and property, plant and equipment amounted to € 504 thousands, compared with € 476 thousands in the previous year and essentially involves depreciation on property, plant and equipment as well as software licences.

Other operating expenses amounted to € 10,799 thousands (compared with € 10,817 thousands in the previous year), but were adjusted by a payment of € 13,000 thousands into the profit and loss account of a subsidiary. Included in the amount of € 10,799 thousands are the expenses incurred for insurance, contributions and deductions, as well as expenses incurred for consultancy and auditing services.

The balance of income from loans to affiliated companies, other interest and similar income and interest, and similar expenses amounts to € –7,083 thousands, and thus constitutes an expense. The income from loans to affiliated companies amounted to € 4,785 thousands, and relates to the loan of € 200,000 thousands to Hypo

Real Estate Bank International, and which was repaid during the financial year. Other interest and similar income amounting to € 1,155 thousands resulted from overnight money time deposits. Interest and similar expenses essentially resulted from the interest expense for participating rights of € 6,725 thousands, and from interest expense resulting from the promissory note bond of € 6,077 thousands.

Consequently, current expenses amounted to a total of € 31,746 thousands. These are opposed by other operating income of € 4,192 thousands, essentially resulting from further settlements.

The result of ordinary activities thus amounted to € 493,388 thousands, and is composed of the income from investments amounting to € 520,942 thousands, and the balance of current operating income and expenses, which amounts to € 27,554 thousands.

Extraordinary expenses amounted to € 3,450 thousands and represent expenses and additions to provisions in connection with consultancy expenses for the restructuring of the Group.

The taxes on income amounted to € 8,496 thousands. This amount essentially results from the rule concerning minimum taxation of taxable income, which has been in existence since 1 January 2004.

Development in assets and the financial position

Total assets of Hypo Real Estate Holding AG amounted to € 4,780,668 thousands on 31 December 2005 and thus increased by € 638,681 thousands, compared with the previous year.

The book value of the intangible assets increased by € 173 thousands to € 828 thousands. The plant and operating equipment have been capitalised with an amount of € 989 thousands, compared with € 653 thousands in the previous year.

Shares in affiliated companies have increased by € 493,487 thousands in the financial year. € 339,000 thousands thereof are attributable to newly subscribed shares in Hypo Real Estate Bank International, € 106,810 thousands to acquired shares and capital payments to the Württembergische Hypothekenbank AG, and an € 47,677 thousands increase in the book value of Hypo Real Estate Bank AG. Loans to affiliated companies were fully repaid in the financial year.

Accounts receivable from affiliated companies increased by € 274,206 thousands to € 334,623 thousands. This is basically relating to the in-phase receipt of a dividend from Hypo Real Estate Bank AG, amounting to € 265,383 thousands. A further part is attributable to the claim of € 68,882 thousands, arising from the profit-and-loss transfer agreement with the Württembergische Hypothekenbank AG, which has increased by € 11,879 thousands.

Total liabilities amounted to € 418,790 thousands, compared with € 225,423 thousands in the previous year. The increase of € 193,367 thousands resulted from an Group internal measure, leading to a short-term liability amounting to € 199,750 thousands.

The provisions amounted to € 18,905 thousands on the reference date and increased by € 2,399 thousands compared to the previous year. This increase resulted from the addition to provisions for pensions, amounting to € 582 thousands, and higher bonus accruals.

The equity stated is € 4,342,973 thousands on 31 December 2005. The participating capital contained therein is € 97,124 thousands. The equity of the company adjusted by the participating capital, amounting to € 4,245,849 thousands, also contains the profit available for distribution of € 248,253 thousands, apart from the addition to retained earnings of € 240,000 thousands. On 8 May 2006 it will be proposed to the shareholders' meeting out of the profit available for distribution, a dividend of € 1.00 per share, be paid. From the amount remaining, after payment of the dividend of € 134,072 thousands, a further € 113,500 thousands shall be allocated to retained earnings to strenghten the capital basis of the group. The remaining amount of € 681 thousands shall be carried forward to the next accounts.

Events after 31 December 2005

In the beginning of 2005 the reorganisation of Hypo Real Estate Group came into effect. The international real estate financing business was pooled under the umbrella of Württembergische Hypothekenbank. The entire international real estate financing portfolio of Hypo Real Estate Bank International, Dublin, was transferred to Württembergische Hypothekenbank AG, which was then renamed Hypo Real Estate Bank International AG. The German financing arrangements of Württembergische Hypothekenbank AG were transferred to Hypo Real Estate Bank AG in Munich. The former Hypo Real Estate Bank International was transferred to Württembergische Hypothekenbank and now continues to operate Capital Markets from Dublin as Hypo Public Finance Bank, and was extended to include Public Sector Finance, which focuses on infrastructure and local authority project financing.

The shares of Hypo Real Estate Holding AG were delisted from the Vienna stock exchange (Standard Market Continuous) on 31 January 2006. The shares are still traded on the stock exchange in Frankfurt am Main (Prime Standard).

The proposal for paying a dividend of € 1.00 per share and for allocating € 113,500 thousand to other retained earnings will be submitted to the shareholders' meeting of Hypo Real Estate Holding AG on 8 May 2006.

Risk Report

Flexibility and innovation are key features of the Hypo Real Estate Group. In 2005, the Group took advantage of the opportunity provided by the newly created German Pfandbrief Law to pool its national and international commercial real estate financing business from Germany in only two entities. The increased utilisation of the refinancing benefits offered by the Pfandbrief as well as the improved transparency and efficiency are strengthening the position of the Group in a competitive environment which is constantly becoming more intense. The expansion of international capital market activities as well as low-risk public finance business in Europe and other OECD countries in an entity from Dublin will further expand the basis of business and diversify the risk profile of the Group. This restructuring of the Hypo Real Estate Group and the ambitious growth targets on existing and new markets with innovative structured products will involve attractive opportunities, as well as a demanding challenge for managing the Group's activities.

Risk-oriented Group Management

Overview

The Hypo Real Estate Group has set itself the aim of becoming a leading global real estate financier with a strong base in public finance and capital markets business. The overriding objective is to add value for all stakeholders and shareholders of the Group as part of the overall business strategy. The overriding Group strategy will be used for establishing the sub-strategies on the basis of the individual strengths of the banks. The management concept of the Group specifies target yields for the capital allocated to the banks, and defines specific yield requirements with due consideration being given to the current and desired risk profile.

Comprehensive risk identification as well as treatment of risk which is uniform and equivalent throughout the Group, are a major part of successful business management.

The Group-wide system comprising risk identification, measurement, limitation, controlling and management for the major risks of the Hypo Real Estate Group described in greater detail in the following will therefore be adjusted to take account of changes in the business and risk strategy, and the methodology will be constantly fine tuned, also with a view to new regulatory requirements.

- Risk identification involves permanently and systematically analysing what internal or external factors may constitute a potential risk for transactions or business positions of the Group. The annual risk inventory is one way of identifying previously unrecognised risks; another way is to implement a detailed and Group-wide new-product process.
- Risk measurement uses various quantitative and qualitative methods to assess the expected as well as the potentially unexpected negative impact of the identified risk factors on the bank's earnings situation.
- Risk limitations restrict the amount of risk involved under the main risk types for the Group; quantitative limitations are imposed by means of limits, and qualitative limitations are imposed by way of policies.
- In risk controlling the risk limits are monitored and regularly reported to the Management Board. The regular comparison of aggregate overall bank risk with the risk bearing capability of the Group, also under stress scenarios, guarantees compliance with the defined risk tolerance of the Group, and ensures that any potential risk to the continued existence of the Group as a going concern is identified on a timely basis.
- Risk management manages the risks taken on at the portfolio level, as through diversification, sale or insurance; at the level of individual transactions, risk management manages the risks taken on by way of procedure guidelines and processes.

Responsibilities and duties

Responsibility for conscious handling of risks has been spread over four divisions within the Group. In the holding company, the relevant divisions are responsible for uniform risk identification, measurement and limitation throughout the Group in close co-operation with the banks, and are also responsible for risk management at the portfolio level. This also includes the task of developing consistent risk policies and defining process standards.

The Group-wide committees, which meet regularly, assume overall responsibility for the adoption of resolutions relating to risk policy conditions for the entities. These include policies and risk limits as well as methods for risk measurement. The committees are also responsible for making recommendations to the banks with regard to risk positioning. The following are further specific duties:

- Group Asset-Liability Committee (ALCO): Asset/liability management across the Group; setting of limits for market and liquidity risks and defining the funding strategy of the Group.
- Credit Portfolio Committee (KPA): Defining the target structure of the Group's credit portfolio based on the Group credit risk position, optimising the risk-return situation and decision-making regarding credit risk management.
- Operational Risk Committee (ORC): Exchanging of information within the Group and ensuring uniform measurement and management of operational risks. Transparency relating to the Group's risks situation enables Group-wide measures to be taken in order to limit and avoid risk.

Organisation of the committees is the responsibility (at Group level) of Group Risk Control (GRC) and Group Credit Risk management (GCR) in conjunction with the corresponding risk controlling and management entities in the banks.

Group Risk Control is responsible for ensuring uniform specifications for identifying and measuring those risk types which are defined as vital. Aggregate metrics at Group level, results of the comparison with the risk bearing capability, adjustments in method as well as risk-restricting limits and utilisation of these limits are regularly reported to the Holding Management Board as well as the committees.

Group Credit Risk Management analyses the credit portfolio of the Group on the basis of various risk-relevant aspects, such as sectors, customer groups, property structures for the Holding Management Board, the Supervisory Board and also as a decision-making basis for the credit portfolio committee, and proposes suitable measures.

Senior Risk Management reviews new credit decisions by the individual banks in the Group on an independent basis, implementing the risk policy of the Group and making recommendations to the Holding Management Board to provide a basis for the definitive decisions.

The Group Legal Department advises the holding's Management Board as well as the holding entities, tracks developments in the judiciary with a view to limit legal risk, and provides guidance to the Group companies at the request of their Management Boards in fundamental matters as well as in general legal matters and transaction-related processes.

As an independent monitoring body, Group Internal Audit regularly reviews the adequacy and effectiveness of risk-oriented Group management, and reports on the results directly to the Holding Management Board.

As part of the so-called exposure process, the Credit Committees of the Supervisory Boards of the banks, which also comprise members of the Holding Management Board, advise on exposures in excess of a certain size, in order to limit risk concentrations in the Group.

The entire system, the organisational framework as well as the processes are documented on an aggregate basis in the risk manual of Hypo Real Estate Holding; on a detailed basis, and particularly at the process level, they are documented in the risk manuals and process documentation of the banks.

Regulatory developments and preparations on the part of the Hypo Real Estate Group

Basel II A paradigm change in bank regulation has resulted from the introduction of Basel II. Not only are regulatory capital requirements now more risk-sensitive; in future, there will also be greater focus on qualitative regulatory elements, which are manifested in the second pillar of the Basel II concept.

The new set of rules has been completed at the level of the Basel II bank regulation committee. In the EU, the legislation process for implementing Basel II was completed once the Capital Requirements Directive (CRD) was adopted in the European Parliament. At the national level, the specifications of the CRD will be incorporated in a new Solvency Ordinance (SolvV), which will replace principle I, as well as by changes in the Kreditwesengesetz (KWG – German Banking Law) and the Groß- und Millionenkreditverordnung (GroMiKV – Ordinance Governing Large Loans and Loans in Excess of One Million). Following a phase of consultation, the resolution is expected to be adopted in the first half of 2006.

The Committee of European Banking Supervisors (CEBS) has prepared an implementation and audit guideline for the requirements from the first pillar of the Basel II concept with the aim of ensuring that the approval criteria for the capital-saving advanced approaches for credit risks and operational risk for all European banks are as uniform as possible.

Pillar II of the Basel rules is covered by an abstract general adjustment of section 25a KWG. The minimum requirements for risk management (MaRisk) have been drawn up which specify the contents. As part of the institutional process of exchanging information with the bank associations, this has resulted in a flexible set of rules based on practical considerations, which was put into force in December 2005 by the BaFin and which incorporates the minimum requirements heretofore set out for lending (MaK), trading activities (MaH) as well as internal audit (MaIR). The additional requirements, which are more qualitative in nature, with the aim of providing the regulatory authority with an overall picture of the risk position, risk management and risk bearing capability, will not have to be satisfied before the new capital backing rules are implemented, and not before 1 January 2007.

The Hypo Real Estate Group has been preparing its methods and processes intensively to meet the new requirements for the past two years in a Group-wide project "Basel II". The methodology, technical and process costs for complying with the new requirements are tremendous, and no definitive assessment can yet be made of such costs as long as the implementation and audit guideline of the CEBS is still in the consultation phase.

Pfandbrief Law The new Pfandbrief Law, enacted in July of 2005, comprises many new elements, including:

- The abolition of the special bank principle, so that under certain conditions all banks are now able to be granted a licence by the BaFin for conducting Pfandbrief business;
- The expansion of the group of mortgage loans eligible for cover to the USA, Canada and Japan as well as quality assurance regulations, such as
  - The expansion of the extent and frequency of the publication requirement and
  - Evidence of a professional risk management system.

The Hypo Real Estate Group meets the requirements of the new Pfandbrief Law for risk management and has, as is described in more detail in the chapter "New Corporate Structure since 1 January 2006", already begun to adapt to the new circumstances.

Total bank risk and risk bearing capability

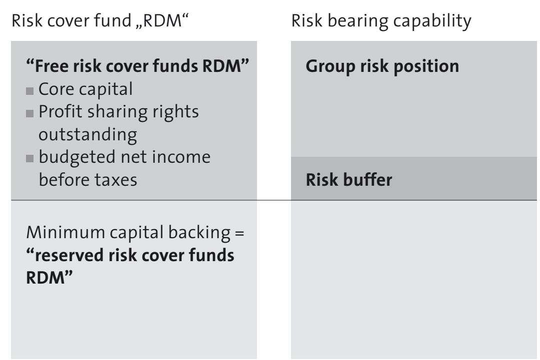
Once the minimum requirements for risk management (MaRisk) are completely introduced, financial groups, from 2007 onwards, will have to carry out a risk bearing capability analysis which is commensurate with the risk profile and the complexity of their business, the so-called ICAAP (Internal Capital Adequacy Assessment Process). In this process, the entire risk determined for the enterprise is compared with the resources available for financial cover, and various scenarios are examined to establish whether the Group is adequately capitalised and whether the risks which have been taken on are not excessive. This analysis is to be carried out on a regular basis, needs to be a component of the management and decision-making process of the bank, comprise all major risks and take account of planning as well as stress scenarios. The Hypo Real Estate Group introduced the analysis at the Group and entity level on a six-monthly basis at the end of 2004, and developed the analysis further in 2005.

The definition of a level of risk tolerance by the Holding Management Board is a major part of the risk-bearing capability analysis. This definition specifies the components and amount of capital which are to be available for covering risks. These are mainly parts of shareholders' equity as well as the expected net profit before taxes.

The total bank risk is the aggregate of the main individual risks described in the following chapters, with due consideration being given to correlation effects. Where possible and meaningful, the individual risks are established using a statistical method, usually a "value-at-risk", quantifying potential unexpected loses within a specific period in Euro.

The aim of the risk-bearing capability analysis chosen for the Hypo Real Estate Group is to simulate whether there will still be sufficient capital available for continuing the bank's operations even after the extremely unlikely occurrence of all risks and their financial coverage (going concern approach).

Presentation of the principles of the risk bearing capability analysis



The Group as well as the individual banks currently enjoy a comfortable risk cover buffer at present, even on the basis of this very conservative risk-bearing capability analysis. At the Group level, this amounted to € 0.9 billion as of September 2005 for a statistical confidence level of 99 %; the corresponding figure for a statistical confidence level of 99.9 % was still € 0.5 billion.

In further stages, the degree of risk cover is assessed on the basis of stress scenarios focussing on creditor protection, whereby all shareholders' equity is made available for covering risk. Under this assumption, the proposed stress scenarios of the Bundesbank were assessed; also, the Group's own scenarios such as a higher confidence level and/or changed correlation assumptions between the risk types were assessed as well. In addition to the current risk structure, business planning as well as potential risk changes are also assessed in the risk-bearing capability analysis in order to establish their consistency with the Group's defined risk tolerance.

Risk measurement, control and management of major risk types in the Hypo Real Estate Group

The risk profile of the Hypo Real Estate Group is very much characterised by credit risk in line with the business model. The intensive analysis, identification, management and monitoring of this risk type is reflected in the organisation structure and the committees of the Group.

Market risk and liquidity risk are becoming more significant with the planned expansion of capital market business. Operational risk, strategic risk and – in particular – since the Hypo Real Estate Group was included in the DAX-30 index – reputation risks are further major risks which frequently have to be taken on and which have to be intensively managed and monitored.

Credit risks

Credit risks can be broken down into loan default risk, counterparty risk, issuer risk and country risk. They define the potential loss of value which may occur as a result of the default or rating downgrading of customers in lending business, issuers of promissory notes and debt securities as well as counterparties in money market, securities and derivative transactions, respectively.

In the field of real estate financing business, the credit risk comprises not only the pure rating risk but also the collateral risk. The latter is attributable to potential losses of value of collateral due to reasons related to the financed properties and/or the market environment. For professional management of this risk, the lending policy in the entire Group is based on the following core principles:

- Thorough and careful credit analyses of each individual transaction,
- Determining the extent to which forecast cash flows are able to cover capital servicing (specifically under extreme market conditions such as sharply rising interest rates) as well as the current and sustainable value of collateral,
- Use of rating methods for determining the default probability of the borrower and use of early-warning systems,
- Use of Loss-Given-Default (LGD) measuring procedures for measuring future proceeds of any foreclosures which may become necessary if borrowers default,
- Permanent active observation of the real estate market and adjustment of the lending policy where necessary,
- Systematic diversification of the loan portfolio by way of active portfolio management,
- Ensuring that the loans can be resold or syndicated.

The quality of the valuation methods being used is constantly monitored by risk controlling; they meet Basel II requirements throughout the Group. The calibration of the rating scale for probabilities of default and the LGD measuring process for loss ratios is based on statistical analyses of historical defaults or losses in the portfolio.

The very different strategic focus of the three members of the Group has meant that it Group-wide credit principles with clear and uniform principles and financing principles need to be adopted in order to ensure a uniform perception of risk. The credit principles also require the banks to prepare external or internal reports for each individual property transaction and to carry out cash flow simulations and stress tests. By continuously monitoring the covenants, risks can be identified, assessed and managed at an early stage. These analyses relating to individual transactions are complemented by scenario observations at the portfolio level.

The Group uses best-practice approaches, such as the German requirements for credit business for credit institutions (MaK) and for risk management (MaRisk) by way of organisation measures and functional segregation of credit processes right through to Management Board level into market and back office.

In addition to the lending business, described above, the Hypo Real Estate Group is also actively involved in purchasing, structuring and onward placing of loans and financial instruments (securitisation) as a facility for return and risk optimising. Here again, the Group uses internal rating procedures which comply with the Basel II requirements for assessing ratings.

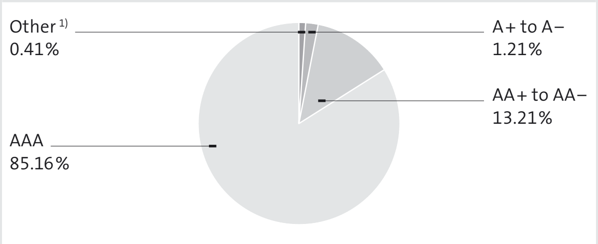
Counterparty risks are defined as possible losses of value affecting interest rate and foreign currency derivatives and forward transactions. Most of these transactions are carried out as hedge positions as part of asset/liability management. A value-at-risk approach based on a mark-to-market method is used for measuring the counterparty risk throughout the Group; this approach is based on potential future replacement costs. Counterparty risks with derivative, security and money market transactions exist with financial institutions, central banks and supranational institutions whose credit standing is above-average on the basis of the assessment of external rating agencies and also on the basis of internally used rating procedures. In order to reduce the derivative-related counterparty risk, the Hypo Real Estate Group normally uses framework agreements with its business partners which enable all contracts covered by the agreement to be pooled into a net receivable if the counterparty fails to meet his obligations (so-called close-out netting). In order to reduce risk further, security agreements are taken out which may result in the cancellation of transactions if the counterparty fails to comply with a request to provide securities. For the purposes of internal risk measurement, netting procedures and security netting are only used if they are considered to be legally enforceable for the particular jurisdiction and the specific counterparty.

The Hypo Real Estate Group defines the term country risk as the risk of possible transfer and conversion problems encountered with contract partners domiciled abroad. The credit risk is that a borrower who is normally able and willing to pay, is not able to meet his payment obligations if, as a result of government action, he is not able to secure foreign currency or to transfer assets to persons not resident in the territory. The location of the property securities is also important in this respect. Credit risk controlling monitoring of country risks on a permanent basis. Country risks are monitored by credit risk management on the basis of country limits. Depending on the results of the internal rating process, maximum limits are allocated to:
(1) Each individual country and
(2) Groups of countries in certain rating ranges.

These limits restrict the business activities. All country ratings and country limits are reviewed at least once every year by the credit portfolio committee. The internal risk assessments are also regularly compared with assessments by the main rating agencies. The following table sets out the distribution of the entire country risk of the Hypo Real Estate Group according to internal rating classes and according to regions as of 31.12.2005.

Country risk according to internal rating classes

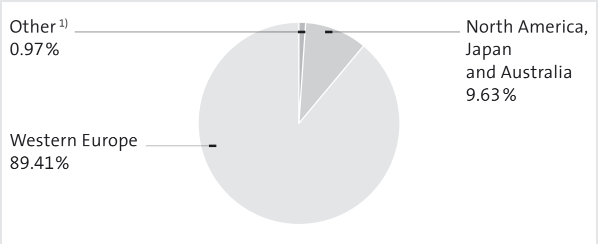
as of 31.12.2005



[1] BBB+ to BBB–: 0.40%; BB+ to BB–: 0.01%; B+ or worse: 0.0%

Country risk according to regions

as of 31.12.2005



[1] Eastern Europe: 0.85%; Asia excl. Japan, Middle East: 0.09%; Latin America: 0.03%; Africa: 0.00%

Credit portfolio management is particularly important as part of credit risk management. The aim is to reduce the extent and volatility of credit risk costs in line with the overall business strategy of the Group and the Group's ability to bear risk by way of suitable portfolio measures, and to achieve diversification success in the Group measured against risk and earnings parameters.

The process of tracking this aim is supported by the following instruments:

- Continuous portfolio and real estate market analysis,
- Systematic increase or decrease of sub-portfolios in line with risk strategy through appropriate generation of new business or adjustment of conditions with risk-adequate margins,
- Risk transfer by way of partial portfolio sales, securitisation measures and syndications,
- Use of a credit portfolio model for establishing the probabilities and extent of potentially unexpected losses and
- Limiting sub-portfolios in relation to types of property, regions, customer groups, rating classes or maturities.

In the case of development financing arrangements, which imply a higher risk than investment financing arrangements as a result of the completion risk, the extent of the development portfolio is limited as follows:

(1) For specific countries (as a percentage of the country limit) and
(2) In relation to the overall portfolio.

The degree of risk of development financing correlates primarily to the sale and rental status of the financed property and the ability to cover current credit interest out of the cash flows which are received and the ISC (Interest Service Coverage) figure. Financing arrangements which are covered by risk-adjusted ranges of these criteria are limited by way of so-called speculative limits. Overall, the differentiated limitation of sub-portfolios guarantees a sound relationship between investment and development financing in the individual countries and in the overall portfolio.

A key element of successful activity in real estate financing is sound knowledge of the (real estate) markets and the implementation of such knowledge in business strategies as well as in credit and portfolio management processes. The Hypo Real Estate Group has established considerable know-how in the corresponding real estate markets and is conscious of the risk-relevant factors. Research results obtained on site are incorporated into the business activities and the minimum requirements for lending. For instance, more restrictive lending requirements are applicable for markets whose risk profile is critical (e. g. with regard to the input of equity, rental/sale covenance); a current example of this is the Hypo Real Estate Group's strict guidelines for activities in the US residential market.

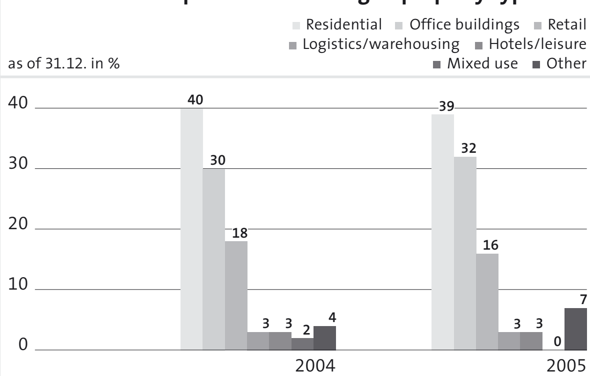
The Group's primary target customers include business partners with professional operations in international real estate markets and who meet the stringent lending standards particularly also in new markets (for instance Russia and China). Extensive market and risk analyses are carried out ahead of the decision to follow the Group's customers into new markets.

Pre-calculation models, which enable risk-adequate margins to be established for new business or when conditions are adjusted, are used for implementing management right through to the signing of individual transactions. These models take account of covering refinancing costs, capital costs and general administrative expenses as well as potential credit risk costs of expected losses.

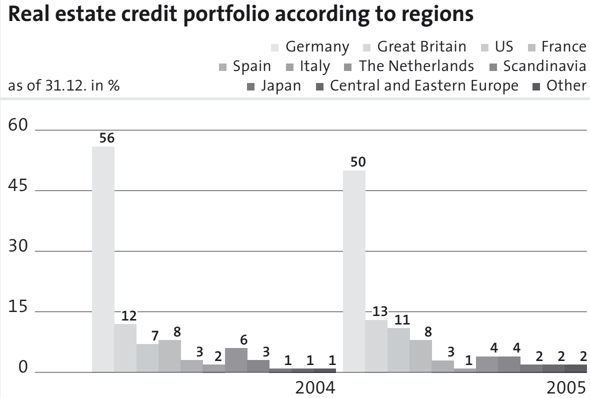
The credit portfolio committee is responsible for managing the continuous improvement of risk diversification of the real estate financing portfolio as markets evolve.

The following tables break down the real estate financing operations of the Hypo Real Estate Group in the amount of € 65.1 billion by property-specific and regional aspects. The information is based on the credit portfolio (incl. commitments, excl. pro-rata interest) as of 31 December 2005. Including state financing business, it amounted to € 123.2 billion.

Real estate credit portfolio according to property type



Real estate credit portfolio according to regions



All exposures are constantly monitored based on the risk management instruments described above. Early recognition of potential problem loans can be termed a fundamental principle of the credit risk culture. In addition, existing sub-performing or non-performing loans are intensively monitored and regularly analysed. Early warning systems have been installed in order to ensure that loans which may be exposed to an enhanced level of credit risk can be identified at an early stage. Affected exposures are placed on a "watch list" in order to ensure that they are the subject of greater attention. The following table presents the performance of real estate loans exposed to an increased level of risk – in relation to the overall real estate credit portfolio – over the past three years.

Real estate loans with an increased level of risk

as of 31.12. in %	2005	2004	2003
Watch list	1	2	3
Sub-performing	1	1	2
Non-performing	2	2	5

Market risk

Market risk is defined as the potential loss which may be incurred as a result of changes in prices on the financial markets. All lending business, all own issues, all securities held as investments and liquidity instruments as well as all derivative transactions are taken into consideration for this purpose at all banks in the Hypo Real Estate Group. This is also applicable for the positions held in the trading book in Dublin. Scheduling assumptions for equity funds, allowances and the effects of non-scheduled redemptions are also taken into consideration. The resultant market risks are mainly interest rate risks.

A distinction is made between general and special interest risks (spread risks). The former measure potential changes in the present value of positions in the event of shifts of the no-risk rate curve (swap curve). The measurement of spread risks, which is to be further fine-tuned in 2006, takes account of possible present value changes if changes arise in the credit standing premiums priced into securities and derivatives.

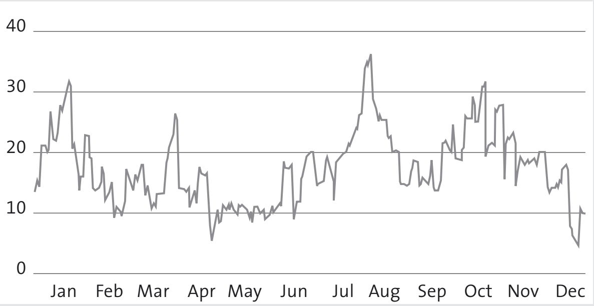
Currency risks are widely hedged at all banks in the Group, and are accordingly present only to a limited extent. In the field of equity, commodity and other price risks, only equity risks as well as alternative investments may be taken on, and only to a strictly limited extent.

The banks in the Hypo Real Estate Group use a uniform value-at-risk approach for daily quantification of the market risk. This approach determines a potential loss on the assumption that a position is held for ten days and also on the assumption of a confidence level of 99 %. The period of observation for historical data is

250 trading days. The value-at-risk is established daily by the bank's local risk controlling unit; it is aggregated by the holding company to form a total market risk at the Group level, and is then reported to management. Through this system, the Hypo Real Estate Group is at all times able to control consequences of potential market fluctuations, such as rate changes or currency fluctuations, in a timely and profitable manner. This active management is also reflected in daily fluctuations of value-at-risk for the general interest rate risk (excl. own funds books) in the Hypo Real Estate Group during the year. With an average value of less than € 20 million for 2005 (max. € 36 million; min. € 5 million), the general interest rate of the Group is at a very low level, whether compared internally or externally.

General interest rate risk 2005

in € million



Daily computing, limitation and reporting of value-at-risk and the actual changes in present values which occur are complemented by regular back-testing and stress-testing. The quality of the method which is used is constantly reviewed and optimised by comparing the value-at-risk figures with the actual daily changes in present values. The statistical assumptions of our models have been confirmed. Whereas the value-at-risk measures the market risk under "normal" market fluctuations, the simulation of stress scenarios also measures the potential changes in present values under very extreme and unusual market movements, so that the continued existence of the company as a going concern can also be guaranteed at all times under these conditions. The measured market risk was also within the "normal limits" even under these conditions.

In the individual banks, market risk management is handled by a committee on the basis of the market risk position determined daily by risk controlling; this committee meets regularly and intensively considers the future development of the financial markets and market parameters. In addition, the Group Asset-Liability-Committee (ALCO) uses the market analyses as the basis for making a trend statement for further positionings within the Group. Implementation is again the responsibility of the individual banks within the framework of their risk limits defined by the holding company.

Thanks to Hypo Real Estate Bank International, Dublin's trade book approved in 2004 by the state regulatory authorities, the bank can also benefit to a greater extent from short-term market fluctuations. Resultant market risks are also subject to the strict risk management process detailed above, including daily risk measurement, limiting and reporting to Management.

Liquidity risk

The foremost goal of the process of managing liquidity risks is to ensure that every individual bank in the Hypo Real Estate Group is solvent at all times. In accordance with the internal limit system, probable payment inflows and outflows and possible liquidity-procuring measures, the so-called liquidity position, must be at least balanced at all times during the following five days. This position is determined daily, with due consideration being given to precautionary discounts ("haircuts"); it is monitored by Risk Controlling and reported to the Management Board.

A liquidity preview covering 90 days is prepared in order to identify any additional short-term re-financing needs at an early stage. This preview is used as the basis of active liquidity management. For controlling structural long-term liquidity, the banks in the Group use a capital schedule which is also broken down on the basis of individual product groups and thus also permits finetuning by market segments. An annual funding plan is then prepared, with due consideration being given to planned new business; this funding plan is adopted and its implementation monitored. In doing so, the Hypo Real Estate Group closely follows the Basel recommendations for liquidity management.

Operational risk

In the Hypo Real Estate Group, operational risk is defined as unexpected losses caused by defective internal processes, human errors, technology failure or external events. This definition also includes legal risks. Strategic, reputation and general business risks are not included.

Operational risk, which – unlike market or credit risk – is not deliberately taken on, is inherent in every business transaction and is becoming increasingly important as the Group's international business becomes more and more complex. The aim of the Hypo Real Estate Group is therefore to encourage a pro-active approach to operational risk by way of an institute-wide risk culture so that measures designed to minimise risk or limit damage can be initiated at an early stage.

In 2005, the Hypo Real Estate Group continued to implement the group-wide framework which had been adopted for managing operational risk. Primarily, it is the relevant divisions of the bank who are responsible for identifying and managing their operational risk. The group-wide obligation for recording operational risk losses in a loss database as well as regular reporting of defined key risk indicators by the entities to local risk controlling, have noticeably increased risk sensitivity.

Group Risk Control reports every six months in the Operational Risk Committee, which comprises members of the Boards of Management of all entities, concerning internal losses resulting from operational risk cases, any unusual developments, including evaluations of key risk indicators as well as Operational Risk management measures which have been implemented. The relevance of potential risk sources for the Group can be assessed by means of a comparison with public domain loss data from operational risk, as well as through benchmarking the key risk indicators. The uniform risk inventory carried out at Management level throughout the Group every year provides additional information relating to possible, mostly operational, risks in connection with the current business strategy.

As a further development and addition to the above identification methods, the year 2006 will for the first time see the introduction of risk self-assessment, which focuses on the assessment of potential division-specific operational risk scenarios.

Legal risks, as an implicit part of operational risk, are particularly relevant for the international business model of the Hypo Real Estate Group. The following major risk categories can be distinguished for the Hypo Real Estate Group:

- Contract risk
- Legislation risk
- Judiciary risk
- Legal risk of the property to be financed and
- Resource risk

Contract risk is characterised by losses arising from unenforceable contract components due to errors in the drawing-up or documentation of the contract. Where possible, the Hypo Real Estate Group uses audited standard contracts both nationally and internationally. Individual contracts are drawn up by employees with legal training who are familiar with local contract law. A continuous review process for the contract specimens and clauses which are used ensures that the contracts are effective, adequate and enforceable.

Legislation risk is defined as the negative impact in the change of regulations on the continuation of certain business models.

By carefully observing legislation activity and via ist association activity, the Hypo Real Estate Group keeps its know-how and organisational structures up-to-date.

Judiciary risk is the risk that contracts which were originally correctly documented might become partially or entirely unenforceable following a change in court verdicts. In order to limit this risk, the Hypo Real Estate Group constantly monitors the development in court verdicts; Hypo Real Estate Group employees also maintain close contact with judges and judiciary experts.

The legal risks of the property to be financed include inadequate rental agreements or the absence of public sector approvals, which might have a negative impact on the value of the property to be financed. In order to avoid these risks, the Hypo Real Estate Group regularly carries out legal due diligence apart from financial due diligence before the contract is signed.

Resource risk defines the risk that internal or external legal consultancy skills are inadequate in terms of quality or quantity. This risk is limited by regular self-assessments by the legal department and by having only meticulously selected external consultants representing the Hypo Real Estate Group internationally.

The reorganisation of the Group, which commenced in 2005 with the merger of the technical, personnel and cultural real estate financing activities to form the new Hypo International Bank, of course involves a potentially high operational risk in the form of integration risks. Accordingly, a special integration project team was set up as part of the overall project; the purpose of this team is to recognise and manage risks promptly.

In addition, as part of the annual group-wide risk inventory process, additional risk factors which had been identified as part of previous restructuring processes were also assessed and evaluated.

With the measures for identifying and managing operational risk which have already been implemented and which are planned for the future, the Hypo Real Estate Group is well prepared to meet the requirements of Basel II, specified in the "Practical recommendations for management of operations risks" in line with the business model and extent of business.

Strategic and other risks

"The only reliable constant is change". In this respect, strategic risk means that changes in relation to markets relevant for business, the competitive situation as well as the extent and direction of the legal or regulatory environment are not recognised on a timely basis and have a negative impact on the long-term success of business. For this purpose, the genuine value drivers need to be known and the overriding strategic focus must be compatible with detailed business strategies for specification as well as the quality of implementation.

The Holding Management Board intensively observes the German as well as the international competitive environment. Conclusions for the strategic positioning of the Group are derived from changes and developments and the Management Board deals particularly with the question how opportunities of growth can be derived from that. For instance, in 2005, the Hypo Real Estate Group took advantage of benefits arising from the reform of the Pfandbrief Law to strengthen its competitiveness. Reputation risks are increasingly being perceived as one of the main risks for enterprise value. These risks may result for instance from business conduct, the response of customers of the Group or risks which have become significant or other risk types. Negative publicity – justified or unjustified – can have a significantly negative impact on enterprise value.

Fundamental principles have been adopted and internal departments have been entrusted with monitoring in order to limit risk. A code of conduct valid throughout the Group defines principles of fair play with regard to all interest groups. The compliance officers also monitor the compliance and control the adherence of legal and regulatory requirements, particularly with regard to money laundering and the insider trading regulations. The Holding Management Board assesses the extent to which the code is up-to-date and effective in the constantly changing world of business. Also the credit principles throughout the Group define ethical standards which preclude certain transactions or business partners.

Summary

Our declared intention is not to avoid risk, but to adopt a responsible policy for taking on and managing risks.

The Hypo Real Estate Group has a risk management system which has been tried and tested over many years, and which has been continuously improved upon. This system is responsible for the Group's extremely favourable risk and reward profile. In line with the guideline: "Quality ahead of quantity", the consistent focus on profitable transaction-oriented areas of operation, the analysis of individual transactions together with the analysis of international market developments and prospects, play a leading role in terms of regional and sectoral diversification of portfolio risks and compensation for market cycles.

Credit risks constitute the main risk in the commercial real estate financing business of the Hypo Real Estate Group. The form and the components of the risk management system reflect the major significance of this risk type.

In 2006, with the current restructuring of the Group, the Hypo Real Estate Group will reduce organisational complexity and will thus limit operating risks.

A further central task in 2006 will be to implement and apply the comprehensive Basel II regulations and to thoroughly prepare for the subsequent regulatory audit which is intended.

Forecast Report

Macro-economic situation

The economic outlook for 2006 was revised upwards at the end of 2005. On average, gross domestic product is expected to rise between 1.5 % and 2.0 %, as opposed to the 1 % rise which was expected early in 2005. Conditions for stronger global economic growth will continue to be in place in 2006. Growth in Asia is unabated, even if oil prices should rise further. Growth will probably also continue to be fuelled by the sharp increase in demand of the emerging countries which export raw materials, whereas the economy in the USA is expected to achieve a soft landing. In Europe, the young EU countries in particular will be the driving force behind growth as a result of their need to catch up with the other countries in the EU, which is still huge. The central banks will combat any signs of inflation expectations with rate hikes; however, thus they will not significantly hinder economic growth.

The global economy is still expected to achieve strong growth. Strong international demand thanks to a global economy which is still expanding strongly, falling oil prices, favourable financing conditions with low long-term interest rates as well as the incentive measures by the new Federal Government should encourage or initiate economic recovery and higher employment in Germany. For 2006, private consumption is expected to rise due to consumers bringing forward purchases in view of the increase in value-added tax announced for 2007. The impetus provided by monetary policy will be less significant in 2006; wage pressure which might develop and the measures designed to solve public sector finance problems might even rapidly put an end to any upswing.

Sector-specific situation

Slight signs of recovery on the German real estate market and the continuing consolidation in the German real estate financing sector provide grounds for moderate optimism for business prospects in 2006. There is expected to be an increase in large-volume demand for German real estate in 2006, particularly from abroad. In international real estate financing business, the focus will to an even greater extent move away from saturated markets in Europe and in the USA and concentrate on future growth markets in Asia, such as China, India and Korea, as well as special customer groups with specific product requirements, such as financing products consistent with Islam.

Company-specific situation

The forecasts used as the basis for the future performance of the Hypo Real Estate Group are based on the figures according to IFRS and are estimates which have been taken on the basis of all currently available information. If the assumptions used as the basis for the predictions fail to materialise, or if risks (as detailed in the risk report) occur to an extent which is not calculated, the actual results may differ from the currently expected results.

The development in earnings last year has fully confirmed the expectations of the Management Board. The planning for future years is based on the following assumptions:

- The macro-economic development is expected to be as described in the parts of the forecast report relating to the macro-economic and sector-specific situation.
- In addition, the planning is based on an inflation rate of 2.0 %.
- The exchange rate of the Euro is expected to increase slightly against the US Dollar and the British pound.
- The planning process was carried out in the new Group structure, which will be applicable from 2006 onwards. A core capital ratio of 7.0 % has been planned for the segments International Lending and German Lending, and 8.0 % has been planned for Public Finance. A ratio of 10.0 % has been assumed for the total capital for all segments.

Based on the above assumptions, the Management Board is predicting that consolidated net income before taxes (according to IFRS) in 2006 will increase by at least 20 % compared with the previous figure of € 442 million adjusted by restructuring expenses.

For financial 2007, the Management Board is expecting a return on equity of 11 to 12 % for the Group, consisting of a return on equity of 13 % to 14 % for the segment Hypo Real Estate International, 8 % to 9 % for the segment Hypo Real Estate Germany and 14 % to 15 % for the segment Hypo Public Finance.

The volume of new business and the development of the real estate financing portfolio will be major factors influencing the extent of consolidated profit and return on equity. The Management Board is assuming that new business in 2006 will repeat the level seen in 2005.

If it is not possible for new business on the market to be generated to the planned extent and if downsizing in the portfolio should be stronger than planned, there might be a negative impact on net interest income and thus on consolidated profit. Even in this case, the Hypo Real Estate Group will not ease its strict risk and yield criteria. On the other hand, new business in excess of budget, for instance resulting from the planned expansion into new markets, such as India, Singapore, South Korea or Australia, will constitute a considerable opportunity.

The further improved portfolio quality has resulted in a considerable decline in loan-loss provisions compared with last year. Because in general it is not possible to generate revenues in banking without taking on risks, it is not possible to preclude the possibility of a further increase in loan-loss provisions. The Hypo Real Estate Group counters this risk through risk-oriented Group Management. Risk measurement, risk control and risk management are described in detail in chapter Risk Report, see page 63.

The new Group structure, which is effective in 2006, is designed to enhance the bank's viability on the markets and reduce complexity in the Group. One of the benefits of the structure will be to enable the entire range of products and services to be offered to international customers from a single source. The new structure is perceived as an opportunity to continue the process of developing into one of the leading global real estate financiers with a strong focus in the fields of public finance and capital markets.

Movements in the exchange rate of the Euro against major international currencies should not have a major impact on the income statement, because open currency positions are generally closed directly for the current year. Accordingly, the Hypo Real Estate Group does not consider that this aspect provides a major opportunity or involves a major risk.

An improvement in the Ratings should be a considerable opportunity because it will probably result in lower funding costs. On the other hand, any deterioration in the Ratings, which we are not assuming, would have a negative impact.

Financial Statements of Hypo Real Estate Holding AG for financial year 2005

Balance Sheet as of 31 December 2005

Assets

in €	31.12.2005	31.12.2004
Fixed assets		
Intangible assets		
Licenses and software	827,889.25	258,981.00
Advances paid on intangible assets	—	396,156.25
	827,889.25	655,137.25
Property, plant and equipment		
Operational and office equipment	989,495.38	652,845.76
Financial assets		
Shares in affiliated companies	4,366,566,410.55	3,873,079,938.25
Loans to affiliated companies	—	200,000,000.00
	4,366,566,410.55	4,073,079,938.25
Current assets		
Accounts receivable and other assets		
Accounts receivable from affiliated companies	334,622,688.78	60,416,672.86
Other assets	30,655,481.34	4,928,072.41
	365,278,170.12	65,344,745.27
Cash at banks	46,170,671.32	71,495.64
Deferred charges and prepaid expenses	835,134.77	2,183,236.96
Total assets	**4,780,667,771.39**	**4,141,987,399.13**

Shareholders' equity and liabilities

in €	31.12.2005	31.12.2004
Shareholders' equity		
Subscribed capital		
Ordinary shares	402,216,525.00	391,301,325.00
Preference shares	—	10,915,200.00
	402,216,525.00	402,216,525.00
Additional paid-in capital	3,318,879,475.00	3,309,783,475.00
Retained earnings		
Other retained earnings	276,500,000.00	36,500,000.00
Participatory capital	97,123,574.14	97,123,574.14
Profit available for distribution	248,253,263.99	54,435,322.58
Provisions		
Provisions for pensions and similar obligations	5,282,186.00	4,700,176.00
Tax provisions	5,009,047.83	5,205,383.51
Other provisions	8,613,431.33	6,600,338.45
	18,904,665.16	16,505,897.96
Liabilities		
Deposits from other banks	201,281,444.44	207,501,519.14
Accounts payable, trade	349,210.90	123,151.84
Accounts payable to affiliated companies	210,158,437.98	9,690,798.61
Other liabilities	7,001,174.78	8,107,134.86
thereof for taxes € 345,648.55 (previous year: € 366,862.24)		
thereof for social security € 0.00 (previous year: € 0.00)		
	418,790,268.10	225,422,604.45
Total Shareholders' equity and liabilities	**4,780,667,771.39**	**4,141,987,399.13**

Liabilities from guarantees, bills of exchange and cheque guarantees
€ 6,183,042,368.13 (previous year: € 3,918,226,470.60)

Income Statement for the Period from 1 January to 31 December 2005

in €	31.12.2005	31.12.2004
Other operating income	51,868,987.34	23,636,613.07
Personnel expenses		
Wages and salaries	11,631,688.13	7,835,481.63
Social security costs, pension expenses and related employee benefit costs	1,728,132.12	2,357,480.29
thereof for pensions € 1,019,057.29 (previous year: € 1,734,823.19)		
	13,359,820.25	10,192,961.92
Depreciation / amortisation on intangible assets and property, plant and equipment	504,467.86	476,194.61
Other operating expenses	23,798,909.42	10,816,907.15
Income from investments	470,383,234.60	1,500,000.00
thereof from affiliated companies € 470,383,234.60 (previous year: € 1,500,000.00)		
Income from other securities and loans of financial assets	4,784,772.21	8,332,616.68
thereof from affiliated companies € 4,784,772.21 (previous year: € 8,332,616.68)		
Other interest and similar income	1,155,146.51	659,372.53
thereof from affiliated companies € 0.00 (previous year: € 1,563,118.65)		
Income from profit-and-loss transfer agreements	15,882,118.00	25,818,402.92
Depreciation / amortisation on financial assets	—	1,000,000.00
Interest and similar expenses	13,023,295.32	14,782,567.17
Result of ordinary activities	493,387,765.81	22,678,374.35
Extraordinary expenses	3,450,000.63	600,000.00
Extraordinary result	−3,450,000.63	−600,000.00
Taxes on income	8,495,989.72	5,030,846.03
Net income	**481,441,775.46**	**17,047,528.32**

A. General information concerning the Financial Statements

Basic information

Hypo Real Estate Holding AG was established as a new company by way of a spin-off as of 1 January 2003. The assets spun off from Bayerische Hypo- und Vereinsbank AG, Munich, consisted of all shares in DIA Vermögensverwaltungs-GmbH, Munich.

The wholly-owned subsidiary DIA Vermögensverwaltungs-GmbH was merged with Hypo Real Estate Holding AG as of 29 December 2003. The transaction was recorded in the commercial register on 10 March 2004. The company assumed the rights and obligations of DIA Vermögensverwaltungs-GmbH at the point at which the merger agreement was completed. This is also applicable for the profit-and-loss transfer agreement closed with the approval of the extraordinary shareholders' meeting of Württembergische Hypothekenbank AG on 30 October 2003, and recorded in the commercial register.

The financial statements as of 31 December 2005 have been prepared in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch – HGB) concerning the accounting of corporations and the supplementary regulations of the law concerning Aktiengesellschaften (joint stock corporations). The prior year figures have been used for comparison purposes.

The accounting of the company is subject to the regulations for large corporations as detailed in section 267 (3) HGB.

The financial statements have been prepared subject to the general statement regulations set out in sections 246–251 HGB and also subject to the special statement regulations for corporations, sections 268–274 a, 276–278, and subject to the general valuation regulations of sections 252–256 HGB, and also in accordance with the special valuation regulations applicable for corporations, sections 279–283 HGB.

The statement regarding the Corporate Governance Code which is prescribed by section 161 AktG has been issued by the Management Board and the Supervisory Board, and has been published on our web site at www.hyporealestate.com.

B. Information concerning accounting and valuation Principles

Fixed assets

Intangible assets

Franchises, trademarks, patents, licenses and similar rights and licenses to such rights Software is stated at cost less scheduled depreciation.

Scheduled depreciation is based on a useful life of between three and five years.

Advances paid on intangible assets are stated in their nominal value; no adjustments were necessary.

Property, plant and equipment

Other installations, operational and office equipment are stated at cost plus ancillary acquisition costs less any reductions in acquisition costs.

Scheduled depreciation was calculated on the basis of normal useful lifes. The straight-line method of depreciation is used for writing down assets. Depreciation is calculated on a pro-rata basis.

Minor-value assets are written down in full in the year in which they are acquired and are stated in the list of assets as disposals and additions.

Financial assets are stated at acquisition costs. In the event of a probable permanent reduction in value the regulation of section 253 (2) p. 3 HGB was taken into account.

Current assets

Accounts receivable and other assets

Accounts receivable from affiliated companies are stated with their nominal values.

Other assets are stated with their nominal value or payment amounts.

Cash in hand, cash at banks and cheques are stated with nominal value.

Provisions

Provisions for pensions are stated in accordance with section 6a EStG with their current value established on the basis of actuarial principles using an interest rate of 6% and established according to the updated tables 2005G of Prof. Dr. K. Heubeck.

Tax provisions and other provisions are endowed with the value of estimated liabilities on the basis of a businesslike manner, taking all recognisable risks and uncertain obligations into account.

Liabilities

Deposits from other banks, trade accounts payable, accounts payable to affiliated companies and other liabilities are stated in the amount due for repayment.

Currency translation

In principle, balance sheet items as well as expenses and income in foreign currencies are translated into Euro using the exchange rates applicable on the reference date and transferred to the balance sheet and the income statement.

C. Notes to the Balance Sheet

The development of intangible assets, property, plant and equipment and financial assets in the course of financial 2005 are set out in the assets development in the appendix to these notes. Major items in the balance sheet are explained in the following:

Fixed assets

Intangible assets The previous year's advanced payment for a software has been capitalised in the financial year.

Financial assets

Shares in affiliated companies The shares in affiliated companies increased by € 493,487 thousands to a total of € 4,366,566 thousands (previous year: € 3,873,079 thousands).

The book value of Hypo Real Estate Bank International, Dublin, increased by € 339,000 thousands via the acquisition of newly issued shares.

By the acquisition of further shares prior to and relating to the squeeze-out as well as the payment to the additional paid-in capital, the book value of the Württembergische Hypothekenbank AG, Stuttgart, increased by € 106,810 thousands.

The book value of the Hypo Real Estate Bank AG, Munich, increased by € 47,677 thousands by group internal capital transfers.

Loans to affiliated companies The subordinated loan granted in 2003 in the amount of € 200,000 thousands to the Hypo Real Estate Bank International, Dublin, was repaid in 2005.

Accounts receivable and other assets

Receivables from affiliated companies Receivables from affiliated companies were € 334,623 thousands (previous year: € 60,417 thousands). Thereof, € 265,383 thousands relate to the in-phase receipt of the dividends of Hypo Real Estate Bank AG, Munich, and € 68,882 thousands (previous year: € 57,003 thousands) for the receivables from the profit-and-loss transfer agreement with Württembergische Hypothekenbank AG, Stuttgart, for the business year 2005.

Other assets Other assets include, as the largest item, a claim from the reinsurance policy concluded in January 2005 vis-à-vis Allianz Lebensversicherung AG in the amount of € 24,501 thousands.

Remaining maturities All receivables have a remaining maturity of up to one year.

Deferred charges and prepaid expenses This item includes amounts from accrued/deferred discounts in the amount of € 228 thousands (previous year: € 342 thousands).

Equity capital

Subscribed capital The subscribed capital of the Company comprises € 134,072,175 no-par value bearer ordinary shares (WKN 802770), each with a theoretical nominal amount of € 3.00. Preferred bearer shares (3,638,400 no-par shares) without voting rights (WKN 802771) were converted into ordinary shares.

At the end of the year reported, the approved capital is € 201,108,261.00 nominal, which is terminable up to the 3rd June 2009. In the case of capital increases against contributions in kind, the subscription right can be excluded. If the capital is increased against cash deposits, the shareholders are to be granted a subscription right. Thereby, however, the shareholder's subscription right can be excluded for peak amounts.

There is limited conditional capital terminable up to the 3rd June 2009 in the amount of € 40,221,651.00 upon which option rights or conversion rights from treasury bonds with subscription rights to shares can be issued in as much as own shares are not deployed for servicing purposes.

The Management Board has so far not taken advantage of these authorization by the Annual General Meeting 2004.

Participatory capital As part of the spin-off and establishment process, the company took on participatory capital of € 102,258 thousands. The bearer participating certificates comprise two million units, each with a nominal amount of DM 100.

The owners of the participating certificates are entitled to an annual coupon of 6.75 % of the nominal amount; this entitlement enjoys priority over the shareholders' entitlement to a dividend payment. The entitlement to a coupon payment is diminished (non-cumulative entitlement) to the extent that such a coupon payment would result in a net loss.

The nominal amount is due for repayment – subject to any participation in losses – on the day after the shareholders' meeting which is responsible for resolutions with regard to the financial year 2007. Participation in any net loss reduces the entitlement to repayment on a pro-rata basis. Any net profits in subsequent years increase the entitlement to repayment maximum to the nominal amount. All other creditors of the company are ranked higher than the participating certificates. If the company becomes insolvent or is liquidated, payments in relation to the participating certificates shall be made after all other creditors' claims have been settled, and before the rights of shareholders are settled.

During the financial year 2003, the company purchased its own participating certificates worth DM 10,042,800. This amount was deducted from the corresponding position at the liabilities side of the balance sheet. The company did not purchase any more of its own participating certificates during the financial years 2004 and 2005.

Additional paid-in capital By payment of a conversion premium of the Bayerische Landesstiftung from the conversion of the preferred shares without voting rights into ordinary shares with voting rights, the additional paid-in capital increased by € 9,096 thousands.

Retained earnings As of 31st December 2005 € 240,000 thousands were allocated to retained earnings.

Profit available for distribution Profit available for distribution includes the profit carried forward from the previous year in the amount of € 6,811 thousands as well as the allocation to retained earnings of € 240,000 thousands.

Reconciliation between net income and profit available for distribution

in €	2005	2004
Net income	481,441,775.46	17,047,528.32
Profit brought forward from previous year	6,811,488.53	37,387,794.26
Allocation to retained earnings	240,000,000.00	–
Profit available for distribution	**248,253,263.99**	**54,435,322.58**

The following proposals are submitted to the Annual General Meeting as to how the accumulated profits are to be used:

Proposed appropriation of profit available for distribution

in €	Units	Amount per share	Total
Profit available for distribution as of 31.12.2005			**248,253,263.99**
Dividend for ordinary shares	134,072,175	1.00	134,072,175.00
Allocation to retained earning			113,500,000.00
Profit carried forward to new account			**681,088.99**

Provisions

The tax provisons of € 5,009 thousands (previous year: € 5,205 thousands) resulted from the earnings of the Company, including the earnings from the profit-and-loss transfer agreement with the Württembergische Hypothekenbank AG. The minimum taxation valid since the 1st January 2004 results in a tax provision of € 5,009 thousands, since any offsetting against existing capitalised losses carried forward is only possible at a flat rate of 60 %.

The other provisions in the amount of € 8,613 thousands (previous year: € 6,600 thousands) included, amongst other things, provisions for employment and contracts with executive bodies in the amount of € 6,288 thousands (previous year: € 4,459 thousands) as well as provisions for the annual audit in the amount of € 242 thousands (previous year: € 66 thousands).

Liabilities

Remaining maturities and details on collateralisation Liabilities do not contain any amounts with remaining maturities of more than five years. In the year reported, there was no collateralisation via liens on outstanding accounts and similar rights.

List of liabilities in €		Remaining period to maturity up to one year	Remaining period to maturity between one and five years
Deposits from other banks	2005	1,281,444.44	200,000,000.00
	2004	7,501,519.14	200,000,000.00
Accounts payable, trade	2005	349,210.90	
	2004	123,151.84	
Accounts payable to affiliated companies	2005	210,158,437.98	
	2004	9,690,798.61	
Other liabilities	2005	7,001,174.78	
	2004	8,107,134.86	
Thereof: liabilities to holders of participatory rights	2005	6,555,841.26	
	2004	6,555,841.26	
		218,790,268.10	**200,000,000.00**

Off-balance sheet liabilities Relating to the medium term note program, issued by the subsidiary company, Hypo Real Estate Bank International, the Company has assumed an unlimited guarantee in favour of the creditors. The contigent liability is amounting to € 6,183,042 thousands (previous year: € 3,918,226 thousands) on the reference date and contains both the nominal and interest liabilities. Deviating currencies were converted on the reference date.

By updating the prospectus, the Company no longer assumes any guarantee for treasury bonds issued after the end of April 2005.

D. Notes to the income statement

Other operating income The largest item in other operating income results from the sale of shareholdings of Hypo Real Estate Bank AG, amounting to € 47,677 thousands. In addition there is also income included from the forward invoicing of services in the amount of € 1,865 thousands (previous year: € 2,397 thousands).

Other operating expenses Apart from insurance, contributions and charges in the amount of € 1,943 thousands (previous year: € 1,815 thousands), other operating expenses included disbursements for legal, tax and other consultancy services. For the financial year, the annual auditor for the Company received a fee in the amount of € 1,191 thousands (previous year: € 684 thousands). The breakdown of this is as follows:

- € 587 thousands for Audit of the Annual Financial Statements, of the Group's Annual Financial Statements as well as the review of the Interim Financial Statements
- € 214 thousands for other affirmation or assessment services
- € 15 thousands for tax consultancy services
- € 375 thousands for other services.

Furthermore, relating to the ordinary business activities at Hypo Real Estate Bank AG, a tax-free allowance in the amount of € 13,000 thousands was attained.

Income from investments Due to the in-phase capitalisation of a dividend claim against the Hypo Real Estate Bank AG, income of € 265,383 thousands was recorded. Furthermore, an advance dividend distribution by the Hypo Real Estate Bank International in the amount of € 205,000 thousands took place in the financial year.

Income and expenses arising from profit-and-loss transfer Based upon the profit-and-loss transfer agreement concluded between the Württembergische Hypothekenbank AG and the Hypo Real Estate Holding AG, a profit in the amount of € 68,882 thousands (previous year: € 57,003 thousands) was transferred in the reporting year. This was opposed by disbursements relating to a tax-free deposit in the amount of € 53,000 thousands (previous year: € 30,000 thousands).

Extraordinary result The extraordinary expenses only include restructuring expenses, which result from consultancy services relating to the new structure (transfer of the international real estate financing portfolio of the Hypo Real Estate Bank International to the Württembergische Hypothekenbank AG) of the Hypo Real Estate Group.

Taxes on income imposed on result for ordinary activities and extraordinary result Relating to the spin-off, a corporation tax and trade tax loss was transferred to Hypo Real Estate Holding AG. Despite the further availability of the loss carry forwards the minimum taxation rules which have been applicable since 1st January 2004, mean that tax expenses totalling € 8,496 thousands have been incurred.

E. Additional information

Liability The Company has provided the loss indemnification statement for Württembergische Hypothekenbank AG and Hypo Real Estate Bank AG specified in accordance with prevailing statutes to the Einlagensicherungsfonds (desposit guarantee fund) within the Bundesverband deutscher Banken e.V., Berlin.

Furthermore the company has provided a full guarantee for the debt instruments issued as part of the medium term note program (issue framework € 10,000,000 thousands) of Hypo Real Estate Bank International, which, due to the new structure of the Hypo Real Estate Group, is only valid for debt instruments issued up to the end of April 2005.

Other financial obligations There are no other financial obligations.

Average number of persons employed during the financial year, broken down by categories In the year under review, Hypo Real Estate Holding AG employed 59 persons (previous year: 58). 55 persons (previous year: 54) of this figure were full-time employees and four persons (previous year: four) were part-time employees.

Mandates of the Management Board

as of 31.12.2005	Positions held on other statutory Supervisory Boards of German companies	Membership of comparable controlling bodies of commercial enterprises in Germany and in other countries
Georg Funke	Hypo Real Estate Bank AG, Munich (Chairman of the Supervisory Board)	
	Württembergische Hypothekenbank AG, Stuttgart (Chairman of the Supervisory Board)	
Stephan Bub	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board)	Hypo Pfandbrief Bank International S.A., Luxembourg (Member of the Administrative Board, since 24.10.2005 Chairman of the Administrative Board)
	Collineo Asset Management GmbH, Dortmund (Chairman of the Administrative Board since 11.1.2005)	HI Capital Markets, Inc., New York/USA renamed as Hypo Capital Markets, Inc. (Chairman of the Board)
		HI Asset Management, Inc., New York/USA renamed as Hypo Public Finance USA, Inc. (Chairman of the Board)
		HARDT GROUP Investments AG, Vienna/Austria (Deputy Chairman of the Supervisory Board since 24.5.2005)
Dr. Paul Eisele	Hypo Real Estate Bank AG, Munich (Deputy Chairman of the Supervisory Board)	Hypo Real Estate Bank International, Dublin/Ireland to be renamed as Hypo Public Finance Bank (Chairman of the Board since 1.10.2005)
		Hypo Pfandbrief Bank International S.A., Luxembourg (Member of the Administrative Board until 30.11.2005)
Dr. Markus Fell	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board)	Hypo Real Estate Bank International to be renamed as Hypo Public Finance Bank, Dublin/Ireland (Non-Executive Member of the Board since 1.10.2005)
	Württembergische Hypothekenbank AG, Stuttgart (First Deputy Chairman of the Supervisory Board)	Hypo Pfandbrief Bank International S.A., Luxembourg (Member of the Administrative Board until 30.11.2005)
	Collineo Asset Management GmbH, Dortmund (Member of the Administrative Board from 11.1.2005 until 31.12.2005)	Hypo Real Estate Capital Ltd., London/Great Britain (Director)
		Hypo Real Estate Capital Japan Corp., Tokyo/Japan (Director since 15.2.2005)
		Hypo Real Estate Capital France S.A., Paris/France (Member of the Supervisory Board until 10.2.2005, Deputy Chairman of the Supervisory Board until 30.9.2005)
		Hypo Real Estate Capital Corp., New York/USA (Director until 30.11.2005)
Frank Lamby	Collineo Asset Management GmbH, Dortmund (Member of the Administrative Board from 11.1.2005 until 31.12.2005)	Hypo Real Estate Capital Iberia S.L., Madrid/Spain (Chairman of the Board until 3.1.2005)
		Hypo Real Estate Capital Ltd., London/Great Britain (Director until 10.1.2005)
		Hypo Real Estate Capital France S.A., Paris/France (Chairman of the Supervisory Board until 10.2.2005)

Mandates of the Supervisory Board

as of 31.12.2005	Positions held on other statutory Supervisory Boards of German companies	Membership of comparable controlling bodies of commercial enterprises in Germany and in other countries
Kurt F. Viermetz	Deutsche Börse AG, Frankfurt am Main (Member of the Supervisory Board since 12.7.2005, Chairman of the Supervisory Board since 10.10.2005)	Hypo Real Estate Bank International, Dublin/Ireland (Chairman of the Board until 30.9.2005)
	ERGO-Versicherungs-AG, Düsseldorf (Member of the Supervisory Board)	
	E.ON-Ruhrgas AG, Essen (Member of the Supervisory Board until 31.12.2005)	
Professor Dr. Klaus Pohle	DWS Investment GmbH, Frankfurt am Main (Member of the Supervisory Board)	COTY Inc., New York/USA (Non-Executive Member of the Board)
		Sanofi-Aventis S.A., Paris/France (Administrateur)
Dr. Ferdinand Graf v. Ballestrem	SHW GmbH, Aalen-Wasseralfingen (Chairman of the Supervisory Board until 30.9.2005)	MAN Capital Corporation, New York/USA (Chairman of the Board of Directors until 31.12.2005)
	Renk AG, Augsburg (Deputy Chairman of the Supervisory Board)	MAN Financial Services plc., Swindon/Great Britain (Chairman of the Board of Directors)
	MAN Technologie AG, Augsburg (Deputy Chairman of the Supervisory Board until 30.6.2005)	
	MAN Roland Druckmaschinen AG, Augsburg/Offenbach (Member of the Supervisory Board)	
	Bayerische Versicherungsbank AG, Unterföhring (Member of the Supervisory Board)	
Antoine Jeancourt-Galignani		Société Nationale d'Assurances Group S.A.L., Beirut/Lebanon (Chairman of the Board)
		Euro Disney S.C.A, Marne-La-Vallée/France (Chairman of the Supervisory Board)
		Gecina S.A., Paris/France (Director)
		Assurances Générales de France S.A., Paris/France (Director)
		Société Générale S.A., Paris/France (Director)
		Total S.A., Paris/France (Director)
		Kaufman & Broad S.A., Paris/France (Director)
		Oddo & Cie S.C.A., Paris/France (Member of the Supervisory Board)
		Jetix Europe N.V., Hilversum/The Netherlands (Member of the Supervisory Board until 30.9.2005)

Mandates of the Supervisory Board

as of 31.12.2005	Positions held on other statutory Supervisory Boards of German companies	Membership of comparable controlling bodies of commercial enterprises in Germany and in other countries
Dr. Pieter Korteweg		DaimlerChrysler Nederland B.V., Utrecht/The Netherlands (Non-Executive Member of the Supervisory Board)
		Dutch Central Bureau of Statistics (CBS), Rijswijk/The Netherlands (Chairman of the Supervisory Board)
		Cerberus Global Investment Advisors, LLC, Baarn/The Netherlands (Senior Advisor)
		SSA Global Technologies Inc., Chicago/USA (Non-Executive Member of the Board)
		Aozora Bank Ltd., Tokyo/Japan (Non-Executive Member of the Board)
		Development Fund Netherlands Antilles (SONA), The Hague/The Netherlands (Executive Member of the Board)
		AerCap B.V., Schiphol/The Netherlands (Chairman of the Board since 20.9.2005)
Robert H. Mundheim		Shearman & Sterling LLP, New York/USA (Of Counsel)
		Arnhold and S. Bleichroeder Holdings, Inc., New York/USA (Director)
		eCollege.com, Inc., Chicago/USA (Director)

Consolidated remuneration paid to members of Hypo Real Estate Holding AG's Management Board in € thousand	2005				2004
	Basic salary	General expenses[1]	Profit-related components[2]	Total	Total
Georg Funke, chairman	750	128	2,000	2,878	2,551
Johann Berger (Board member until 8 December 2004)	—	—	—	—	1,074
Stephan Bub (Board member from 1 December 2005)	420	45	750	1,215	—
Dr. Paul Eisele	400	46	900	1,346	1,127
Dr. Markus Fell	420	62	900	1,382	1,233
Frank Lamby	420	45	900	1,365	1,233
Total[3]	**2,410**	**326**	**5,450**	**8,186**	**7,218**

[1] Includes, within limits, general expenses for fringe benefits, which underly taxation and abroad also social security
[2] Profit-related remuneration for the year 2005 but only paid in 2006
[3] In addition individual contracts for pension commitments exist amounting to a percentage of the annual fixed remuneration

Consolidated remuneration paid to members of Hypo Real Estate Holding AG's Supervisory Board in € thousand	2005					2004
	Basic compensation	Compensation for function in the Nomination Committee	Remuneration for function in the Audit Committee	Value added tax	Total	Total
Kurt F. Viermetz, chairman	90	12	—	16	118	
Dr. Ferdinand Graf von Ballestrem	60	—	10	11	81	
Antoine Jeancourt-Galignani	60	—	10	11	81	
Dr. Pieter Korteweg	60	6	—	11	77	
Robert H. Mundheim	60	—	—	10	70	
Prof. Dr. Klaus Pohle	75	6	20	16	117	
Total	**405**	**24**	**40**	**75**	**544**	**419**

Remuneration paid to members of the Management Board of directly owned subsidiaries as well as divisional directors of Hypo Real Estate Holding AG (Senior Management) in € thousand	2005			2004
	Total fixed remuneration[1]	Profit-related components[2]	Total	Total
	3,301	4,478	7,779	**6,521**

[1] Includes, within limits, general expenses for fringe benefits, which underly taxation and abroad also social security
[2] Profit-related remuneration for the year 2005 but only paid in 2006

Of the expenses incurred for the members of the Management Board, € 4,260 thousands have affected income at Hypo Real Estate Holding AG.

In 2005, the members of the Supervisory Board did not receive any remuneration for personal services. On the reference date for the financial statements, there were no receivables in respect of members of the Supervisory Board members.

Rent guarantees issued in 2004 for two members of the Management Board are still in effect.

The following table sets out shares and share derivatives of Hypo Real Estate Holding AG which have been purchased or sold by members of the Supervisory Board and Management Board of Hypo Real Estate Holding AG in accordance with the disclosure obligation pursuant to section 15 a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) (Directors' dealings):

Directors' Dealings (§ 15 a WpHG)

	Prof. Dr. Klaus Pohle	Prof. Dr. Klaus Pohle
Function as Member of the Executive bodies	Member of the Supervisory Board	Member of the Supervisory Board
Type of transaction	Sale	Sale
Discription of financial instrument	Discount certificate	Discount certificate
ISIN/WKN of financial instrument	DE000DB3YV90/DB3YV9	DE000DR0AGY2
Date of transaction	18.3.2005	23.8.2005
Place of transaction	Frankfurt	Frankfurt
Price	23.77 €	27.33 €
Number of items	12,000	9,000
Discription of underlying financial instrument	Hypo Real Estate Holding AG bearer shares	Hypo Real Estate Holding AG bearer shares
ISIN/WKN	DE0008027707/802770	DE0008027707/802770
Strike price	24.00 €	27.50 €
Price multiplier	1:1	1:1
Expiration date	15.6.2005	16.9.2005

On 31 December 2005, the members of the Management Board and the Supervisory Board together held less than 1% of the total shares issued by Hypo Real Estate Holding AG. Georg Funke holds a total number of 30,876 shares. The stock of Kurt F. Viermetz amounts to 50,000 shares.

Group membership

Name and registered offices of companies in which the company owns at least 20% as well as details of the extent of the capital stake, shareholders' equity and result of the last financial year for which financial statements are available. The list of shareholdings of Hypo Real Estate Holding AG as of 31 December 2005 is enclosed as an appendix. It has additionally been deposited with the commercial register, where it is available for inspection.

Name, registered offices and legal form of the companies where the company is the shareholder with unlimited liability. Hypo Real Estate Bank International, Dublin, Ireland.

Hypo Real Estate Holding AG, Munich

München, 7 March 2006

Georg Funke Stephan Bub Dr. Paul Eisele Dr. Markus Fell Frank Lamby

Development of Fixed Assets	Aquisition/production costs				
in €	Balance 1.1.2005	Additions	Disposals	Reclassifications	Balance 31.12.2005
Intangible assets					
Licenses and software	453.978,33	182.141,74	—	575.046,25	1.211.166,32
Advances paid on intangible assets	396.156,25	178.890,00	—	−575.046,25	—
	850.134,58	361.031,74	—	—	1.211.166,32
Property, plant and equipment					
Operational and office equipment	940.285,85	652.837,74	22.074,30		1.571.049,29
	940.285,85	652.837,74	22.074,30	—	1.571.049,29
Financial assets					
Shares in affiliated companies	3.874.079.938,25	645.559.933,28	152.073.460,98		4.367.566.410,55
Loans to affiliated companies	200.000.000,00	—	200.000.000,00		—
	4.074.079.938,25	645.559.933,28	352.073.460,98	—	4.367.566.410,55
	4.075.870.358,68	**646.573.802,76**	**352.095.535,28**	**—**	**4.370.348.626,16**

Depreciation/Amortisation				Carrying amounts	
Balance 1.1.2005	Depreciation/ Amortisation of the financial year	Disposals	Balance 31.12.2005	1.1.2005	31.12.2005
194.997,33	188.279,74	—	383.277,07	258.981,00	827.889,25
—	—	—	—	396.156,25	—
194.997,33	188.279,74	—	383.277,07	655.137,25	827.889,25
287.440,09	316.188,12	22.074,30	581.553,91	652.845,76	989.495,38
287.440,09	316.188,12	22.074,30	581.553,91	652.845,76	989.495,38
1.000.000,00	—	—	1.000.000,00	3.873.079.938,25	4.366.566.410,55
—	—	—	—	200.000.000,00	—
1.000.000,00	—	—	1.000.000,00	4.073.079.938,25	4.366.566.410,55
1.482.437,42	**504.467,86**	**22.074,30**	**1.964.830,98**	**4.074.387.921,26**	**4.368.383.795,18**

Holdings of Hypo Real Estate Holding AG	Interest in % total Sec. 16 (4) Stock Corp. Act	Interest in % of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
Subsidiaries							
Consolidated subsidiaries							
Domestic banks and financial institutions							
Hypo Real Estate Bank AG, Munich	100.00	—	€	74,971,465	2,101,469	51,942	—
Württembergische Hypotheken-bank AG, Stuttgart	100.00	—	€	36,233,916	734,529	[1]	—
Foreign banks and financial institutions							
Hypo Capital Markets Inc., New York	100.00	100.00	US $	6,702	5,612	471	—
Hypo Pfandbrief Bank International S.A., Luxembourg	99.99	99.99	€	7,136,450	99,796	4,567	—
Hypo Public Finance USA Inc., New York	100.00	100.00	US $	67,858	8,165	3,025	—
Hypo Real Estate Bank International, Dublin	99.99	—	€	27,199,150	1,803,908	177,322	—
Hypo Real Estate Capital Hong Kong Corp. Limited, Hongkong	100.00	100.00	HKD	608,578	9,560	−440	—
Other consolidated subsidiaries							
Hypo Real Estate Transactions S.A.S., Paris	100.00	100.00	€	211,955	40	−12	—
Hypo Property Investment (1992) Ltd., London	100.00	50.00	GB £	54	—	—	—
Hypo Property Investment Ltd., London	100.00	100.00	GB £	507	334	51	—
Hypo Property Participation Ltd., London	100.00	100.00	GB £	478	200	148	—
Hypo Property Services Ltd., London	100.00	100.00	GB £	100	100	−1	—
Hypo Real Estate Capital Corp., New York (sub-group)	100.00	100.00	US $	4,213,790	278,953	41,390	—
Hypo Real Estate Capital Japan Corp., Tokyo	100.00	100.00	JP ¥	122,644,514	12,222,355	986,660	—
Hypo Real Estate Capital Ltd., London (sub-group)	100.00	100.00	GB £	67,008	61,651	14,290	—
Hypo Real Estate Investment Banking Ltd., London	100.00	100.00	GB £	467	200	−152	—
Isar East 60th Street LLC, New York	100.00	100.00	US $	6,639	—	—	—
Isar Gotham West 38th Street LLC, New York	100.00	100.00	US $	6,539	1	—	—
Isar RP Member LLC, New York	100.00	100.00	US $	—	1	—	—
Isar Two Columbus LLC, New York	100.00	100.00	US $	806	—	—	—
Liffey 451 LLC, New York	100.00	100.00	US $	40,114	2,271	1,415	—
The Greater Manchester Property Enterprise Fund Ltd., London	100.00	100.00	GB £	126	123	110	—
Zamara Investments Ltd., Gibraltar	100.00	100.00	GB £	9,927	9,927	472	—
Non-consolidated subsidiaries							
Other non-consolidated subsidiaries							
Collineo Asset Management GmbH, Dortmund	100.00	100.00	€	12,410	10,000	843	—
Frappant Altona GmbH, Munich	94.00	94.00	€	11,143	25	[2]	—
FUNDUS Gesellschaft für Grundbesitz und Beteiligungen mbH, Munich	94.00	94.00	€	4,563	904	[1]	—
GfA-Gesellschaft für Anwendungs-software mbH, Stuttgart	66.66	66.66	€	5,528	1,703	962	1.1.–31.12.2004

[1] Profit/loss-transfer to partners due to profit-and-loss-transfer agreement
[2] Profit/loss-transfer to Meridies Grundbesitz- und Bebauungsgesellschaft mbH, Munich due to profit-and-loss-transfer agreement

Holdings of Hypo Real Estate Holding AG	Interest in % total Sec. 16 (4) Stock Corp. Act	of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
GfI-Gesellschaft für Immoblilien-entwicklung und -verwaltung mbH, Stuttgart	100.00	100.00	€	365	151	99	1.1.–31.12.2004
GfR-Gesellschaft für Rechen-zentrumsleistungen mbH, Stuttgart	100.00	100.00	€	3,362	2,173	1,004	1.1.–31.12.2004
GGV Gesellschaft für Grundbesitz-verwaltung und Immobilien-Management mbH, Munich	93.95	93.95	€	3,945	2,072	[1]	—
Hypo Dublin Properties Limited, Dublin	100.00	100.00	€	161	–181	–11	1.1.–31.12.2004
IMMO Immobilien Management Beteiligungsgesellschaft mbH, Munich	100.00	100.00	€	32	30	–1	—
IMMO Immobilien Management GmbH & Co. KG, München	94.00	94.00	€	101,120	–1,197	–13,948	—
IMMO Invest Gewerbe GmbH, Munich	100.00	100.00	€	26	26	[1]	—
IMMO Invest Real Estate GmbH, Munich	100.00	100.00	€	29	28	[1]	—
IMMO Invest Wohnwirtschaft GmbH, Munich	100.00	100.00	€	23	23	[1]	—
IMMO Trading GmbH, Munich	100.00	100.00	€	1,374	525	[1]	—
Meridies Grundbesitz- und Bebau-ungsgesellschaft mbH, Munich	94.00	94.00	€	4,111	78	[1]	—
PBI-Beteiligungs-GmbH i.L., Munich	100.00	100.00	€	51,806	51,529	65	1.1.–31.12.2004
Ragnarök Vermögensverwaltung AG & Co. KG, Munich	94.00	94.00	€	72,627	–2,577	–2,577	—
WestHyp Finance B.V., Amsterdam	100.00	100.00	€	713	681	–65	1.1.–31.12.2003
WestHyp Immobilien Holding GmbH, Dortmund	100.00	100.00	€	1,361	894	270	1.1.–31.12.2004
WGS Wohn- und Grundbesitz Stendal GmbH, Stendal	100.00	100.00	€	9,562	46	6	1.1.–31.12.2004
WH-Erste Grundstücks Verwaltungs GmbH, Waltersdorf	100.00	100.00	€	279	217	117	1.1.–31.12.2004
WH-Erste Grundstücks GmbH & Co. KG, Waltersdorf	94.00	94.00	€	194,431	130,072	3,304	1.1.–31.12.2004
WH-Zweite Grundstücks Verwaltungs GmbH, Waltersdorf	100.00	100.00	€	21	20	–4	1.1.–31.12.2004
WH-Zweite Grundstücks GmbH & Co. KG, Waltersdorf	100.00	94.00	€	58,640	58,628	–12,359	1.1.–31.12.2004
WHI Württemberger Hypo Immo-bilienbewertungs- und Beratungs-gesellschaft mbH, Stuttgart	100.00	100.00	€	311	156	55	1.1.–31.12.2004
Other investments							
Banks and other financial institutions							
Stuttgarter Volksbank AG, Stuttgart	0.18	0.18	€	1,659,426	115,621	2,434	1.1.–31.12.2004
Other comapnies							
Aerodrom Bureau Verwaltungs GmbH, Berlin	32.00	32.00	€	608	—	22	1.1.–31.12.2003
Ägir Vermögensverwaltung GmbH & Co. KG, Munich	0.01	0.01	€	27,017	26,714	815	31.12.2004

[1] Profit/loss-transfer to partners due to profit-and-loss-transfer agreement

Holdings of Hypo Real Estate Holding AG	Interest in % total Sec. 16 (4) Stock Corp. Act	of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
Airport Bureau Verwaltungs GmbH, Berlin	32.00	32.00	€	206	151	169	1.1.–31.12.2003
Amorfos Grundstücksgesellschaft mbH & Co. KG, Berlin	2.50	2.50	€	34,723	–12,350	906	1.1.–31.12.2004
Bayerische Landessiedlung GmbH, Munich	2.94	2.94	€	265,327	69,516	13,562	1.1.–31.12.2004
Burleigh Court (Barnsley) Management Limited, London	20.00	20.00	GB £	—	—	—	
Deutsches Theater Grund- und Hausbesitz GmbH, Munich	3.30	3.30	€	11,980	2,323	–233	1.1.–31.12.2004
GWG Gemeinnützige Wohnstätten- und Siedlungsgesellschaften mbH, Munich	>0	>0	€	883,380	169,069	832	1.1.–31.12.2004
Illit Grundstücks-Verwaltungs-gesellschaft mbH & Co. KG, Grünwald	5.00	5.00	€	71,779	–13,971	–1,633	1.1.–31.12.2004
Inula Grundstücks-Verwaltungs-gesellschaft mbH & Co. KG, Grünwald	10.00	10.00	€	112,594	–45,833	–2,689	1.1.–31.12.2003
Kaufhof plus Grundstücksvermietungs-gesellschaft mbH & Co. Objekt Bahnhof Berlin KG, Düsseldorf	5.02	5.02	€	44,868	–10,103	1,325	1.1.–31.12.2004
KOROS Grundstücks-Verwaltungs GmbH & Co. KG, Grünwald	2.50	2.50	€	21,850	—	183	1.1.–31.12.2004
LEG Landesentwicklungsgesellschaft Nordrhein-Westfalen GmbH, Düsseldorf	>0	>0	€	1,385,255	191,409	–27,052	1.1.–31.12.2004
LHI Immobilienfonds Verwaltungs GmbH & Co. Objekt Hettstedt KG, Munich	5.09	5.09	€	14,634	–3,753	645	1.1.–31.12.2004
Projektentwicklung Schönefeld Verwaltungsgesellschaft mbH, Stuttgart	50.00	50.00	€	29	28	2	1.1.–31.12.2004
SANO Grundstücks-Vermietungs-gesellschaft mbH & Co. Objekt Dresden KG, Düsseldorf	33.33	33.33	€	16,433	–3,555	–456	1.1.–31.12.2004
SOMA Grundstücks-Vermietungs-gesellschaft mbH & Co. Objekt Darmstadt KG, Düsseldorf	33.33	33.33	€	34,494	–5,480	–677	1.1.–31.12.2004
SP Projektentwicklung Schönefeld GmbH & Co. KG, Stuttgart	50.00	50.00	€	30,328	29,406	192	1.1.–31.12.2004
Vierte Airport Bureau Center KG Airport Bureau Verwaltungs GmbH & Co., Berlin	32.00	32.00	€	13,892	898	–158	1.1.–31.12.2004
WILMA Bouwfonds Bauprojekte GmbH & Co. „An den Teichen“ KG, Ratingen	5.00	5.00	€	307	123	–59	1.1.–31.12.2004
Wisus Beteiligungs GmbH & Co. Zweite Vermietungs-KG, München	33.00	33.00	€	12,672	–3,381	–190	1.1.–31.12.2004

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of the Hypo Real Estate Holding AG, München, for the business year from 1 January 2005 to 31 December 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ["Handelsgesetzbuch: German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in determination of audit procedures. The effectiveness of the accounting related internal control system and evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 15 March 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Paskert	Techet
Wirtschaftsprüfer	Wirtschaftsprüfer

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