Hypo Real Estate
BANK INTERNATIONAL

Structured for finance

A member of Hypo Real Estate Group

Q1

Interim Report

For the three months to 31st March, 2005

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Directors and Other Information

Directors	Mr. K. F. Viermetz* (German) - Chairman
	Mr. J. Donnelly* - Deputy Chairman
	Mr. G. Funke (German) - Chief Executive Officer
	Dr. J. Bourke*
	Mr. S. Bub (American)
	Mr. E. Dettinger-Klemm (German)
	Dr. M. Fell (German)
	Mr. J. Fenk (German)
	Mr. S. Musgrave* (British)
	Mr. T. Quinn* (American)
	**Non Executive*
Secretary	Mr. W. Ramm
Registered office	International House 3 Harbourmaster Place International Financial Services Centre Dublin 1
Auditors	KPMG Chartered Accountants 1 Harbourmaster Place International Financial Services Centre Dublin 1
Principal bankers	JP Morgan Chase 1 Chaseside Bournemouth Dorset BH7 7DA England
Solicitors	Arthur Cox Earlsfort Centre Earlsfort Terrace Dublin 2

Financial Highlights

Financial Highlights

Operating performance (in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Net income before taxes	63	46
Net income	47	33

Key ratios (in %)	31.3.2005	31.12.2004
Return on equity after taxes[1]) (in %)	12.0	10.2
Cost-income ratio (based on operating revenues)	36.3	37.3

Balance sheet figures (in € billions)	31.3.2005	31.12.2004
Total assets	25.5	24.0
Shareholders´ equity	1.8	1.6

Key capital ratios (per BIS)	31.3.2005	31.12.2004
Core capital (in Bn €)	1.8	1.6
Equity funds (in Bn €)	2.5	2.4
Risk assets (in Bn €)	17.8	17.3
Core capital ratio (in %)	10.1	9.2
Equity funds ratio (in %)	13.0	12.6

Personnel	31.3.2005	31.12.2004
Employees	499	504

Ratings

	Moody´s	S & P	Fitch
Long-term/Short-term/Outlook	A3/P-2/positive	A-/A-2/stable	-

Business Development

OVERVIEW

In the first quarter of 2005 the Group has continued the successful performance seen in 2004.

Operations performed in line with our ambitious expectations. We have made good progress with important strategic tasks, in particular:-

– the expansion of international business,
– refinancing, and
– in organisational measures designed to boost group efficiency and sales performance.

During the 1st quarter of the year, business has been steady and we have achieved €2.3 billion of new real estate financing business, which was close to the ambitious (pro-rata) target. In the period under review, an initial transaction in Russia has been completed, in line with strict risk requirements. This is proof that Hypo Real Estate Bank International has the flexibility to respond to the increasing demand from international investors to operate in this market. Another first for the Group was the arrangement of finance for an office property in France, for an Islamic bank in Qatar. This was in accordance with Islamic Sharia law. This deal demonstrates the Group's ability to respond to individual customer needs. The overall portfolio showed only slight net growth in the 1st quarter as a result of high repayments.

The Group has greatly increased the advantage taken from our core markets such as the USA, Great Britain and France and we have also entered new markets. We still intend to write new business of around € 10 billion in 2005.

The positive developments in the business have further improved the refinancing situation, enhancing the balance sheet structure. The Medium Term Note Programme, which was set up in 2004, has been extended by a further € 5 billion in order to meet the needs of new business which continues to grow. In the 1st quarter, seven tranches have already been issued with a total volume of € 2.3 billion.

It is essential for the Group to respond rapidly and in a flexible manner to new market requirements. While the Group's business model as an international financier of large-volume commercial real estate has stood the test of time and is stable, the processes and structures which are used, may change. Hence, the organisational structure of Hypo Real Estate Bank International was changed at the start of this year. The global real estate financing business with its local entities has now been broken down into the three regions of Europe, America and Asia, and the management of each region has been combined in a single entity. For Europe, this concentration of forces, has taken place at our location in London, and takes account of the increasing significance of cross-border financing arrangements. 70 % of the Group's business in Europe last year, was conducted with internationally operating investors. Of these investors, almost 90 % are based in London. This new structure, which combines the responsibility which had previously been vested in the individual European branches, now allows the Group to be closer to its customers.

DEVELOPMENT OF EARNINGS

Net income before taxes amounted to € 63 million in the 1st quarter of 2005, and thus was on schedule (on a pro-rata basis) to meet the budgeted range for 2005, of between € 250 and € 270 million.

(in €millions)	First Quarter 2005	1/4 of Budget 2005	Budget 2005
Net income before taxes	63	63 to 68	250 to 270

Compared with the first quarter of 2004 (€ 46 million), net income before taxes has increased by € 17 million. After taxes of € 16 million, net income is € 47 million (1st quarter 2004: € 33 million), which is equivalent to an increase in the return on equity in the segment of 10.2 % in 2004 to 12.0%.

Operating revenues (including net income from investments) increased from € 83 million in the first quarter of 2004 to € 102 million, as a result of international expansion and the associated growth in the Group's portfolio. Similarly, net interest income increased by € 15 million to € 65 million, but net commission income of € 29 million is down € 3 million compared with the corresponding period in 2004. Net trading income of € 7 million was generated primarily in the "Capital Markets" segment, which had yet to start operations in the first quarter of 2004.

There were no individual allowances for losses on loans and advances in the segment in the 1st quarter 2005. € 2 million were allocated to loan-loss provisions (compared with € 11 million in the first quarter of 2004) as IAS 39 (revised 2003) has limited the requirement for such provisions with a new definition of portfolio-based allowances.

As a result of international expansion and the newly established "Capital Markets" segment, general administrative expenses increased to € 37 million compared to € 26 million in the first quarter of 2004. The cost-income ratio was accordingly 36.3% compared with 37.3% in 2004.

Business Development

Key Financials

Operating Performance (in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Operating revenues	102	83
Provisions for losses on loans and advances	(2)	(11)
General administrative expenses	(37)	(26)
Balance of other income and expenses	0	0
Net income before taxes	63	46
Net income	47	33

Key Ratios (%)	1.1.-31.3.2005	1.1.-31.3.2004
Return on equity after taxes[1]) (in %)	12.0	10.2
Cost-income ratio (based on operating revenues)	36.3	37.3

Key Indicators Compliant with BIS Rules	31.3.2005	31.12.2004
Total volume of lending (in Bn €)	17.9	17.8
Risk assets (in Bn €)	17.8	17.3
Core capital ratio (in %)	10.1	9.2
Employees	499	504

Business Development

Portfolio Development

The credit portfolio, (which is distinguished from the lending volume noted previously with the inclusion of undrawn loan commitments and bonds), amounted to € 23.6 billion as of 31 March 2005, and was € 0.8 billion higher after maturities and repayments compared with 31 December 2004. The figure also includes € 0.5 billion for US business and € 0.9 billion for business in Great Britain; these figures are recorded at Württembergische Hypothekenbank but are guaranteed by Hypo Real Estate Bank International. Real estate financing accounted for approximately € 17.9 billion (76 %), and public sector financing, including bonds and debt securities held by Hypo Pfandbrief Bank International (HPBI) accounted for an unchanged € 5.7 billion (24 %) (see also following diagrams).

The volume of new real estate financing business with professional investors and property developers amounted to € 2.3 billion in the first three months of the current financial year. It is accordingly slightly behind the pro-rata budgeted figure due to seasonal factors.

However, the volume of new business shows a much better start to the year than was seen in the first quarter of 2004. European business accounted for € 1.4 billion, and business in America and Asia accounted for € 0.9 billion. The transactions feature a sound risk and return ratio.

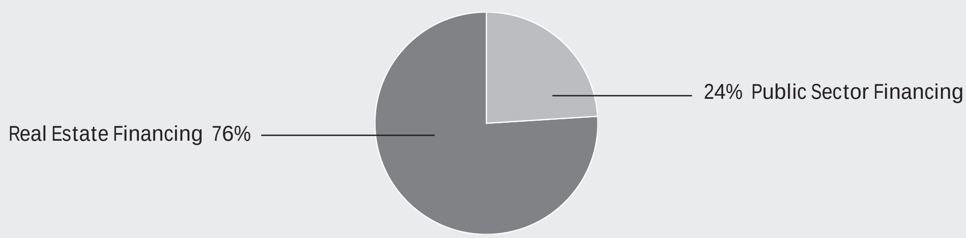
An average interest margin of more than 140 basis points was achieved across all new real estate financing business.

Europe accounts for 70% of the real estate portfolio, spread mainly over Great Britain, France, Spain, Italy, Scandinavia and the CEE countries. America and Asia account for 30 % of the real estate financing portfolio. “Others” include financing arrangements in China, Switzerland, Russia, Ireland, etc. None of these countries accounts for more than 1% of the total portfolio.

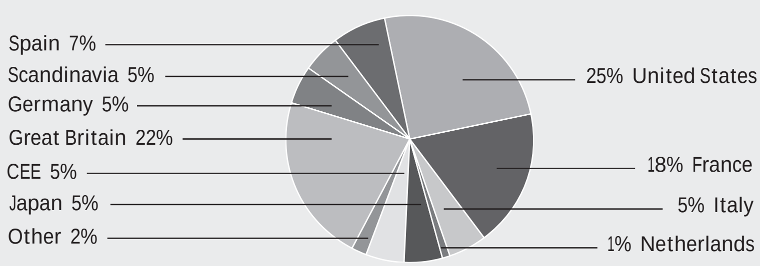
In line with our strategy, office buildings and retail premises are predominant in the analysis of the portfolio by type of financed premises, and are also the main contributor to the “Mixed use” category.

Business Development

Total Loan Portfolio as at 31 March 2005

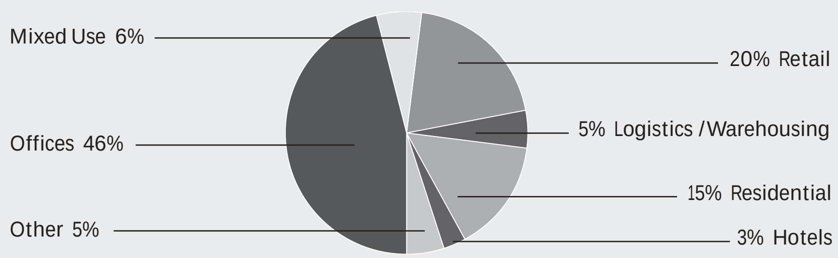


Real Estate Financing Portfolio by Region as at 31 March 2005



Business Development

Real Estate Financing Portfolio by Property Type as at 31 March 2005



Results

Income Statement for the Quarter to 31st March, 2005

(in € millions)	Notes	1.1.-31.3.2005	1.1.-31.3.2004	Change in Mio. €	in %
Interest income	1	434	271	163	+60.1
Interest expenses	1	(369)	(221)	(148)	+67.0
Net interest income	**1**	**65**	**50**	15	+30.0
Provisions for losses on loans and advances	2	(2)	(11)	9	-81.8
Net interest income after provisions for losses on loans and advances		**63**	**39**	24	+61.5
Commission income		32	38	(6)	-15.8
Commission expenses		(3)	(6)	3	-50.0
Net commission income		**29**	**32**	(3)	-9.4
Net trading income	3	7	0	7	>100.0
General administrative expenses	4	(37)	(26)	(11)	+42.3
Balance of other operating income/expenses	5	1	1	0	+0.0
Operating profit/loss		**63**	**46**	17	+37.0
Balance of other income/expenses		0	0	0	-
Net income before taxes		**63**	**46**	17	+37.0
Taxes on income	7	(16)	(13)	(3)	+23.1
Net income		**47**	**33**	14	+42.4

Results

Balance Sheet as at 31st March, 2005

Assets					
(in € millions)	**Notes**	**31.3.2005**	**31.12.2004**	**Change in Mio. €**	**in %**
Cash reserve		47	44	3	+6.8
Assets held for trading purposes		1,581	1,513	68	+4.5
Placements with, and loans and advances to, other banks		1,636	1,608	28	+1.7
Loans and advances to customers		11,972	11,214	758	+6.8
Allowances for losses on loans and advances	9	(73)	(72)	(1)	+1.4
Investments	10	9,566	8,666	900	+10.4
Intangible assets		14	13	1	+7.7
Property, plant and equipment		7	8	(1)	-12.5
Other assets		535	787	(252)	-32.0
Tax assets		202	212	(10)	-4.7
Total assets		**25,487**	**23,993**	1,494	+6.2

Equity and Liabilities

(in € millions)	**Notes**	**31.3.2005**	**31.12.2004**	**Change in Mio. €**	**in %**
Deposits from other banks	11	8,670	9,457	(787)	-8.3
Amounts owed to other depositors	12	258	281	(23)	-8.2
Promissory notes and other liabilities evidenced by securities	13	11,478	9,422	2,056	+21.8
Liabilities held for trading purposes		1,171	927	244	+26.3
Provisions	14	2	2	0	+0.0
Other liabilities		1,148	1,335	(187)	-14.0
Tax liabilities		220	230	(10)	-4.3
Subordinated capital	15	703	752	(49)	-6.5
Liabilities		**23,650**	**22,406**	1,244	+5.6
Shareholders´ equity		**1,837**	**1,587**	250	+15.8
Subscribed capital		1,610	1,410	200	+14.2
Retained earnings		193	42	151	>100.0
Revaluation reserve					
AfS reserve		(13)	(14)	1	-7.1
Consolidated profit - 1.1-31.3.2005		47	149	(102)	-68.5
Total shareholders´ equity and liabilities		**25,487**	**23,993**	1,494	+6.2

Results

Statement of Changes in Equity

(in € millions)	2005	2004
Balance at 1st January	**1,587**	**1,351**
Subscribed capital	200	150
Retained earnings	2	4
Revaluation reserve		
AfS reserve	1	8
Consolidated profit - 1.1-31.3.2005	47	33
Balance at 31st March	**1,837**	**1,546**

Cash Flow Statement

(in € millions)	2005	2004
Cash and cash equivalents at 1st January	**44**	**42**
+/- Cash flows from operating activities	752	898
+/- Cash flows from investing activities	(870)	(1,186)
+/- Cash flows from financing activities	150	268
+/- Effects of exchange rate changes	(29)	12
Cash and cash equivalents at 31st March	**47**	**34**

Notes

Principles

The interim financial statements have been prepared by the Hypo Real Estate Bank International Group, in accordance with IAS 34, released by the International Accounting Standards Board (IASB) for Interim Financial Reporting.

The consolidated companies forming the Group as at 31 March 2005 is unchanged from 31December 2004.

Future-orientated Statements

This report contains future-orientated statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management of Hypo Real Estate Bank International. Future-orientated statements therefore only apply on the day on which they are made. We do not undertake any obligation to update such statements in light of new information or future events. By their nature, future-orientated statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-orientated statements. Such factors include the condition of the financial markets in Europe, Asia and the USA, the possible default of borrowers or counterparties of trading companies, the reliability of our principles, procedures and methods for risk management, as well as other risks associated with our business activity

Notes to the Income Statement

(1) Net Interest Income

(in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Interest income from		
Lending and money market transactions	321	188
Fixed-income securities and government inscribed debt	113	83
	434	**271**
Interest expenses for		
Deposits	(287)	(174)
Promissory notes and other liabilities evidenced by securities	(75)	(42)
Subordinated capital	(7)	(5)
	(369)	**(221)**
Total	**65**	**50**

Interest margins:

in %	31.3.2005	31.12.2004
Based on average risk assets	1.49	1.46
Based on average volume of business	1.07	1.27

(2) Provisions for Losses on Loans and Advances

(in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Additions	2	11
Total	**2**	**11**

Notes to the Income Statement

(3) Net Trading Income

(in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Equity contracts	0	0
Interest rate and currency contracts	7	0
Total	**7**	**0**

(4) General Administrative Expenses

(in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Personnel expenses	**26**	**15**
Wages and salaries	23	12
Social security costs	2	2
Pension and other related employee benefit costs	1	1
Other administrative expenses	**10**	**11**
Depreciation and amortization	**1**	**0**
on property, plant and equipment	1	0
on software and intangible assets excl. goodwill	0	0
Total	**37**	**26**

(5) Balance of Other Operating Income/Expenses

(in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Other operating income	4	1
Other operating expenses	(3)	0
Balance of other operating income/expenses	**1**	**1**

Notes to the Income Statement

(6) Operating Revenues

(in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Net interest income	65	50
Net commission income	29	32
Net trading income	7	0
Net income from investments	0	0
Balance of other operating income/expenses	1	1
Total	**102**	**83**

(7) Taxes on Income

(in € millions)	1.1.-31.3.2005	1.1.-31.3.2004
Current taxes	15	13
Deferred taxes	1	0
Total Charge	**16**	**13**

Tax charges have been calculated on the basis of expected rates in each operating jurisdiction.

Notes to the Balance Sheet

(8) Lending Volume

(in € millions)	31.3.2005	31.12.2004
Real Estate loans and advances to, other banks	1,586	1,536
Loans and advances to customers	11,972	11,214
Contingent liabilities	4,364	5,061
Total	**17,922**	**17,811**

(9) Allowances for Losses on Loans and Advances

(in € millions)	31.3.2005	31.12.2004
Balance at 1.1.	72	37
Changes affecting income		
+ Gross additions	2	33
- Releases	0	0
Changes not affecting income		
- Use of existing loan-loss allowances	0	0
+/- Effects of currency translation and other changes not affecting income	(1)	2
Balance at 31.3.2005	**73**	**72**

(10) Investments

(in € millions)	31.3.2005	31.12.2004
Available-for-sale investments		
Debt securities and other fixed income securities	9,535	8,638
Equity and other variable yield securities	2	2
Investment property	29	26
Total	**9,566**	**8,666**

Notes to the Balance Sheet

(11) Deposits from Other Banks by Maturities

(in € millions)	31.3.2005	31.12.2004
Repayable on demand	0	4
With agreed maturities	8,670	9,453
Total	**8,670**	**9,457**

(12) Amounts Owed to Other Depositors by Maturities

(in € millions)	31.3.2005	31.12.2004
Repayable on demand	2	1
With agreed maturities	256	280
Total	**258**	**281**

(13) Promissory Notes and Other Liabilities Evidenced by Securities by Maturities

(in € millions)	31.3.2005	31.12.2004
With agreed maturities		
up to 3 months	332	897
from 3 months to 1 year	1,727	1,252
from 1 year to 5 years	8,277	6,568
over 5 years	1,142	705
Total	**11,478**	**9,422**

(14) Provisions

(in € millions)	31.3.2005	31.12.2004
Provisions for pensions and similar obligations	0	1
Other provisions	2	1
Total	**2**	**2**

Notes to the Balance Sheet

(15) Subordinated Capital

(in € millions)	31.3.2005	31.12.2004
Subordinated liabilities	703	752
Total	**703**	**752**

Other Notes

(16) Key Capital Ratios

Equity Funds

(in € millions)	31.3.2005	31.12.2004
Core capital	1,796	1,584
Supplementary capital	726	776
Total Own Funds	**2,522**	**2,360**

Risk Weighted Assets

(in € billions)	31.3.2005	31.12.2004
On balance sheet assets	13.5	12.7
Off balance sheet assets	4.1	4.5
Counterparty risks in trading book	0.2	0.1
Total	**17.8**	**17.3**

Key Capital Ratios

	31.3.2005	31.12.2004
Core capital ratio	10.1%	9.2%
Equity capital ratio	14.2%	13.6%
Equity funds ratio	13.0%	12.6%

Other Notes

(17) Contingent Liabilities and Other Commitments

(in € millions)	31.3.2005	31.12.2004
Contingent liabilities*	**4,364**	**5,061**
From guarantees and indemnity agreements	4,364	5,061
Other commitments	**3,229**	**2,525**
Irrevocable credit commitments		
Book credits	376	152
Guarantees	204	199
Mortgage and public sector loans	2,649	2,174
Total	**7,593**	**7,586**

* Contingent liabilities are offset by contingent assets to the same amount.

Summary of Quarterly Financial Data

Summary of Quarterly Financial Data

Operating Performance (in € millions)	**1st Quarter 2004**	**2nd Quarter 2004**	**3rd Quarter 2004**	**4th Quarter 2004**	**1st Quarter 2005**
Operating revenues	**83**	**96**	**97**	**89**	**102**
Net interest income	50	61	53	60	65
Net fees and commission income	32	30	41	23	29
Net trading income	0	2	3	6	7
Net income from investments	0	3	(2)	2	0
Balance of other operating income/expenses	1	0	2	(2)	1
Provisions for losses on loans and advances	(11)	(16)	(15)	9	(2)
General administrative expenses	(26)	(32)	(38)	(40)	(37)
Balance of other income/expenses	0	0	0	(1)	0
Net income before taxes	46	48	44	57	63
Net income	33	39	34	43	47
Key Indicators compliant with BIS rules					
Lending volume (in Bn €)	15.9	15.9	18.2	17.8	17.9
Risk assets (in Bn €)	14.1	15.1	16.8	17.3	17.8
Core capital ratio (in %)	10.3	9.6	8.7	9.2	10.1
Employees	417	464	502	504	499

Addresses and Contacts

Hypo Real Estate Bank International
3 Harbourmaster Place
IFSC Dublin 1
Ireland
Telephone +353 1 611 6100
Fax +353 1 611 6001
marketing@hypointernational.com

Paris

Hypo Real Estate Bank International
38, Avenue de l'Opéra
75002 Paris
France
Telephone +33 1 53 05 7400
Fax +33 1 53 05 7409
paris@hypointernational.com

Amsterdam

Hypo Real Estate Bank International
The Netherlands Branch
Rembrandt Tower /21st Floor
Amstelplein 1
1096 HA Amsterdam
The Netherlands
Telephone +31 20 46 27 800
Fax +31 20 46 27 801
amsterdam@hypointernational.com

Hong Kong

Hypo Real Estate Bank International
Suites 802-805
Two International Finance Centre
No. 8 Finance Street
Central Hong Kong
Telephone +852 3413 8300
Fax +852 3413 8500
hongkong@hypointernational.com

London

Hypo Real Estate Bank International
110 Cannon Street
London EC4N 6EW
United Kingdom
Telephone +44 207 743 7743
Fax +44 207 743 7700
london@hypointernational.com

Luxembourg

Hypo Pfandbrief Bank International S.A.
4, Rue Alphonse Weicker
2099 Luxembourg
Luxembourg
Telephone +352 26 41 4700
Fax +352 26 41 4799
info@hpbi.lu

Madrid

Hypo Real Estate Bank International
Paseo de la Castellana 35
28046 Madrid
Spain
Telephone +34 91 349 3200
Fax +34 91 349 3300
madrid@hypointernational.com

Milan

Hypo Real Estate Bank International
Corso Vittorio Emanuele II, 37B
20122 Milan
Italy
Telephone +39 02 76 383 1
Fax +39 02 76 383 870
milan@hypointernational.com

Addresses and Contacts

Munich

Hypo Real Estate Bank International
Central and Eastern Europe Branch
Unsöldstr. 2
80538 Munich
Germany
Telephone +49 89 25 55 20 0
Fax +49 89 25 55 20 209
munich@hypointernational.com

New York

Hypo Real Estate Capital Corporation
622 Third Avenue
New York, NY 10017
United States
Telephone +1 212 671 63 00
Fax +1 212 671 64 02
newyork@hypointernational.com

Lisbon

Hypo Real Estate Bank International
- Sucursal em Portugal -
Avenida da Liberdade, 110
P-1269-046
Lisbon
Portugal
Telephone +351 21 340 4665
Fax +351 21 340 4576
lisbon@hypointernational.com

Tokyo

Hypo Real Estate Capital Japan Corporation
Otemachi 1st Square West Tower 18F
1-5-1 Otemachi, Chiyoda-ku
Tokyo 100-0004
Japan
Telephone +81 3 32 85 60
Fax +81 3 32 85 32
tokyo@hypointernational.com

Stockholm

Hypo Real Estate Bank International
Nordic Region Branch
Regeringsgatan 38
11156 Stockholm
Sweden
Telephone +46 8 53 48 00 70
Fax +46 8 21 44 17
stockholm@hypointernational.com

Hypo Real Estate Holding AG

Unsöldstr. 2
80538 Munich
Germany
Telephone +49 89 20 30 07-0
Fax +49 89 20 30 07-772
Contact: Ulrich Kern (IR)
irinfo@hyporealestate.com
Contact: Falk Willing
info@hyporealestate.com

Hypo Real Estate Bank International
International House
3 Harbourmaster Place
IFSC, Dublin 1
Ireland
Tel: +353 1 611 6000
Fax: +353 1 611 6001

www.hypointernational.com