

Hypo Real Estate

BANK INTERNATIONAL

HYPO REAL ESTATE BANK INTERNATIONAL

(incorporated in the Republic of Ireland)
(acting through its Irish head office or through its Luxembourg Branch)

Euro 10,000,000,000

Programme for the Issuance of Debt Instruments

Guaranteed by HYPO REAL ESTATE HOLDING AG

Under the programme for the issuance of debt instruments described in this Information Memorandum (the "Programme"), Hypo Real Estate Bank International (the "Issuer") (acting through its Irish head office or through its Luxembourg branch), subject to compliance with all relevant laws, regulations and directives, may from time to time issue debt instruments guaranteed by Hypo Real Estate Holding AG (the "Guarantor") (the "Instruments"). The aggregate nominal amount of Instruments outstanding will not at any time exceed Euro 10,000,000,000 (or the equivalent in other currencies).

Application has been made to the Irish Stock Exchange Limited for the Instruments issued within twelve months of the date of this Information Memorandum to be admitted to the official list of the Irish Stock Exchange. Instruments so admitted to the official list of the Irish Stock Exchange will be referred to as "Listed Instruments". Application has also been made for the Instruments issued under the Programme to be listed on the Luxembourg Stock Exchange during the period of 12 months from the date of this Prospectus. Notice of the aggregate nominal amount of the Instruments, interest (if any) payable in respect of the Instruments, the issue price of the Instruments and any other terms and conditions not contained herein which are applicable to each Tranche (as defined on page 5) of the Instruments will be set forth in a pricing supplement (the "Pricing Supplement") which, with respect to the Instruments to be listed on the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of the Instruments of such Tranche. However, unlisted Instruments may be issued pursuant to the Programme. The relevant Pricing Supplement (as defined on page 5) in respect of the issue of any Instruments will specify whether or not such Instruments will be listed on the official list of the Irish Stock Exchange or the Luxembourg Stock Exchange (or any other stock exchange). Copies of this Information Memorandum have been delivered for registration to the Registrar of Companies in Ireland as required by Regulation 13 of the European Communities (Stock Exchange) Regulations 1984 (as amended) of Ireland (the "1984 Regulations") and comprise listing particulars (the "Listing Particulars") approved by the Irish Stock Exchange in accordance with the requirements of the 1984 Regulations and the listing rules of the Irish Stock Exchange (the "Listing Rules"). Particulars of the dates of, parties to and general nature of each document to which the Issuer is a party (the "Transaction Documents") are set out in various sections of this Information Memorandum.

Each Series (as defined on page 6) of Instruments in bearer form will be represented on issue by a temporary global Instrument in bearer form (each a "temporary Global Instrument") or a permanent global Instrument in bearer form (each a "permanent Global Instrument"). Instruments in registered form will be represented by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Holder's entire holding of Registered Instruments of one Series. Global Instruments and Certificates may be deposited on the issue date with a common depositary on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The provisions governing the exchange of interests in Global Instruments for other Global Instruments and definitive Instruments are described in "Summary of Provisions Relating to the Instruments while in Global Form".

Interests in a temporary Global Instrument will be exchangeable, in whole or in part, for interests in a permanent Global Instrument on or after the date 40 days after the later of the commencement of the offering and the relevant issue date, upon certification as to non-U.S. beneficial ownership.

The Programme has been rated A- in respect of Senior unsecured debt, A-2 in respect of short term debt and BBB+ in respect of Senior subordinated debt by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc and A3 in respect of Senior Instruments with a maturity in excess of one year, P-2 in respect of Instruments with a maturity below one year and Baa1 in respect of Subordinated Instruments by Moody's Deutschland GmbH. Tranches of Instruments (as defined in "Summary of the Programme") issued under the Programme may be rated or unrated. Where a Tranche of Instruments is rated, such rating will not necessarily be the same as the rating assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger for the Programme
MORGAN STANLEY

Dealers

ABN AMRO

Citigroup

Dresdner Kleinwort Wasserstein

Goldman Sachs International

HVB Corporates & Markets

JP Morgan

Barclays Capital

Deutsche Bank

DZ BANK AG

HSBC

Hypo Real Estate Bank International

Morgan Stanley

UBS Investment Bank

Dated: 13 May 2004

Save for the Guarantor Information (as defined below), the Issuer accepts responsibility for the information contained in this document and to the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Guarantor accepts responsibility for the information contained in this document in relation to the Guarantor only (including the consolidated financial information of the Guarantor set out herein) (the “Guarantor Information”) and to the best of the knowledge and belief of the Guarantor (which has taken all reasonable care to ensure that such is the case), such Guarantor Information is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Guarantor as to the accuracy or completeness of any information contained in this Information Memorandum (other than the Guarantor Information) or any other information supplied in connection with the Instruments or their distribution.

The Issuer having made all reasonable enquiries confirms that this document contains all information with respect to the Issuer and its subsidiaries taken as a whole (the “Hypo International Group”) and the Instruments that is material in the context of the issue and offering of the Instruments, the statements contained in it relating to the Issuer and the Hypo International Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Information Memorandum with regard to the Issuer and the Hypo International Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Issuer, the Hypo International Group or the Instruments the omission of which would, in the context of the issue and offering of the Instruments, make any statement in this Information Memorandum misleading in any material respect and all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

The Guarantor having made all reasonable enquiries confirms that this document contains all information with respect to the Guarantor and its subsidiaries (other than the Issuer) that is material in the context of the issue and offering of the Instruments, the statements contained in it relating to the Guarantor and its subsidiaries other than the Issuer are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Information Memorandum with regard to the Guarantor and its subsidiaries other than the Issuer are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Guarantor and its subsidiaries other than the Issuer the omission of which would, in the context of the issue and offering of the Instruments, make any statement in this Information Memorandum misleading in any material respect and all reasonable enquiries have been made by the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

No person has been authorised to give any information or to make any representation other than those contained in this Information Memorandum in connection with the issue or sale of the Instruments and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Dealers or the Arranger (as defined in “Summary of the Programme”). Neither the delivery of this Information Memorandum nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Guarantor or the Hypo International Group since the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer, the Guarantor or the Hypo International Group since the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Information Memorandum and the offering or sale of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum comes are required by the Issuer, the Guarantor, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any state or other jurisdiction of the United States and include Instruments in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or, in the case of Instruments in bearer form, delivered within the United States or to U.S. persons (as defined

in Regulation S under the Securities Act or, in the case of Instruments in bearer form, as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder). For a description of certain restrictions on offers and sales of Instruments and on distribution of this Information Memorandum, see “Subscription and Sale”.

This Information Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Dealers to subscribe for, or purchase, any Instruments.

The Arranger and the Dealers have not separately verified the information contained in this Information Memorandum. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Information Memorandum. Neither this Information Memorandum nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Arranger or the Dealers that any recipient of this Information Memorandum or any other financial statements should purchase the Instruments. Each potential purchaser of Instruments should determine for itself the relevance of the information contained in this Information Memorandum and its purchase of Instruments should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Information Memorandum nor to advise any investor or potential investor in the Instruments of any information coming to the attention of any of the Dealers or the Arranger.

In connection with any Tranche (as defined in “Summary of the Programme”), one of the Dealers will act as a stabilising agent (the “Stabilising Agent”). The identity of the Stabilising Agent will be disclosed in the relevant Pricing Supplement. References in the next paragraph to “the issue of any Tranche” are to each Tranche in relation to which a Stabilisation Agent is appointed.

In connection with the issue of any Tranche, the Stabilising Agent or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

In this Information Memorandum, unless otherwise specified or the context otherwise requires, references to “euro” and “€” are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended, references to “U.S.\$” and “U.S. dollars” are to the lawful currency of the United States and references to “£”, “Stg £” and “sterling” are to pounds sterling. References to the “U.S.”, “U.S.A.” and to the “United States” are to the United States of America, references to the “U.K.” are to the United Kingdom, references to “Ireland” are to the Republic of Ireland and references to “Luxembourg” are to the Grand Duchy of Luxembourg.

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DOCUMENTS INCORPORATED BY REFERENCE

This Information Memorandum should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published unconsolidated and consolidated audited annual accounts, and any interim accounts (whether audited or unaudited) published subsequently to such annual accounts, of the Issuer and the Guarantor from time to time, which shall be deemed to be incorporated in, and to form part of, this Information Memorandum and which shall be deemed to modify or supersede the contents of this Information Memorandum to the extent that a statement contained in any such document is inconsistent with such contents. The Issuers and the Guarantor will provide, without charge upon request, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer or to the Guarantor at their respective offices set out at the end of this Information Memorandum. In addition, such documents will be available free of charge from the principal office in Luxembourg of Pfandbrief Bank International S.A. for Instruments listed on the Luxembourg Stock Exchange. Any documents incorporated by reference herein do not form part of the Listing Particulars approved by the Irish Stock Exchange.

SUPPLEMENTAL INFORMATION MEMORANDUM

Each of the Issuer and the Guarantor has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant change affecting any matter contained in this Information Memorandum, including any modification of the terms and conditions or any material adverse change in the financial position of the Issuer or the Guarantor, whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Information Memorandum, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer or the Guarantor, and the rights attaching to the Instruments the Issuer and the Guarantor shall prepare an amendment or supplement to this Information Memorandum or publish a replacement Information Memorandum for use in connection with any subsequent offering of the Instruments and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Information Memorandum.

Issuer:	Hypo Real Estate Bank International (the “Issuer”). In issuing Instruments, the Issuer shall act through its Irish head office or through its Luxembourg Branch.
Guarantor:	Hypo Real Estate Holding AG (the “Guarantor”).
Description:	Programme for the issuance of debt Instruments.
Size:	Up to Euro 10,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Instruments outstanding at any one time. The maximum aggregate principal amount of Instruments which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under “Subscription and Sale”.
Arranger:	Morgan Stanley & Co. International Limited
Dealers:	ABN AMRO Bank N.V. Barclays Bank PLC Bayerische Hypo- und Vereinsbank AG Citigroup Global Markets Limited Deutsche Bank AG London DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main Dresdner Bank Aktiengesellschaft Goldman Sachs International HSBC Bank plc Hypo Real Estate Bank International J.P. Morgan Securities Ltd. Morgan Stanley & Co. International Limited UBS Limited
Issue and Paying Agent:	Citibank, N.A. London
Method of Issue:	The Instruments will be issued on a syndicated or non-syndicated basis. The Instruments will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Instruments of each Series being intended to be interchangeable with all other Instruments of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series (including as to listing)) will be set out in a pricing supplement to this Information Memorandum (a “Pricing Supplement”). A Tranche may comprise Instruments in more than one denomination.
Issue Price:	Instruments may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Instruments may be issued, the issue price of which will be payable in two or more instalments.
Form of Instruments:	The Instruments may be issued in bearer form only (“Bearer Instruments”) or in registered form only (“Registered Instruments”).

In respect of each Tranche of Bearer Instruments, the Issuer will either deliver a temporary global Instrument (a “Temporary Global Instrument”) or a permanent global Instrument (a “Permanent Global Instrument”). Such Global Instrument will be deposited on or before the relevant issue date therefor with a depositary or a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or any other relevant clearing system. Each Temporary Global Instrument will be exchangeable for a Permanent Global Instrument or, if so specified in the relevant Pricing Supplement, for Instruments in definitive bearer form (“Definitive Instruments”) and/or (if so specified in the relevant Pricing Supplement) registered form in accordance with its terms (“Registered Instruments”) upon certification as to non-U.S. beneficial ownership as required by United States Treasury regulations. Each Permanent Global Instrument will be exchangeable for Definitive Instruments and/or (if so specified in the relevant Pricing Supplement) Registered Instruments in accordance with its terms. (See further under “Provisions Relating to the Instruments while in Global Form”) below). Definitive Instruments will, if interest-bearing, have interest coupons (“Coupons”) attached and, if appropriate, a talon (“Talon”) for further Coupons and will, if the principal thereof is repayable by instalments, have payment receipts (“Receipts”) attached. Each Instrument issued in registered form shall represent the entire holding of Registered Instruments by the same holder. A Registered Instrument may be registered in the name of a nominee for one or more clearing system and such an Instrument is referred to herein as a “Global Registered Instrument”. Instruments in registered form may not be exchanged for Instruments in bearer form.

Clearing Systems:

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issue and Paying Agent and the relevant Dealer.

Currencies:

Instruments may be denominated in euro, U.S. dollars, Yen or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Instruments may, subject to compliance as aforesaid, be made in and/or linked to, any currency or currencies other than the currency in which such Instruments are denominated.

Issues of Instruments denominated in Swiss francs or carrying a Swiss franc related element with a maturity of more than one year (other than Instruments privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8 November 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Corporation on Stock Exchanges and Securities Trading of 2 December 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue the lead manager (the “Swiss Dealer”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland or a securities dealer duly licensed by the Swiss Federal Banking Commission as per the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995. The Swiss Dealer must report certain

	details of the relevant transaction to the Swiss National Bank no later than the relevant issue date for such a transaction.
Maturities:	Subject to compliance with all relevant laws, regulations and directives, any maturity.
Denomination:	Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Fixed Rate Instruments:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Instruments:	<p>Floating Rate Instruments will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. <p>Interest periods will be specified in the relevant Pricing Supplement.</p>
Zero Coupon Instruments:	Zero Coupon Instruments may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Instruments:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Instruments will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Instruments:	Payments of principal in respect of Index Linked Redemption Instruments or of interest in respect of Index Linked Interest Instruments will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates:	The length of the interest periods for the Instruments and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Instruments may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Instruments to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption:	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable.
Redemption by Instalments:	The Pricing Supplement issued in respect of each issue of Instruments that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Instruments may be redeemed.
Other Instruments:	Terms applicable to high interest Instruments, low interest Instruments, step-up Instruments, step-down Instruments, reverse dual currency Instruments, optional dual currency Instruments, partly paid Instruments and any other type of Instrument that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.

Optional Redemption:	The Pricing Supplement issued in respect of each issue of Instruments will state whether such Instruments may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Holders, and if so the terms applicable to such redemption.
Status of Instruments:	Senior Instruments and the guarantee in respect of them will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and the Guarantor, respectively, and will rank <i>pari passu</i> among themselves (and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer and the Guarantor from time to time outstanding. Subordinated Instruments and the guarantee in respect of them will constitute direct, unsecured and subordinated obligations of the Issuer and the Guarantor, respectively, all as described in “Terms and Conditions of the Instruments — Status”.
Negative Pledge:	None.
Cross Default:	None.
Rating:	Senior unsecured debt to be issued under the Programme has been rated A-, short term debt to be issued under the Programme has been rated A-2 and Senior subordinated debt to be issued under the Programme has been rated BBB+ by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies Inc. Senior Instruments with a maturity in excess of one year to be issued under the Programme have been rated A3, Instruments with a maturity below one year to be issued under the Programme have been rated P-2 and Subordinated Instruments to be issued under the Programme have been rated Baa1 by Moody’s Deutschland GmbH.
Early Redemption:	Early redemption of Subordinated Instruments and Senior Instruments will be permitted for taxation reasons as mentioned in “Terms and Conditions of Senior and Subordinated Instruments — Redemption for tax reasons”, but will otherwise be permitted only to the extent specified in the relevant Pricing Supplement.
Withholding Tax:	All payments of principal and interest in respect of the Instruments will be made free and clear of withholding taxes of the Republic of Ireland or the Grand Duchy of Luxembourg or the Federal Republic of Germany, as the case may be, subject to customary exceptions (including the IPMA Standard EU Exception) and an exception in the case of withholding tax of the Republic of Ireland where such withholding would not have occurred had the holder of an Instrument provided certain evidence to the Issuer, all as described in “Terms and Conditions of the Instruments — Taxation”.
Governing Law:	English.
Listing:	Application has been made to list Instruments issued under the Programme on the official list of the Irish Stock Exchange and on the Luxembourg Stock Exchange and to admit them to trading on the Irish Stock Exchange or as otherwise specified in the relevant Pricing Supplement. A Series of Instruments may be unlisted or listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Pricing Supplement.
Selling Restrictions:	United States, United Kingdom, Republic of Ireland, Grand Duchy of Luxembourg, Federal Republic of Germany and Japan. See “Subscription and Sale”.

The Issuer is Category 2 for the purposes of Regulation S under the United States Securities Act of 1933, as amended.

The Instruments will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Pricing Supplement states that Instruments are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Instruments are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Instruments will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

TERMS AND CONDITIONS OF THE INSTRUMENTS

*The following are the Terms and Conditions of Senior and Subordinated Instruments (the “**Conditions**”) which as supplemented, modified or replaced in relation to any Instruments by the relevant Pricing Supplement, will be applicable to each Tranche of Senior Instruments or Subordinated Instruments in definitive form (if any) issued in exchange for the Global Instruments representing each Series. Either (i) the full text of these Conditions together with the relevant provisions of the Pricing Supplement or (ii) these Conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Instruments or on the Certificates relating to such Registered Instruments. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Instruments or Certificates, as the case may be. References in the Conditions to “**Instruments**” are to the Instruments of one Series only, not to all Instruments that may be issued under the Programme.*

This Instrument is one of a Series (as defined below) of Instruments issued by Hypo Real Estate Bank International (the “**Issuer**”) acting through its Irish head office or through its Luxembourg branch pursuant to the Agency Agreement (as defined below). References herein to the “**Instruments**” shall be references to the Instruments of this Series. As used herein, “**Tranche**” means Instruments which are issued on the same Issue Date, the terms of which are identical in all respects (including as to listing) save that a Tranche may comprise Instruments in more than one denomination. “**Series**” means a Tranche or Tranches of Instruments which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and a Series may comprise Instruments in more than one denomination.

The Instruments, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Issue and Paying Agency Agreement (such Issue and Paying Agency Agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 2 February 2004, and made between the Issuer, acting through its Irish head office or through its Luxembourg branch, Hypo Real Estate Holding AG (the “**Guarantor**”), Citibank, N.A. London as issuing and principal paying agent (the “**Issue and Paying Agent**”, which expression shall include any successor agent), principal registrar in respect of Instruments in registered form (the “**Principal Registrar**”, which expression shall include any successor registrar) and agent bank and transfer agent, Citibank International PLC (Ireland) as first alternative registrar (the “**First Alternative Registrar**”, which expression shall include any successor registrar) and as paying agent and transfer agent, and the other paying and transfer agents named therein (together with the Issue and Paying Agent and the First Alternative Registrar, the “**Paying Agents**”, which expression shall include any additional or successor paying and transfer agents).

The Instruments have the benefit of a Deed of Covenant (the “**Deed of Covenant**”) dated 2 February 2004 and made by the Issuer and the Guarantor. The Deed of Covenant contains the terms of the guarantees of the Guarantor in respect of the Instruments. The original of the Deed of Covenant is held by the common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”), and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Instrument is an unlisted Instrument of any Series, the applicable Pricing Supplement will only be obtainable by a Holder holding one or more unlisted Instruments of that Series and such Holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Instruments and identity. The Holders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. Form and Denomination

(a) Form

Instruments are issued in bearer form (“**Bearer Instruments**”) or in registered form (“**Registered Instruments**”), as specified in the Pricing Supplement and are serially numbered. Registered Instruments are not exchangeable for Bearer Instruments. Registered Instruments are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(d), each Certificate shall represent the entire holding of Registered Instruments by the same holder.

(b) Coupons and Talons

Interest-bearing Bearer Instruments have attached thereto, at the time of their initial delivery, coupons (“**Coupons**”), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. In addition, if so specified in the Pricing Supplement, such Instruments have attached thereto at the time of their initial delivery, a talon (“**Talon**”) for further coupons and the expression “**Coupons**” shall, where the context so requires, include Talons.

(c) Interest Basis

This Instrument may be a Fixed Rate Instrument, a Floating Rate Instrument, a Zero Coupon Instrument, an Index Linked Interest Instrument or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

(d) Redemption/ Payment Basis

This Instrument may be an Index Linked Redemption Instrument, an Instalment Instrument, a Dual Currency Instrument, a Partly Paid Instrument or a combination of any of the foregoing, depending on the Redemption/ Payment Basis shown in the applicable Pricing Supplement.

(e) Instalment Instruments

Bearer Instruments, the principal amount of which is repayable by instalments (“**Instalment Instruments**”) have attached thereto, at the time of their initial delivery, payment receipts (“**Receipts**”) in respect of the instalments of principal.

(f) Denomination of Bearer Instruments

Bearer Instruments are in the Specified Denominations specified in the Pricing Supplement. Bearer Instruments of one denomination may not be exchanged for Bearer Instruments of any other denomination.

(g) Denomination of Registered Instruments

Registered Instruments are in the Specified Denomination specified in the Pricing Supplement or integral multiples thereof.

(h) Denomination of all Instruments

Instruments issued by the Issuer will be offered, issued and/or sold in Specified Denominations which in the case of Instruments which are listed on a stock exchange and constitute “debts on a security” for the purposes of Irish taxation may be any Specified Denomination.

In the case of Instruments which do not fall within the conditions described in the last paragraph, such Instruments will be offered, issued and/or sold in Specified Denominations which:

- (i) in the case of Instruments in respect of which interest paid on such Instruments which are beneficially held at all times by a person who satisfies such requirements, as prescribed by applicable Irish law, which permit interest under such Instruments to be exempt from Deposit Interest Retention Tax, may be any Specified Denomination;
- (ii) in the case of Instruments which may not fall within the conditions set out in sub-paragraph (i) above and which are not listed on a stock exchange, and which are held in a clearing system recognised by the Irish Revenue Commissioners and which have a maturity of two years or less and in respect of which the interest on such Instruments is not paid by a paying agent resident in

Ireland or through a branch or agency of such paying agent in Ireland, shall not be less than €500,000, in the case of Instruments denominated in euro, or not less than U.S.\$500,000 in the case of Instruments denominated in U.S. Dollars, or, in the case of Instruments denominated in a currency other than euro or U.S. dollars, not less than the equivalent in that other currency of €500,000 (being determined by reference to the rate of exchange, in the case of Instruments issued under programme at the time the programme under which the Instrument is to be issued as first publicised, or, in the case of all other Instruments on the date of issue of the Instrument); and

- (iii) in the case of any Instruments which do not fall within the conditions set out in sub-paragraphs (i) and/or (ii) above, shall be not less than €500,000 or its foreign currency equivalent.

(i) Currency of Instruments

The Instruments are denominated in such currency as may be specified in the Pricing Supplement. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

2. Title and Transfer

(a) Title to Bearer Instruments

Title to Bearer Instruments, Receipts and Coupons passes by delivery. References herein to the “**Holders**” of Bearer Instruments or of Receipts or Coupons are to the bearers of such Bearer Instruments or such Receipts or Coupons.

(b) Title to Registered Instruments

Title to Registered Instruments passes by registration in the register which the Issuer shall procure to be kept by the Registrar. For the purposes of these Conditions, “**Registrar**” means each of the Principal Registrar and the First Alternative Registrar and such expression shall include any substitute or additional registrar appointed in accordance with the Agency Agreement or, where applicable, means the Registrar specified in the Pricing Supplement relating to a particular issue of Instruments in registered form as the registrar for the purposes of that issue. References herein to the “**Holders**” of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

(c) Holder as Owner

The Holder of any Bearer Instrument, Coupon or Talon will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

(d) Transfer of Registered Instruments

A Registered Instrument may, upon the terms and subject to the Conditions set forth in the Agency Agreement, be transferred in whole or in part only (provided that such part is, or is an integral multiple of; the minimum Specified Denomination specified in the Pricing Supplement) by recording in the Register upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the relevant Registrar. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.

(e) Exchange of Bearer Instruments

If so specified in the Pricing Supplement, the Holder of Bearer Instruments may exchange the same for the same aggregate principal amount of Registered Instruments upon the terms and subject to the Conditions set forth in the Agency Agreement. In order to exchange a Bearer Instrument for a Registered Instrument, the Holder thereof shall surrender such Bearer Instrument at the specified office outside the United States of any Paying Agent or of the relevant Registrar together with a written request for the exchange. Each Bearer Instrument so surrendered must be accompanied by all unmatured Receipts and Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date

(as defined in Condition 2(f)) where the exchange date would, but for the provisions of Condition 2(f)), occur between the Record Date (as defined in Condition 5(d)) for such payment of interest and the date on which such payment of interest falls due.

(f) New Registered Instruments

Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within five Relevant Banking Days of the transfer date or, as the case may be, the exchange date, be available for collection by each relevant Holder at the specified office of the relevant Registrar or, at the option of the Holder requesting such exchange or transfer, be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the relevant Registrar or a Paying Agent after the Record Date in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the relevant Registrar or such Paying Agent until the day following the due date for such payment. For the purposes of these Conditions:

- (iv) “**Relevant Banking Day**” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Instrument for a Registered Instrument where such request for exchange is made to a Paying Agent, in the place where the specified office of such Paying Agent is located;
- (v) the “**exchange date**” shall be the Relevant Banking Day following the day on which the relevant Bearer Instrument shall have been surrendered for exchange in accordance with Condition 2(e); and
- (vi) the “**transfer date**” shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2(d).

(g) No Charges upon Transfer or Exchange

The issue of new Registered Instruments on transfer or on the exchange of Bearer Instruments for Registered Instruments will be effected without charge by or on behalf of the Issuer, any Paying Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, such Paying Agent or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

3. Guarantee and Status of the Instruments

(a) Senior Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Senior Instruments, Receipts and Coupons. Its obligations in that respect (the “Senior Guarantee”) are contained in the Deed of Covenant.

(b) Status of Senior Instruments and Senior Guarantee

If specified as Senior Instruments in the applicable Pricing Supplement, such Instruments and any relative Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding. The Senior Guarantee constitutes direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and rank equally with all other unsecured obligations of the Guarantor.

(c) Subordinated Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Upper Tier II Instruments, Lower Tier II Instruments, Tier III Instruments, and related Receipts and Coupons. Its obligations in that respect (the “Subordinated Guarantee”) are contained in the Deed of Covenant.

(d) *Status and Subordination of Subordinated Instruments and Subordinated Guarantee*

Upper Tier II Subordinated Instruments

- (i) If specified as Upper Tier II Subordinated Instruments in the applicable Pricing Supplement, the status and subordination of the Instruments will be as set out in the applicable Pricing Supplement. The payment obligations of the Issuer under Upper Tier II Subordinated Instruments and the Receipts, Coupons and Talons relating to them will rank behind Lower Tier II Subordinated Instruments and Tier III Subordinated Instruments and any relative Receipts, Coupons and Talons relating to them. The Upper Tier II Subordinated Instruments and the Coupons relating thereto (if any) constitute direct, unsecured and, in accordance with the paragraphs below, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.
- (ii) The claims of the holders of Upper Tier II Subordinated Instruments and the Coupons relating thereto (if any) are subordinated to the claims of Senior Creditors (as defined below) of the Issuer in that payments of principal and interest in respect of the Upper Tier II Subordinated Instruments and the Coupons relating thereto (if any) are conditional upon the Issuer being solvent (as defined below) at the time of payment by the Issuer and in that no principal or interest shall be payable in respect of Upper Tier II Subordinated Instruments or the Coupons relating thereto (if any) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For this purpose, the Issuer shall be considered solvent if: (i) it is able to pay its debts to Senior Creditors as they fall due; and (ii) its Assets exceed its Liabilities (each as defined below) to Senior Creditors. A report as to the solvency of the Issuer by (a) two directors of the Issuer or the auditor of the Issuer or (b) if the Issuer is being wound up, its liquidator or (c) if the Issuer is under examination as provided for by the Companies (Amendment) Act, 1990 of Ireland, its examiner shall, in each case in the absence of manifest error, be treated and accepted by the Issuer and the holders of Upper Tier II Subordinated Instruments and the Coupons relating thereto (if any) as correct and sufficient evidence thereof.

For the purpose of this sub-paragraph (ii), “**Assets**” means the total consolidated gross assets of the Issuer and “**Liabilities**” means the total consolidated gross liabilities of the Issuer, all as shown by the latest published audited balance sheet of the Issuer but adjusted for contingencies and for subsequent events in such manner and to such extent as such directors, auditors, liquidator or examiner, as the case may be, may determine to be appropriate.

- (iii) Interest on Upper Tier II Subordinated Instruments shall accrue from day to day and shall (subject to sub-paragraph (ii) above) be payable on each Compulsory Interest Payment Date (as defined below) in respect of the interest accrued in the interest period ending on (but excluding) such Compulsory Interest Payment Date. On any Optional Interest Payment Date (as defined below) there may be paid (if the Issuer so elects and gives not less than 30 days’ notice of such election to the holders of Upper Tier II Subordinated Instruments in accordance with Condition 13 but subject to sub-paragraph (ii) above) the interest accrued in the interest period ending on (but excluding) such optional Interest Payment Date (an “**Accrual Period**”) but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Issuer for any purpose; and any interest not so paid shall, so long as the same remains unpaid, constitute “**Arrears of Interest**”. The Issuer may at its option (after giving notice to the holders of Upper Tier II Subordinated Instruments in accordance with Condition 13 but subject to sub-paragraph (ii) above) at any time pay all or part of the Arrears of Interest (being, if part only, the whole of the interest accrued on all the Upper Tier II Subordinated Instruments during any one or more Accrual Period(s)) but so that, in the case of any such partial payment, the interest accrued during any Accrual Period shall not be paid prior to that accrued during any earlier Accrual Period.

All Arrears of Interest shall (subject to sub-paragraphs (ii) and (iv) of this paragraph) become due in full on whichever is the earliest of (a) the date on which any dividend or other distribution is next declared, paid or made on any class of stock or share capital of the Issuer, (b) the date set for any repayment permitted under sub-paragraphs (ii) or (iv) in this paragraph and (c) the commencement of winding-up of the Issuer. If notice is given by the Issuer of its intention to pay

all or part of the Arrears of Interest, the Issuer shall be obliged (subject to sub-paragraph (ii) above) to do so upon the expiry of such notice. Interest in respect of which the condition referred to in sub-paragraph (ii) above is not satisfied on the Interest Date relating thereto shall, so long as the same remains unpaid, also constitute Arrears of Interest for the purposes of the remainder of these Conditions. Neither Arrears of Interest nor any interest due but unpaid shall bear interest.

- (iv) if, otherwise than for the purposes of a Permitted Reorganisation (as defined below) an order is made or an effective resolution is passed for the winding-up in Ireland of the Issuer, the Issuer shall, in lieu of any other payment on the Upper Tier II Subordinated Instruments and the Coupons relating thereto (if any) representing principal, accrued interest, Arrears of Interest and/or interest due but unpaid, but subject to the condition set out in sub-paragraph (ii) above, be obliged to pay, in respect of the Upper Tier II Subordination Instruments and such Coupons, such amounts as would have been payable if the holders of the Upper Tier II Subordinated Instruments and such Coupons had, on the day preceding the commencement of such winding-up, become holders of preference stock or shares in the capital of the Issuer forming or being part of a class having a preferential right in the winding-up over the holders of all other classes of stock or shares in the capital of the Issuer and entitled to receive in such winding-up an amount equal to the Early Redemption Amount (as defined in Condition 6(e) of the Upper Tier II Subordinated Instruments) together with interest (if any) accrued since the Interest Date next preceding or coinciding with the commencement of such winding-up, such Arrears of Interest and/or, as the case may be, such interest due but unpaid.

Definitions:

For the purposes of this paragraph 3(d):

“**Compulsory Interest Payment Date**” means any Interest Date in relation to which any dividend or other distribution has been declared, paid or made on any class of the stock or share capital of the Issuer in the immediately preceding interest period;

“**Interest Date**” means an Interest Payment Date;

“**Interest Period**” means the period from (and including) one Interest Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Date;

“**Optional Interest Payment Date**” means any Interest Date other than a Compulsory Interest Payment Date; and

“**Permitted Reorganisation**” means an amalgamation, merger, consolidation, reorganisation, re-registration or other similar arrangement entered into by the Issuer under which:

- (a) the whole of the business, undertaking and assets of the Issuer are transferred to, and all the liabilities and obligations of the Issuer are assumed by, a new or surviving entity either:
- (i) automatically by operation of the laws of Ireland; or
 - (ii) upon terms that the new or surviving entity will be bound by the terms of the Instruments as full as if it had been named in the Instruments in place of the Issuer; and
- (b) the new or surviving entity will immediately after such amalgamation, merger, consolidation, reorganisation, re-registration or other similar arrangement be subject to the same regulation and supervision by the relevant regulatory authority as the Issuer was subject immediately prior thereto.
- (v) Subject to applicable law permitting such right of set-off, no holder of a Subordinated Instrument, or Coupon relating thereto (if any) may exercise or claim any right of set-off in respect of any amount owed by it to the Issuer or arising under or in connection with the Subordinated Instruments or a Coupon relating thereto (if any) and shall, by virtue of its subscription, purchase or holding of any such Instrument or Coupon, be deemed to have waived all such rights of set-off.

(vi) *Lower Tier II Subordinated Instruments or Tier III Subordinated Instruments*

If specified as Lower Tier II Subordinated Instruments or Tier III Subordinated Instruments in the applicable Pricing Supplement, such Instruments and any Receipts and Coupons relating to them constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under Lower Tier II Subordinated Instruments and Tier III Subordinated Instruments and any Receipts and Coupons relating to them shall at all times rank equally with all other Senior Subordinated Obligations (as defined below).

In the event of the liquidation of the Issuer, the rights of the holders of any Lower Tier II Subordinated Instruments and Tier III Subordinated Instruments and the Receipts and Coupons relating to them shall rank ahead of:

- (a) those persons whose claims are in respect of any class of equity (including preference shares) of the Issuer;
- (b) the claims of the holders of Upper Tier II Subordinated Instruments; and
- (c) creditors whose claims are in respect of any obligations of the Issuer that rank or are expressed to rank (whether only in the winding up of the Issuer or otherwise) junior to Senior Subordinated Obligations,

but shall be subordinated to the claims of all Senior Creditors (as defined below).

(vii) *Subordinated Guarantee*

The Subordinated Guarantee constitutes direct, unsecured and subordinated obligations of the Guarantor and ranks equally with such other subordinated obligations of the Guarantor.

In this Condition 3(d):

“**Senior Creditors**” means all creditors of the Issuer who are cash depositors or other general, unsubordinated creditors including Holders of Senior Instruments; and

“**Senior Subordinated Obligations**” means all indebtedness and monetary obligations of the Issuer present and future that rank or are expressed to rank junior in right of payment (whether only in the event of the winding up of the Issuer or otherwise) to the claims of Senior Creditors but that are not subordinated so as to rank in point of subordination junior to any other obligations of the Issuer.

4. Interest

(a) *Interest on Fixed Rate Instruments*

Each Fixed Rate Instrument bears interest on its outstanding nominal amount (or, if it is a Partly Paid Instrument, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

- (i) if **“Actual/Actual (ISMA)”** is specified in the applicable Pricing Supplement:
 - (d) in the case of Instruments where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **“Accrual Period”**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (e) in the case of Instruments where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if **“30/360”** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

“Determination Period” means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Instruments and Index Linked Interest Instruments

(i) Interest Payment Dates

Each Floating Rate Instrument and Index Linked Interest Instrument bears interest on its outstanding nominal amount (or, if it is a Partly Paid Instrument, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) (each an **“Interest Payment Date”**) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each an **“Interest Payment Date”**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y)

if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(a)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system (the “**TARGET System**”) is open.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Instruments and Index Linked Interest Instruments will be determined in the manner specified in the applicable Pricing Supplement.

(iii) ISDA Determination for Floating Rate Instruments

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph, “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issue and Paying Agent under an interest rate swap transaction if the Issue and Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as amended and updated as at the Issue Date of the first Tranche of the Instruments, published by the International Swaps and Derivatives Association, Inc. (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”) or on the Euro-zone inter-bank offered rate (“**EURIBOR**”)

for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), “floating Rate”, “Calculation Agent”, “floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

(iv) Screen Rate Determination for Floating Rate Instruments

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (a) the offered quotation; or
- (b) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Issue and Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Issue and Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (a) above, no offered quotation appears or, in the case of (b) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Issue and Paying Agent shall request each of the Reference Banks to provide the Issue and Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Issue and Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Issue and Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Issue and Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Issue and Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Issue and Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Issue and Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the relevant Issuer suitable for the purpose) informs the Issue and Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last

preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

In this Condition 4(b)(iv):

“**Euro-zone**” means the region comprised of Member States of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

“**Reference Banks**” means, in the case of Condition 4(b)(iv)(a) above, those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of Condition 4(b)(iv)(b) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared; and

“**Specified Time**” means 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR).

If the Reference Rate from time to time in respect of Floating Rate Instruments is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Instruments will be determined as provided in the applicable Pricing Supplement.

(v) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(vi) Determination of Rate of Interest and calculation of Interest Amounts

The Issue and Paying Agent, in the case of Floating Rate Instruments, and the Calculation Agent, in the case of Index Linked Interest Instruments, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Instruments, the Calculation Agent will notify the Issue and Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Issue and Paying Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Instruments or Index Linked Interest Instruments in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest for any Interest Period:

- (a) if “**Actual/365**” or “**Actual/Actual (ISDA)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (c) if “**Actual/365 (Sterling)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

- (d) if “**Actual/360**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (e) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (f) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February in which case the month of February shall not be considered to be lengthened to a 30-day month).

(vii) Notification of Rate of Interest and Interest Amounts

The Issue and Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Instruments or Index Linked Interest Instruments are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than (in the case of notice to the Issuer or pursuant to Condition 13), the fourth London Business Day thereafter or (in the case of notice to a stock exchange), the first day of the relevant Interest Period or such other time as may be required by the relevant stock exchange. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Instruments or Index Linked Interest Instruments are for the time being listed and to the Holders in accordance with Condition 13. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(viii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Issue and Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Issue and Paying Agent, the Calculation Agent (if applicable), the other Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Issuer or the Holders shall attach to the Issue and Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Instruments*

In the case of Dual Currency Instruments, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Interest on Partly Paid Instruments*

In the case of Partly Paid Instruments (other than Partly Paid Instruments which are Zero Coupon Instruments), interest will accrue as aforesaid on the paid-up nominal amount of such Instruments and otherwise as specified in the applicable Pricing Supplement.

(e) Accrual of interest

Each Instrument (or in the case of the redemption of part only of an Instrument, that part only of such Instrument) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Instrument have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Instrument has been received by the Issue and Paying Agent and notice to that effect has been given to the Holders in accordance with Condition 13.

5. Payments

(a) Method of payment: Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(b) Presentation of Bearer Instruments, Receipts and Coupons

Payments of principal in respect of Bearer Instruments will (subject as provided below) be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Instruments, and payments of interest in respect of Bearer Instruments will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Bearer Instruments, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Instrument in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Instrument to which it appertains. Receipts presented without the Bearer Instrument to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Bearer Instrument becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Instruments in bearer form (other than Dual Currency Instruments, Index Linked Instruments or Long Maturity Instruments (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have

become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Instrument in bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof

Upon the date on which any Floating Rate Instrument, Dual Currency Instrument, Index Linked Interest Instrument or Long Maturity Instrument in bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Instrument**” is a Fixed Rate Instrument (other than a Fixed Rate Instrument which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Instrument shall cease to be a Long Maturity Instrument on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Instrument.

If the due date for redemption of any Bearer Instrument is not an Interest Payment Date, interest (if any) accrued in respect of such Instrument from (and including) the preceding or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Instrument.

(c) U. S. Paying Agent

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Instruments is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Instruments will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Instruments in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(d) Registered Instruments

Payments of amounts (including accrued interest) due on the final redemption of Registered Instruments will be made against presentation and, save in the case of a partial redemption, surrender of the relevant Registered Instruments at the specified office of the Registrar.

Payments of amounts (whether principal, interest or otherwise) due in respect of registered instruments will be paid to the Holders thereof (or, in the case of joint Holders, the first-named) as appearing in the register as at the opening of business Irish time) on the fifteenth London business day (the “**Record Date**”) before the due date for such payment.

(e) Payment Day

If the date for payment of any amount in respect of any Instrument, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation, London, any additional Financial Centre specified in the applicable Pricing Supplement; and

- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) Interpretation of principal and interest

Any reference in these Conditions to principal in respect of the Instruments shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7;
- (ii) the Final Redemption Amount of the Instruments;
- (iii) the Early Redemption Amount of the Instruments;
- (iv) the Optional Redemption Amount(s) (if any) of the Instruments;
- (v) in relation to Instruments redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Instruments, the Amortised Face Amount (as defined in Condition 6(e)); and
- (vii) any premium and any other amounts which may be payable by the Issuer under or in respect of the Instruments.

Any reference in these Conditions to interest in respect of the Instruments shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

(g) Payment Deferral (Tier III Subordinated Instruments):

(i) Deferral of Payment

Subject as follows, all payments of principal and interest in respect of Tier III Subordinated Instruments must be made on their due date as set out in the relevant Pricing Supplement.

The Issuer will not make any payment on its due date if, after making such payment, the Issuer would be in breach of the own funds requirement set out in paragraph 2.2.18(c) of the Irish Financial Services Regulatory Authority's ("IFSRA") (formerly the Central Bank of Ireland) Implementation of the EU Directive on Capital Adequacy of Credit Institutions Notice BSDS2/00 dated June 2000 (the "**Own Funds Requirement**") as such notice may be amended or supplemented from time to time. In such circumstances the Issuer shall, by notice in writing (a "**Deferral Notice**") (published in accordance with Condition 13) to the holders of Tier III Subordinated Instruments, defer the due date for payment of any principal or interest in respect of such Instruments and, accordingly, on the giving of a Deferral Notice the due date for such payment(s) shall be so deferred. The Issuer shall, to the extent possible, issue each Deferral Notice at least five London Business Days prior to the relevant due date if such due date is to be deferred.

(ii) Payment Arrears

Without prejudice to Condition 9(b)(ii), any amounts due in respect of the Tier III Subordinated Instruments which are not paid on their scheduled due date shall, so long as the same remains unpaid, constitute "**Payment Arrears**". All Payment Arrears on all Tier III Subordinated Instruments outstanding shall become due in full (together with all Additional Interest (as defined below)) accrued in respect thereto on whichever is the earliest of:

- (a) the date upon which the Issuer can first make payment of the Payment Arrears in full, together with all accrued Additional Interest, without, after such payment, being in breach of its Own Funds Requirement; and
- (b) the date upon which a judgment is rendered or an effective voluntary resolution is passed for the dissolution (dissolution) and liquidation (liquidation) of the Issuer.

The Issuer shall, to the extent possible, give notice in accordance with Condition 13 of its intention to pay Payment Arrears and Additional Interest to all relevant Holders not less than seven days prior to the scheduled payment date for payment thereof.

If notice is given by the Issuer of its intention to pay all Payment Arrears together with all Additional Interest accrued in respect, thereof, the Issuer shall be obliged to do so on the expiry of such notice, except if after such payment it would be in breach of its Own Funds Requirement.

(iii) **Additional Interest**

Payment Arrears shall bear interest (“**Additional Interest**”) at the Rate of Interest plus an additional rate of 0.5 per cent. per annum which shall accrue on a daily basis, for each successive period of twelve calendar months (“**Additional Interest Period**”) from and including the scheduled date on which such Payment Arrears may or should have been paid and ending on the day immediately preceding the last date of the Additional Interest Period. Additional Interest shall only be payable until the actual date of payment of all outstanding Payment Arrears. All Additional Interest which is not paid at the end of each Additional Interest Period, shall become Payment Arrears and bear interest accordingly.

(iv) **No Default**

Neither any deferral of payment under this Condition nor the failure to make payments of Payment Arrears or Additional Interest where, if it were to make such payments, the Issuer would be in breach of its Own Funds Requirement, shall constitute a default by the Issuer for any purpose.

6. Redemption and Purchase

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Instrument will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

Subject to Condition 6(k), the Instruments may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Instrument is neither a Floating Rate Instrument nor an Index Linked Interest Instrument) or on any Interest Payment Date (if this Instrument is either a Floating Rate Instrument or an Index Linked Interest Instrument), on giving not less than 30 nor more than 60 days’ notice to the Issue and Paying Agent and, in accordance with Condition 13, the Holders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Instruments, the Issuer or, if the Senior Guarantee in the case of Senior Instruments, or the Subordinated Guarantee, in the case of Subordinated Instruments, were called, the Guarantor has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the Republic of Ireland (in respect of Instruments issued by the Issuer acting through its Irish head office or its Luxembourg branch), Luxembourg (in respect of Instruments issued by the Issuer acting only through its Luxembourg branch) or the Federal Republic of Germany and in each case any political subdivision or authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Instruments; and
- (ii) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Instruments or either Guarantee, as the case may be, then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Issue and Paying Agent a certificate signed by two Directors of the Issuer or the Guarantor, as the case may be, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts

showing that the Conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or the Guarantor, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment.

Instruments redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption (including, in the case of Tier III Subordinated Instruments, all Payment Arrears and Additional Interest).

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement and if, in the case of Subordinated Instruments, the Issuer obtains the consent of the IFSRA as having an option to redeem, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Holders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Issue and Paying Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Instruments then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date (including in the case of Tier III Subordinated Instruments, all Arrears of Interest and Additional Interest Amounts). Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount. In the case of a partial redemption of Instruments, the Instruments to be redeemed ("**Redeemed Instruments**") will be selected individually by lot not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). A list of the serial numbers of such Redeemed Instruments will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption.

(d) Redemption at the option of the Holders (Investor Put)

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Instrument giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Instrument on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Instrument the holder of this Instrument must deliver such Instrument at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition.

Any Put Notice given by a holder of any Instrument pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Instrument forthwith due and payable pursuant to Condition 9.

(e) Early Redemption Amounts

For the purpose of Condition 6(b) above and Condition 9, each Instrument will be redeemed at the Early Redemption Amount calculated as follows:

- (i) at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (ii) in the case of a Zero Coupon Instrument, at an amount (the “**Amortised Face Amount**”) equal to the sum of the Reference Price and the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Instruments to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Instrument becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) Instalments

Instalment Instruments will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6(e) above.

(g) Partly Paid Instruments

Partly Paid Instruments will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) Purchases

Subject to Condition 6(k), the Issuer or the Guarantor may at any time purchase Instruments (provided that any unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Holders alike. Such Instruments may be held, reissued, resold or, at the option of the Issuer or the Guarantor, surrendered to any Paying Agent for cancellation.

(i) Cancellation

All Instruments which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Instruments so cancelled and the Instruments purchased and cancelled pursuant to Condition 6(h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Issue and Paying Agent and cannot be reissued or resold.

(j) Late payment on Zero Coupon Instruments

If the amount payable in respect of any Zero Coupon Instrument upon redemption of such Zero Coupon Instrument pursuant to Condition 6(a), 6(b) or 6(c) or 6(d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Instrument shall be the amount calculated as provided in Condition 6(e)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Instrument becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Instrument have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Instruments has been received by the Issue and Paying Agent and notice to that effect has been given to the Holders in accordance with Condition 13.

(k) Redemption or Purchase of Subordinated Instruments

(i) All Subordinated Instruments

Notwithstanding any other provision of these Conditions, Subordinated Instruments may not be redeemed prior to their stated maturity date (if any) or purchased by or on behalf of the Issuer or any of its subsidiaries without the prior consent of the IFSRA.

(ii) Tier III Subordinated Instruments

Payments due from the Issuer in connection with the redemption of Tier III Subordinated Instruments may be deferred in certain circumstances as described in Condition 5(g).

(iii) Undated Subordinated Instruments

Unless otherwise agreed by the IFSRA, undated Subordinated Instruments which are either Upper Tier II Subordinated Instruments or Lower Tier II Subordinated Instruments may be redeemed by the Issuer on giving 5 years' notice and Undated Subordinated Instruments which are Tier III Subordinated Instruments may be redeemed by the Issuer on giving 2 years' notice. In the case of Upper Tier II Subordinated Instruments redemption shall be subject to the prior approval of the IFSRA.

7. Taxation

All payments of principal and interest by the Issuer or the Guarantor in respect of the Instruments, Receipts and Coupons or under the Senior Guarantee and the Subordinated Guarantee will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Republic of Ireland (in respect of Instruments (and related Receipts and Coupons) issued by the Issuer acting through its Irish office or its Luxembourg branch) or Luxembourg (in respect of Instruments (and related Receipts and Coupons) issued by the Issuer acting only through its Luxembourg branch) or the Federal Republic of Germany unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Instruments, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Instruments, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Instrument, Receipt or Coupon presented for payment:

- (i) by or on behalf of a holder who is liable for such taxes or duties in respect of such Instrument, Receipt or Coupon by reason of his having some connection with the Republic of Ireland in respect of instruments issued by the Issuer acting through its Irish head office, Luxembourg in respect of Instruments issued by the Issuer acting through its Luxembourg branch or the Federal Republic of Germany in the case of payments by the Guarantor other than the mere holding of such Instrument, Receipt or Coupon; or
- (ii) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(d)); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Instrument, Receipt or Coupon to another Paying Agent in a Member State of the European Union.
- (v) in the case solely of Relevant Instruments (as defined below), where such withholding or deduction would not have been so imposed if, in the case of such taxes imposed by or on behalf of the Republic of Ireland or any political subdivision or governmental authority thereof or therein

having the power to tax (each of the foregoing an “Irish Taxing Jurisdiction”), the holder of such Relevant Instrument had provided such other evidence as is reasonably necessary to enable the Issuer or any other person through whom payment may be made to determine the residence of the holder (provided that (x) such determination of residence is necessary under the applicable laws or practice of the Irish Taxing Jurisdiction to determine the application of the exemption from the requirement to deduct or withhold all or a part of any such taxes and (y) at least 30 days prior to the first payment date with respect to which such determination is required under the applicable law or practice of the Irish Taxing Jurisdiction, the relevant holder at that time has been properly notified by the Issuer or any other person through whom payment may be made that such evidence must be provided).

As used in these Conditions, “**Relevant Instruments**” means:

- (a) Any Instruments which do not qualify under the “quoted eurobond” exemption from Irish withholding tax set out in section 64 of the Irish Taxes Consolidation Act 1997.

Instruments which currently qualify under the quoted eurobond exemption for payment of interest free of Irish withholding tax are bearer instruments which carry a right to interest, are quoted on a recognised stock exchange such as the Irish or Luxembourg Stock Exchange and which are held in either Euroclear or Clearstream, Luxembourg; or

- (b) Any Instruments which do not qualify under the exemption for wholesale debt instruments set out in section 246A of the Irish Taxes Consolidation Act 1997.

Instruments which currently qualify under the wholesale debt instruments exemption have a maturity of two years or less, are held in Euroclear or Clearstream, Luxembourg and have a minimum denomination of €500,000, in the case of Instruments denominated in euro, U.S. \$500,000 in the case of Instruments denominated in U.S. dollars, or, in the case of Instruments denominated in a currency other than euro or U.S. dollars, the equivalent in that other currency of €500,000.

As used in these Conditions the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Issue and Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 13.

8. Prescription

The Instruments (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

9. Events of Default and Enforcement

(a) Provisions relating to Senior Instruments

If any of the following events (“**Events of Default**”) occurs and is continuing, the holder of any Senior Instrument may give written notice to the Issue and Paying Agent at its specified office that such Instrument is immediately repayable, whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 6(e)), together with accrued interest (if any) to the date of repayment, without presentation, demand, protest or other notice of any kind:

- (i) default is made for more than 14 days (in the case of interest) or 7 days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Instruments or under the Guarantee; or
- (ii) the Issuer or the Guarantor defaults in performance or observance of, or compliance with any of its other obligations in the Instruments which default is incapable of remedy or which, if capable

of remedy, is not remedied within 21 days after notice of such default shall have been given to the Issue and Paying Agent at its specified office by any Holder; or

- (iii) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a material part of the property, assets or revenues of the Issuer or the Guarantor and is not stayed or discharged within 21 days; or
- (iv) any present or future mortgage, charge, pledge, lien or other encumbrance on or over all or a material part of the property, assets or revenues of the Issuer or the Guarantor becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager, examiner or other similar person) and such enforcement or step is not stayed or discharged within 21 days; or
- (v) the Issuer or the Guarantor becomes insolvent within the meaning of Irish or German law, as applicable, or applies for or consents to or suffers the appointment of a liquidator, receiver or examiner of the Issuer or the Guarantor or of the whole or any substantial part of the undertaking, property, assets or revenues of the Issuer or the Guarantor or initiates proceedings under any law for a readjustment or deferment of its obligations or any substantial part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or any judgment is rendered or an effective voluntary resolution is passed for the dissolution and liquidation of the Issuer or the Guarantor or to admit the Issuer or the Guarantor to a regime of suspension of payments and controlled management; or
- (vi) the Issuer or the Guarantor ceases to carry on business (except for the purpose of any amalgamation, merger or other reorganisation under which the continuing or successor corporation has assumed all of the assets and business undertakings of the Issuer or, as the case may be, the Guarantor and has expressly and effectively assumed the obligations of the Issuer under the Instruments or the obligations of the Guarantor under the Senior Guarantee and the Subordinated Guarantee); or
- (vii) the Senior Guarantee or the Subordinated Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (viii) any event occurs under the laws of any relevant jurisdiction which has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

(b) Provisions relating to Subordinated Instruments

(i) Liquidation

If a judgment is made or an effective resolution is passed for the dissolution and liquidation of the Issuer (other than, in the case of a resolution, in respect of a voluntary dissolution or liquidation of the Issuer, for the purposes of a Permitted Reorganisation), the Holder of any Subordinated Instrument may give written notice to the Issue and Paying Agent at its specified office that such Instrument is due and payable, whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 6(e)), together with accrued interest (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

(ii) Non Payment

If the Issuer does not make payment for a period of 7 days or more after the due date for the payment of principal or for a period of 14 days or more after a Fixed Interest Date or an Interest Payment Date, as the case may be, for the payment of interest due in respect of any of the Subordinated Instruments on such date, the Holder of any Subordinated Instrument may initiate proceedings for the winding-up of the Issuer in the Republic of Ireland (but not elsewhere) in accordance with the Companies Act 1963-2001.

(iii) Breach of Obligations

To the extent permitted by applicable law and by these Conditions, a Holder may at its discretion institute such proceedings against the Issuer or the Guarantor as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer or the Guarantor, as the case may be, under the Instruments or the Coupons or on the Guarantor under the Subordinated Guarantee but the institution of

such proceedings shall not have the effect that the Issuer or the Guarantor shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it had no breach occurred.

(iv) **Other Remedies**

No remedy against the Issuer, other than the institution of the proceedings referred to in Condition 9(b)(ii) or (iii) and the proving or claiming in any dissolution and liquidation of the Issuer, shall be available to any Holder whether for the recovery of amounts owing in respect of the Instruments or the Coupons or in respect of any breach by the Issuer of any other obligation, condition or provision binding on it under the Instruments or the Coupons.

10. Replacement of Instruments, Receipts, Coupons and Talons

Should any Instrument, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Paying Agent in Luxembourg upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Instruments, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

11. Paying Agents and Registrar

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent or the Registrar and/or appoint additional or other Paying Agents or another Registrar and/or approve any change in the specified office through which any Paying Agent or Registrar acts, provided that:

- (a) there will at all times be an Issue and Paying Agent and, in respect of Registered Instruments, a Registrar;
- (b) so long as the Instruments are listed on any stock exchange, there will at all times be a Paying Agent (and transfer agent) and a Registrar each with a specified office in such place, and in the case of Luxembourg Stock Exchange in Luxembourg, as may be required by the rules and regulations of the relevant stock exchange;
- (c) there will at all times be a Paying Agent with a specified office outside Luxembourg; and
- (d) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(c). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to Holders in accordance with Condition 13.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Holders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issue and Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of

interest due in respect of the Instrument to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. Notices

All notices regarding Bearer Instruments shall be published (i) in a leading English language daily newspaper of general circulation in London, (ii) for so long as the Instruments are listed on the Irish Stock Exchange or where otherwise required under the laws of Ireland, in a daily newspaper of general circulation in Ireland and (iii) if and for so long as the Instruments are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg. It is expected that the publication referred to in (i) and (ii) above will be made in the *Irish Times* in Ireland whilst the publication referred to in (iii) will be the *Luxemburger Wort* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange on which the Instruments are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of publication in the last of such newspapers.

Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day. If so required such notices will also be published in accordance with the rules of any stock exchange on which the Instruments may be listed and in the case of Instruments listed on the Luxembourg Stock Exchange will be published in a daily newspaper with general circulation in Luxembourg (which is expected to be *Luxemburger Wort*).

Until such time as any Definitive Instruments are issued, there may (provided that, in the case of Instruments listed on a stock exchange, such stock exchange permits or any other relevant authority), so long as the Global Instrument is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearance system, be substituted for such publication in the newspaper(s) mentioned above the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or such other clearance system for communication by them to the holders of the relevant Notes. Any such notice shall be deemed to have been given to the holders of the Instruments and the Coupons on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other clearance system.

Notices to be given by any Holder shall be in writing and given by lodging the same, together with (in the case of any Definitive Instruments), the relative Instrument or Instruments, with the Issue and Paying Agent. Whilst any of the Instruments are represented by a global Instrument, such notice may be given by any holder of an Instrument to the Issue and Paying Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Issue and Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. Meetings of Holders, Modification and Waiver

(a) Senior and Subordinated Instruments

The Agency Agreement contains provisions for convening meetings of the Holders of Senior Instruments to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Senior Instruments and the Receipts and Coupons relating thereto or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Holders holding not less than five per cent. in nominal amount of the Instruments for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in nominal amount of the Instruments for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the nominal amount of the Instruments so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Instruments, the Receipts or the Coupons (including modifying the date of maturity of the Instruments or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Instruments or

altering the currency of payment of the Instruments, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing more than two-thirds in nominal amount of the Instruments for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing more than one-third in nominal amount of the Instruments for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

(b) Minor Modifications and Corrections

The Issue and Paying Agent and the Issuer may agree, without the consent of the Holders to:

- (i) any modification (except as mentioned above) of the Instruments, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of Holders; or
- (ii) any modification of the Instruments, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 13 and to the Irish Stock Exchange as soon as practicable thereafter.

15. Substitution

(a) Senior Instruments

The Issuer, or any previous substituted company, may at any time, without the consent of the Holders of any Senior Instrument or Coupon, substitute for itself as principal debtor under any Series of the Senior Instruments, the Receipts, the Coupons and the Talons any subsidiary, branch or affiliate of the Issuer or the successor company of the Issuer or jointly and severally one or more companies to whom the Issuer has transferred all of its assets and business undertakings (in each case the “**Substitute**”) provided that no payment in respect of the Senior Instruments, the Receipts or the Coupons is at the relevant time overdue, no steps have been taken to appoint an examiner to the Issuer and (except in the case of a Permitted Reorganisation) no judgment has been rendered or effective voluntary resolution passed for the dissolution and liquidation of the Issuer. Such substitution effected in accordance with this Condition 15 will release the Issuer or any previous substituted company and the Holders of the Senior Instruments and Coupons expressly consent hereto. The substitution shall be made by a deed poll (the “**Deed Poll**”) to be substantially in the form scheduled to the Agency Agreement and may take place only if:

- (i) the Substitute, by means of the Deed Poll, agrees to indemnify each Holder of any Senior Instrument or Coupon against any tax, duty, assessment, withholding, deduction or governmental charge which is imposed on it by (or by any taxing authority in or of) the jurisdiction of the country of the Substitute’s residence for tax purposes and, if different, of its incorporation with respect to any Instrument, Receipt, Coupon, Talon or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty assessment or governmental charge, and any cost or expense, relating to the substitution;
- (ii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Instruments and the Deed of Covenant shall be unconditionally guaranteed by the Guarantor by means of the Deed Poll;
- (iii) all action, Conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Instruments, the Receipts, the Coupons, the Talons and the Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and, in the case of the Guarantee, of the Guarantor have been taken, fulfilled and done and are in full force and effect;
- (iv) the Substitute has become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;

- (v) legal opinions addressed to the Holders have been delivered to them (care of the Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above as to the fulfilment of the preceding Conditions of this Condition 15 and the other matters specified in the Deed Poll;
- (vi) (in respect of Instruments which are, or form part of a class of debt which is rated) each of Standard & Poor's, a division of McGraw Hill Companies, Inc. and/or, if applicable, each other internationally recognised rating agency, which at the relevant time assigns a rating to the relevant Instruments or to the class of debt represented by such Instruments, has confirmed in writing to the Issuer that the substitution will not adversely affect such rating;
- (vii) the Issuer has given at least 14 days' prior notice to such substitution to the Holders, stating that copies of all documents (in draft or final form) in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Holders, will be available for inspection at the specified office of each of the Paying Agents; and
- (viii) the Irish Stock Exchange and the Luxembourg Stock Exchange have been notified and have given their approval, a publication of notice of the substitution has been made in an Irish and a Luxembourg newspaper in accordance with Condition 13 and a supplement to this Information Memorandum has been prepared.

References in Condition 9 to obligations under the Instruments shall be deemed to include obligations under the Deed Poll and, where the Deed Poll contains a guarantee, the events listed in Conditions 9(a) and 9(b) shall be deemed to include such guarantee not being (or being claimed by the Guarantor not to be) in full force and effect.

References to "outstanding" in relation to the Instruments of any Series shall, on a substitution of the Issuer where the Guarantor guarantees the Instruments, not include Instruments held by the Guarantor and its subsidiaries for the purposes of (i) ascertaining the right to attend and vote at any meeting of the Holders and (ii) the determination of how many Instruments are outstanding for the purposes of Condition 14.

(b) Subordinated Instruments

Subject to the provisions of this Condition, the Holders of any Subordinated Instrument or Coupon, by subscribing to or purchasing any Instruments or Coupons, expressly consent to the Issuer, or any previously substituted company, at any time but where applicable, with the prior authorisation of the IFSRA, substituting for itself as principal debtor under any Series of the Instruments, the Receipts, the Coupons and the Talons any subsidiary branch or affiliate of the Issuer or the successor company of the Issuer or jointly and severally one or more companies to whom the Issuer has transferred all of its assets and business undertakings (in each case the "**Substitute**") provided that no payment in respect of the Instruments, the Receipts or the Coupons is at the relevant time overdue, no steps have been taken to appoint an examiner to the Issuer and (except in the case of a Permitted Reorganisation) no judgment has been rendered or effective voluntary resolution passed for the dissolution and liquidation of the Issuer. Such substitution effected in accordance with this Condition 15 will release the Issuer or any previous substituted company and the Holders of the Subordinated Instruments and Coupons expressly consent hereto. The substitution shall be made by a written undertaking (the "**Undertaking**") to be substantially in the form scheduled to the Agency Agreement and may take place only if:

- (i) the Substitute, by means of the Undertaking, agrees to indemnify each Holder of any Subordinated Instrument or Coupon against any tax, duty, assessment, withholding, deduction or governmental charge which is imposed on it by (or by any taxing authority in or out) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Instrument, Receipt, Coupon or Talon and which would not have been so imposed had the substitution not been made, as well as against any tax, duty assessment or governmental charge, and any cost or expense, relating to the substitution;
- (ii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Instruments and the Deed of Covenant shall be unconditionally guaranteed on a subordinated basis by the Guarantor by means of the Deed Poll;

- (iii) all action, Conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Undertaking, the Instruments, the Receipts, the Coupons and the Talons represent valid, legally binding and enforceable obligations of the Substitute and, in the case of the Guarantee, of the Guarantor have been taken, fulfilled and done and are in full force and effect;
- (iv) the Substitute has become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;
- (v) legal opinions addressed to the Holders have been delivered to them (care of the Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above as to the fulfilment of the preceding Conditions of this Condition 15 and the other matters specified in the Undertaking;
- (vi) (in respect of Instruments which are, or form part of a class of debt which is rated) each of Standard & Poor's, a division of McGraw Hill Companies, Inc. and/or, if applicable, each other internationally recognised rating agency, which at the relevant time assigns a rating to the relevant Instruments or to the class of debt represented by such Instruments, has confirmed in writing to the Issuer that the substitution will not adversely affect such rating; and
- (vii) the Issuer has given at least 14 days' prior notice to such substitution to the Holders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Holders, will be available for inspection at the specified office of each of the Paying Agents.

References in Condition 9 to obligations under the Instruments shall be deemed to include obligations under the Undertaking and, where the Undertaking contains a subordinated guarantee, the events listed in Conditions (a) and (b) shall be deemed to include such subordinated guarantee not being (or being claimed by the Guarantor not to be) in full force and effect. In addition, the subordinated guarantee shall contain rights of enforcement in the form of Condition 9(b) and provisions relating to the Guarantor in the form of Condition 6(h) and 6(i).

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Holders to create and issue further Instruments having conditions the same as the Instruments or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Instruments.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Instrument under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. Governing Law and Submission to Jurisdiction

(a) Governing law

The Instruments, the Receipts and Coupons relating thereto are governed by, and shall be construed in accordance with, English law, except that the provisions of the Instruments relating to the claims of Holders on a winding-up of the Issuer shall be construed in accordance with, the laws of Ireland.

The Agency Agreement is governed by, and shall be construed in accordance with, English law.

(b) Submission to jurisdiction

Each of the Issuer and the Guarantor agrees, for the exclusive benefit of the Holders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Instruments and the Receipts and/or Coupons relating thereto, the Senior Guarantee and the Subordinated Guarantee and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with such Instruments, Receipts and Coupons may be brought in such courts.

Each of the Issuer and the Guarantor hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

The Issuer agrees, for the exclusive benefit of the Holders, that the courts of Ireland, are to have jurisdiction to settle any disputes which may arise out of or in connection with the Subordinated Instruments and the Receipts and/or Coupons relating thereto, and that accordingly any Proceedings arising out of or in connection with such Instruments, Receipts and Coupons may be brought in such courts.

Each of the Issuer and the Guarantor hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the courts of the Republic of Ireland shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer or the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) Appointment of Process Agent

Each of the Issuer and the Guarantor appoints Hypo Real Estate Bank International London Branch at its office at 110 Cannon Street, London EC4N 6EW, as its agent for service of process, and undertakes that, in the event of Hypo Real Estate Bank International, London Branch ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

Form of Instruments

(A) Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the Holder of an Instrument represented by a Global Instrument (which expression includes a Temporary Global Instrument and a Permanent Global Instrument) must look solely to Euroclear, Clearstream, Luxembourg or such other clearing system (as the case may be) for such person's share of each payment made by the Issuer to the bearer of such Global Instrument (or the registered holder of the Global Registered Instrument, as the case may be), and in relation to all other rights arising under the Global Instruments, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such other clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Instrument or Global Registered Instrument and such obligations of the Issuer will be discharged by payment to the bearer of such Global Instrument (or the registered Holder of the Global Registered Instrument, as the case may be), in respect of each amount so paid. References in these provisions relating to the Instruments while in global form to "Holder" or "Accountholder" are to those persons shown in the records of the relevant clearing system as a holder of an Instrument.

(B) Form and Exchange — Bearer Global Instruments

- (1) *TEFRA D or TEFRA C*: The Pricing Supplement shall specify whether U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "TEFRA D Rules") or U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the "TEFRA C Rules") shall apply or whether neither shall apply. Each Tranche of Bearer Instruments is represented upon issue by a Temporary Global Instrument, unless the Pricing Supplement specifies otherwise and either the TEFRA C Rules apply or neither the TEFRA D Rules nor the TEFRA C Rules apply.

Where the Pricing Supplement applicable to a Tranche of Bearer Instruments specifies that the TEFRA C Rules apply or that neither the TEFRA D Rules nor the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Pricing Supplement) represented upon issue by a Permanent Global Instrument.

Interests in a Temporary Global Instrument may be exchanged for:

- (i) interests in a Permanent Global Instrument; or
- (ii) if so specified in the Pricing Supplement, Definitive Instruments and/or (if so specified in the Pricing Supplement) Registered Instruments.

Exchanges of interests in a Temporary Global Instrument for Definitive Instruments or, as the case may be, a Permanent Global Instrument will be made only on or after the date (the "Exchange Date") which is the later of (i) 40 days after the Issue Date and (ii) 40 days after completion of the distribution of the Tranche of Instruments represented by the Temporary Global Instrument and (unless the Pricing Supplement specifies either that the TEFRA C Rules are applicable to the Instruments or that neither the TEFRA D Rules nor the TEFRA C Rules apply) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received. An exchange for Registered Instruments will be made at any time or from such date as may be specified in the Pricing Supplement, in each case, subject to any certification specified in the Pricing Supplement.

- (2) *Limitation on entitlement under a Temporary Global Instrument after Exchange Date*: Holders of interests in any Temporary Global Instrument shall not (unless, upon due presentation of such Temporary Global Instrument for exchange (in whole but not in part only) for a Permanent Global Instrument or for delivery of Definitive Instruments and/or Registered Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the

Instruments represented by such Temporary Global Instrument which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.

- (3) *Certification of non-U.S. beneficial ownership:* While any Instruments are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received by Euroclear or Clearstream, Luxembourg, or any other relevant clearing system which may be specified in the Pricing Supplement. Payments of amounts due in respect of a Permanent Global Instrument will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.
- (4) *Exchange of a Permanent Global Instrument for Definitive Instruments:* Interests in a Permanent Global Instrument will be exchanged (subject to the period allowed for delivery as set out in (i) below), in whole but not in part only and at the request of the holder of Instruments represented by such Global Instrument, for Definitive Instruments and/or (if so specified in the Pricing Supplement) Registered Instruments, (a) if Euroclear and Clearstream, Luxembourg and any other relevant clearing system (or successor in business thereto) is permanently closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (b) if any of the circumstances described in Condition 9 (in relation to Senior Instruments only) occurs, or (c) if so specified in the Pricing Supplement, at any time on the request of the bearer, or (d) at any time at the option of the Issuer. Whenever a Permanent Global Instrument is to be exchanged for Definitive Instruments and/or Registered Instruments, the Issuer shall procure the prompt delivery of such Definitive Instruments and/or Registered Instruments, duly authenticated and where and to the extent applicable, with Coupons and Talons attached (each as defined in Condition 1(b)), in an aggregate principal amount equal to the principal amount of such Permanent Global Instrument to the bearer of the Permanent Global Instrument against its surrender at the specified office of the Issue and Paying Agent within 30 days of the Holder requesting such exchange.

In the event that:

- (i) Definitive Instruments have not been delivered in accordance with the foregoing by 6.00 p.m. (London time) on the thirtieth day after the Holder has requested exchange; or
- (ii) the Global Instrument (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Global Instrument has occurred,

and, in either case, payment in full of the amount due together with all accrued interest thereon has not been made to the bearer in accordance with the Conditions on the due date for payment, then the Global Instrument (including any obligation to deliver Definitive and/or Registered Instruments) will become void at 6.00 p.m. (London time) on such thirtieth day (in the case of (i) above) or at 6.00 p.m. (London time) on such due date (in the case of (ii) above) and the Holders will have no further rights thereunder (but without prejudice to the rights (if any) which Holders may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interests in Instruments will acquire directly against the Issuer and the Guarantor all those rights to which they would have been entitled if, immediately before the Permanent Global Instrument became void, they had been the Holders of Definitive Instruments in an aggregate principal amount equal to the principal amount of Senior Instruments they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg or other relevant clearing system (as the case may be).

(C) Form of Exchange — Global Registered Instruments

- (1) *Global Registered Instrument:* Registered Instruments held in Euroclear and/or Clearstream, Luxembourg (or any other clearing system) will be represented by a Global Registered Instrument which will be registered in the name of a nominee for, and deposited with, a common

depository for Euroclear and Clearstream, Luxembourg (or a custodian for such other relevant clearing system).

- (2) *Exchange*: The Global Registered Instrument will become exchangeable, in whole but not in part only, for individual Registered Instruments, (a) if Euroclear and Clearstream, Luxembourg and any other relevant clearing system (or successor in business thereto) is permanently closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (b) if any of the circumstances described in Condition 9 (in relation to Senior Instruments only) occurs, or (c) if so specified in the Pricing Supplement, at any time on request of a holder, or (d) at any time at the option of the Issuer.

Whenever the Global Registered Instrument is to be exchanged for Registered Instruments, such Registered Instruments will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Instrument within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Instrument, Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, to the Registrar or other Transfer Agent (as the case may be) of such information as is required to complete and deliver such Registered Instruments (including, without limitation, the names and addresses of the persons in whose names the Registered Instruments are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Instrument at the specified office of the Registrar or other Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Instruments scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar or other Transfer Agent (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In the event that:

- (i) Registered Instruments have not been delivered by 6.00 p.m. (London time) on the fourteenth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Registered Instrument; or
- (ii) any of the Instruments evidenced by the Global Registered Instrument has become due and payable in accordance with the Conditions or the date for final redemption of the Instruments has occurred,

and, in either case, payment in full of the amount due with all accrued interest thereon has not been made to the Holder of the Global Registered Instrument on the due date for payment in accordance with the terms of the Global Registered Instrument, then the Global Registered Instrument (including the obligation to deliver Registered Instruments) will become void at 6.00 p.m. (London time) on such fourteenth day (in the case of (i) above) or at 6.00 p.m. (London time) on such due date (in the case of (ii) above) and the Holders will have no further rights thereunder (but without prejudice to the rights which Holders may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interests in Instruments will acquire directly against the Issuer and the Guarantor all those rights to which they would have been entitled if, immediately before the Global Registered Instrument became void, they had been the registered Holders of Instruments in an aggregate principal amount equal to the principal amount of Senior Instruments they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or other relevant clearing system (as the case may be).

(D) Amendment to Conditions

Temporary Global Instruments, Permanent Global Instruments and Global Registered Instruments contain provisions that apply to the instruments that they represent, some of which modify the effect of the Terms and Conditions of the Instruments set out in this Information Memorandum. The following is a summary of certain of those provisions:

- (1) *Cancellation*: Cancellation of any Instrument represented by a Global Instrument that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Permanent Global Instrument or Global Registered Instrument.
- (2) *Purchase*: Instruments represented by a Global Instrument may only be purchased by the Issuer if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.
- (3) *Issuer's Option*: Any option of the Issuer provided for in the Conditions of the Instruments while such Instruments are represented by a Global Instrument shall be exercised by the Issuer giving notice to the Holders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Instruments drawn in the case of a partial exercise of an option and accordingly no drawing of Instruments shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of Accountholders with a clearing system in respect of the Instruments will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).
- (4) *Holders' Option*: Any option of the Holders provided for in the Conditions of any Instruments while such instruments are represented by a Global Instrument may be exercised by the Holder of such Permanent Global Instrument or Global Registered Instrument, giving notice to the Issue and Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent (or the Registrar, in the case of a Global Registered Instrument) substantially in the form of the notice available from any Paying Agent (or the Registrar, in the case of a Global Registered Instrument), except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised, and stating the principal amount of Instruments in respect of which the option is exercised and at the same time presenting for notation the Global Instrument to the Issue and Paying Agent, or to a Paying Agent acting on behalf of the Issue and Paying Agent (or the Registrar, in the case of a Global Registered Instrument).
- (5) *Notices*: So long as any Instruments are represented by a Global Instrument and such Global Instrument is held on behalf of a clearing system:
 - (i) notices to the Holders of Instruments of that Series may be given by delivery of the relevant notice to the clearing system for communication by it to entitled Accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the Holder of the Global Instrument, except that so long as the Instruments are listed on the Irish Stock Exchange and the Luxembourg Stock Exchange and the rules of those exchanges so require, notices shall also be published in a leading newspaper having general circulation in Dublin (which is expected to be the *Irish Times*) and in Luxembourg (which is expected to be the *Luxemburger Wort*); and
 - (ii) notices to be given by any Holder may be given by such Holder to the Issue and Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Issue and Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

(E) Partly Paid Instruments

While any Partly Paid Instalments due from the Holder of Partly Paid Instruments are overdue, no interest in a Global Instrument representing such Instruments may be exchanged for an interest in a Global Instrument or for Definitive Instruments or a Registered Instrument (as the case may be). If any Holder fails to pay any instalment due on any Partly Paid Instruments within the time specified, the Issuer may forfeit such Instruments and shall have no further obligation to such Holder in respect of them.

USE OF PROCEEDS

The net proceeds of each Tranche of Instruments issued will be used to meet the Issuer's financing requirements and its general corporate requirements.

The net proceeds of each Tranche of Instruments issued on a subordinated basis will be used to strengthen the capital base of the Issuer to support the continuing growth of its business.

HYPO REAL ESTATE BANK INTERNATIONAL

Incorporation and History

Hypo Real Estate Bank International (the “Issuer”) was incorporated in Dublin on 11 November 1993 as a private unlimited company under Irish law with the name VB International Finance Ireland. Its registered number is 209149. On 30 September 1997 the Issuer changed its name from VB International Finance Ireland to Vereinsbank Ireland. On 3 June 1998 the Issuer was converted from a private unlimited company to a public unlimited company to enable it to issue securities to the public. The Issuer traded under the name HypoVereinsbank Ireland from 1 December 1998 following the transfer of all assets and liabilities of Hypobank Ireland to Vereinsbank Ireland. The Issuer was renamed HVB Bank Ireland on 27 August 2001. On 15 September 2003 the Issuer changed its name to its current name, Hypo Real Estate Bank International.

The Issuer was a 99.99 per cent. subsidiary of DIA Vermoögensverwaltungs GmbH (“DIA”), which in turn was a 100 per cent. subsidiary of Bayerische Hypo- und Vereinsbank Aktiengesellschaft (“HVB AG”). When the de-merger of a large portion of the commercial real estate finance business of HVB AG, including its international commercial real estate finance activities, (the “Spin Off”) became effective on 29 September 2003 (see “The Spin Off” below), Hypo Real Estate Holding AG (“Hypo Holding” or the “Guarantor”) became the sole shareholder of DIA. As a result of the redemption and re-issuance of shares which became effective on 9 December 2003, all the shares in the Issuer are now directly or indirectly held by Hypo Holding (see “Shareholder Structure” below). The Issuer’s registered office is at 3 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland.

Banking Licence

The Issuer holds a banking licence from the Irish Financial Services Regulatory Authority (“IFSRA”) enabling it to carry on all permitted types of banking business in Ireland. The Issuer also holds a certificate from the Irish Minister for Finance authorising it to trade in the International Financial Services Centre, Dublin (“IFSC”).

Financial Year

The Issuer’s financial year is 1 January to 31 December.

Shareholder Structure

The Issuer has an authorised share capital of €4 billion. The Issuer’s issued share capital as at the date of this Information Memorandum amounts to €1,410,000,000 comprising 1,410,000,000 ordinary shares of €1.00 each. The issued share capital is held as follows:

	€
Hypo Real Estate Holding AG	1,409,999,994
On trust for Hypo Real Estate Holding AG	6
Total	<u>1,410,000,000</u>

The six shares in the Issuer held on trust for Hypo Holding are held by six nominees who are employees and senior executives of the Issuer (each person holding one ordinary share). Hypo Holding is the Guarantor of the Instruments issued under this Programme (see “Hypo Real Estate Holding AG”).

The Issuer and its subsidiaries (together the “Hypo International Group”) comprise one of three business units of the Issuer’s German parent company, Hypo Holding, each of which operates independently of each other (see “Hypo Real Estate Holding AG”).

The significant subsidiaries of the Issuer (based on the following unaudited balance sheet information as at 31 December 2003) currently are:

Hypo Real Estate Capital Limited, London (“HREC London”), whose consolidated total assets comprise approximately €46 million, and which forms a business unit with the London branch of the Issuer (the total assets of the London branch of the Issuer comprise approximately €1,513 million).

Pfandbrief Bank International S.A., Luxembourg (“PBI”), whose total assets comprise approximately €6,391 million.

The Issuer also has the following subsidiaries which the Issuer considers not to be material based on the following unaudited balance sheet information as at 31 December 2003:

Hypo Real Estate Capital France S.A., Paris (“HREC France”) – whose total assets comprise approximately €172 million (held as to a 99.99 per cent. interest by the Issuer)

Hypo Real Estate Capital Italy S.p.A., Milan (“HREC Italia”) – whose total assets comprise approximately €2 million (held as to a 100 per cent. interest by the Issuer). This company is to be merged into the Milan branch of the Issuer.

Hypo Real Estate Capital Iberia S.L., Madrid (“HREC Iberia”) – whose total assets comprise approximately €803,000 (held as to a 100 per cent. interest by the Issuer).

Hypo Real Estate Capital Corporation, New York (“HREC USA”) – whose total assets comprise approximately €1,582 million (held as to a 100 per cent. interest by the Issuer). This company has recently commenced trading and is expected to become a significant subsidiary in the future. The increase in total assets from €360 million to €1,582 million over November 2003 is the result of the completion of the acquisition of the US commercial real estate portfolio of HVB Group.

Hypo Dublin Properties Limited (held as to a 100 per cent. interest by the Issuer) — whose total assets comprise approximately €207,000.

Hypo Real Estate Capital Japan Corporation (“HREC Japan”) (held as to a 100 per cent. interest by the Issuer) — which was established on 27 February 2004.

Employees

As of 31 December 2003 the number of employees of Hypo International Group was approximately 344.

Business

The Issuer’s core business is commercial real estate financing. In addition to the subsidiaries named above, the Issuer has established branches in Italy, Luxembourg, Germany, France, Spain, Sweden, the Netherlands (yet to commence trading) and the UK. The Issuer’s focus is primarily on continuing and extending the transaction orientated-business model developed by HVB AG. The Issuer’s client base includes international developers, institutional investors (such as opportunity funds and venture capital firms) and entrepreneurs.

The Issuer’s product range comprises financing products for large volume and sophisticated real estate projects, advice on the acquisition and disposal of real estate portfolios and companies as well as the structuring of investment opportunities in real estate-based instruments in direct or securitised form. The main products of the Issuer include:

- Structured real estate financing products for professional real estate customers. This includes construction loans, investment loans, junior investment loans, letters of credit, mezzanine loans, guarantee structures and value added tax bridge loans.
- Capital markets products (principally being securitisations). The securitisation platform of the Issuer combined with its commercial banking capabilities provides a single source solution for senior, mezzanine, capex and other financing products not commonly available at investment banks.
- Syndication and placing of individual investments and parts of portfolios.

Generally, the Issuer is involved in major transactions only as an arranger and by increasing its focus on this role the Issuer intends to increase returns. The Issuer’s target business is focused on selected high-volume transactions with an average transaction volume of €50 million.

The Issuer’s subsidiaries, HREC France (holding a banking licence under French law) and HREC USA, operate the commercial real estate financing business. The main function of HREC London, HREC Italia and HREC Iberia is the acquisition of commercial real estate lending business for the Issuer, which is

booked in the local branch of the Issuer. They are also responsible for administering and supporting these loans. In addition, HREC London, via its own subsidiaries, offers further services in the field of commercial real estate investment banking. PBI focuses on financing public sector borrowers and borrowers with public sector guarantees. The Issuer's Dublin head office also selectively addresses the Irish market.

Hypo Real Estate Capital Limited, London

HREC London is a 99.99 per cent. subsidiary of the Issuer and was incorporated on 9 December 1991 with registered number 2669313. HREC London was acquired by the Issuer on 15 July 2003. The company changed its name to its current name on 1 October 2003. Its main function is the acquisition of commercial real estate lending business for the Issuer, which is booked in the London branch of the Issuer. It is also responsible for administering and supporting these loans. In addition, via its subsidiaries, it also offers further services in the field of commercial real estate investment banking, e.g. real estate valuation, real estate management and investment advice. The latter service is offered by Hypo Real Estate Investment Banking Limited, a wholly-owned subsidiary which is supervised by the UK Financial Services Authority (FSA). HREC London and its subsidiaries employed a total of 64 persons on 31 March 2004. (See "Financial Statements — Hypo Real Estate Capital Limited, London").

Pfandbrief Bank International S.A., Luxembourg

PBI is a 99.99 per cent. subsidiary of the Issuer and was incorporated on 27 July 1999. PBI was acquired by the Issuer in preparation for the Spin Off on 1 September 2003. PBI holds a licence to carry on business as a mortgage bond bank under Luxembourg law (*Banque d'émission de lettre de gage/Pfandbriefbank*). PBI focuses on financing public sector borrowers and borrowers with public sector guarantees. PBI also lends to banks which are backed primarily by German federal states or Swiss cantons. PBI uses these loans as cover for the public sector bonds which it issues in accordance with the laws of Luxembourg. This allows PBI to refinance this lending business at AAA rates. PBI is authorised under Luxembourg law to carry on government financing business in all OECD countries but it restricts its activities to countries with a credit rating of at least AA. Accordingly, PBI's main markets are Europe, the USA, Canada and Japan. This business is solicited almost exclusively through investment banks.

PBI previously focused exclusively on public sector lending but in the future it will also operate a mortgage lending business and will be integrated to a greater extent into the treasury organisation of the Issuer. The treasury function of the Issuer is located in Luxembourg and Dublin. Both treasury locations are controlled by the asset, liability and risk management unit, which operates out of Dublin. The money markets and debt investor relations units are also based in Dublin. PBI operates in tandem with the Issuer's Luxembourg branch. The debt capital markets unit operates out of Luxembourg with the responsibility for the issuance of unsecured bonds (through the Issuer's Luxembourg branch), and of *lettres de gage*, Luxembourg-style Pfandbriefe (through PBI). PBI will continue its public sector finance business and will also finance certain assets of the Issuer by issuing "*lettres de gage hypothécaire*" (mortgage bonds).

Recent Developments

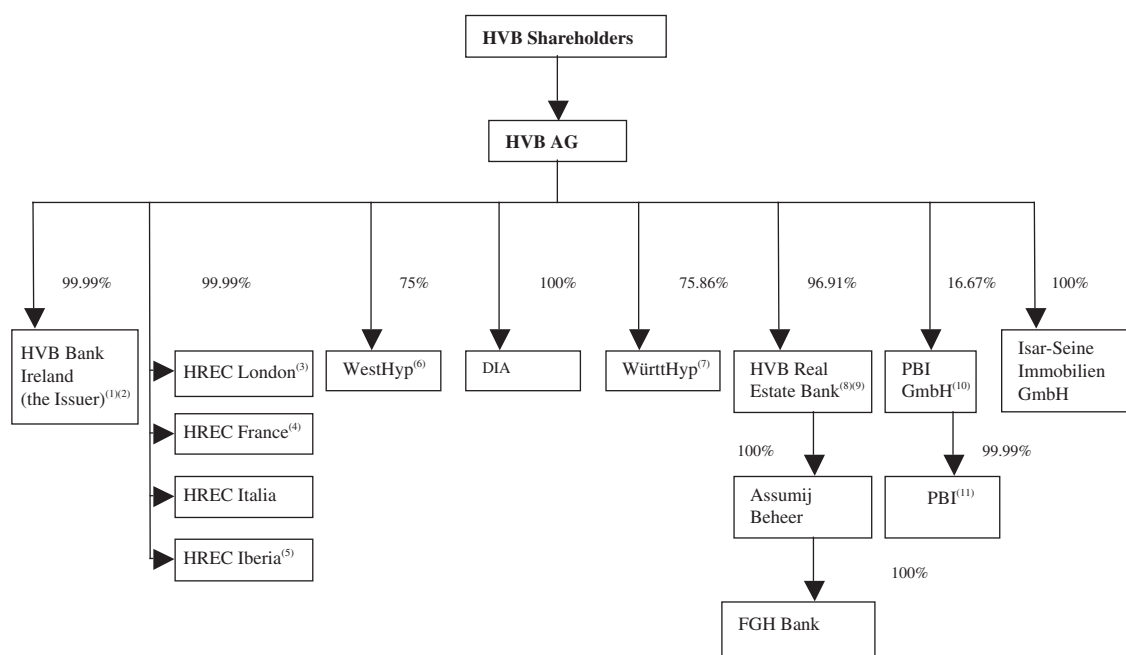
The Spin Off

The Spin Off process involved the de-merger of a major part of the commercial real estate financing business of the HVB Group (HVB AG together with its direct and indirect consolidated subsidiaries, affiliates and associated companies), which resulted in the transfer of, amongst other businesses and assets, the Issuer and its subsidiaries and two other subsidiaries of HVB AG into the newly-established listed holding company, Hypo Holding (see "Hypo Real Estate Holding AG"). The purpose behind the Spin Off was to transfer the commercial real estate finance business of HVB Group into a newly formed separate specialised commercial real estate financing group. The Spin Off plan was adopted by the management board of HVB AG on 26 March 2003. On 14 May 2003 the shareholders' meeting of HVB AG approved the Spin Off plan with a majority of 99.83 per cent. For accounting purposes the Spin Off was effected with retroactive effect as of 1 January 2003 and based on the balance sheet of HVB AG as at 31 December 2002.

Prior to the completion of the Spin Off on 29 September 2003, the Issuer carried on business as a commercial bank and financial services provider in the IFSC. The Issuer's main areas of business prior to the Spin Off were international commercial lending and deposit taking, predominantly with EU customers. It was decided by the Issuer and HVB AG prior to the Spin Off that the primary focus of the Issuer after the

Spin Off would be to fulfil the role of a specialist commercial real estate finance bank owned by Hypo Holding. The Issuer was partially restructured as outlined below prior to the Spin Off to adapt it to this role. It was agreed between the Issuer and HVB AG that the Issuer would acquire an international network of subsidiaries and loan portfolios, which substantially made up the commercial real estate financing business of HVB AG, from HVB AG and its affiliates as part of or in connection with the Spin Off. In addition, the Issuer agreed to transfer loan portfolios which did not primarily relate to commercial real estate financing to HVB AG affiliates. The following transactions were effected in relation to the Issuer with the approval of the IFSRA.

Original legal structure of HVB Group in December 2002



Prior to the Spin Off in September 2003, the commercial real estate finance subsidiaries of HVB AG (being the subsidiaries set out above including the Issuer but not including the special purpose company called DIA (together the “Spin Off Assets”)) were transferred to DIA. DIA was a 100 per cent. subsidiary of HVB AG prior to the Spin Off.

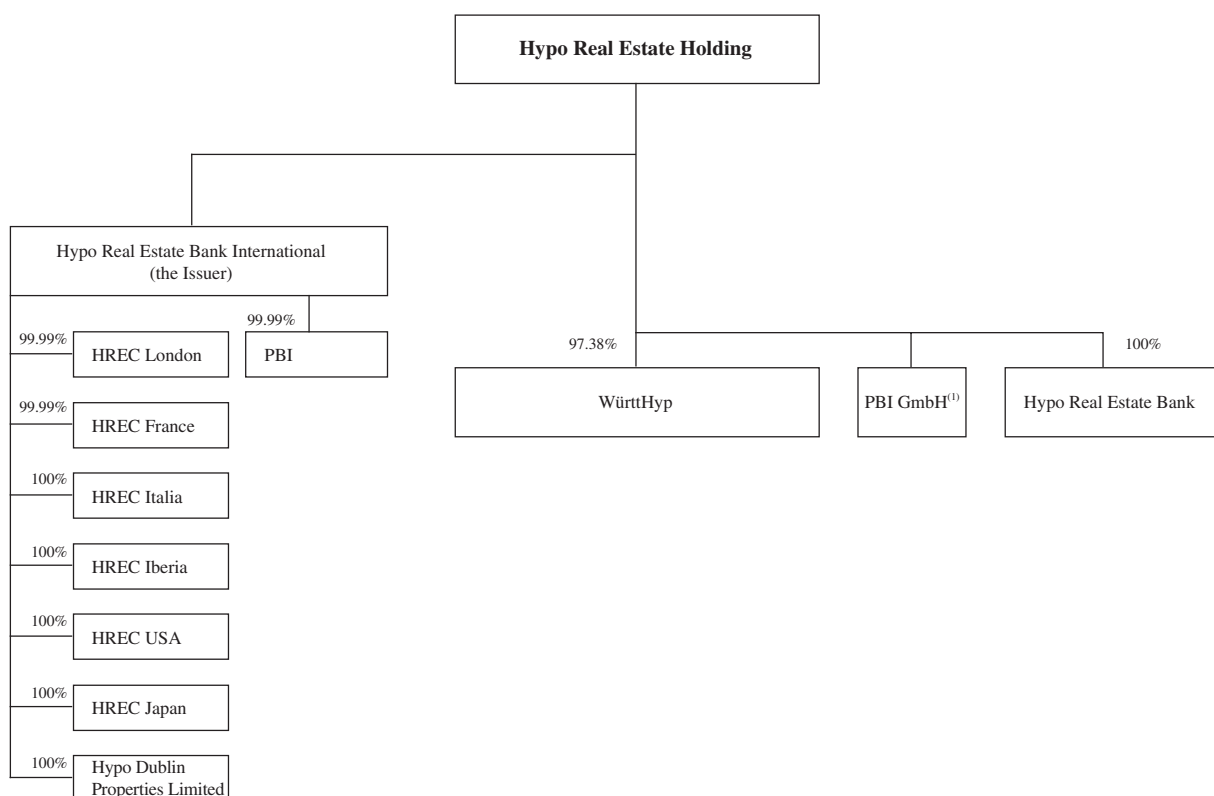
Notes:

- (1) Renamed Hypo Real Estate Bank International in September 2003.
- (2) Remaining shares: One share (in total seven shares) was held by each of the following: HVB Credit Advisors Ltd., Martius Investment Company, R. R. Fund Inc., Tolmers Company, Uraby Limited as well as two employees acting as trustees for HVB AG.
- (3) Remaining share: One share was held by HVB Immobilien AG.
- (4) Remaining shares: Six registered shares were held by employees of HREC France and HVB AG.
- (5) Remaining share: One registered share was held by an employee of HVB AG.
- (6) Remaining shares: 12.50 per cent. owned by Deutscher Herold Allgemeine Versicherungs-AG; 12.50 per cent. owned by Deutscher Herold Lebensversicherungs-AG.
- (7) Remaining shares: 14.26 per cent. owned by DZ BANK AG Deutsche Zentral-Genossenschaftsbank; 7.32 per cent. owned by Bensel-Verwaltungs- und Beratungsgesellschaft für Vermögensanlagen mbH; 2.56 per cent. free float.
- (8) The resolution regarding the change of name to Hypo Real Estate Bank Aktiengesellschaft (“HRE Bank”) was adopted in the shareholders’ meeting of 26 May 2003.
- (9) Remaining shares: 3.09 per cent. free float.
- (10) Remaining shares: 50 per cent. owned by HVB Real Estate Bank Aktiengesellschaft, 16.67 per cent. owned by WestHyp, 16.67 per cent. owned by WürttHyp.
- (11) Remaining share: One share was held in trust by a lawyer in Luxembourg for PBI-Beteiligungs- GmbH (“PBI GmbH”).
- (12) DIA merged into Hypo Holding on 10 March 2004. For accounting purposes this merger had retro-active effect as of 29 December 2003.

Legal structure of Hypo Real Estate Group on 29 September 2003 after the Spin Off

After the Spin Off Assets had been transferred to DIA in the course of the Spin Off, the shares in DIA, previously held by HVB AG were transferred to the newly formed Hypo Holding on 29 September 2003. All newly issued shares of Hypo Holding were issued *pro rata* to the shareholders of HVB AG so that every shareholder of HVB AG who then held four shares in HVB AG acquired one additional share in Hypo Holding.

Following the Issuer's redemption and re-issuance of shares on 9 December 2003, the legal structure of the Hypo Real Estate Group (which comprises Hypo Holding together with its direct and indirect consolidated subsidiaries, affiliates and associated companies) is now as follows



Note:

⁽¹⁾ Remaining shares: 66.67 per cent. owned by HRE Bank, 16.67 per cent. owned by WürttHyp.

PBI GmbH is in the process of being liquidated as it is no longer required within the Hypo Real Estate Group.

As part of the process of partially restructuring the Issuer prior to the Spin Off, it was contractually agreed by the Issuer to transfer an aggregate principal amount of approximately €3.0 billion from the Issuer's original loan portfolio (which amounted in aggregate to approximately €3.7 billion as of 31 May 2003) to HVB Banque Luxembourg S.A. which still remains in the HVB Group. The process of transferring part of this loan portfolio commenced in July 2003 and was completed on 19 December 2003.

A new commercial real estate loan portfolio of approximately €7.8 billion was acquired by the Issuer from HVB AG, partially by way of a synthetic transfer of loans under a loan transfer and trust agreement dated 18 September 2003 between the Issuer, HVB AG and HREC France (amounting to approximately €5.5 billion) and partially by way of a physical transfer of loans pursuant to a loan transfer agreement dated 18 September 2003 (amounting to approximately €2.3 billion). Under the synthetic transfer of loans the Issuer has provided an irrevocable guarantee to HVB AG for the payment obligations of the borrowers of

the relevant loans and HVB AG has agreed to pay a guarantee commission to the Issuer. HVB AG has sold all its rights, obligations and claims arising from the relevant loans to the Issuer under the loan transfer and trust agreement. The purchase price is due to be paid when either an event of default under the relevant loan occurs or by no later than 18 September 2008 (with special provisions governing certain loans in the UK and in France). Under the physical transfer of loans the Issuer, or, as far as loans extended in France are concerned, HREC France, has agreed to acquire the relevant loans and related security subject to payment of the purchase price as well as the approval of the individual borrower and, where appropriate, of the syndicate banks. On 23 and 24 September 2003, HVB AG and the Issuer entered into several loan agreements pursuant to which HVB AG agreed to provide the Issuer with funding in an aggregate principal amount of approximately €585 million in connection with the transfer from HVB AG to the Issuer of the portfolio of commercial real estate financing agreements.

In accordance with a memorandum of understanding dated 6 August 2003 between HVB AG, HVB Americas Inc., HREC USA and the Issuer, the Issuer purchased the US commercial real estate loan portfolio of HVB Group comprising approximately €4.9 billion. The acquisition of this portfolio was completed over December 2003.

In line with the Issuer's new focus on international commercial real estate financing business, the German commercial real estate portfolio of HVB AG was not transferred. HVB Group's private real estate financing business also remains with HVB Group and will continue to be operated by HVB Group.

The Issuer received supplementary capital of €600 million from HVB AG in September 2003 in the form of a subordinated loan. This loan has a maturity of ten years and the Issuer has a one-off unilateral right to terminate the loan after five years. The Issuer also received a perpetual subordinated loan from Hypo Holding on 24 October 2003 in the amount of €200 million. This loan is repayable only with the consent of the IFSRA.

New Business

Despite the difficult underlying conditions which prevailed during 2003, the year of the Spin Off, the Issuer exceeded its internally set expectations for its results of operations for the year ended 31 December 2003. The level of acquired new business exceeded the conservatively set internal expectations for the year ended 31 December 2003. The overall volume of new business amounted to €4.7 billion, of which approximately €1.0 billion was accounted for by PBI. The Issuer generated most of its new business in Europe.

In summary the Issuer was able in this difficult year to improve and expand its market presence and enhance its customer relations, despite the fact that the positive effects of its marketing endeavours were partially offset by reductions in its existing asset and product portfolios. The Issuer demonstrated in 2003 how its pan-European business model operates. New business was acquired, structured and placed in the Netherlands, Great Britain, the USA, Sweden, France, Italy, Spain, Scandinavia and Germany. Such new business proved profitable and was accompanied by an acceptable level of risk.

Outlook

The Issuer is aware that conditions in the European markets are expected to remain difficult in 2004, although the Issuer expects that capital will be available for selected investments. Nevertheless, taking into account that each market has its own terms, risks and opportunities, the Issuer sees opportunity to enter into favourable and profitable transactions. Currently, the Issuer is preparing to open up further market opportunities from new offices in Tokyo and Hong Kong. The expansion of the EU and the desire for integration of the major national economies in Central and Eastern Europe mean that the Issuer is reviewing its local presence in these markets. The Issuer will continue to focus on developing and enhancing its product portfolio in 2004. In this context the Issuer has decided to supplement the core business of real estate structured financing with a capital markets division (including both interest rates and credit markets) which will concentrate on structuring, managing and providing security for complex risks using techniques from different product groups. This activity will provide some diversification with regard to the Issuer's sources of income as well as utilising its in-house expertise in such a way that it can offer its clients a broad range of structured investment market solutions.

Senior Management*Board of Directors*

John Bourke, Non-Executive Director
Stephan Bub, Executive Director
Eckehard Dettinger-Klemm, Executive Director
John Donnelly, Non-Executive Director
Dr. Markus Fell, Executive Director
Jürgen Fenk, Executive Director
Georg Funke (CEO), Executive Director
Frank Lamby, Executive Director
Stephen Musgrave, Executive Director
Thomas O. Quinn, Executive Director
Kurt F. Viermetz, Non-Executive Director / Chairman

CAPITALISATION OF HYPO REAL ESTATE BANK INTERNATIONAL

The table below, setting out the Consolidated Capitalisation and Indebtedness Statement of Hypo Real Estate Bank International as at 31 December 2003, has been extracted from the unaudited consolidated management accounts of the Issuer as at 31 December 2003.

€ millions

Capitalisation

Share capital ⁽¹⁾	1,260
Other capital reserves	0
Profit and loss account	85
Change in valuation of financial instruments	6
Total capitalisation.. .. .	1,351

Indebtedness

Deposits by credit institutions	7,952
Debt securities in issue	4,977
— <i>Public sector bonds</i>	4,614
— <i>Other bonds</i>	363
Subordinated liabilities ⁽²⁾	829
Total indebtedness	13,758

Total capitalisation and indebtedness	15,109
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Notes:

- ⁽¹⁾ The issued share capital was increased on 31 March 2004 by the issue of 150 million ordinary shares of €1 each to €1,410 million.
- ⁽²⁾ On 23 March 2004, Hypo Real Estate Bank International bought back €100 million subordinated liabilities due to mature on 25 September 2013.
- ⁽³⁾ There has been no material change to the capitalisation and indebtedness of the Issuer since the date of this statement.

PRESENTATION OF FINANCIAL INFORMATION ON THE ISSUER

The following financial information on the Issuer and certain of its subsidiaries has been presented in this Information Memorandum:

1. Audited Financial Statements of the Issuer for the year ended 31 December 2003 according to Irish GAAP.
2. Audited Financial Statements of the material subsidiaries of the Issuer (being HREC London and PBI) for the year ended 31 December 2003 according to UK and Luxembourg GAAP respectively.

It should be noted in relation to the Issuer that the audited financial statements for the year ended 31 December 2002 do not reflect the position of the Issuer following the substantial reorganisation of the Issuer during 2003 (see “Spin Off”). Prior to the Spin Off, the principal areas of business of the Issuer (as HVB Bank Ireland) were international commercial lending and deposit-taking, predominantly with EU customers. Following the Spin Off the principal focus of the Issuer (as Hypo Real Estate Bank International) is to fulfil the role of a specialist commercial real estate finance bank within the Hypo Real Estate Group. Prior to the Spin Off the Issuer was partially restructured to adapt the Issuer to this role. The Issuer acquired an international network of subsidiaries and commercial loan portfolios from HVB Group as part of or in connection with the Spin Off. In addition, the Issuer agreed to transfer certain loan portfolios which did not primarily relate to commercial real estate financing to HVB Group. The Issuer (as Hypo Real Estate Bank International) is a materially different business entity to the Issuer (as HVB Bank Ireland) which existed prior to the Spin Off.

Audited single company financial statements of the material subsidiaries of the Issuer acquired as part of the Spin Off (being HREC London and PBI) for the years ended 31 December 2002 and 2003 have also been included. The financial statements relating to HREC London include consolidated financial statements for HREC London.

The financial information on the Issuer and its material subsidiaries as at and for the years ended 31 December 2002 and 2003 does not reflect any eliminations of inter-company balances which may have existed between the Issuer and its material subsidiaries.

HYPO REAL ESTATE HOLDING AG

Hypo Real Estate Holding AG (“Hypo Holding” or the “Guarantor”) was incorporated in Munich on 29 September 2003 as part of the Spin Off (see “Spin Off”). Hypo Holding’s registered number is HRB 149393 and its registered address is Unsöldstrasse 2, 80538 Munich, Germany. The Guarantor has guaranteed the Issuer’s payment obligations under the Programme pursuant to the guarantees contained in the deed of covenant dated 2 February 2004 entered into by the Issuer and the Guarantor (the “Deed of Covenant”).

Hypo Holding’s shares are listed on the Frankfurt Stock Exchange and the Vienna Stock Exchange.

Hypo Holding is a financial holding company as defined by the German Banking Act and does not conduct operations itself. Hypo Holding carries out the following functions for the Hypo Real Estate Group: corporate office (including investor relations and capital market communications), legal, accounting and tax as well as financial/risk controlling and planning.

Hypo Holding operates three operational business units being the Issuer (together with its subsidiaries) (held as to a 99.99 per cent. interest by Hypo Holding), Württembergische Hypothekenbank Aktiengesellschaft (together with its wholly, or partially owned subsidiaries “WürttHyp”) (held as to a 97.38 per cent. interest by Hypo Holding) as well as HRE Bank (held as to a 100 per cent. interest by Hypo Holding), each of which has a separate identity and which will focus (apart from overlaps in certain areas) on different market segments with different objectives and each of which has different refinancing possibilities and a separate credit rating.

HYPO REAL ESTATE BANK INTERNATIONAL

The Issuer is an Irish licensed bank (see “Hypo Real Estate Bank International”).

WÜRTTEMBERGISCHE HYPOTHEKENBANK

Key milestones during the spin-off process

After belonging to HVB Group and its predecessor group for more than 80 years, Württembergische Hypothekenbank became part of the newly created Hypo Real Estate Group when the latter was spun off from the HVB Group on 29 September 2003. As part of the structuring process for the new Group, the share held by the parent company DIA Vermögensverwaltungs-GmbH in Württembergische Hypothekenbank AG was successively increased during 2003, raising it from around 76 per cent. to approximately 97 per cent.

A capital increase in August strengthened the Bank’s equity base for the long term and opened up potential opportunities for further growth on the international real estate markets. At the end of 2003 the Bank had a sound Tier-1 ratio of 6.9 per cent. according to BIS.

In October 2003 Württembergische Hypothekenbank concluded a profit and loss pooling agreement with its parent company. It is envisaged that this will enable a further improvement in the Group’s capital base.

Württembergische Hypothekenbank will also aim to apply its core expertise in international mortgage transactions eligible as cover pool in its dealings with Hypo Real Estate Bank International. Its funding capacities as an established issuer of mortgage bonds will therefore help to contribute to the potential market success of the Group as a whole.

Strategic orientation

As a special financial institution with 135 years of experience in real estate financing, Württembergische Hypothekenbank adopts a low-risk approach. In other words, the Bank attaches great importance to low-risk structuring of its loan business and also to consistent risk management in all business activities. While pursuing the same risk strategy, Württembergische Hypothekenbank plans to expand its business model by cooperating closely with Hypo Real Estate Bank International in order to extend the use of mortgage bonds as efficient refinancing instruments.

The Bank already has more than 10 years’ worth of expertise in Western European real estate markets. At present, almost all new mortgage business is acquired outside Germany.

Württembergische Hypothekenbank specialises in financing completed commercial properties where the net rental income will cover interest payments and principal repayments even in the event of a deterioration in the economic climate. New business is secured via the Bank's own sales network. In the future, this will be supplemented through participation in selected loans of Hypo Real Estate Bank International. Refinancing takes place mostly through the issue of mortgage Pfandbriefe. Capital market activities are supplemented by the development and utilisation of other capital market products such as securitisation with a view to transferring risk. Overall, therefore, Württembergische Hypothekenbank will aim to continue the so far successful business model and will be an integral part of Hypo Real Estate Group.

Result

During 2003, Württembergische Hypothekenbank was integrated within the new Group and enjoyed a promising start with the first joint financing for the purchase of HVB's US portfolio.

The portfolio was further diversified in 2003 and at the end of the year, 59 per cent. of the loan book was international business. WuerthHyp F-1 was the first synthetic securitisation transaction relating exclusively to French real estate loans.

Operating income was almost the same as in the preceding year. At €25 million, provisions for losses on loans and advances remained at the same level as the preceding year. Current general administrative expenses remained stable, and the operating result of €54 million was therefore on par with that of the preceding year.

The profit and loss pooling agreement reduced the tax burden by €19 million, and led to a satisfactory return on equity after taxes of 8.2 per cent.

Portfolio structure

As of 31 December 2003, Württembergische Hypothekenbank's portfolio amounted to approximately €26 billion. Of this, around €12.2 billion (47 per cent.) was accounted for by real estate financing and around €13.8 billion (53 per cent.) by public-sector financing; by contrast, public-sector financing only accounted for around 12 per cent. of new business during the year under review.

The real estate portfolio can be divided according to several different criteria, as illustrated in the examples below showing property types, breakdown of commercial real estate into mortgage and public-sector finance business, and also a geographical analysis.

HYPO REAL ESTATE GERMANY

Key measures during the spin-off process

On 24 October 2003 Hypo Real Estate Bank AG sold FGH Bank, of Utrecht, to the Dutch Rabobank. The transaction took effect retroactively as from 1 January 2003. Following the buy-out of the minority shareholders at Westfälische Hypothekenbank AG and the completion of the squeeze-out of the remaining minority shareholders at HVB Real Estate Bank AG the merger of Westfälische Hypothekenbank AG into Hypo Real Estate Bank AG was carried out as planned on 3 November 2003. It is expected that the entire integration process will be completed as scheduled by July 2004.

The merger will optimise cost synergies within Hypo Real Estate Bank AG and also potentially strengthen the position of the new, combined Hypo Real Estate Bank in the market. After a capital increase in 2003 Hypo Real Estate Germany's Tier-1 ratio amounts to 7.4 per cent. according to BIS.

Strategic orientation

In 2003, Hypo Real Estate Bank AG carried out an extensive realignment of its business policy. Attention focused on restructuring the loan portfolio in terms of profitability and asset quality with the aim of achieving a significant reduction in overall volumes and improving the returns on individual transactions. The continuous reduction of the mortgage finance portfolio also reflects the need to achieve a balance in terms of the proportion of German business within the Hypo Real Estate Group. In addition to scheduled redemptions and the paying down of portfolios as loans become due for prolongation — only 51.5 per cent. of the portfolio was extended on the interest rate adjustment dates — portfolio sales were also used as a means of reducing portfolio volumes. For example, a portfolio of retail loans amounting to approximately

€600 million that was no longer consistent with the Bank's strategy was successfully sold in December 2003. In the same way, a portfolio of non-performing loans amounting to approximately €490 million (including interest and other receivables) was also successfully sold. The difficult market environment in Germany was taken into account through a significant increase in the risk provisions for losses on loans and advances compared with the preceding year.

By consistently applying its risk/return-oriented business policy, the Bank has achieved a significant increase in margins. In the medium term this approach, combined with an intentional and planned acceptance of higher-than-average portfolio reductions, will help ensure a potentially marked increase in the profitability of the remaining loan stock.

Result

Hypo Real Estate Deutschland more than fulfilled its ambitious targets for 2003. The planned reduction in the loan portfolio to €78 billion was exceeded by €4 billion. The prolongation margin was increased from 125 basis points to more than 160 basis points and was therefore significantly higher than expected. The workforce was reduced in line with planning, with the result that as of 1 January 2004, the Company employed 200 fewer people than one year ago.

€86 million was spent on the restructuring of the business that was commenced during the year under review; in addition an amount of €33 million was allocated to restructuring provisions.

Compared with the preceding year, operating income increased by €32 million to €436 million. Here, the one-off effects of the FGH dividend amounting to €33 million and income from the sale of land amounting to €20 million must be taken into consideration. After eliminating these effects, the operating income therefore fell slightly by €8 million, largely due to the burden of unrealised interest on poorly performing loans.

Before offsetting the risk shelter of €460 million, risk provisions for losses on loans and advances rose once again by €189 million. After offsetting the risk shelter, they fell by €271 million to €190 million. With this risk provision, the cover ratio was increased to 32 per cent. of the workout portfolio.

At €152 million, general administrative expenses remained relatively stable as the reduced personnel expenses were offset by increased IT expenses connected with replacement of the IT system.

After taking restructuring expenses into consideration, the net loss for the year before taxes was €11 million, lower than anticipated.

Portfolio structure

Hypo Real Estate Bank AG's public sector finance portfolio as of 31 December 2003 amounted to approximately €54.5 billion. This included €35.9 billion in municipal loans and €18.6 billion in other loans and debt securities.

The loan portfolio of the Hypo Real Estate Bank AG at 31 December 2003 totalled approximately €74.4 billion. Of this, an amount of around €38.5 billion was accounted for by real estate financing and an amount of around €35.9 billion by public-sector financing business.

The restrictive policy on new business and the selective approach to prolongations based on strict risk/return criteria resulted in the mortgage loan portfolio being reduced as planned by approximately €4.6 billion to €38.5 billion.

The municipal loan portfolio shrank due to the Bank's successive withdrawal from this business. There was a 21 per cent. reduction from €45.7 billion in the preceding year to €35.9 billion in 2003.

Management board of Hypo Holding

The following table sets out the current members of the management board of Hypo Holding, all of whom were appointed on 28 July 2003. The business address of each member of the management board of Hypo Holding is Unsöldstraße 2, 80538 Munich, Germany.

<i>Name</i>	<i>Responsibility/activity</i>
Georg Funke	Chairman of the management board.
Johann Berger	Spokesman of the management board of HRE Bank.
Dr. Paul Eisele	Spokesman of the management board of WürttHyp.
Dr. Markus Fell	Chief Financial Officer/Chief Operating Officer (CFO/COO).
Frank Lamby	Chief Risk Officer (CRO).

The following table sets out the current members of the supervisory board of Hypo Holding. The business address of each member of the supervisory board of Hypo Holding is Unsöldstraße 2, 80538 Munich, Germany.

<i>Name</i>	<i>Activities outside Hypo Holding and other supervisory board mandates</i>
Kurt F. Viermetz	Member of the supervisory board of ERGO Versicherungsgruppe AG Member of the supervisory board of Ruhrgas AG Member of the board of directors of Grosvenor Estate Holdings Ltd., London Chairman of the board of directors of Hypo Real Estate Bank International
Dr. Ferdinand Graf von Ballestrem	Member of the management board of MAN AG Chairman of the supervisory board of SHW AG Vice Chairman of the supervisory board of MAN Technologie AG Vice Chairman of the supervisory board of Renk AG Member of the supervisory board of Bayerische Versicherungsbank AG Member of the supervisory board of MAN Roland Druckmaschinen AG Chairman of the board of directors of MFI UK Ltd. Chairman of the board of directors of MAN Capital Corporation
Dr. Götz Wricke	Member of the management board of ERGO Versicherungsgruppe AG Chairman of the management board of Hamburg-Mannheimer Versicherungs-AG Chairman of the management board of Hamburg-Mannheimer Sachversicherungs-AG Chairman of the supervisory board of Hamburg-Mannheimer Rechtsschutzversicherungs-AC Chairman of the administrative board of Hamburg-Mannheimer N.V., Brussels Chairman of the administrative board of Lion Belge S.A., Brussels Member of the administrative board of PIETTE & PARTNERS Verzekeringsmaatschappij N.V., Kortrijk Deputy chairman of the supervisory board of Union Versicherungs AG, Vienna

Mr. Kurt F. Viermetz has been elected chairman of the supervisory board.

CAPITALISATION OF HYPO REAL ESTATE HOLDING AG

The table below, setting out the Capitalisation and Indebtedness Statement of the Guarantor as at 31 December 2003 (according to German GAAP) has been extracted from the audited financial statements of the Guarantor as at 31 December 2003.

	<i>€ millions</i>
Capitalisation	
Subscribed capital	402
Additional paid-in capital	3,310
Retained Earnings	37
Participatory Capital	97
Profit available for distribution.. .. .	37
Total capitalisation.. .. .	3,883
Total indebtedness	228

Notes:

⁽¹⁾ There has been no material change in the capitalisation and indebtedness of the Guarantor since the date of this statement.

TAXATION

IRELAND TAXATION

The following is a summary based on the laws and practices currently in force in Ireland regarding the tax position of investors beneficially owning their Instruments and should be treated with appropriate caution. Particular rules may apply to certain classes of taxpayers holding Instruments. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Instruments should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Instruments and quoted the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of Irish source interest. However, an exemption from withholding on interest payments exists under section 64 of the Taxes Consolidation Act, 1997 (the “1997 Act”) for certain securities (“quoted eurobonds”) issued by a body corporate (such as the Issuer) which are in bearer form, interest bearing and quoted on a recognised stock exchange.

Any interest paid on such quoted eurobonds can be paid free of withholding tax provided:

1. the person by or through whom the payment is made is not in Ireland; or
2. the payment is made by or through a person in Ireland, and either:
 - 2.1 the quoted eurobond is held in a clearing system recognised by the Irish Revenue Commissioners (Euroclear and Clearstream, Luxembourg are so recognised), or
 - 2.2 the person who is the beneficial owner of the quoted eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made a declaration to a relevant person (such as an Irish paying agent) in the prescribed form.

So long as the Instruments are in bearer form, are quoted on a recognised stock exchange and are held in Euroclear and/or Clearstream, Luxembourg, interest on the Instruments can be paid by the Issuer and any paying agent acting on behalf of the Issuer without any withholding or deduction for or on account of Irish income tax.

In certain circumstances, Irish tax will be required to be withheld at the standard rate from interest on any quoted eurobond, where such interest is collected by a bank in Ireland on behalf of any holder who is Irish resident.

In the case of Instruments that are either in registered form, or if in bearer form do not qualify for the “quoted eurobond” exemption, any interest paid on such Instruments can be paid free of withholding tax provided;

- (a) the interest is paid by the Issuer in the ordinary course of carrying on a *bona fide* banking business in Ireland; or
- (b) the interest is paid in the ordinary course of a trade or business of the Issuer to a company which is tax resident in either an EU Member State (other than Ireland) or a country with which Ireland has a double tax treaty (together known as a “relevant territory”), provided such interest is not paid to the holder in connection with a trade or business which is carried on in Ireland by it through a branch or agency, provided also that the holder of such Instrument has provided such evidence as is reasonably necessary, and at least 30 days in advance of such payment, to enable the Issuer, or any other person by whom payment may be made, to determine the residence of the holder and such other conditions as are necessary to determine the availability of this exemption; or
- (c) the holder is entitled to an exemption from Irish tax on the interest under the terms of a double tax treaty between Ireland and its country of residence, provided such holder has provided such evidence and documentation as is reasonably necessary, and at least 30 days in advance of such

payment, to enable the Issuer, or any other person by whom payment may be made, to make the payment without withholding in accordance with Irish domestic law and the terms of that treaty; or

- (d) the interest on the Instrument is paid by the Issuer in the course of carrying on relevant trading operations within the meaning of section 446 of the 1997 Act to a person whose usual place of abode is outside Ireland, provided such Instrument has been issued on or before 31 December 2005 on terms which oblige the Issuer to redeem such Instrument within 15 years of date on which such Instrument was issued, provided also that the holder has provided such evidence as is reasonably necessary, and at least 30 days in advance of such payment, to enable the Issuer to determine the residence of the holder and such other conditions necessary to determine the availability of this exemption; or
- (e) the interest is paid by the Issuer to a company, and that company is a company which advances money in the ordinary course of a trade which includes the lending of money and in whose hands the interest so advanced is taken into account in computing the trading income of the company for Irish corporation tax purposes, and which has made appropriate filings with the Irish Revenue Commissioners and the Issuer, provided the holder of such Instrument has produced such evidence as is reasonably necessary, and at least 30 days in advance of such payment, to enable the Issuer to determine the availability of this exemption.

Deposit Interest Retention Tax (DIRT)

The Issuer is a relevant deposit taker for the purposes of the Irish legislation concerning DIRT. In the absence of an exemption, the Issuer would be obliged to withhold DIRT on interest arising on the Instruments at a rate of, currently, 20 per cent. It should be noted that to the extent there is an obligation to withhold DIRT on a payment of interest, that payment of interest would not also be subject to general withholding tax on interest.

Interest on the Instruments will be exempt from DIRT where any one or more of the following conditions (a) to (c) is satisfied:

- (a) the Instruments are a “debt on a security” for the purposes of Irish taxation and are listed on a stock exchange; or
- (b) the Instruments are held in a recognised clearing system, have a maturity of 2 years or less and have a minimum denomination of €500,000 in the case of an Instrument denominated in euro, \$500,000 in the case of an Instrument denominated in U.S. Dollars, or, in the case of an Instrument denominated in a currency other than euro or U.S. Dollars, the equivalent in that other currency of €500,000 (being determined by reference to the rate of exchange, in the case of Instruments issued under a programme, at the time the programme under which the Instrument is to be issued is first publicised, or, in the case of all other Instruments, on the date of issue of the Instrument); or
- (c) the terms of a practice of the Irish Revenue Commissioners in relation to unlisted Medium Term Notes (“MTNs”) apply. The following is a list of the terms that must be satisfied:
 - (i) The Issuer will not sell any such MTNs to Irish residents and will not offer any such MTNs in Ireland;
 - (ii) As far as primary sales of such MTNs are concerned, the dealers as a matter of contract undertake to the Issuer that their action in any jurisdiction will comply with the then applicable laws and regulations and that the dealers will also undertake as a matter of contract to the Issuer that they will not knowingly make primary sales (or, knowingly offer to do so, or distribute any material in that connection in Ireland) to any Irish residents or persons;
 - (iii) Statements to the effect of (ii) above are included in the information memorandum for the programme which will be available to Investors (whether primary or secondary) at their request and that, in addition, the information memorandum will include wording to the following effect (see Selling Restrictions on pages 61 to 62 in this regard):

“Each dealer has confirmed that, with respect to these MTNs, it will not knowingly offer to sell such instruments to an Irish resident, or to persons whose usual place of abode is Ireland and that it will not knowingly distribute or cause to be distributed in Ireland any offering material in connection with such instruments”;

- (iv) The MTNs are cleared through Euroclear, Clearstream International SA (formerly known as CEDEL) or Depository Trust Company or any other clearing system recognised for this purpose by the Irish Revenue Commissioners (save that such MTNs represented by Definitive Bearer Notes may be taken out of Euroclear and Clearstream International SA and cleared outside those systems, it being acknowledged that Definitive Bearer Notes may be issued in exchange for interests in a Global Note held in Euroclear or Clearstream International SA (in accordance with the terms of the Global Note) and, in the case of Sterling denominated Global Notes, on demand by the holder for as long as this is a requirement);
- (v) The minimum denomination in which such MTNs are issued will be €500,000 or its equivalent.

Interest on the Instruments will also be exempt from DIRT where the person who beneficially owns the interest falls into one or more of the following categories (in which case, that person shall be known as a “DIRT exempt person”);

- (a) a “relevant deposit taker” as defined in section 256 of the 1997 Act (this includes a person who is the holder of a license granted under section 9 of the Irish Central Bank, 1971, or a credit institution which holds a license under the laws of any other EU Member State which corresponds to a license granted under that section);
- (b) a person who is not resident in Ireland, provided that person has made an appropriate declaration to the Issuer;
- (c) The Irish National Treasury Management Agency (or the Irish State acting through the Irish National Treasury Management Agency);
- (d) The Irish National Pensions Reserve Fund Commission (or the State acting through the Irish National Pensions Reserve Fund Commission);
- (e) The Irish National Development Finance Agency;
- (f) The Central Bank of Ireland;
- (g) The Investor Compensation Company Limited;
- (h) Icarom plc;
- (i) A company which is or will be in the charge to Irish corporation tax in respect of the interest and which has provided the Issuer with its Irish tax reference number
- (j) A pension scheme with the meaning of section 256 of the 1997 Act, provided the pension scheme has provided the Issuer with its Irish tax reference number or where it has no such number, with the number assigned by the Revenue Commissioners to the employer to whom that pension relates.

Certain other exemptions also apply.

Taxation of Holders

Notwithstanding that a holder may receive interest on the Instruments free of withholding tax, the holder may still be liable to pay Irish income tax. Interest paid on the Instruments may have an Irish source and therefore be within the charge to Irish income tax and levies. Ireland operates a self assessment system in respect of income tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

However, interest on the Instruments will be exempt from Irish income tax if the recipient of the interest is resident in a relevant territory provided the Instruments are quoted eurobonds and the interest can be paid free of withholding tax on the basis of the exemption previously described.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Instruments are held or attributed may have a liability to Irish corporation tax on the interest.

Capital Gains Tax

A holder of Instruments may be subject to Irish tax on capital gains on a disposal of Instruments unless such holder is neither resident nor ordinarily resident in Ireland and does not carry on a trade in Ireland through a branch or agency in respect of which the Instruments are used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Instruments will be within the charge to capital acquisitions tax if either (i) the disponent or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponent is domiciled in Ireland irrespective of his residence or that of the donee/successor) or (ii) if the Instruments are regarded as property situate in Ireland. Bearer notes are generally regarded as situated where they are physically located at any particular time, but the Instruments may be regarded as situated in Ireland regardless of their physical location as they secure a debt due by an Irish resident debtor. Accordingly, if such Instruments are comprised in a gift or inheritance, the gift or inheritance may be within the charge to tax regardless of the residence status of the disponent or the donee/successor.

Stamp Duty

The transfer on sale or gift of Instruments by written document, rather than by delivery, may be liable to stamp duty at the rate of 1 per cent. of the consideration passing or market value, if higher.

To the extent the Instruments cannot be transferred by delivery, and require an instrument of transfer (as may be the case for the Registered Instruments), there is an exemption from stamp duty on the transfer of loan capital (the "loan capital exemption") (which would include instruments such as the Instruments) provided the loan capital:

- (i) does not carry a right of conversion into stocks or marketable securities (other than loan capital) of a company having a register in Ireland or into loan capital having such a right;
- (ii) does not carry rights of the same kind as shares in the capital of a company, including rights such as voting rights, a share in the profits or a share in the surplus upon liquidation;
- (iii) is redeemable within 30 years of the date of issue and not thereafter;
- (iv) is issued for a price which is not less than 90 per cent. of the nominal value; and
- (v) does not carry a right to a sum in respect of repayment of interest which is related to certain movements in an index or indices specified in any instrument or other document relating to such loan capital.

FEDERAL REPUBLIC OF GERMANY TAXATION

General

The following is a general discussion of certain German income tax consequences of the acquisition, ownership and disposition of the Instruments. This summary is based on the laws currently in force and as applied in practice on the date of this document, which are subject to change, possibly with retroactive effect. The information provided below does not purport to be a complete, exhaustive or final summary of the tax law and practice currently applicable in the Federal Republic of Germany. Investors or other interested parties are required to obtain individual tax advice in connection with the acquisition and holding, as well as the sale or repayment, of Instruments.

Resident Holders

Under German law, as currently in effect, payments of interest on the Instruments to persons who are tax residents of Germany (that is, persons whose residence, customary place of abode, seat or effective place of management is located in Germany) are subject to German personal or corporate income tax and a solidarity surcharge of 5.5 per cent. on such taxes. In case of a corporate investor or in cases where the Instruments form part of a German trade or business of an individual or a partnership, interest may be also subject to trade tax.

If the Instruments are kept or administered in a domestic securities deposit account by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution (a “German Disbursing Agent”), interest payments in respect of such Instruments will be subject to a 30 per cent. advance interest income tax (“*Zinsabschlagsteuer*”) and a 5.5 per cent. solidarity surcharge on such tax. As a result, such payments will be subject to a total withholding tax charge of 31.65 per cent. The *Zinsabschlagsteuer* and solidarity surcharge withheld from such payments are later credited as prepayments against the German personal or corporate income tax and the respective solidarity surcharge of the recipient. For the purposes of clarification, no additional amounts, as set out above under Condition 7 of the Terms and Conditions, are payable with respect to the *Zinsabschlagsteuer* and solidarity surcharge.

If a holder sells an Instrument during a current interest period, the accrued interest received in connection therewith and credited separately (“*Stückzinsen*”) will also be subject to the 30 per cent. *Zinsabschlagsteuer* and 5.5 per cent. solidarity surcharge thereon. As explained above, the *Zinsabschlagsteuer* and the solidarity surcharge are creditable against the personal or corporate income tax and the respective solidarity surcharge thereon. *Stückzinsen* paid by a holder upon the purchase of an Instrument reduces the personal or corporate income tax base and, under certain circumstances, the taxable base for the *Zinsabschlagsteuer* and solidarity surcharge.

Special rules apply to Instruments that are classified as financial innovations (“*Finanzinnovationen*”) under German tax law, such as Floating Rate Instruments and Index Linked Interest Instruments. Capital gains realised upon the sale or other disposition of Instruments that are considered *Finanzinnovationen* are taxable for individuals regardless of the holding period to the extent such gains are treated as interest income accrued during the investor’s holding period. The amount treated as interest income accrued during the investor’s holding period is calculated on the basis of the yield at launch (if determinable) or, alternatively, on the excess of the sales or other disposition proceeds over the acquisition cost, *i.e.*, the market yield. If the Instruments are denominated in a currency other than euro, the market yield has to be determined in that other currency, and will then be converted into euro. Such market yield is subject to the *Zinsabschlagsteuer* and the solidarity surcharge thereon if the Instruments are kept or administered in a domestic securities deposit account by a German Disbursing Agent. If the Instruments have not been in custody for the investor by the same German Disbursing Agent from the acquisition to the sale or other disposition, the *Zinsabschlagsteuer* and the solidarity surcharge will be levied on an amount equal to 30 per cent. of the proceeds from the sale or other disposition of the instruments. As explained above, the *Zinsabschlagsteuer* and the solidarity surcharge are creditable against the personal income tax and the solidarity surcharge thereon.

Capital gains realised by an individual tax resident of Germany upon the sale or other disposition of Instruments within one year after the acquisition of such Instruments are subject to German personal income tax (short-term capital gains). Such gains are calculated as the excess of the sales or other disposition proceeds over the acquisition costs, each time converted into euro amounts if necessary, less the amount treated as interest income (*i.e.*, the yield at launch or the market yield, if applicable).

Capital gains realised upon the sale or other disposition of Instruments by corporate taxpayers, or in cases where the Instruments are part of a German trade or business of an individual or a partnership, who are tax residents of Germany are subject to corporate or personal income tax, the solidarity surcharge thereon and possibly trade tax irrespective of any holding period.

Non-Resident Holders

Payments of interest, including accrued interest, to persons who are not tax residents of Germany and have no connection with Germany (*e.g.*, the Instruments are not held as part of a permanent establishment or fixed base in Germany) are in general not subject to the *Zinsabschlagsteuer* and solidarity surcharge.

If the interest from an Instrument that is kept or administered in a domestic securities deposit account by a German Disbursing Agent is received by persons who are not tax residents of Germany and who are taxable in Germany only with respect to German source income, and if, according to German tax law, such interest falls into a category of taxable income from German sources (*e.g.*, income effectively connected with a German trade or business), the 30 per cent. *Zinsabschlagsteuer* and the 5.5 per cent. solidarity surcharge are applicable but can be credited against the German personal or corporate income tax liability of such non-residents.

Capital gains from the sale or other disposition of Instruments realised by persons who are not tax residents of Germany and have no connection with Germany are not subject to tax in Germany.

Special Rules for Instruments Held in Self-Custody

Interest payments made by a German Disbursing Agent upon over-the-counter presentation of the Instruments are subject to the *Zinsabschlagsteuer* at a rate of 35 per cent. and the 5.5 per cent. solidarity surcharge thereon, resulting in a total withholding tax charge of 36.925 per cent., regardless of whether or not the recipient is a tax resident of Germany and whether or not such interest income falls into a category of income from German sources.

Other Taxes

No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Instruments.

LUXEMBOURG TAXATION

General

The following information is of a general nature only and is based on the laws in force in Luxembourg as of the date of this information memorandum. It does not purport to be a comprehensive description of all tax implications that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Instruments should consult their professional advisers with respect to particular circumstances, the effects of state, local or foreign laws to which they may be subject and as to their tax position.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds de chômage*), as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Resident holders

Interest paid in respect of the Instruments are currently not subject to withholding tax in Luxembourg, subject to the EU Savings Directive (please refer to the section “EU Savings Directive” below).

Any holder of Instruments who is a resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg, to which the Instruments are attributable, is

subject to Luxembourg income tax in respect of the interest paid or accrued on the Instruments. Specific exemptions may be available for certain taxpayers benefiting from a particular tax status.

Under Luxembourg domestic tax law, gains realised by an individual holder of Instruments, who is a resident of Luxembourg for tax purposes and who acts in the course of the management of his/her private wealth, on the sale or disposal, in any form whatsoever, of instruments are not subject to Luxembourg income tax, provided this sale or disposal took place six months after the acquisition of the Instruments. An individual holder of Instruments, who acts in the course of the management of his/her private wealth and who is a resident of Luxembourg for tax purposes, has further to include the portion of the gain corresponding to accrued but unpaid income in respect of the Instruments in his/her taxable income. Gains realised by a corporate holder of Instruments or by an individual holder of Instruments acting in the course of the management of a professional or business undertaking, who is a resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg to which the Instruments are attributable, on the sale or disposal, in any form whatsoever, of Instruments are subject to Luxembourg income taxes.

Non-resident holders

A non-resident holder of Instruments, not having a permanent establishment or fixed place of business in Luxembourg to which the Instruments are attributable, is not subject to Luxembourg income tax on interest received or accrued on the Instruments. A gain realised by such non-resident holder, on the sale or disposal, in any form whatsoever, of Instruments is further not subject to Luxembourg income tax.

A non-resident corporate holder of Instruments or an individual holder of Instruments acting in the course of the management of a professional or business undertaking, who has a permanent establishment or a fixed place of business in Luxembourg to which the Instruments are attributable, is subject to Luxembourg income tax on interest accrued or received on the Instruments and on any gains realised upon the sale or disposal, in any form whatsoever, of the Instruments,

Other Taxes

The issuance of the Instruments by the issuer will not be subject to a Luxembourg registration or stamp duty.

The sale or disposal of the Instruments will not be subject to a Luxembourg registration or stamp duty.

Under present Luxembourg tax law, a holder of Instruments who is a resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg to which the Instruments are attributable, has to take into account the Instruments for purposes of the Luxembourg net wealth tax.

Under present Luxembourg tax law, where a holder of Instruments is a resident for tax purposes of Luxembourg at the time of his/her death, the Instruments are included in his or her taxable estate for inheritance tax purposes and gift tax may be due on a gift or donation of the Instruments, if the gift is recorded in a Luxembourg deed.

UNITED KINGDOM TAXATION

The comments below are of a general nature based on current United Kingdom law and Inland Revenue practice and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Instruments and Coupons and may not apply to certain classes of persons such as dealers or certain professional investors. Any Holders who are in doubt as to their own tax position should consult their professional advisers.

Interest on the Instruments

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person, or (ii) paying amounts due on redemption of any Instruments which constitute relevant discounted securities as defined in Schedule 13 to the Finance Act 1996 to or receiving such amounts on behalf of another person, may be required to provide certain information to the United Kingdom Inland Revenue regarding the

identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on the redemption of such Instruments it is understood that the Inland Revenue will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2004. However, the Inland Revenue has not yet updated its current published practice to reflect this and until it does this, there can be no assurance that the update will be implemented as envisaged.

EU Directive on the Taxation of Savings Income

On 3 June 2003, the European Union adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise. The ending of such a transitional period depends on the conclusion of certain other agreements relating information exchange with other countries. It is expected that a number of third countries and territories including the United States of America will adopt similar measures with effect from the same date.

SUBSCRIPTION AND SALE

Summary of Dealership Agreement

Subject to the terms and on the conditions contained in a Dealership Agreement dated 2 February 2004 (the “Dealership Agreement”) between the Issuer, the Guarantor, ABN AMRO Bank N.V., Barclays Bank PLC, Bayerische Hypo- und Vereinsbank AG, Citigroup Global Markets Limited, Deutsche BANK AG London, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Dresdner Bank Aktiengesellschaft, Goldman Sachs International, HSBC Bank plc, Hypo Real Estate Bank International, J.P. Morgan Securities Ltd., Morgan Stanley & Co. International Limited and UBS Limited (the “Dealers”), the Instruments will be offered on a continuous basis by the Issuer to the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.

Selling Restrictions

United States

The Instruments have not been and will not be registered under the U.S. Securities Act of 1933 as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Instruments in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has agreed and each further dealer appointed under the Programme will be required to agree that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Instruments, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of the Instruments comprising the relevant Tranche, as certified to the Issue and Paying Agent or the Issuer by such Dealer or in the case of Instruments issued on a syndicated basis, by each of such Dealers as to Instruments of such Tranche purchased by or through it, in which case that Issue and Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified, within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Instruments during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

The Instruments are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of Instruments comprising any Tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering of such tranche of Instruments) may violate the registration requirements of the Securities Act.

This Information Memorandum has been prepared by the Issuer for use in connection with the offer and sale of the Instruments outside of the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Instruments, in whole or in part, for any reason. The Information Memorandum does not constitute an offer to any person in the United States. Distribution of this Information Memorandum by any non-U.S. person outside the United States to any U.S. person or to any other person in

the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (i) in relation to Instruments which have a maturity of one year or more it has not offered or sold and, prior to the expiry of a period of six months from the issue date of such Instruments, will not offer or sell any such Instruments to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Instruments in, from or otherwise involving the United Kingdom.

Ireland

Each Dealer has represented and agreed that:

(A) In respect of Instruments to be listed on the Irish Stock Exchange

- 1. Except in circumstances which do not constitute an offer to the public within the meaning of the Companies Act, 1963 of Ireland (the “1963 Act”), it has not offered or sold, and will not, for so long as:
 - (a) Part III of the 1963 Act;
 - (b) The European Communities (Stock Exchange) Regulations 1984 (as amended) of Ireland (the “1984 Regulations”); and
 - (c) the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland (the “1992 Regulations”),remain in force in relation to the Instruments, offer or sell any Instruments in Ireland or elsewhere by means of any document prior to application for listing of such Instruments on the Irish Stock Exchange having been made and the relevant listing particulars having been approved in accordance with the 1984 Regulations and thereafter such offer or sale shall be made only by means of a form of application which indicates where the relevant listing particulars can be obtained or inspected or which is issued with such relevant listing particulars.
- 2. It has complied with, and will comply with, all applicable provisions of the 1963 Act, the 1984 Regulations and the 1992 Regulations with respect to anything done by it in relation to the Instruments in, from and otherwise involving Ireland.

(B) In respect of Instruments not to be listed on the Irish Stock Exchange

- 1. Except in circumstances which do not constitute an offer to the public within the meaning of the 1963 Act, it has not offered or sold and will not, for so long as:
 - (a) Part III of the 1963 Act; and
 - (b) the 1992 Regulations;

remain in force in relation to the Instruments, offer or sell any Instruments in Ireland or elsewhere by means of any document otherwise than in compliance with the provisions of Part III of the 1963 Act and the 1992 Regulations.

2. It has complied with, and will comply with, all applicable provisions of the 1963 Act and the 1992 Regulations with respect to anything done by it in relation to the Instruments in, from or otherwise involving Ireland.

(C) In respect of instruments generally

It will not knowingly offer to sell Instruments to an Irish resident, or to persons whose usual place of abode is Ireland, and it will not knowingly distribute or cause to be distributed in Ireland any foreign material in connection with such Instruments. However, the foregoing shall not prohibit the Dealers from selling or offering to sell Instruments or distributing offering material in connection with Instruments, to an Irish resident or to a person whose usual place of abode is in Ireland, where:

- (a) the Instruments are listed on a stock exchange and constitute “debts on a security” for the purposes of Irish taxation, or
- (b) that person is a person falling within the meaning of a “DIRT exempt person” as set out in the “Taxation” section of the Information Memorandum, or
- (c) the Instruments have a maturity of two years or less, are held in a clearing system recognised by the Irish Revenue Commissioners and have a minimum denomination of €500,000 in the case of Instruments denominated in euro, US\$500,000 in the case of Instruments denominated in US dollars, or, in the case of Instruments denominated in a currency other than euro or US dollars, the equivalent in that other currency of €500,000 (being determined by reference to the rate of exchange, in the case of Instruments issued under the programme at the time the programme under which the Instrument is to be issued as first publicised, or, in the case of all other Instruments, on the date of issue of the Instrument).

Luxembourg

The Instruments are not offered to the public in Luxembourg and each Dealer has represented and warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it will not directly or indirectly offer the Instruments or cause the offering of the Instruments or contribute to the offering of the Instruments to the public in or from Luxembourg, unless all the relevant legal and regulatory requirements have been complied with. In particular, this offer has not been and will not be announced to the public and offering material will not be made available to the public.

Germany

The Instruments have not been and will not be publicly offered in Germany and, accordingly, no securities sales prospectus (*Verkaufsprospekt*) for a public offering of the Instruments in Germany in accordance with the Securities Sales Prospectus Act of 9 September 1998, as amended (*Wertpapier-Verkaufsprospektgesetz*, the “Prospectus Act”), has been or will be published or circulated in the Federal Republic of Germany. Each Dealer has represented and agreed that it has only offered and sold and will only offer and sell the Instruments in the Federal Republic of Germany in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of the Instruments in the Federal Republic of Germany may only be made in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of securities.

Japan

The Instruments have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law and other relevant laws

and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

Each Dealer has acknowledged that, other than with respect to the listing of the Instruments on the relevant stock exchange, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Instruments, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed that it will (to the best of its knowledge) comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or has in its possession or distributes such offering material, in all cases at its own expense.

These selling restrictions may be supplemented or modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such supplement or modification will be set out in the Pricing Supplement issued in respect of the issue of Instruments to which it relates or in a supplement to this Information Memorandum.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated [●]

Hypo Real Estate Bank International

(incorporated in the Republic of Ireland)

(acting through its Irish head office or through its Luxembourg Branch)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments]

Guaranteed by Hypo Real Estate Holding AG

under the €10,000,000,000 Programme for the Issuance of Debt Instruments

This document constitutes the Pricing Supplement relating to the issue of Instruments described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Information Memorandum dated 13 May 2004 [and the supplemental Information Memorandum dated [●]]. This Pricing Supplement contains the final terms of the Instruments and must be read in conjunction with such Information Memorandum [as so supplemented].

The following alternative language applies if the first tranche of an issue which is being increased was issued under an Information Memorandum with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Information Memorandum dated [original date]. This Pricing Supplement contains the final terms of the Instruments and must be read in conjunction with the Information Memorandum dated [current date] [and the supplemental [Information Memorandum dated [●], save in respect of the Conditions which are extracted from the Information Memorandum dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|---|--|---|
| 1 | (i) Issuer: | Hypo Real Estate Bank International, acting through its [Irish head office]/[Luxembourg branch]. |
| | (ii) Guarantor: | Hypo Real Estate Holding AG |
| 2 | (i) Series Number: | [●] |
| | (ii) Tranche Number:
(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).] | [●] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | Aggregate Nominal Amount: | [●] |
| | (i) Series: | [●] |
| | (ii) Tranche: | [●] |
| 5 | (i) Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| | (ii) Net proceeds: | [●] |

- 6 Specified Denominations: [●]
- 7 [(i)] Issue Date: [●]
 [(ii)] Interest Commencement Date [●]
- 8 Maturity Date: [*specify date or (for Floating Rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year*]
- 9 Interest Basis: [[●]% Fixed Rate]
 [[*specify reference rate*] + / [●]% Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Other (*specify*)]
 (further particulars specified below)
- 10 Redemption/ Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency]
 [Partly Paid]
 [Instalment]
 [Other (*specify*)]
- 11 Change of Interest or Redemption/ Payment Basis: [*Specify details of any provision for convertibility of Instruments into another interest or redemption/ payment basis*]
- 12 Put/ Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
- 13 (i) Status of the Instruments: [Senior/ Subordinated]
- (ii) If Subordinated Instruments, whether Upper Tier II Subordinated Instruments, Lower Tier II Subordinated Instruments or Tier III Subordinated Instruments and whether such Instruments are dated or undated: [[Undated/ Dated] [Upper/ Lower] Tier II Subordinated Instruments/ Tier III Subordinated Instruments]
- 14 Listing: [Irish Stock Exchange/ Luxembourg Stock Exchange/ other (*specify*)/ None]
- 15 Method of distribution: [Syndicated/ Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 16 **Fixed Rate Instrument Provisions** [Applicable/ Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/ semi-annually/ quarterly/ monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/ not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [●] per [●] in Nominal Amount

(iv) Broken Amount(s):	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]</i>
(v) Day Count Fraction:	<i>[30/360 / Actual/Actual (ISMA/ISDA) / other]</i>
(vi) Determination Dates:	<i>[●] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ISMA))</i>
(vii) Other terms relating to the method of calculating interest	<i>[Not Applicable/give details]</i>
17 Floating Rate Instrument Provisions	<i>[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Interest Period(s)/	<i>[●]</i>
(ii) Specified Interest Payment Dates:	<i>[●]</i>
(iii) Business Day Convention:	<i>[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]</i>
(iv) Business Centre(s):	<i>[●]</i>
(v) Manner in which the Rate(s) of Interest is/are to be determined:	<i>[Screen Rate Determination/ISDA Determination/ other (give details)]</i>
(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	<i>[●]</i>
(vii) Screen Rate Determination:	
—Reference Rate:	<i>[●]</i>
—Interest Determination Date(s):	<i>[●]</i>
—Relevant Screen Page:	<i>[●]</i>
(viii) ISDA Determination:	
—Floating Rate Option:	<i>[●]</i>
—Designated Maturity:	<i>[●]</i>
—Reset Date:	<i>[●]</i>
(ix) Margin(s):	<i>[+/-][●] per cent. per annum</i>
(x) Minimum Rate of Interest:	<i>[●] per cent. per annum</i>
(xi) Maximum Rate of Interest:	<i>[●] per cent. per annum</i>
(xii) Day Count Fraction:	<i>[●]</i>

	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions:	[●]
18	Zero Coupon Instrument Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) [Amortisation/ Accrual] Yield:	[●] per cent. per annum
	(ii) Reference Price:	[●]
	(iii) Any other formula/ basis of determining amount payable:	[●]
19	Index-Linked Interest Instrument Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Index/Formula:	<i>[give or annex details]</i>
	(ii) Calculation Agent responsible for calculating the interest due:	[●]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Interest Period(s):	[●]
	(v) Specified Interest Payment Dates:	[●]
	(vi) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other <i>(give details)</i>]
	(vii) Business Centre(s):	[●]
	(viii) Minimum Rate of Interest:	[●] per cent. per annum
	(ix) Maximum Rate of Interest:	[●] per cent. per annum
	(x) Day Count Fraction:	[●]
20	Dual Currency Instrument Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate of Exchange/ method of calculating Rate of Exchange:	<i>[give details]</i>
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]

- (iii) Provisions applicable where calculation [●]
by reference to Rate of Exchange
impossible or impracticable:
- (iv) Person at whose [●]
option Specified Currency(ies) is/are
payable:

PROVISIONS RELATING TO REDEMPTION

21 Call Option

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each [●] per Instrument of [●] specified denomination
Instrument and method, if any, of
calculation of such amount(s):
- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●]
 - (b) Maximum Redemption Amount: [●]
- (iv) Notice period¹ [●]

22 Put Option

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each [●] per Instrument of [●] specified denomination
Instrument and method, if any, of
calculation of such amount(s):
- (iii) Notice period¹ [●]

23 Final Redemption Amount of each Instrument

[[●] per Instrument of [●] specified denomination/
other/see Appendix]

24 Early Redemption Amount

[●]

Early Redemption Amount(s) of each
Instrument payable on redemption for
taxation reasons or on event of default and/or
the method of calculating the same (if required
or if different from that set out in the
Conditions):

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

25 Form of Instruments:

Bearer Instruments:

[Temporary Global Instrument exchangeable for a
Permanent Global Instrument which is exchangeable
for Definitive Instruments on [●] days' notice/at any
time/in the limited circumstances specified in the
Permanent Global Instrument]

[Temporary Global Instrument exchangeable for
Definitive Instruments on [●] days' notice]

[Permanent Global Instrument exchangeable for Definitive Instruments on [days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]

[Registered Instruments]

- 26 Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/*give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items [16 (ii)], [17(iii)] and [19(vi)] relates*]
- 27 Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 28 Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment: [Not Applicable/*give details*]
- 29 Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
- 30 Redenomination, renominatisation [Not Applicable]
- 31 Consolidation provisions: [Not Applicable/The provisions [in Condition [16]] annexed to this Pricing Supplement] apply]
- 32 Other terms or special conditions: [Not Applicable/*give details*]

DISTRIBUTION

- 33 (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Manager (if any): [Not Applicable/*give name*]
- 34 If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- 35 Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

- 36 ISIN Code: [●]
- 37 Common Code: [●]

- 38 Any clearing system(s) [Not Applicable/*give name(s) and number(s)*]
other than Euroclear Bank S.A./N.V. and
Clearstream Banking Societe Anonyme and
the relevant identification number(s):
- 39 Delivery: Delivery [against/free of] payment
- 40 Additional Paying Agent(s) (if any): [●]

[LISTING APPLICATION]

This Pricing Supplement comprises the final terms required to list the issue of Instruments described herein pursuant to the €10,000,000,000 Programme for the Issuance of Debt Instruments.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:
Duly authorised

GENERAL INFORMATION

- (1) It is expected that the admission to listing of the Programme on the official list of the Irish Stock Exchange will be granted on or about 13 May 2004, subject only to the issue of a temporary or permanent Global Instrument (or one or more Certificates) in respect of each Tranche. Prior to official listing, however, dealings will be permitted by the Irish Stock Exchange in accordance with its rules. However, Instruments may be issued pursuant to the Programme which will not be listed on the Irish Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

- (2) Application has been made to list the Instruments issued under the Programme on the Luxembourg Stock Exchange. A legal notice relating to the Programme and the constitutional documents of the Issuer have been lodged with the Registre de Commerce et des Sociétés at the Luxembourg district court where such documents may be examined and copies obtained.

The Luxembourg Stock Exchange has allocated to the Programme the number 12994 for listing purposes.

- (3) Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the Republic of Ireland, in the Grand Duchy of Luxembourg and in the Federal Republic of Germany in connection with the establishment of the Programme and the guarantee relating to the Programme. The establishment of the Programme was authorised by resolution of the board of directors of the Issuer passed on 29 January 2004 and the giving of the guarantee relating to the Programme by the Guarantor was authorised by resolution of the board of directors of the Guarantor passed on 13 January 2004 and by resolution of the supervisory board of the Guarantor passed on 29 January 2004. The update of the Programme was authorised by a resolution of the board of directors proposed on 10 May 2004.
- (4) Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or of the Hypo International Group since 31 December 2003 or of the Guarantor since 31 December 2003 and no material adverse change in the financial position or prospects of the Issuer or of the Hypo International Group since 31 December 2003 or of the Guarantor since 31 December 2003.
- (5) Neither the Issuer nor the Guarantor nor any of their respective subsidiaries is or has been involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Instruments nor so far as the Issuer or the Guarantor is aware is any such litigation or arbitration pending or threatened.
- (6) Each Bearer Instrument, Receipt, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”.
- (7) Instruments have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Instruments will be set out in the relevant Pricing Supplement.
- (8) Copies of the latest annual report and accounts of the Issuer, HVB Group and the Guarantor and the latest interim consolidated accounts of the Issuer and the Guarantor may be obtained, and copies of the Agency Agreement, the Deed of Covenant (including the Guarantee) the Dealership Agreement and the memorandum and articles of association, or equivalent, of the Issuer and the Guarantor (with English translation) will be available for inspection, at the registered office of the Issuer and at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Instruments is outstanding. The Guarantor produces interim figures in May, August and November whilst the Issuer produces them every six months.

- (9) **Documents Available**

So long as the Instruments are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London, Ireland and Luxembourg:

- (i) the constitutional documents (in English) of the Issuer;

- (ii) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2002 and 31 December 2003 (in English);
 - (iii) the most recently available published audited annual financial statements of the Issuer and the most recently available published interim financial statements (if any) of the Issuer (in English) (as at the date of the Prospectus, the Issuer does not publish any interim financial statements);
 - (v) the Programme Agreement, the Agency Agreement (which includes the forms of the Temporary Global Instruments, the Permanent Global Instruments, the Definitive Instruments, the Receipts, the Coupons and the Talons) and the Deed of Covenant;
 - (v) a copy of this Prospectus;
 - (vi) any future prospectuses, offering circulars, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Instrument will only be available for inspection by a holder of such Instrument and such holder must produce evidence satisfactory to the Paying Agent, as to its holding and identity) to this Prospectus and any other documents incorporated herein or therein by reference; and
 - (vii) in the case of each issue of listed Instruments subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent documents).
- (10) The Auditors of the Issuer have given and not withdrawn their consent to the inclusion herein of their audit report as set out herein. KPMG Ireland, independent chartered accountants and auditors, whose registered address is 1 Harbourmaster Place, IFSC, Dublin 1, Ireland have audited the accounts of the Issuer for the years ended 31 December 2002 and 31 December 2003. KPMG Germany have audited, and issued an unqualified audit report on, the financial statements of Hypo Real Estate Holding AG and its group for the year ended 31 December 2003 which includes the Issuer and its main subsidiaries, Hypo Real Estate Capital Ltd., London and Pfandbrief Bank International S.A., Luxembourg. KPMG Audit Plc, London, independent chartered accountants and auditors, have audited HREC London's accounts for the years ended 31 December 2002 and 31 December 2003. KPMG Audit, Luxembourg, independent chartered accountants and auditors have audited PBI's accounts for the years ended 31 December 2003 and 31 December 2002.

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Independent Auditors' Report to the Members of Hypo Real Estate Bank International

KPMG Ireland, independent chartered accountants and auditors have audited the Issuer's accounts for the two years ended 31 December 2003. References to page numbers in this report relate to the page numbers of the financial statements from which the report is extracted.

We have audited the financial statements on pages 11 to 46.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members, those matters that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Independent Auditors

The directors are responsible for preparing the directors' report and, as described on page 8, the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies' Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the financial statements agree with the books of account and report to you our opinion as to whether:

- the company has kept proper books of account;
- the directors' report is consistent with the financial statements;
- at the balance sheet date a financial situation existed that may require the company to hold an extraordinary general meeting, on the grounds that the net assets of the company, as shown in the financial statements, are less than half of its share capital.

We also report to you if, in our opinion, information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in

accordance with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion, the information given in the directors' report on pages 3 to 7 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 18, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2003 a financial situation which, under section 40(1) of the Companies' (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

KPMG
Chartered Accountants
Registered Auditors
1 Harbourmaster Place
International Financial Services Centre
Dublin 1

16 March 2004

THE ISSUER

Profit and Loss Account

										<i>For the year ended 31 December</i>	
										<i>Note</i>	
											<i>2003 € thousands</i>
											<i>2002 € thousands</i>
Interest receivable and similar income											
Other interest receivable and similar income	..	..	..	..	..	..	..	..	..	3	244,736
Interest payable and similar charges	..	..	..	..	..	..	..	..	..		(184,927)
Net interest income	..	..	..	..	..	..	..	..	..		59,809
Fees and commission receivable	..	..	..	..	..	..	..	..	..		11,400
Fees and commission payable	..	..	..	..	..	..	..	..	..		(5,705)
Other operating (expense)/income	..	..	..	..	..	..	..	..	..	4	(6,150)
Total operating income	..	..	..	..	..	..	..	..	..		59,354
Administration expenses	..	..	..	..	..	..	..	..	..	6	(21,256)
Depreciation	..	..	..	..	..	..	..	..	..	16	(652)
Provisions for credit risk	..	..	..	..	..	..	..	..	..	13	(36,500)
Operating expenditure	..	..	..	..	..	..	..	..	..		(58,408)
Profit on ordinary activities before taxation	..	..	..	..	..	..	..	..	..	5	946
Taxation on profit on ordinary activities	..	..	..	..	..	..	..	..	..	8	719
Profit for the financial year	..	..	..	..	..	..	..	..	..		1,665
Dividends paid and proposed	..	..	..	..	..	..	..	..	..	9	—
Retained profit for financial year attributable to equity shareholders	..										1,665
Profit and loss account at beginning of year	..	..	..	..	..	..	..	..	..		332
Profit and loss account at end of year	..	..	..	..	..	..	..	..	..		1,997

The company had no recognised gains or losses in the financial year or the preceding financial year other than those dealt with in the profit and loss account. The accompanying notes form an integral part of the financial statements.

On behalf of the board

Dr J. Bourke
Director

Mr. J. Donnelly
Director

Mr. G. Funke
Director

Mr. W. Ramm
Secretary

16 March 2004

THE ISSUER

Balance Sheet

											<i>At 31 December</i>	
											<i>2003</i>	<i>2002</i>
											<i>€ thousands</i>	<i>€ thousands</i>
Assets												
Cash and balances at central banks ..	..	..	..	..	..	..	..	..	..	10	740	1,854
Loans and advances to banks ..	..	..	..	..	..	..	..	..	..	11	1,231,839	342,580
Loans and advances to customers ..	..	..	..	..	..	..	..	..	..	12	6,400,931	2,356,858
Debt securities — Public Authorities ..	..	..	..	..	..	..	..	..	..	14	358,657	102,258
Debt securities — Other ..	..	..	..	..	..	..	..	..	..	14	829,723	895,909
Shares in group undertakings ..	..	..	..	..	..	..	..	..	..	15	158,799	148
Tangible fixed assets ..	..	..	..	..	..	..	..	..	..	16	6,553	1,499
Other assets..	..	..	..	..	..	..	..	..	..	17	8,247	—
Prepayments and accrued income ..	..	..	..	..	..	..	..	..	..	18	27,955	35,437
Total assets..	..	..	..	..	..	..	..	..	..		9,023,444	3,736,543
Deposits by banks ..	..	..	..	..	..	..	..	..	..	19	6,603,364	2,840,719
Deposits by customers ..	..	..	..	..	..	..	..	..	..	20	290,047	—
Debt securities ..	..	..	..	..	..	..	..	..	..	21	—	281,935
Accruals and deferred income ..	..	..	..	..	..	..	..	..	..	23	44,177	32,930
Other liabilities ..	..	..	..	..	..	..	..	..	..	24	2,900	69,151
Provision for liabilities and charges..	..	..	..	..	..	..	..	..	..	25	20,959	146
Subordinated liabilities ..	..	..	..	..	..	..	..	..	..	22	800,000	—
Total liabilities ..	..	..	..	..	..	..	..	..	..		7,761,447	3,224,881
Shareholders' funds												
Called up ordinary share capital ..	..	..	..	..	..	..	..	..	..	27	1,260,000	500,000
Capital redemption reserve fund ..	..	..	..	..	..	..	..	..	..	27	—	11,330
Profit and loss account ..	..	..	..	..	..	..	..	..	..		1,997	332
Shareholders' funds — equity ..	..	..	..	..	..	..	..	..	..	28	1,261,997	511,662
Total liabilities and shareholders' funds..	..	..	..	..	..	..	..	..	..		9,023,444	3,736,543

The accompanying notes form an integral part of the financial statements.

On behalf of the board

Dr J. Bourke
Director

Mr. J. Donnelly
Director

Mr. G. Funke
Director

Mr. W. Ramm
Secretary

16 March 2004

THE ISSUER

Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements are prepared in accordance with generally accepted accounting principles and comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland, and the Statements of Recommended Practice (SORPs) issued jointly by the British Bankers Association and the Irish Bankers' Federation. The format of the balance sheet, profit and loss account and notes forming part of the financial statements are as prescribed by the European Communities (Credit Institutions: Accounts) Regulations, 1992.

Historical cost

The financial statements have been prepared under the historical cost convention and in accordance with the going concern basis of preparation. The preparation of financial statements requires management to make estimations and assumptions that affect the reported amounts of certain assets and liabilities. Such estimations depend on management's judgement of future events and the actual results could differ from the estimation.

Loans and advances

Loans and advances are reported at their principal amounts outstanding net of associated provisions. Loans and advances purchased are initially recorded at their cost to the company. Interest income on loans and advances is included in the profit and loss account based on loan principal amounts outstanding during the period at the relevant interest rates.

Provisions for credit risk

The directors consider the risks inherent in on and off-balance sheet lending operations. Provisions are made for possible losses having regard to both specific and general factors. The general element arises in relation to potential losses which, although not separately identified, are present in any portfolio of bank advances.

Specific loan loss provisions are made to the amount of the anticipated loss including income amounts due. All expenses incurred in the recovery process are charged fully in the profit and loss account immediately they are incurred. These provisions are released to the profit and loss account as soon as the lending risk has ceased, or utilised if the receivable is classified as irrecoverable or written off.

Provisions made (less amounts released) during the year are charged against profits. In evaluating the adequacy of the provision, management takes into account such factors as the change in size and composition of the portfolio, credit concentrations, country risk, results of credit reviews, and current and anticipated economic conditions and other risks in the portfolio that may affect the borrowers' ability to repay.

In case of doubt, provision is made against interest and capital where appropriate.

Translation of foreign currencies

The financial statements are expressed in Euro (EUR). Foreign currency monetary items and spot transactions, not completed at the balance sheet date, are translated into Euro at the closing rate. Forward contracts outstanding are translated using the appropriate forward rate at the balance sheet date. Non-monetary items carried at cost are translated at the rate applicable at the time of acquisition. Income items arising from foreign exchange translation are carried under the appropriate headings in the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Costs incurred in developing software and other assets are capitalised to the costs of the asset. No depreciation is provided on paintings and artwork. The charge for depreciation is calculated to write down the cost of other tangible fixed assets to their estimated residual values by equal annual instalments over their expected useful lives which are as follows:

Computer equipment/software	3 years
Leasehold improvements	term of each lease
Motor vehicles	5 years
Office equipment	5 years

The useful life of an asset is determined by taking into account the physical life, technical obsolescence and other factors. Fixed assets are regularly reviewed for impairment.

Subsequent costs of development or acquisition are capitalised where they add economic benefit.

Shares in Group undertakings

Shares in Group undertakings are valued at cost less provision for impairment if necessary.

Leasing

Lease contracts are accounted for in accordance with the economic risks and rewards implicit in the lease. Rents under leases where the risks and rewards remain with the lessor are treated by the company as rental expense.

Provisions

Provisions are recognised for present obligations arising as a consequence of past events, where it is probable that a transfer of economic benefits will be necessary to settle the obligation and it can be reliably estimated.

Pension Benefits

It is the policy of the company to provide defined contribution and defined benefit pension schemes. The cost of providing pension benefits under the company's defined benefit scheme, is charged to operating profit, over the service lives of the members of the scheme. The cost of the defined contribution schemes, are charged to the profit and loss account in the period in which they are incurred.

Employee Share Participation Scheme

The company operates a Revenue approved employee share purchase scheme. The costs of the scheme, the broker and share custody costs, are met by the company and charged to the profit and loss account in the period to which they relate. Shares of Hypo Real Estate Holding AG are purchased on behalf of employees who participate out of employee profit shares and salary foregone at market price. The directors approve the list of employees entitled to participate.

Taxation

The charge for taxation is based on the profit for the year. The company qualifies for the 10% rate of corporation tax on qualifying activities under the provision of Section 446, Taxes Consolidation Act, 1997.

Deferred taxation is recognised in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements which have not reversed by the balance sheet date except as otherwise required by FRS 19. Discounting is not applied.

Finance costs

Interest charged on financing is included in the profit and loss account based on principal amounts outstanding during the period at the relevant market rate. The effect is that the amount of the charge recognised in each accounting period is at a commercial rate in line with the current market rate.

Financial reporting standard No. 1 (Revised) — Cash Flow Statements

A cash flow statement is not presented as the directors avail of the exemptions in the Financial Reporting Standard available to companies where the ultimate EU parent proposes to publish a consolidated cash flow statement in the prescribed format for the relevant accounting period.

Income and expense recognition

Interest income and expense is recognised on an accruals basis. Fees receivable, in return for services provided, or risks undertaken, are credited to income, when the service is provided, or are spread over the period of the product depending on the terms of the contract. Receivables are placed on a non-accruals basis, irrespective of the legal position, where an inflow of interest is no longer expected.

Debt securities

Debt securities held for use on a continuing basis in the company's activities are classified as investment securities. Such securities are stated at cost less provision for any permanent diminution in value.

Dated investment debt securities are stated at cost adjusted by the associated premium or discount, as appropriate, on a straight-line basis over the period to maturity. The amortisation of premiums or discounts is accounted for as interest income. When sold before maturity, the difference between the proceeds and the cost (adjusted for amortisation of premiums and discounts) is taken to profit and loss account in the year of realisation.

Off balance sheet items

Derivatives

A detailed analysis is contained in notes 31 and 32 to these financial statements.

Transactions are undertaken in off balance sheet derivative financial instruments ('derivatives') which include interest rate swaps, cross currency swaps, future rate agreements and similar instruments. Interest rate swaps, cross currency swaps and future rate agreements are accounted for as 'commitments'. Credit derivatives, when undertaken, are accounted for within 'contingent liabilities'.

Off balance sheet derivatives are used to manage foreign exchange and interest rate risk inherent in the company's activities, either as a hedge or an investment in interest rate, currency or credit risk in the management of the banking book.

These derivatives are accounted for on an accruals basis consistent with the assets or liabilities being hedged or the risk managed in the banking book. Income and expense on these derivatives are recognised as they accrue over the life of the instruments as an adjustment to 'interest receivable' or 'interest payable'.

Where a derivative hedge is no longer required, it is either disposed of or re-designated as a hedge against another exposure. The associated costs or income are immediately taken to the profit and loss account. Derivatives hedging anticipatory transactions are accounted for on a basis consistent with the relevant type of transaction.

Undrawn credit lines

Undrawn credit lines are reported under 'commitments'. The fees earned on these are accrued to fee income over the life of the facility.

Guarantees and irrevocable letters of credit

Guarantees and irrevocable letters of credit, including those existing under 'synthetic transfers' (see note 1), are reported under 'contingent liabilities'. The fees earned on these are accrued to fee income over the life of the guarantee or letter of credit.

Securitisations

The company has transferred certain assets into an undertaking, which has issued debt securities or has entered into funding arrangements with lenders. The company acts solely as the service provider. Such assets

are derecognised if the Company is no longer exposed to any significant risks and rewards of ownership. The fees and expenses payable and receivable in respect of this business are included in fee income and expense.

Repurchase Agreements (Repos)

Securities sold subject to repurchase agreements are retained on the balance sheet as the company retains the risks and rewards of ownership. Funds received under such agreements are included in deposits by banks and customer accounts as appropriate. The difference between the sale and repurchase price is recognised on an accruals basis within interest payable or receivable in the profit and loss account.

THE ISSUER

Notes to the Financial Statements

1. Operations and significant developments during the year

Hypo Real Estate Bank International (“the company”) is a licensed bank in Ireland. The company is engaged in the business of banking and the provision of financial services principally in relation to the real estate sector.

During 2003, there were substantial changes in the nature and extent of the business of the company. Bayerische Hypo und Vereinsbank AG (HVB AG) transferred a majority part of its commercial real estate business into a new group, Hypo Real Estate Holding AG. This was “spun-off” or de-merged from the HVB AG Group on 29 September, 2003. Hypo Real Estate Bank International was transferred into this new group as the international arm of the business, taking control of the international commercial real estate business.

The Spin-Off

The spin-off process involved the de-merger of a major part of the commercial real estate financing business of the Bayerische Hypo und Vereinsbank AG Group (HVB AG), which resulted in the transfer of, amongst other businesses and assets, the company and its subsidiaries and three other subsidiaries of HVB AG into the newly-established listed holding company, Hypo Real Estate Holding AG. The spin-off plan was adopted by the supervisory board of HVB AG on 26 March 2003 and approved by shareholders on 14 May 2003.

Prior to the spin-off, the commercial real estate finance subsidiaries of HVB AG, and the company were transferred to a special purpose company, DIA. DIA was a 100 per cent. subsidiary of HVB AG prior to the spin-off.

The shares in DIA, previously held by HVB AG, were transferred to the newly formed Hypo Real Estate Holding AG on 29 September 2003. All newly issued shares of Hypo Real Estate Holding AG were issued *pro rata* to the shareholders of HVB AG so that every shareholder of HVB AG who then held four shares in HVB AG received one share in Hypo Real Estate Holding.

DIA redeemed its entire shareholding in the company on 9 December 2003. On the same day, Hypo Real Estate Holding AG acquired all the issued share capital of the company directly.

It was agreed between the company and HVB AG that the company would acquire an international network of subsidiaries and loan portfolios, which substantially made up the commercial real estate financing business of HVB AG. In addition, the company agreed to sell loan portfolios, amounting to approximately €3 billion, which did not primarily relate to commercial real estate financing, to HVB AG. In September 2003, a commercial real estate loan portfolio of approximately €7.8 billion was acquired by the company and its subsidiaries from HVB AG partially by way of a synthetic transfer of loans (amounting to approximately €5.5 billion) and partially by way of a physical transfer of loans (amounting to approximately €2.3 billion). Under the terms of the synthetic transfer, the company or its subsidiaries have provided an irrevocable guarantee to HVB AG of the payment obligations of the borrowers of the relevant loans, in return for a guarantee fee.

In December 2003 a US commercial real estate loan portfolio of approximately €3.5 billion was acquired by the company and its US subsidiary from HVB AG. In relation to this purchase, a loan portfolio of approximately €2.3 billion was acquired by the company and the company issued a guarantee to its US subsidiary in respect of a loan portfolio of approximately €1.2 billion which it acquired.

Other Developments

The company received supplementary capital of €600 million from HVB AG in September 2003 in the form of a subordinated loan. This loan has a maturity of ten years and the company has a one-off unilateral right to terminate the loan after five years. The company also received a perpetual subordinated loan from Hypo Real Estate Holding AG on 24 October 2003 in the amount of €200 million. This loan is repayable with the consent only of the Irish Financial Services Regulatory Authority (“IFSRA”).

On 15 September 2003 the company changed its name from HVB Bank Ireland to Hypo Real Estate Bank International.

2. Segmental analysis

(a) Geographic:

	2003 €'000	2002 €'000
Interest receivable and similar income		
Ireland	188,048	307,127
United Kingdom	38,843	—
United States	1,706	—
Europe	16,139	—
	<u>244,736</u>	<u>307,127</u>
	2003 € million	2002 € million
Total Assets		
Ireland	2,620	3,736
United Kingdom	2,042	—
United States	2,353	—
Europe	2,008	—
	<u>9,023</u>	<u>3,736</u>

The segmental analysis is based on the location of the office servicing the business.

- (b) Business: The company's principal field of activity is the provision of lending facilities to international real estate companies.
- (c) Common Costs: Several of the Bank's Board members are also members of the Boards of Directors of its subsidiaries. It is estimated that approximately €200,000 of the costs of the Board members relate to the London and Paris subsidiaries. The Dublin IT departments provide subsidiaries with both hardware and software and also with communications links. €600,000 has been charged from Hypo Real Estate Bank International to subsidiaries during 2003 for this expense.
- (d) 94 per cent. of property loan commitments fall in asset risk class 5 or better. The bank operates a ten tiered risk rating approach. Asset class 5 is rated 'satisfactory' and comprises 9 per cent. of the portfolio.

3. Other interest receivable and similar income

	2003 €'000	2002 €'000
Arising from debt securities and other fixed income securities	32,961	43,396
Other interest receivable and similar income	211,775	263,731
	<u>244,736</u>	<u>307,127</u>

4. Other operating (expense)/income

	2003 €'000	2002 €'000
Other operating (expense)/income is determined after charging:		
(Loss)/profit on sale of financial instruments	(6,446)	1,080

5. Profit on ordinary activities before taxation

	2003 €'000	2002 €'000
The profit on ordinary activities before taxation for the year is determined after charging:		
Directors' remuneration:		
Fees	45	53
Other emoluments	3,052	193
Operating lease rentals	965	556
Depreciation	652	369
Auditors' remuneration, including irrecoverable VAT	271	56
	<u> </u>	<u> </u>

6. Administration expenses

	2003 €'000	2002 €'000
Staff costs		
– wages and salaries	10,392	2,431
– social security costs	504	285
– other pension costs	543	257
	<u>11,439</u>	<u>2,973</u>
Other administrative expenses	9,817	2,631
	<u>21,256</u>	<u>5,604</u>

Average Number of employees

	2003 €'000	2002 €'000
Management	19	8
Front office	32	7
Back office	54	19
	<u>105</u>	<u>34</u>
At 31 December 2003	<u>153</u>	<u>34</u>

The number of employees rose steeply over the year due to the rapid expansion of activities in the restructuring process.

7. Pension scheme

The company operates a defined contribution pension scheme for staff of the company whereby the company pays an annual percentage of an individual's pensionable salary into that individual's pension account. There is also a defined benefit scheme in place for certain employees (Note 26). The pension charge in the profit and loss account for the year ended 31 December 2003, amounted to €543,282 (2002: €257,136). The accrual at 31 December 2003 was €458,813 (2002: €NIL (Note 26)).

8. Tax on profit on ordinary activities

	2003 €'000	2002 €'000
<i>Current tax</i>		
Corporation tax on profits for the year	4,322	8,039
Prior year (over)/under accrual	(140)	(125)
Tax charge for the year	4,182	7,914
<i>Deferred tax (see notes 17,25)</i>		
Increase in deferred tax asset/liability	(4,901)	45
	<u>(719)</u>	<u>7,959</u>

Factors affecting tax charge for the period

	2003 €'000	2002 €'000
Profit on ordinary activities before tax	946	71,191
Current tax at 12.5% (2002: 16%)	118	11,391
Effects of:		
Capital allowances in excess of depreciation	(122)	127
Expenses not deductible for tax purposes	4,751	838
Expenses deductible for tax purposes	(2,604)	—
Effect of benefit of 10% rate	(181)	(4,272)
Foreign tax suffered by branches	3,143	—
Credit for foreign tax suffered	(783)	—
Prior year (over)/under provision	(140)	(125)
Total current tax charge (see above)	<u>4,182</u>	<u>7,959</u>

9. Dividends – equity

	2003 €'000	2002 €'000
Interim dividend paid on equity shares of €Nil per share (2002: €0.001)	—	300
Proposed dividend on equity shares of €Nil per share (2002: €0.126)	—	63,000

10. Cash and balances at central banks

	2003 €'000	2002 €'000
Cash and balance at central banks	740	1,854

11. Loans and advances to banks

	2003 €'000	2002 €'000
Remaining maturity		
– Repayable on demand	14,258	9,821
– 3 months or less	1,039,006	181,252
– 1 year or less but over 3 months	55,178	9,917
– 2 years or less but over 1 year	7,318	15,000
– 5 years or less but over 2 years	87,399	126,590
– over 5 years	28,680	—
	<u>1,231,839</u>	<u>342,580</u>
Amounts include:		
Due from group companies	145,906	187,470

12. Loans and advances to customers

	2003 €'000	2002 €'000
Remaining maturity		
– 3 months or less	1,534,878	131,018
– 1 year or less but over 3 months	286,275	277,966
– 2 years or less but over 1 year	816,742	232,752
– 5 years or less but over 2 years	2,844,314	1,096,909
– over 5 years	934,954	635,536
General credit risks provision on loans (Note 13)	(16,232)	(17,323)
	<u>6,400,931</u>	<u>2,356,858</u>
Amounts include:		
Due from group companies	<u>1,377,885</u>	<u>—</u>

There is one loan included in the above which is non-performing and is considered impaired. The carrying value is EUR 2,767,000 which represents the purchase cost of this loan. The Directors are of the opinion that the collateral held will recover at least this carrying value.

13. Provisions for credit risks

	<i>Specific</i> €'000	<i>General</i> €'000	<i>Total</i> €'000
At 1 January 2003	3,198	17,323	20,521
New provisions	—	36,500	36,500
Recovered from loans written off	—	—	—
Realised on loan disposals	(3,198)	(17,091)	(20,289)
Cumulative provision at 31 December 2003	<u>—</u>	<u>36,732</u>	<u>36,732</u>
of which:			
Provided against			
Loans and advances to customers	—	16,232	16,232
Off Balance sheet exposures to customers.. .. .	<u>—</u>	<u>20,500</u>	<u>20,500</u>

The provision is set at a level consistent with the risk profile of the portfolio and at a cost developed from historical rates data.

14. Debt securities and other fixed income securities

Investment securities

	2003			2002		
	<i>Issued by</i> <i>public</i> <i>bodies</i> €'000	<i>Issued by</i> <i>others</i> €'000	<i>Total</i> €'000	<i>Issued by</i> <i>public</i> <i>bodies</i> €'000	<i>Issued by</i> <i>others</i> €'000	<i>Total</i> €'000
Listed on recognised exchanges	358,657	632,969	991,626	—	844,780	844,780
Unlisted	—	196,754	196,754	102,258	51,129	153,387
	<u>358,657</u>	<u>829,723</u>	<u>1,188,380</u>	<u>102,258</u>	<u>895,909</u>	<u>998,167</u>
Of which are Group						
Listed on recognised						
Exchanges	—	64,908	64,908	—	54,541	54,541
Unlisted	<u>—</u>	<u>9,029</u>	<u>9,029</u>	<u>—</u>	<u>—</u>	<u>—</u>

The analysis of the movement in debt securities held as financial assets, excluding accrued interest, is as follows:

	<i>Nominal cost €'000</i>	<i>Discount/ premium €'000</i>	<i>Carrying value €'000</i>
At 1 January 2003	997,876	291	998,167
Purchases.. .. .	845,725	(2,732)	842,993
Amortisation for the year.. .. .	—	239	239
Exchange differences	(8,883)	18	(8,865)
Matured/Sold	(643,580)	(575)	(644,155)
At 31 December 2003	1,191,138	(2,759)	1,188,379
Of which are Group	74,000	(87)	73,913

The maturity analysis of debt securities is as follows:

	<i>2003</i>			<i>2002</i>		
	<i>Issued by public bodies €'000</i>	<i>Issued by others €'000</i>	<i>Total €'000</i>	<i>Issued by public bodies €'000</i>	<i>Issued by others €'000</i>	<i>Total €'000</i>
Debt securities mature:						
Within one year	—	177,320	177,320	—	128,254	128,254
In 1-2 years	—	72,036	72,036	—	417,322	417,322
In 2-5 Years	99,490	234,732	334,222	38,347	252,350	290,697
In 5 Years or more	259,167	345,635	604,802	63,911	97,983	161,894
	<u>358,657</u>	<u>829,723</u>	<u>1,188,380</u>	<u>102,258</u>	<u>895,909</u>	<u>998,167</u>
Of which are Group bonds:						
In 1-2 years	—	—	—	—	—	—
In 2-5 Year	—	39,908	39,908	—	54,541	54,541
In 5 Years or more	—	34,029	34,029	—	—	—

The market value of non-group listed investment securities is €942,823,166 (2002: €834,008,774). The market value of non-group unlisted investment securities is €187,725,407 (2002: €153,558,847). The market value of listed group investment securities is €67,288,500 (2002: €61,171,704) and of unlisted group investment securities €9,000,000 (2002: €NIL). The securities are carried in the balance sheet at amortised cost.

15. Shares in Group Undertakings

Movements in holdings

		2003 €'000	2002 €'000
At 1 January 2003	.. .. .	148	148
Acquisitions	.. .. .	158,799	—
Disposals	.. .. .	(148)	—
At 31 December 2003	.. .. .	158,799	148
Of which:			
Banks and similar institutions	.. .. .	119,965	148
Other	.. .. .	38,834	—
		158,799	148
Listed	.. .. .	—	—
Unlisted	.. .. .	158,799	148
		158,799	148

The principal subsidiary undertakings are:

<i>Name</i>	<i>Nature of Business</i>	<i>Interest in shares</i>	<i>Country of Incorporation</i>
Hypo Real Estate Capital Limited*	Financial Services	100%	UK
Hypo Real Estate Capital Corporation*	Financial Services	100%	America
Pfandbrief Bank International S.A.*	Banking	100%	Luxembourg
Hypo Real Estate Capital Iberia S.L.*	Financial Services	100%	Spain
Hypo Real Estate Capital SA*	Banking	100%	France
Hypo Real Estate Capital Italia S.p.A.*	Financial Services	100%	Italy
Hypo Real Estate Properties Limited	Property Management	100%	Ireland

* These subsidiaries were acquired from Bayerische Hypo und Vereinsbank AG as part of the restructuring process (see Note 1).

All companies operate exclusively in their country of incorporation and have an accounting period end of 31 December each year.

The company sold the entire share capital, €147,268, of HVB Fund Services Limited to Bayerische Hypo und Vereinsbank AG on 23 July 2003. There was no gain or loss on this transaction.

In the opinion of the directors, the shares in the subsidiaries listed above are worth at least the amount at which they are stated in the balance sheet.

16. Tangible fixed assets

		<i>Leasehold improvements €'000</i>	<i>Office equipment, painting & artwork €'000</i>	<i>Computer hardware & software €'000</i>	<i>Motor vehicles €'000</i>	<i>Total €'000</i>
Cost						
At beginning of year	.. .. .	586	233	1,652	126	2,597
Additions	.. .. .	1,033	888	3,785	—	5,706
Disposals	.. .. .	—	—	—	—	—
At end of year	.. .. .	1,619	1,121	5,437	126	8,303
Depreciation						
At beginning of year	.. .. .	133	168	719	78	1,098
Charge for year	.. .. .	126	62	439	25	652
Disposals	.. .. .	—	—	—	—	—
At end of year	.. .. .	259	230	1,158	103	1,750
Net book value:						
At 31 December 2003	.. .. .	1,360	891	4,279	23	6,553
At 31 December 2002	.. .. .	453	65	933	48	1,499

17. Other assets

		<i>2003 €'000</i>	<i>2002 €'000</i>
Due from group companies	.. .. .	3,492	—
Deferred tax asset (Note 25)	.. .. .	4,755	—
		8,247	—

18. Prepayments and accrued income

		<i>2003 €'000</i>	<i>2002 €'000</i>
Prepayments	.. .. .	672	1,607
Accrued interest	.. .. .	23,181	33,830
Fees receivable	.. .. .	106	—
Other	.. .. .	3,996	—
		27,955	35,437
Amounts include:			
Due from group companies	.. .. .	4,136	—

19. Deposits by banks

	2003 €'000	2002 €'000
With agreed maturity dates or periods of notice, by remaining maturity		
– 3 months or less	2,463,004	1,996,488
– 1 year or less but over 3 months	592,306	161,497
– 2 years or less but over 1 year	749,328	42,607
– 5 years or less but over 2 years	2,009,103	640,127
– over 5 years	789,623	—
	<u>6,603,364</u>	<u>2,840,719</u>
Amounts include:		
Due to group companies.. .. .	<u>1,246,331</u>	<u>1,387,293</u>

20. Deposits by customers

	2003 €'000	2002 €'000
With agreed maturity dates or periods of notice, by remaining maturity		
– 3 months or less	290,047	—
– 1 year or less but over 3 months	—	—
	<u>290,047</u>	<u>—</u>
Amounts include:		
Due to Group companies	<u>92,815</u>	<u>—</u>

21. Debt securities in issue

The company has a European commercial paper programme that has a limit of US\$ 3 billion. There are no securities currently issued.

Following the year end, the company established a €10 billion medium term notes programme.

22. Subordinated liabilities

	2003 €'000	2002 €'000
At 1 January 2003	—	—
Issued during the year:		
Subordinated debt instruments	600,000	—
Perpetual debt instruments	200,000	—
At 31 December 2003	<u>800,000</u>	<u>—</u>

The subordinated liabilities at 31 December 2003 comprised the following all of which were issued during 2003:

Holder	Nominal €'000	Interest %	Maturity
Bayerische Hypo und Vereinsbank AG	600,000	EURIBOR+2%	25 September 2008
Hypo Real Estate Holding AG	200,000	EURIBOR+2%	Perpetual
	<u>800,000</u>		

In the event of insolvency or liquidation, the principal and interest on the subordinated and perpetual loans shall be repaid after satisfaction of all creditors who are not subordinated. Liabilities from these loans cannot be set-off against other claims. The perpetual subordinated debt shall only be repaid with the prior

approval of IFSRA, except in the event of the wind-up of the company when the debt can be terminated early. The €600 million subordinated debt is due for repayment on 25 September 2013 unless the company exercises its right to terminate the loan early on 25 September 2008. In the case of the company becoming insolvent or going into liquidation, the €600 million subordinated debt can only be terminated with the consent of IFSRA. IFSRA have approved both loans as Tier 2 regulatory capital.

23. Accruals and deferred income

	2003 €'000	2002 €'000
Accrued interest	19,112	22,242
Accrued amounts due to group companies	10,611	6,019
Deferred income.. .. .	1,367	—
Accrued expenses	13,087	4,669
	<u>44,177</u>	<u>32,930</u>
Accrued expenses include:		
PAYE/PRSI & VAT	<u>1,571</u>	<u>102</u>

24. Other liabilities

	2003 €'000	2002 €'000
Dividends proposed	—	63,000
Corporation tax	2,900	6,151
	<u>2,900</u>	<u>69,151</u>

25. Provisions for liabilities and charges

	2003 €'000	2002 €'000
Pension provisions	459	—
Provisions against off-balance sheet credit risk (Note 13)	20,500	—
Deferred tax	—	146
Provisions for liabilities and charges.. .. .	<u>20,959</u>	<u>146</u>

Analysis of Deferred taxation

	2003 €'000	2002 €'000
At beginning of year	146	101
Charged to profit and loss account (Note 8)	(4,901)	45
At end of year (Note 17)	<u>(4,755)</u>	<u>146</u>

The elements of deferred taxation are as follows:

	2003 €'000	2002 €'000
Difference between accumulated depreciation and amortisation and capital allowances	(285)	(146)
Impact of general credit risk provision	5,040	—
Deferred tax asset/(liability)	4,755	(146)

26. Pension information

The company has accounted for pensions in accordance with SSAP 24 *Accounting for Pensions* and the disclosures given in (a) are those required by that standard. FRS 17 *Retirement benefits* will not be mandatory for the company until year ended 31 December 2005. Prior to this, phased transitional disclosures are required by the standard and, to the extent not given in (a) are set out below in (b).

(a) SSAP 24 disclosures

Pension costs

	2003 €'000	2002 €'000
Pension cost of defined benefit scheme	306	—
Pension cost of defined contribution schemes	237	257
	<u>543</u>	<u>257</u>

(i) Defined benefit schemes

The company operates a defined benefit pension scheme in respect of the employees in the German branch. The defined benefit scheme is not funded. However, the defined benefits payable by the company for the benefit of the employees, is carried as a liability, on the balance sheet of the German branch.

Certain obligations in respect of the scheme amounting to €153,000 were assumed by the company in accordance with the “Group Transfer Guideline” of HVB AG in respect of each employee. This is as a result of the set up of the German branch on 25 September 2003.

The latest actuarial valuation of the scheme was at 31 December 2003 and used the projected unit method. Further details are provided below.

(ii) Defined contribution scheme

The company also makes contributions to a defined contribution scheme, the assets of which are vested in independent trustees for the benefit of members and their dependants. The contributions for the year amounted to €236,765 and have been charged to the profit and loss account.

(b) FRS 17 Retirement benefits

The valuation of the defined benefit scheme used for the purpose of FRS 17 disclosures has been based on the most recent actuarial valuation as identified above, in order to assess the liability at the balance sheet date. The scheme is unfunded so there are no scheme assets.

The financial assumptions used to calculate the retirement benefit liability under FRS 17 were as follows:

	31 December 2003	31 December 2002
Valuation method	Projected unit	—
Discount rate	5.5%	—
Inflation rate	1.5%	—
Increase to pensions in payment	1.5%	—
Salary increases – General scheme	3.0%	—
– Executive scheme	4.0%	—

As the defined benefit scheme is unfunded, the increase in the actuarially calculated pension liability of €306,000, has been included in administration expenses in the profit and loss account.

Had FRS 17 been reflected in the primary financial statements, no additional amounts would have been included in the profit and loss account and the statement of total recognised gains and losses.

27. Share capital

	2003 €'000	2002 €'000
Authorised:		
4,000,000,000 ordinary shares of €1 each (2002: 500,000,000)	<u>4,000,000</u>	<u>500,000</u>
	2003 €'000	2002 €'000
Allotted, called up and fully paid:		
1,260,000,000 ordinary shares of €1 each (2002: 500,000,000)	<u>1,260,000</u>	<u>500,000</u>

Share Transactions during the year:

On 13 May 2003, 500,000,000 ordinary shares were redeemed at a price of €511,329,892 and between 13 May 2003 and 20 May 2003 the company issued a total of 1,181,329,892 ordinary shares at par.

On 30 September, 2003, the company issued 18,670,108 ordinary shares at par.

On 9 December, 2003, the company redeemed 1,200,000,000 ordinary shares at par and on the same day issued 1,200,000,000 shares at par.

On 10 December, 2003 the company issued 60,000,000 ordinary shares at par.

28. Reconciliation of shareholders' funds

	2003 €'000	2002 €'000
Profit for the financial year	1,665	63,232
Transactions with shareholders		
Dividends paid	—	(300)
Dividends proposed	—	(63,000)
New shares issued, net (Note 27)	<u>748,670</u>	<u>—</u>
Net movement	750,335	(68)
Opening shareholders' funds	<u>511,662</u>	<u>511,730</u>
Closing shareholders' funds	<u>1,261,997</u>	<u>511,662</u>

29. Contingent liabilities

	2003 €'000	2002 €'000
Standby letters of credit	503,364	86,562
Guarantee facilities	<u>8,390,404</u>	<u>28,339</u>
	<u>8,893,768</u>	<u>114,901</u>
Amounts include:		
Issued to group companies	<u>1,338,020</u>	<u>1,387,293</u>

30. Commitments to interest rate contracts

The company manages its interest rate risk through a comprehensive range of methods, including asset /liability sensitivity analyses, establishment of various risk limits at appropriate risk control levels and timely monitoring of interest rate trends in accordance with prescribed policy. Under this programme, the company periodically enters into interest rate swaps and forward rate agreements as vehicles to adjust the interest rate sensitivity of its portfolio. In addition, currency swaps may be used to hedge interest and currency risk. The underlying principal amount of these contracts was €2,906,147,000 (2002: €1,973,171,000).

31. Derivatives

Risk management and the use of derivatives

Hypo Real Estate Bank International holds positions in order to manage its banking book, provide liquidity and enhance return on the capital invested. The company does not operate a trading book.

The board of directors approves policy and limits with respect to credit, market and liquidity risks.

Daily operational risk is monitored by the Heads of Internal Audit, Finance and Operations and IT. Hypo Real Estate Bank International has group internal audit, compliance and financial control functions which have, as part of their mandate, the monitoring of the activities of Hypo Real Estate Bank International group-wide to ensure compliance with operating and financial controls.

Market and liquidity risk

Market and liquidity risk is monitored daily by the Head of Risk Control. The risk arises from all assets and liabilities, both on and off balance sheet. Interest rate gap, value at risk and duration limits are established and approved by the board. The extent to which limits are utilised is reported to management on a daily basis. The risk control process in Hypo Real Estate Bank International in Ireland covers the world-wide group risk.

All financial instruments must be transacted within board approved guidelines. All new products are subject to a legal and systems approval procedure to ensure that the transactions are allowed by the regulatory bodies and that adequate systems for processing and control of these instruments are in place.

Foreign exchange exposure is also monitored closely. Forward exchange contracts are used to cover short-term exposures. The longer term exposures are managed by matching funding currencies and duration or by the application of cross currency swaps.

It is the policy of Hypo Real Estate Bank International to ensure that sufficient resources are available at all times to meet the company's obligations. Limits on potential cash-flow mismatches over defined time horizons are the principal basis of liquidity control. This limit is monitored daily throughout the entire maturity profile on a group-wide basis.

Credit risk

Hypo Real Estate Bank International monitors credit risk in accordance with industry-wide practice.

This is monitored both on a local and group basis. The risk management function in Ireland monitors the global risk positions together with the local unit credit risk managers. The company has an internal rating system, which is applied to all customers. Customer profitability is monitored as part of the credit function. This is carried out through the review of margins and costs associated with loans.

Transactional currency exposures

The table below shows the company's transactional currency exposures. All exposure amounts are in Euro and include the effects of all on and off balance sheet currency exposures.

	<i>Other</i> <i>€million</i>	<i>EURO</i> <i>€million</i>	<i>GBP</i> <i>€million</i>	<i>USD</i> <i>€million</i>	<i>YEN</i> <i>€million</i>	<i>Total</i> <i>€million</i>
As at 31 December 2003	25.4	0.4	(7.6)	0.7	(1.3)	17.6
As at 31 December 2002	(9.7)	0.9	6.4	0.1	1.3	(1.0)

Interest rate sensitivity analysis

Part of the company's return on financial instruments results from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates at which interest receivable on assets and interest payable on liabilities are next reset to market rates. The table below summarises these repricing mismatches on the company's non-trading book as at 31 December, 2003.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

The net asset position shown in the interest rate repricing table indicates an exposure to a rise in interest rates in each period when these net volumes are refinanced. The table shows actual on balance sheet volumes and net off balance sheet volumes.

	2003						
	Not more than three months € million	More than three months but not more than six months € million	More than six months but not more than one year € million	More than one year but not more than five years € million	More than five years € million	Non- Interest Bearing € million	Total € million
Interest rate repricing							
Assets							
Loans and advances to banks	1,176	12	45	—	—	—	1,233
Loans and advances to customers	5,655	90	55	491	110	—	6,401
Debt securities	63	21	93	406	605	—	1,188
Other assets	—	—	—	—	—	202	202
Total assets	6,894	123	193	897	715	202	9,024
Liabilities							
Deposits by banks	6,554	49	—	—	—	—	6,603
Deposits by customers	290	—	—	—	—	—	290
Subordinated Debt	800	—	—	—	—	—	800
Other liabilities	—	—	—	—	—	69	69
Shareholders' funds	—	—	—	—	—	1,262	1,262
Total liabilities	7,644	49	—	—	—	1,331	9,024
Off balance sheet items	1,063	50	(18)	(633)	(462)	—	—
Interest rate sensitivity gap	313	124	175	264	253	(1,129)	—
Cumulative gap	313	437	612	876	1,129	—	—

	<i>Not more than three months € million</i>	<i>More than three months but not more than six months € million</i>	<i>More than six months but not more than one year € million</i>	<i>More than one year but not more than five years € million</i>	<i>More than five years € million</i>	<i>Non- Interest Bearing € million</i>	<i>Total € million</i>
<i>Interest rate repricing</i>							
Assets							
Loans and advances to banks	286	6	35	17	—	—	344
Loans and advances to customers	1,045	440	147	541	184	—	2,357
Debt securities	962	26	—	10	—	—	998
Other assets						38	38
Total assets	<u>2,293</u>	<u>472</u>	<u>182</u>	<u>568</u>	<u>184</u>	<u>38</u>	<u>3,737</u>
Liabilities							
Deposits by banks	2535	116	45	145	—	—	2,841
Deposits by customers	—	—	—	—	—	—	—
Debt securities in issue	270	12	—	—	—	—	282
Other liabilities.. .. .	—	—	—	—	—	102	102
Shareholders' funds	—	—	—	—	—	512	512
Total liabilities	<u>2,805</u>	<u>128</u>	<u>45</u>	<u>145</u>	<u>—</u>	<u>614</u>	<u>3,737</u>
Off balance sheet items	<u>624</u>	<u>80</u>	<u>(47)</u>	<u>(514)</u>	<u>(143)</u>	<u>—</u>	<u>—</u>
Interest rate sensitivity gap	<u>112</u>	<u>424</u>	<u>90</u>	<u>(91)</u>	<u>41</u>	<u>(576)</u>	<u>—</u>
Cumulative gap	<u>112</u>	<u>536</u>	<u>626</u>	<u>535</u>	<u>576</u>	<u>—</u>	<u>—</u>

The following table provides an overview of the company's derivative holdings at the year end. Notional principal amounts represent the value of the underlying physical or financial commodity on which the contract is based and represent volumes of outstanding transactions.

	<i>1 year or less €'000</i>	<i>2 years or less but over 1 year €'000</i>	<i>5 years or less but over 2 years €'000</i>	<i>Over 5 years €'000</i>	<i>Total €'000</i>
Exchange rate related contracts					
Spot, forwards and futures	1,901,558	—	—	—	1,901,558
Currency swaps	393,983	—	—	100,012	493,995
At 31 December 2003	<u>2,295,541</u>	<u>—</u>	<u>—</u>	<u>100,012</u>	<u>2,395,553</u>
At 31 December 2002	<u>300,216</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>300,216</u>
Interest rate related contracts					
Interest rate swaps	481,303	65,567	1,006,406	646,752	2,200,028
Caps	—	—	169,388	—	169,388
Swaptions	42,736	—	—	—	42,736
At 31 December 2003	<u>524,039</u>	<u>65,567</u>	<u>1,175,794</u>	<u>646,752</u>	<u>2,412,152</u>
At 31 December 2002	<u>659,373</u>	<u>233,711</u>	<u>783,092</u>	<u>296,996</u>	<u>1,973,172</u>

The table below shows the weighted average interest rates to be received and paid on the group's non-trading interest rate swaps:

2003			2002		
	<i>Notional principal amount</i>	<i>Weighted average interest rates receive</i>		<i>Notional principal amount</i>	<i>Weighted average interest rates receive</i>
	<i>€'000</i>	<i>%</i>		<i>€'000</i>	<i>%</i>
Pay fixed swaps	2,127,143	2.91		1,375,159	3.16
					5.39

32. Risk Management

Hedging

Hedge transactions occur in relation to the following:

— Interest rate risk is hedged using interest rate swaps, caps, floors, options and forward interest rate agreements;

— Transactional currency exposures are hedged using currency swaps and forward foreign currency agreements

The table below summarises the unrecognised gains on hedges carried forward at the balance sheet date:

Unrecognised gains and losses on hedges

	2003 <i>Total Net €million</i>	2002 <i>Total Net €million</i>
At beginning of year	(56)	(25)
Of which recognised during the year	10	3
Those not recognised during the year	(46)	(22)
Gains and losses arising in 2003	(2)	(34)
Unrecognised gains and losses at the end of year	(48)	(56)
Of which expected to be recognised in the following year	(16)	—

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all of the company's financial assets and liabilities as at 31 December 2003 and 31 December 2002.

	2003 <i>Book Value €million</i>	2003 <i>Fair Value €million</i>	2002 <i>Book Value €million</i>	2002 <i>Fair Value €million</i>
Assets:				
Cash and balances with central banks	1	1	2	2
Loans and advances to banks	1,232	1,233	343	344
Loan and advances to customers	6,401	6,523	2,357	2,411
Debt securities	1,188	1,207	998	998
Liabilities:				
Deposits by banks and customers	6,893	6,902	2,841	2,837
Debt securities in issue	—	—	282	282
Off balance sheet items (see below)	17	(48)	—	(56)

Market values have been used to determine the fair value of all forward foreign currency contracts and all listed debt issued and held. The fair values of all other items have been calculated by discounting expected future cash flows at prevailing interest rates.

At 31 December 2003 and 31 December 2002 the notional principal amounts, fair values and book values of non-trading derivative instruments entered into with third parties were as follows:-

	2003			2002		
	<i>Notional principle amount € million</i>	<i>Year end book value € million</i>	<i>Year end fair value € million</i>	<i>Notional principle amount € million</i>	<i>Year end book value € million</i>	<i>Year end fair value € million</i>
<i>Derivative values</i>						
Interest rate derivatives						
Swaps	2,200	—	(65)	1,973	—	(83)
Forward rate agreements ..	—	—	—	—	—	—
Other interest rate contracts ..	212	—	—	—	—	27
Foreign exchange derivatives						
Currency swaps	494	17	17	—	—	—

The foreign currency element of the fair value of the currency swaps is included in the balance sheet position of the asset or liability hedged or in other assets/liabilities where no direct hedge relationship with any one asset or liability exists.

33. Concentration of exposure

The Company's portfolio is almost entirely concentrated in commercial real estate lending. Within this sector, the company's exposure is widely diversified and there were no significant industry concentrations at 31 December 2003. There was no exposure to less developed countries.

The company's currency exposure, in terms of total assets and liabilities denominated in Euro and other currencies is as follows:

	2003 '000	2002 '000
Total assets – EUR	3,122,367	2,343,990
– USD	2,647,813	681,592
– GBP	2,707,537	565,303
– Other Non EUR	545,727	145,658
	<u>9,023,444</u>	<u>3,736,543</u>
Total liabilities – EUR	3,695,212	2,354,126
– USD	754,938	687,969
– GBP	2,751,631	542,560
– Other Non EUR	1,821,663	151,888
	<u>9,023,444</u>	<u>3,736,543</u>

34. Related party disclosures

The company has availed of the exemption afforded under paragraph 3 of the Financial Reporting Standard, FRS 8, which states that disclosure is not required in the financial statements of subsidiary undertakings, 90 per cent. or more of whose voting rights are controlled within the group, of transactions with entities that are part of the group or investors in the group qualifying as related parties, provided that the consolidated financial statements in which that subsidiary is included are publicly available.

The company entered into a number of agreements with Bayerische Hypo und Vereinsbank AG as part of the overall restructuring process (see Note 1). In these agreements, the company agreed to purchase and sell portfolios of loans from Bayerische Hypo und Vereinsbank AG who in turn provided funding for these purchases where required for the duration of the portfolio purchased at the market rate. The company ceased

to be a subsidiary of Bayerische Hypo und Vereinsbank AG on 29 September, 2003 and has no further connection other than assets and liabilities acquired during process of restructuring or in normal market transactions.

35. Ultimate parent company

The company is a subsidiary of Hypo Real Estate Holding AG a company incorporated in Germany.

Hypo Real Estate Holding AG, which holds 99.99 per cent. of the issued share capital of Hypo Real Estate Bank International publishes group accounts which consolidate the results of Hypo Real Estate Bank International and the consolidated financial statements are available from Hypo Real Estate Holding AG, Unsoeldstrasse, 2, 80538 Munich, Germany. As permitted by Regulation 8 of the European Communities (Credit Institutions: Accounts) Regulation 1992, group accounts have not been prepared by the company.

The registered number of the company is 209149.

36. Approval of financial statements

The board of directors approved these financial statements on 16 March 2004.

HYPO REAL ESTATE CAPITAL LIMITED, LONDON

Independent Auditors' Report

Independent auditor's report to the members of HVB Real Estate Capital Limited

KPMG Audit plc, London, independent chartered accountants and auditors have audited the accounts of HVB Real Estate Capital Limited for the two years ended 31 December 2003. References to page numbers in this report relate to the page numbers of the financial statements from which this report is extracted.

We have audited the financial statements on pages 5 to 24.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and group's affairs as at 31 December 2003 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

19 March 2004

HYPO REAL ESTATE CAPITAL LIMITED, LONDON

Consolidated Profit and Loss Account

											For the year ended 31 December 2003		
											Notes	2003 £	2002 £
Turnover — continuing operations											2	35,705,790	51,238,469
Cost of sales												(10,445)	(1,378,769)
Gross profit												35,695,345	49,859,700
Administrative expenses												(14,148,674)	(13,261,963)
Operating profit — continuing operations											3	21,546,671	36,597,737
Profit on sale of investments											7	444,296	73,658
Profit on sale of investment properties											8	—	2,268,490
Profit on ordinary activities before interest												21,990,967	38,939,885
Interest receivable and similar income											5	2,387,814	1,654,313
Interest payable and similar charges											6	(29,553)	(5,917,512)
Profit on ordinary activities before taxation												24,349,228	34,676,686
Tax charge on profit on ordinary activities											9	(8,514,253)	(9,360,153)
Profit on ordinary activities after taxation												15,834,975	25,316,533
Amortisation of goodwill											14	7,507	—
Write down of investment											14	(2)	—
Profit for the financial year												15,842,480	25,316,533
Equity dividends											11	—	(15,000,000)
Retained profit for the financial year												15,842,480	10,316,533

There are no recognised gains or losses other than those for the financial year as stated in the profit and loss account. Accordingly, no statement of total recognised gains and losses is given.

There was no difference between the profit and loss on a historical basis and that shown above.

HYPO REAL ESTATE CAPITAL LIMITED, LONDON

Reconciliation of movements in shareholders' funds

														<i>For the year ended 31 December 2003</i>	
														<i>2003</i>	<i>2002</i>
														<i>£</i>	<i>£</i>
Profit for the financial year	..	..	..	..	..	..	..	..	..	..	..	..	..	15,842,480	25,316,533
Equity dividends..	..	..	..	..	..	..	..	..	..	..	..	..	..	—	(15,000,000)
Net increase to shareholders' funds	..	..	..	..	..	..	..	..	..	..	..	..	..	15,842,480	10,316,533
Opening shareholders' funds	..	..	..	..	..	..	..	..	..	..	..	..	..	24,132,620	13,816,087
Closing shareholders' funds	..	..	..	..	..	..	..	..	..	..	..	..	..	39,975,100	24,132,620

HYPO REAL ESTATE CAPITAL LIMITED, LONDON

Consolidated balance sheet

		<i>As at 31 December 2003</i>			
		<i>2003</i>		<i>2002</i>	
		<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Fixed assets					
Plant and machinery	13	299,539		386,042	
Investments					
Other investments	14	7		6	
		<u>299,546</u>		<u>386,048</u>	
Current assets					
Debtors	15	16,215,529		5,124,185	
Cash at bank and in hand	17	52,464,922		48,938,316	
		<u>68,680,451</u>		<u>54,062,501</u>	
Creditors: amounts falling due within one year	18	<u>(28,504,432)</u>		<u>(30,315,929)</u>	
Net current assets		<u>40,176,019</u>		<u>23,746,572</u>	
Total assets less current liabilities		<u>40,475,565</u>		<u>24,132,620</u>	
Provisions for liabilities and charges					
Deferred tax provisions	19	(500,465)		—	
Net assets		<u><u>39,975,100</u></u>		<u><u>24,132,620</u></u>	
Capital and reserves					
Called up share capital	20	5,268,000		5,268,000	
Profit and loss account	21	34,707,100		18,864,620	
Equity shareholders' funds		<u><u>39,975,100</u></u>		<u><u>24,132,620</u></u>	

These financial statements were approved by the board of directors on 9 March 2004 and signed on their behalf by:

F. Lamby
Director

H.J. Thaker
Director

HYPO REAL ESTATE CAPITAL LIMITED, LONDON

Balance sheet

		<i>As at 31 December 2003</i>			
	<i>Notes</i>	<i>2003</i>		<i>2002</i>	
		£	£	£	£
Fixed assets					
Investments	14	2,860,610		2,860,614	
Plant and machinery	13	299,539		385,106	
			3,160,149		3,245,720
Current assets					
Debtors	15	16,257,892		5,029,421	
Cash at bank and in hand	17	43,437,510		24,082,938	
		59,695,402		29,112,359	
Creditors: amounts falling due within one year	18	(29,721,269)		(19,119,322)	
Net current assets			29,974,133		9,993,037
Total assets less current liabilities			33,134,282		13,238,757
Provisions for liabilities and charges					
Deferred tax provisions	19		(500,465)		—
Net assets			32,633,817		13,238,757
Capital and reserves					
Called up share capital	20		5,268,000		5,268,000
Profit and loss account	21		27,365,817		7,970,757
Equity shareholders' funds			32,633,817		13,238,757

These financial statements were approved by the board of directors on 9 March 2004 and signed on their behalf by:

F. Lamby
Director

H.J. Thaker
Director

HYPO REAL ESTATE CAPITAL LIMITED, LONDON

Consolidated cashflow statement

															For the year ended 31 December 2003		
															Notes	2003 £	2002 £
Net cash inflow from operating activities															22	22,616,981	42,302,565
Returns on investments and servicing of finance																	
Interest and other investment income received																2,198,359	1,624,855
Interest paid																(658,458)	(7,119,309)
Net cash inflow/(outflow) from Returns on investments and servicing of finance																1,539,901	(5,494,454)
Taxation																(8,483,072)	(9,536,536)
Capital expenditure and financial investment																	
Payments to acquire tangible fixed assets:																	
Other tangible assets																(188,080)	(6,154)
Payment to acquire fixed asset investment																(1)	—
Proceeds from sale of tangible fixed assets:																	
Investment properties																—	90,816,156
Proceeds of sale of current asset investment																—	2,179,458
Net cash (outflow)/inflow from Capital expenditure and financial investment																(188,081)	92,989,460
Acquisitions and disposals																	
Proceeds of sales of investments																83,226	28,018,171
Payment of share of profits on Net cash reduction from sale of subsidiary															23	(11,042,349)	—
																(10,959,123)	28,018,171
Equity dividends paid																—	(15,000,000)
Net cash inflow before financing																4,526,606	133,279,206
Financing																	
Repayment of borrowings																(1,000,000)	(103,519,102)
Net cash outflow from financing																(1,000,000)	(103,519,102)
Increase in cash..															22	3,526,606	29,760,104

HYPO REAL ESTATE CAPITAL LIMITED, LONDON

Notes

(forming part of the financial statements)

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom which have been applied consistently and with the Companies Act 1985, with the exception of the true and fair override in respect of the non-depreciation of investment properties. The company is exempt under s230(4) Companies Act 1985 from the requirement to present its own profit and loss account. The particular accounting policies adopted are described below:

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of freehold and long leasehold properties.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss from the date of acquisition or up to the date of disposal.

Investment valuations

Investments in companies in which the group holds a minority stake but in which the group has no control and where the company is not an associate, are stated at open market valuation.

Freehold and leasehold investment properties are included in the balance sheet at their open market value at the balance sheet date on the basis of a professional valuation. Aggregate surpluses or deficits arising on valuation are transferred to a revaluation reserve. Impairments in the value of properties to below their carrying values are charged directly to the profit and loss account.

Additions to investment properties include only costs of a capital nature and certain refurbishment expenditure. Costs such as interest and other property outgoings are treated as revenue expenditure and written off as incurred.

Depreciation and amortisation

In accordance with SSAP 19 (as amended) no depreciation or amortisation is provided in respect of freehold and leasehold investment properties. This treatment, as regards certain of the Group's investment properties, is a departure from the requirements of the Companies Act 1985 concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation and amortisation is only one of the many factors reflected in valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

Depreciation

Fixed assets have been depreciated on a straight line basis to write them off over their estimated useful lives at the following rates per annum:

Office equipment	20%
Fixtures, fittings and furniture	20%
Computer equipment	33%
Computer software	20%
Office refurbishment and fit out	over the lease term of the premises

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated, without discounting, at the rates at which it is expected that tax will arise. No provision is made for taxation which may arise on the sale of any investment property until a decision in principle is made to sell that property.

Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiaries. Any goodwill arising on consolidation is fully amortised in the year that it occurs.

Sales of investments

Sales of investments are recognised where contracts have been exchanged during the year.

Pension costs

Contributions payable under the defined contribution pension scheme are charged to the profit and loss account when incurred.

Foreign exchange

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Foreign currency transactions are translated at the rates of exchange ruling at the date of those transactions.

2. Turnover

Turnover represents fees and commissions receivable from the arrangement of loan facilities together with fees from the management of loan portfolios, and letting of investment properties.

The origin of turnover of the Group arose as follows:

		2003	2002
		£	£
United Kingdom	.. .. .	35,705,790	50,655,643
Europe	.. .. .	—	582,826
		<u>35,705,790</u>	<u>51,238,469</u>

3. Operating profit

Operating profit is after charging:

	2003 £	2002 £
Auditors' remuneration		
Audit fee	42,398	58,164
Other services	32,826	38,478
Depreciation of tangible fixed assets	274,583	215,078
	<u> </u>	<u> </u>

4. Information regarding directors and employees

	2003 £	2002 £
<i>Directors' emoluments:</i>		
Emoluments (excluding pension contributions)	2,019,684	2,771,534
	<u> </u>	<u> </u>

	2003 No.	2002 No.
<i>Number of directors who:</i>		
Are members of the defined contribution pension scheme	3	3
	<u> </u>	<u> </u>

	2003 £	2002 £
<i>Highest paid director's remuneration:</i>		
Emoluments (excluding pension contributions)	1,371,349	928,452
	<u> </u>	<u> </u>

	2003 £	2002 £
<i>Employees:</i>		
The company employed an average of 61 (2002: 55 employees) during the year		
Wages and salaries	8,982,996	8,312,129
Social security costs	1,009,770	1,014,287
Pension costs	374,451	357,221
	<u>10,367,217</u>	<u>9,683,637</u>

Certain employees are members of a defined contribution pension scheme. The pension costs charge represents contributions payable.

5. Interest receivable and similar income

	2003 £	2002 £
Interest receivable from former ultimate parent undertaking	1,250,700	1,303,310
Interest receivable from group undertaking	433,185	—
Other interest	703,929	351,003
	<u>2,387,814</u>	<u>1,654,313</u>

Bayerische Hypo-und Vereinsbank A.G. was the ultimate parent undertaking of the Group until a major group restructuring on 29 September 2003. Interest of £1,182,381 was receivable during 2003 from Bayerische Hypo-und Vereinsbank A.G. whilst it was the ultimate parent undertaking of the Group.

6. Interest payable and similar charges

	2003 £	2002 £
Loan interest	26,184	5,785,265
Interest on corporation tax instalment payments	111	27,970
Other interest	3,258	1,545
Loan break costs	—	102,732
	<u>29,553</u>	<u>5,917,512</u>

7. Profit on sale of investments

	Note	2003 £	2002 £
Blenheim Investments Limited/Blenheim Estates Limited	14	—	900
Dares Estates plc	14	—	341
Carisbrooke Suon Limited Partnership	14	461,283	72,417
I.P.I. Properties (Holdings) Limited	14	(16,989)	—
Broadway Centre Limited	14	2	—
		<u>444,296</u>	<u>73,658</u>

8. Profit on sale of investment properties

	Note	2003 £	2002 £
Freehold and leasehold commercial investment properties	12	—	2,268,490
		<u>—</u>	<u>2,268,490</u>

9. Tax charge on profit on ordinary activities

(a) Analysis of taxation on profit on ordinary activities:

	2003 £	2002 £
Current tax charge on income for the period	8,013,788	9,360,153
Deferred tax charge — timing differences	500,465	—
Tax charge on profit on ordinary activities	<u>8,514,253</u>	<u>9,360,153</u>

(b) Factors affecting tax charge for period

The tax assessed for the period is higher (2002 — lower) than the standard rate of corporation tax in the UK — 30 per cent. (2002 — 30 per cent.). The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent. (2002 — 30 per cent.)	7,304,768	10,403,006
<i>Effects of:</i>		
Utilisation of tax losses	(26,187)	(32,908)
Utilisation of capital losses	(138,385)	(22,097)
Expenses not deductible for tax purposes	135,909	78,059
Capital allowances for period in excess of depreciation	(42,780)	(355,983)
Lower tax rate on overseas profits	(80,045)	(708,274)
Overseas income from prior year and current year brought into UK tax charge	1,222,566	—
UK income not subject to corporation tax	—	(221)
ACT from prior year recovered in year	(362,058)	—
Adjustments to tax charge in respect of previous period	—	(1,429)
Current tax charge on income for the period.. .. .	<u>8,013,788</u>	<u>9,360,153</u>

Included in the current tax charge for the period, is a tax charge on overseas income for the year ended 31 December 2003. The income is subject to UK corporation tax, although by taking advantage of available reliefs, the payment of corporation tax on part of this income can be deferred until 2005. The amount of tax has been calculated at £500,465 and is reflected in note 19 to the accounts.

10. Profit of parent company

As permitted by section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's retained profit for the financial year amounted to £19,395,060 (2002: £5,612,016).

11. Equity dividends

	2003 £	2002 £
Group and company		
Interim equity dividend paid is £nil per ordinary share (2002: — £2.85 per ordinary share)	<u>—</u>	<u>15,000,000</u>

12. Fixed assets — investment properties

	2003 £	2002 £
Group		
At 1 January.. .. .	—	105,527,657
Property disposals during the year	<u>—</u>	<u>(105,527,657)</u>
At 31 December	<u>—</u>	<u>—</u>
Company		
At 1 January and 31 December	<u>—</u>	<u>—</u>

At 1 January 2002, the Group owned a portfolio of six distribution warehouses. In September 2002, three properties were sold and a further two properties were sold in October 2002. In December 2002, contracts were exchanged and completed for the sale of a subsidiary owning the remaining property in the portfolio. Under the terms of a Subordinated Loan agreement (see note 18), the profits from the property and subsidiary disposals are shared between the Group and the loan provider. The Group's share of these profits amounted to £2,268,490 in 2002 and are disclosed in note 8 to these accounts.

13. Fixed assets — plant and machinery

Group	Office Equipment £	Fixtures Fittings & Furniture £	Computer Equipment £	Computer Software £	Office refurbishment and fit out £	Total £
Cost						
At 1 January 2003	6,071	191,716	10,079	530,645	475,910	1,214,421
Additions during the year	2,274	11,751	165,125	8,930	—	188,080
Disposals in year	—	—	—	—	—	—
At 31 December 2003	<u>8,345</u>	<u>203,467</u>	<u>175,204</u>	<u>539,575</u>	<u>475,910</u>	<u>1,402,501</u>
Depreciation						
At 1 January 2003	3,148	146,321	10,079	418,378	250,453	828,379
Charge for the year	1,629	40,646	107,012	55,924	69,372	274,583
Eliminated on disposal	—	—	—	—	—	—
At 31 December 2003	<u>4,777</u>	<u>186,967</u>	<u>117,091</u>	<u>474,302</u>	<u>319,825</u>	<u>1,102,962</u>
Net book value						
At 31 December 2003	<u>3,568</u>	<u>16,500</u>	<u>58,113</u>	<u>65,273</u>	<u>156,085</u>	<u>299,539</u>
At 31 December 2002	<u>2,923</u>	<u>45,395</u>	<u>—</u>	<u>112,267</u>	<u>225,457</u>	<u>386,042</u>
Company						
	Office Equipment £	Fixtures Fittings & Furniture £	Computer Equipment £	Computer Software £	Office refurbishment and fit out £	Total £
Cost						
At 1 January 2003	5,871	191,716	—	525,965	475,910	1,199,462
Additions during the year	2,274	11,751	165,125	8,930	—	188,080
Disposals in year	—	—	—	—	—	—
At 31 December 2003	<u>8,145</u>	<u>203,467</u>	<u>165,125</u>	<u>534,895</u>	<u>475,910</u>	<u>1,387,542</u>
Depreciation						
At 1 January 2003	2,948	146,321	—	414,634	250,453	814,356
Charge for the year	1,629	40,646	107,012	54,988	69,372	273,647
Eliminated on disposal	—	—	—	—	—	—
At 31 December 2003	<u>4,577</u>	<u>186,967</u>	<u>107,012</u>	<u>469,622</u>	<u>319,825</u>	<u>1,088,003</u>
Net book value						
At 31 December 2003	<u>3,568</u>	<u>16,500</u>	<u>58,113</u>	<u>65,273</u>	<u>156,085</u>	<u>299,539</u>
At 31 December 2002	<u>2,923</u>	<u>45,395</u>	<u>—</u>	<u>111,331</u>	<u>225,457</u>	<u>385,106</u>

14. Fixed assets — investments

	2003 £	2002 £
Group		
Other investments:		
At 1 January	6	7
Additions	1	—
Disposals	—	(1)
At 31 December	<u>7</u>	<u>6</u>

The investment of £1 held at 1 January 2002 was in preference shares, which were non-listed, and ordinary shares, which were listed. Both were stated at the directors' valuation. The historical cost of the investments was £45,000 and represented 40,500 187.5 per cent. non-convertible redeemable preference

shares of 1p each in a non-listed company, and 8,550 ordinary shares of 10p each in a listed company. During the year ended 31 December 2002, the Group disposed of both the preference and ordinary shares, generating a profit on disposal of £341.

The investment of £6 at 31 December 2002 and 2003, relates to ordinary shares in an unlisted private limited company valued at cost. The principal activity of the unlisted private limited company is management of a property to which the Group has legal title but not the beneficial interest. The Group holds 20 per cent. of the issued share capital and from the latest available audited accounts for the unlisted private company to 31 December 2002, total assets exceeded total liabilities by £30 (year to December 2001 — £30).

On 5 June 2003, the Group entered into an option agreement over 1 per cent. of the ordinary share capital of Sun CP Topco Limited, a company incorporated in England and Wales. The amount paid for the option was £1 and the option is exercisable over the next 7 years at the nominal share value.

In the year 2000, the Group sold its interest in the net assets of Blenheim Investments Limited (a holding company) and Blenheim Estates Limited (a property investment company). Clearance of a sale cost provision generated an additional profit on sale of £900 in 2002.

The profit on Carisbrooke Suon Limited Partnership in 2002 and 2003 relates to the sale by the Group of its interest in a limited liability partnership, which had been acquired at nil cost. This partnership was formed in 1998 to share profits from sales of investment property. The amount received by the Group for the partnership interest was £416,929. However, an amount of up to £344,512 was repayable to the purchaser on the crystallisation of a potential Stamp Duty liability within twelve months of the date of sale, and this amount was reflected as a liability in note 18 to these accounts in 2002. The event had not occurred within the relevant time period and the amount of £344,512 was taken to the profit and loss account in July 2003.

In February 2003, provisional costs, originally taken into the calculations of the sale of the interest in Carisbrooke Suon Limited Partnership, became known and realised and an additional amount became receivable by the Group of £116,771. This profit on sale is reported together with the amount of £344,512 in note 7 to these accounts.

		2003	2002
		£	£
Company			
Investment in subsidiaries:			
At 1 January..	.. .. .	2,860,614	2,860,614
Disposals	.. .. .	(4)	—
At 31 December ..	.. .. .	<u>2,860,610</u>	<u>2,860,614</u>
Historical cost:			
At 1 January..	.. .. .	9,715,276	9,715,276
Disposals	.. .. .	(4)	—
At 1 January and 31 December	.. .. .	<u>9,715,272</u>	<u>9,715,276</u>

Investment in subsidiary undertakings at 31 December 2003:

	<i>% holding of nominal value of ordinary shares and voting rights</i>	<i>Country of Incorporation</i>	<i>Activity</i>	<i>Cost</i>
Hypo Property Investment Limited	100	Great Britain	Property investment	2,658,060
Hypo Property Investment (1992) Limited	50	Great Britain	Property investment	1
Hypo Property Services Limited	100	Great Britain	Property management	99,999
Hypo Property Participation Limited	100	Great Britain	Property investment	2,450
Hypo Real Estate Investment Banking Limited	100	Great Britain	Investment advice	100,000
Zamara Investments Limited	100	Gibraltar	Holding company	100
				<u>2,860,610</u>

The results and balance sheets of each subsidiary undertaking are included in the consolidation. The remaining 50 per cent. of the ordinary shares of Hypo Property Investment (1992) Limited are held by Hypo Property Services Limited, a wholly owned subsidiary. All subsidiaries operate in the United Kingdom, except Zamara Investments Limited which is a holding company based in Gibraltar. Zamara Investments Limited had one wholly owned subsidiary and six wholly owned sub-subsidiaries at 1 January 2003, all based in Gibraltar. The principal activity of these companies was investment in commercial property situated in the United Kingdom.

Zamara Investments Limited sold its wholly owned subsidiary, including the investment in the sub-subsidiary companies, in February 2003 for net asset value.

Goodwill which arose on the acquisition of the subsidiary company and the sub-subsidiary companies of Zamara Investments Limited was fully amortised in the year ended 31 December 2000.

The company had an investment of £2 in Broadway Centre Limited at 1 January 2003, representing 100 per cent. of the share capital of the subsidiary. In May 2003, Broadway Centre Limited was sold for net asset value, to the London Branch of Bayerische Hypo-und Vereinsbank A.G., and ceased to be consolidated in the Hypo Real Estate Capital Limited Group as at that date.

The company had an investment of £2 in Hypo Property Trading Limited at 1 January 2003, representing 100 per cent. of the share capital of the subsidiary. Hypo Property Trading Limited and a further company, Broadway Centre Management Limited, a subsidiary company of Broadway Centre Limited, were formerly dissolved in January 2003.

Hypo Real Estate Investment Banking Limited was formerly known as HVB Real Estate Investment Banking Limited. The name of the company was changed on 6 October 2003.

15. Debtors

	<i>2003</i>		<i>2002</i>	
	<i>Group £</i>	<i>Company £</i>	<i>Group £</i>	<i>Company £</i>
Trade debtors	215,410	221,015	93,143	89,781
Other debtors	10,527,262	10,527,262	211,406	50,793
Amounts owed by former ultimate parent undertaking	—	—	1,631,907	1,631,907
Amounts owed by parent undertaking	1,391,246	1,391,246	—	—
Amounts due from group undertakings	—	68,821	—	69,621
Prepayments and accrued income	4,081,611	4,049,548	3,187,729	3,187,319
	<u>16,215,529</u>	<u>16,257,892</u>	<u>5,124,185</u>	<u>5,029,421</u>

Bayerische Hypo-und Vereinsbank A.G. was the ultimate parent undertaking of the Group until the change in the group structure on 29 September 2003. Further disclosure is provided on the change in the ultimate parent undertaking, and the parent undertaking of the Group, in note 24 to the accounts.

16. Current assets — investment

	2003		2002	
	Group £	Company £	Group £	Company £
Balance at 1 January 2003	—	—	2,150,000	—
Addition at cost	—	—	—	—
Disposal at cost	—	—	(2,150,000)	—
Balance at 31 December 2003	—	—	—	—

In 2001 the Group acquired units in a Lloyds TSB Liquidity Fund at a cost of £2,150,000. On 24 January 2002 the units were sold and an amount of £2,179,458 was received for the funds invested.

17. Cash at bank and in hand

	2003		2002	
	Group £	Company £	Group £	Company £
Cash held with former ultimate parent undertaking	2,270	2,270	27,451,786	24,074,546
Cash held with parent undertaking	25,225,655	25,225,655	—	—
Balances held at other banks	27,236,997	18,209,585	21,486,530	8,392
	<u>52,464,922</u>	<u>43,437,510</u>	<u>48,938,316</u>	<u>24,082,938</u>

Both the former ultimate parent undertaking, and the parent undertaking, are authorised banking institutions. Further disclosure is provided on the change in the ultimate parent undertaking, and the parent undertaking of the Group, in note 24 to the accounts.

18. Creditors: amounts falling due within one year

	2003		2002	
	Group £	Company £	Group £	Company £
Trade creditors	6,005	6,005	99,567	2,683
Amounts owed to subsidiary undertakings	—	1,632,460	—	2,196,855
Other creditors.. .. .	10,838,367	10,838,368	5,721,449	37,744
Other tax and social security payable	190,994	190,994	16,017	136,050
Corporation tax	4,326,957	4,090,355	4,824,908	4,741,977
Accruals and deferred income	13,142,109	12,963,087	18,653,988	12,004,013
Subordinated loan	—	—	1,000,000	—
	<u>28,504,432</u>	<u>29,721,269</u>	<u>30,315,929</u>	<u>19,119,322</u>

The Group previously had a bank loan which was repaid during the year ended 31 December 2002. The loan was unsecured and renewable annually, the loan terms included interest being payable at commercial rates and the loan was subject to two interest rate SWAP agreements. The SWAP agreements were not broken on the repayment of the bank loan and at the 1 January 2003, the first agreement was for £4,600,000, maturing on 28 July 2004, and the second agreement was for £96,300,000, maturing on 28 July 2005. The fixed rates payable were 6.56 per cent. and 6.555 per cent. respectively.

The Group arranged to assign the SWAP agreements to the subsidiary company of Zamara Investments Limited immediately prior to the sale of the subsidiary company, which occurred in February

2003. The assignment of the SWAP agreements enabled the Group to fully clear its responsibility on the SWAP agreements.

Other creditors in 2002 included £344,512 (Company — £nil) which is explained in detail within note 14 of these accounts.

Other creditors also included £5,136,818 (Company — £nil) in 2002 which was settled in 2003 and related to fees based on profit sharing arrangements due in respect of the Subordinated Loan. Further detail to the profit sharing arrangement is provided in note 12 to the accounts.

The subordinated loan was repaid in 2003. The loan was fully drawn and was used together with the bank loan to finance the acquisition of the investment properties in July 2000. Under the terms of the subordinated loan agreement, the loan became repayable on demand once all properties owned by the Group were disposed.

The loan interest relating to the subordinated loan was calculated at the cost of the bank loan and the associated SWAPs, plus 5 per cent.

19. Deferred tax provisions

	2003		2002	
	Group £	Company £	Group £	Company £
Relief on timing of overseas income being brought into UK tax charge	500,465	500,465	—	—
	<u>500,465</u>	<u>500,465</u>	<u>—</u>	<u>—</u>
Provision at 1 January	—	—	—	—
Deferred tax charge in profit and loss for period	<u>500,465</u>	<u>500,465</u>	<u>—</u>	<u>—</u>
Provision at 31 December	<u>500,465</u>	<u>500,465</u>	<u>—</u>	<u>—</u>

There were no unprovided deferred tax liabilities at 31 December 2003 or 31 December 2002.

20. Called up share capital

	Authorised share capital Ordinary shares of £1		Allotted, called up and fully paid Ordinary shares of £1	
	2003 £	2002 £	2003 £	2002 £
At 1 January and 31 December	<u>100,000,000</u>	<u>100,000,000</u>	<u>5,268,000</u>	<u>5,268,000</u>

21. Profit and loss account

	Profit and loss account	
	Group £	Company £
At 1 January 2003	18,864,620	7,970,757
Retained profit for the year	<u>15,842,480</u>	<u>19,395,060</u>
At 31 December 2003	<u>34,707,100</u>	<u>27,365,817</u>

22. Notes to the cash flow statement

	2003 £	2002 £
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	21,546,671	36,597,737
Increase in debtors	(11,052,801)	(39,410)
Increase in creditors	11,848,528	5,529,160
Depreciation charges	274,583	215,078
	<u>22,616,981</u>	<u>42,302,565</u>
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period	3,526,606	29,760,104
Cash outflow from debt finance		
Repayments of borrowings	1,000,000	103,519,102
Cash inflow regarding current asset investment	—	(2,150,000)
Change in net debt	4,526,606	131,129,206
Net debt at 1 January	47,938,316	(83,190,890)
Net debt at 31 December	<u>52,464,922</u>	<u>47,938,316</u>

Analysis of changes in net debt

	At 1 January 2003 £	Cashflows £	At 31 December 2003 £
Cash at bank and in hand	48,938,316	3,526,606	52,464,922
Debt due after one year	(1,000,000)	1,000,000	—
Total	<u>47,938,316</u>	<u>4,526,606</u>	<u>52,464,922</u>

23. Sale of business

	2003 £	2002 £
Net assets disposed of:		
Fixed assets	7,507	—
Debtors	223,560	—
Creditors	(11,271,415)	—
	<u>(11,040,348)</u>	—
Loss on disposal	—	—
	<u>(11,040,349)</u>	—
Satisfied by:		
Receipt of funds for share capital of subsidiary undertaking	2,000	—
Cash funds retained in subsidiary undertaking on sale	(11,042,349)	—
	<u>(11,040,349)</u>	—

The group sold a wholly owned subsidiary undertaking, including the investment in the sub-subsidiary companies, in February 2003 for net asset value, to the provider of the subordinated loan referred to in note 12 to these accounts. The loan provider also agreed to take on the liability and responsibility for the SWAP agreements referred to in note 18 to these accounts. It was agreed that on sale, cash funds would be retained in the subsidiary undertaking equating to the amount due to the loan provider in accordance with

the profit sharing arrangement stated in note 12 to the accounts, together with the accrued break costs liability associated with the SWAP agreements.

The subsidiary undertaking sold during the year, including its sub-subsidiary companies, created an outflow of £570 from (2002: contribution of £8,496,288 to) the group's net operating cash flows, received £nil (2002: £149,655) in respect of net returns on investments and servicing of finance, paid £53,619 (2002: £214,560) in respect of taxation and utilised £nil (2002: £nil) for capital expenditure.

24. Ultimate parent undertaking

On 30 December 2002, the ultimate parent undertaking, Bayerische Hypo-und Vereinsbank A.G., sold its 100 per cent. shareholding in the company to Isar-Seine Immobilien GmbH, but remained at that time as the ultimate parent undertaking, as Isar-Seine Immobilien GmbH is a wholly owned subsidiary of the Bayerische Hypo-und Vereinsbank A.G.

On 15 July 2003, Isar-Seine Immobilien GmbH sold its 100 per cent. shareholding in the company to HVB Bank Ireland. Bayerische Hypo-und Vereinsbank A.G. continued to remain as the ultimate parent company at that time, as HVB Bank Ireland was a wholly owned subsidiary of Bayerische Hypo-und Vereinsbank A.G.

On 29 September 2003, there was a major restructuring to the group in which the company ultimately forms a part. After the group re-organisation, the company's ultimate parent undertaking changed from Bayerische Hypo-und Vereinsbank A.G. to Hypo Real Estate Holding A.G.

The largest group in which the results of the company for 2003 are consolidated is that headed by Hypo Real Estate Holding A.G. incorporated in Germany. The smallest group in which they are consolidated is that headed by Hypo Real Estate Capital Limited, formerly HVB Real Estate Capital Limited, a company registered in England and Wales. The consolidated accounts of Hypo Real Estate Capital Limited are available to the public and may be obtained from The Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UX.

The consolidated accounts for Hypo Real Estate Holding A.G. may be obtained by contacting their registered office at Unsöldstrasse 2, 80538 Munich.

The company has taken advantage of the exemption from related party disclosure in accordance with Paragraph 3(c) of Financial Reporting Standard No. 8.

PFANDBRIEF BANK INTERNATIONAL S.A., LUXEMBOURG

Auditor's Report

KPMG Audit, Luxembourg, independent chartered accountants and auditors have audited the accounts of Pfandbrief Bank International S.A., Luxembourg for the two years ended 31 December 2003.

Following our appointment by the Board of Directors we have audited the attached annual accounts of Pfandbrief Bank International S.A. for the year ended 31 December 2003, and have read the related management report. These annual accounts and the management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to check the consistency of the management report with them.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Pfandbrief Bank International S.A. as of 31 December 2003 and of the results of its operations for the year then ended.

The management report is in accordance with the annual accounts.

Luxembourg, 5 March 2004
KPMG Audit Luxembourg
Réviseurs d'Entreprises

Thomas Feld

PFANDBRIEF BANK INTERNATIONAL S.A., LUXEMBOURG

Balance Sheet

		<i>For the year ended 31 December</i>	
		2003	2002
		€	€
Assets			
Cash on hand, balances with central banks and on postal giro accounts ..		34,002,571	1,305,198
Placements with, and loans and advances to other banks		912,421,207	768,629,387
Municipal loans and loans guaranteed by public institutions		529,123,542	418,040,846
Other loans and advances		383,297,665	350,588,541
<i>Of which: Repayable on demand..</i>		393,706	59,656,585
Loans and advances to customers		555,933,929	658,833,035
Municipal loans and loans guaranteed by public institutions		555,933,929	658,833,035
Debt securities and other fixed-income securities		4,627,881,600	4,840,429,859
Public-sector issuers.. .. .		2,239,270,077	2,258,594,254
Other issuers		2,322,669,705	2,455,119,287
Own issues		65,941,818	126,716,318
Property, plant and equipment		199,949	227,489
Other assets		341,206	252,300
Accruals and deferred income		260,451,119	283,143,041
Total assets		6,391,231,581	6,552,820,309
		<i>At 31 December</i>	
		2003	2002
		€	€
Liabilities			
Amounts owed to banks		1,243,175,411	1,184,697,425
Registered public-sector Pfandbriefe issued		20,000,000	20,000,000
Amounts owed		1,223,175,411	1,164,697,425
<i>Of which: Repayable on demand..</i>		2,244,464	856,610
<i>With agreed maturity or period of notice</i>		1,240,930,947	1,183,840,815
Amounts owed to customers		162,200,000	120,200,000
Registered public-sector Pfandbriefe issued		162,200,000	120,200,000
<i>of which: With agreed maturity or period of notice</i>		162,200,000	120,200,000
Securitised liabilities		4,650,789,539	4,888,560,265
Issued debt securities		4,510,788,259	4,273,560,265
Public-sector Pfandbriefe		4,460,788,259	4,273,560,265
Other debt securities		50,000,000	0
Other		140,001,280	615,000,000
Other liabilities		175,638	134,538
Deferred income		207,526,228	237,380,131
Provisions		2,994,765	1,797,950
Deferred taxes		2,444,295	1,467,511
Other		550,470	330,439
Subordinated liabilities		34,000,000	34,000,000
Subscribed capital		66,000,000	66,000,000
Additional paid-in capital		15,000,000	15,000,000
Reserves		5,020,000	2,825,000
Net income for the year		4,350,000	2,225,000
Total liabilities		6,391,231,581	6,552,820,309

PFANDBRIEF BANK INTERNATIONAL S.A., LUXEMBOURG

Expenses

													<i>For the year ended 31 December</i>	
													<i>2003</i>	<i>2002</i>
													<i>€</i>	<i>€</i>
Interest and similar expenses	..	..	..	..	..	..	..	..	..	..	..	..	565,826,758	624,622,624
Fee and commission expenses	..	..	..	..	..	..	..	..	..	..	..	..	518,737	508,689
General administrative expenses	..	..	..	..	..	..	..	..	..	..	..	..	3,772,696	2,963,005
Personnel expenses	..	..	..	..	..	..	..	..	..	..	..	..	1,758,241	1,138,722
of which: Wages and salaries	..	..	..	..	..	..	..	..	..	..	..	..	1,607,228	1,027,227
Expenses for social security	..	..	..	..	..	..	..	..	..	..	..	..	109,881	89,701
of which for pensions	..	..	..	..	..	..	..	..	..	..	..	..	77,431	63,350
Other administrative expenses	..	..	..	..	..	..	..	..	..	..	..	..	2,014,455	1,824,283
Amortisation and depreciation of intangible assets and property, plant and equipment	..	..	..	..	..	..	..	..	..	..	..	..	114,861	586,170
Write downs and provisions for placements, loans and advances and additions to contingent liabilities and credit risks	..	..	..	..	..	..	..	..	..	..	..	..	100,000	50,000
Write downs and amortisation on securities held as investments, participating interests and shares in affiliated companies	..	..	..	..	..	..	..	..	..	..	..	..	15,300	13,319
Other operating expenses	..	..	..	..	..	..	..	..	..	..	..	..	8,238	66
Taxes on income from ordinary activities	..	..	..	..	..	..	..	..	..	..	..	..	1,376,785	506,805
Taxes not included in the items above	..	..	..	..	..	..	..	..	..	..	..	..	0	300,000
Net income for the year	..	..	..	..	..	..	..	..	..	..	..	..	4,350,000	2,225,000
Total expenses	..	..	..	..	..	..	..	..	..	..	..	..	576,083,375	631,775,678

PFANDBRIEF BANK INTERNATIONAL S.A., LUXEMBOURG

Income

														<i>At 31 December</i>	
														<i>2003</i>	<i>2002</i>
														<i>€ thousands</i>	<i>€ thousands</i>
Interest and similar income	..	..	..	..	..	..	..	..	..	..	..	..	..	573,526,946	630,647,057
of which: From fixed-income securities	..	..	..	..	..	..	..	..	..	..	..	..	..	259,665,300	278,759,236
Fee and commission income	..	..	..	..	..	..	..	..	..	..	..	..	..	479,441	263,179
Net income from financial transactions	..	..	..	..	..	..	..	..	..	..	..	..	..	1,113,163	513,578
Other operating income	..	..	..	..	..	..	..	..	..	..	..	..	..	31,068	105,360
Income from the reversal of write-downs of securities held as investments,															
participating interests and shares in affiliated companies	..	..	..	..	..	..	..	..	..	..	..	..	..	932,757	246,504
of which: Net gains on the sale of fixed-income securities held as															
investments	..	..	..	..	..	..	..	..	..	..	..	..	..	932,757	246,504
Total income	..	..	..	..	..	..	..	..	..	..	..	..	..	<u>576,083,375</u>	<u>631,775,678</u>

PFANDBRIEF BANK INTERNATIONAL S.A., LUXEMBOURG

Notes to the Financial Statements

1. General information

Pfandbrief Bank International S.A. ("PBI" or the "Bank") was formed in Luxembourg on 27 July 1999. On 14 September 1999 the Finance Minister of the Grand Duchy of Luxembourg granted a licence allowing the Bank to operate as a mortgage bank under Luxembourg law ("banque d'émission de lettres de gage").

The entry in the Register of Companies was made on 16 August 1999 under the number 71104 (Section B). The legal rules and regulations underlying the operation of a mortgage bank can be found in Sections 12-1 to 12-9 of the Law of 5 April 1993 on the Finance Sector (as amended).

The Bank was originally formed by Bayerische Hypo- und Vereinsbank AG and its German mortgage banking subsidiaries, each one of which holding an equal equity interest, in the form of a holding company construction.

As part of the reorganisation of HVB Group, the commercial real estate business was spun off and pooled with all other mortgage banking activities in the Hypo Real Estate Group. All the shares in PBI (to the extent that they used to be placed with other banks in the corporate group) were transferred to Hypo Real Estate Bank International, Dublin, as part of this transformation process.

The equity shares in the Bank are now held in full by Hypo Real Estate Bank International, Dublin, apart from one share which is held by a trustee. The subscribed capital of the Bank is fully paid-up.

Pfandbrief Bank International S.A. will be included in the consolidated financial statements of Hypo Real Estate Holding AG to be prepared for the first time. The consolidated financial statements may be obtained from the parent company's head office in Munich.

2. Accounting and valuation methods

The accounting and valuation methods of the Bank are in compliance with the regulations applicable in the Grand Duchy of Luxembourg and specifically with the Law of 17 June 1992 concerning the annual financial statements and consolidated financial statements of financial institutions.

The Bank's reporting currency is the euro (€).

2.1 Non-current assets

Property, plant and equipment

Property, plant and equipment is carried on the balance sheet at acquisition or production cost less accumulated depreciation. Items of property, plant and equipment are subject to value depletion over time, which must be accounted for by way of scheduled depreciation. Depreciation charges are determined on the basis of the customary useful lives of the assets in question.

The depreciation rates applied at the balance sheet date are detailed in the table below.

Purchased assets with acquisition or production costs of not more than €868, or for which the useful life is less than one year, are written off in full in the year of acquisition.

																		<i>Depreciation rate</i>	<i>Method</i>
Office and business equipment	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	20.00%	Straight-line
Data processing equipment	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	33.33%	Straight-line

Investments

The debt securities and other fixed-income securities held to maturity for operating purposes and meeting the requirements of the bank regulatory authority are valued at acquisition cost, or, if there is likely to be a permanent decline in value, at the lower market price. Some of these securities are hedged by interest rate swaps (asset swaps).

The remaining fixed-income securities are valued at the lower market price.

Accruals and deferrals are created for issue premiums and discounts, and are expensed on a *pro rata* basis over the remaining life of the securities.

2.2 Current assets

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities not classified as long-term investments are carried at acquisition cost and are attributed to the liquidity portfolio.

These securities are valued strictly at the lower of cost or market in accordance with the “principle of retention.” They are valued at the lower market price on the balance sheet date, or if such a market price cannot be determined, at the probable sale value or the price that best reflects the value of the securities.

Own debt securities repurchased and hedged by means of an asset swap are valued at acquisition cost.

Placements, loans and advances

Placements, loans and advances are carried at their nominal values. Accrued interest not yet payable is shown under accruals and deferrals on the assets side of the balance sheet. Accruals and deferrals are established for issue premiums and discounts in accordance with the respective maturities.

Provisions for current assets

The Bank generally applies a policy of establishing specific loan-loss provisions to cover the risk of loss or default on existing placements, loans and advances.

A general loan-loss provision has been established for latent risks. Such provisions are deducted directly from the respective asset items.

2.3 Liabilities and provisions

Liabilities are stated at their nominal or repayment amounts, and provisions are established in the necessary amount according to the exercise of sound business judgment.

2.4 Acquisition or production costs of similar inventory items and all fungible assets, including securities

The Bank applies the weighted average price method when determining acquisition costs.

2.5 Currency translation

Assets and liabilities not denominated in euros are translated to the reporting currency at the median spot exchange rate on the balance sheet date.

Income and expenses denominated in foreign currencies are translated to the reporting currency at the respective daily exchange rates.

Foreign exchange losses resulting from the application of these valuation principles are recognised in the income statement.

The imparity principle is applied to valuation results from uncovered positions. Covered spot or forward positions are valued without effect on the income statement.

2.6 Valuation of financial derivatives

Derivative financial instruments are recorded as off-balance sheet items on the trade date. At year-end, they are valued at market prices unless they serve to hedge the overall interest rate position of the Bank.

3. Notes to asset items

3.1 Assets at 31 December, 2003

Maturity schedule

										<i>Placements with, and loans and advances to, other banks (including balances with central banks)</i>		<i>Loans and advances to customers</i>	
										<i>31 December 2003</i>	<i>Prior year (in thousands of €)</i>	<i>31 December 2003</i>	<i>Prior year</i>
Repayable on demand .. .. .	..	..	..	..	..	..	..	..	..	34,396	60,962	—	—
Up to 3 months .. .. .	..	..	..	..	..	..	..	..	..	385,460	290,932	—	—
From 3 months to 1 year .. .. .	..	..	..	..	..	..	..	..	..	4,602	22,556	20,452	42,038
From 1 year up to 5 years .. .. .	..	..	..	..	..	..	..	..	..	285,179	125,575	117,854	52,267
More than 5 years .. .. .	..	..	..	..	..	..	..	..	..	236,787	269,909	417,628	564,528
Total .. .. .	..	..	..	..	..	..	..	..	..	946,424	769,934	555,934	658,833
of which: subordinated loans and advances										—	—	—	—

Placements with, and loans and advances to, other banks repayable on demand include balances with the central bank totalling €34,003 thousand.

Placements with, and loans and advances to, other banks include claims for return of lent securities totalling €282,420 thousand.

3.2 *Loans and advances, or debt securities and other fixed-income securities, to affiliated companies or companies in which a participating interest is held*

										<i>Affiliated companies</i>		<i>Companies in which a participating interest is held</i>	
										<i>31 December 2003</i>	<i>Prior year (in thousands of €)</i>	<i>31 December 2003</i>	<i>Prior year</i>
Placements with, and loans and advances to, other banks .. .. .	..	..	..	..	..	..	..	..	..	100,484	361,476	—	—
Loans and advances to customers .. .. .	..	..	..	..	..	..	..	..	..	—	—	—	—
Debt securities and other fixed-income securities										223,362	303,363	—	—
Total .. .. .	..	..	..	..	..	..	..	..	..	323,846	664,839	—	—
of which: Own debt securities										65,942	126,716	—	—
of which: Subordinated loans and advances										—	—	—	—

3.3 Breakdown by standardised risk-weighting class

	<i>Nominal amount</i>	<i>Risk weighting</i>	<i>Risk equivalent</i>
<i>On balance sheet risk volume</i>			
Assets secured by cash deposits internally	250,000	0%	0
Secured by local authorities in Zone A (20% eligibility)	20,286	20%	4,057
Due from central governments and central banks in Zone A	1,815,914	0%	0
Due from regional and local governments (0% eligibility)	1,533,303	0%	0
Due from regional and local governments (20% eligibility)	1,031,278	20%	206,256
Due from other banks in Zone A ≤ 1 year	261,254	20%	52,251
Due from other banks in Zone A > 1 year	293,622	20%	58,724
Debt securities of banks as per Circular 2000/10	718,758	10%	71,876
Due from multilateral development bank.. .. .	264,498	20%	52,900
Collection items	317	20%	63
Accrual and deferrals	54,402	50%	27,201
Property, plant and equipment	195	100%	195
Total	6,243,827		473,523
<i>Derivatives</i>			
Transactions without netting			
Interest rate transactions ≤ 1 year to maturity	0	20%	0
Interest rate transactions > 1 ≤ 5 years to maturity	1,321	20%	264
Interest rate transactions > 5 years to maturity	5,743	20%	1,149
Foreign exchange transactions ≤ 1 year to maturity	722	20%	144
Foreign exchange transactions > 1 ≤ 5 years to maturity	0	20%	0
Foreign exchange transactions > 5 years to maturity	22,664	20%	4,533
Transactions with netting.. .. .	59,744	20%	11,949
Total	90,194		18,039

3.4 Information on credit risk

The following table shows the breakdown of placements, loans and advances, and debt securities and other fixed-income securities (before deduction of provisions and write-downs) at the balance sheet date:

									Remaining maturity				
									≤ 1 year	> 1 year ≤ 5 years	> 5 years ≤ 10 years	> 10 years	Total
									in € thousands				
Banks													
Europe	..	..	..	..	..	..	..	..	573,452	814,813	893,701	54,993	2,336,959
Japan	..	..	..	..	..	..	..	..	—	51,957	56,873	—	108,830
USA	..	..	..	..	..	..	..	..	11,000	10,999	19,947	—	41,946
Subtotal									584,452	877,769	970,521	54,993	2,487,735
Public-sector borrowers (excluding banks)													
Europe	..	..	..	..	..	..	..	..	83,275	596,524	896,568	1,164,406	2,740,773
Japan	..	..	..	..	..	..	..	..	47,570	149,083	97,056	97,218	390,927
Canada	..	..	..	..	..	..	..	..	37,044	40,694	106,135	226,637	410,510
USA	..	..	..	..	..	..	..	..	13,685	69,265	9,939	7,709	100,598
Subtotal..									181,574	855,566	1,109,698	1,495,970	3,642,808
Total	..	..	..	..	..	..	..	..	766,026	1,733,335	2,080,219	1,550,963	6,130,543

3.5 Debt securities and other fixed-income securities, and participating interests

												<i>31 December</i>	<i>Prior year</i>
												<i>2003</i>	<i>(in thousands of €)</i>
Exchange-listed securities	..	..	..	..	..	..	..	..	..	..	..	4,476,585	4,721,082
Non-listed securities	..	..	..	..	..	..	..	..	..	..	..	151,297	119,348
Total	..	..	..	..	..	..	..	..	..	..	..	<u>4,627,882</u>	<u>4,840,430</u>

The debt securities and other fixed-income securities due for redemption in the following year amount to €358,886 thousand.

Debt securities of a members state of the European Union using the euro eligible for refinancing with a central bank in the euro-zone amount to a nominal €1,411 million at the balance sheet date.

The following table shows the breakdown of debt securities (after deduction of write-downs):

												<i>31 December</i>	<i>Prior year</i>
												<i>2003</i>	<i>(in thousands of €)</i>
Securities carried as long-term investments	..	..	..	..	..	..	..	..	..	..	..	4,561,940	4,713,714
Securities carried in liquidity portfolio	..	..	..	..	..	..	..	..	..	..	..	65,942	126,716
Total	..	..	..	..	..	..	..	..	..	..	..	<u>4,627,882</u>	<u>4,840,430</u>

At the balance sheet date, accumulated premiums totalled €3,656 thousand and accumulated discounts totalled €2,738 thousand. Repurchase obligations under repurchase agreements totalled €656,550 thousand.

3.6 Accruals and deferrals

This item primarily contains accrued interest and amortised premiums and discounts on debt issues and loans.

4. Notes to liability items

4.1 Liabilities at 31 December 2003

Maturity schedule

	<i>Amounts owed to banks</i>		<i>Amounts owed to customers</i>	
	<i>31 December 2003</i>	<i>Prior year</i>	<i>31 December 2003</i>	<i>Prior year</i>
			<i>(in thousands of €)</i>	
Repayable on demand	2,244	856	—	—
Up to 3 months	1,165,931	1,103,841	—	—
More than 3 months up to 1 year	55,000	30,000	—	—
More than 1 year up to 5 years	—	30,000	28,000	28,000
More than 5 years	20,000	20,000	134,200	92,200
Total	<u>1,243,175</u>	<u>1,184,697</u>	<u>162,200</u>	<u>120,200</u>

Of the amounts owed to banks, €725,890 thousand relates to repurchase agreements.

	<i>Securitised Liabilities at 31 December 2003</i>		
	<i>Public sector Pfandbriefe</i>	<i>Other debt securities</i>	<i>Other</i>
			<i>Total</i>
		<i>(in thousands of €)</i>	
Repayable on demand	—	—	—
Up to 3 months	90,300	—	111,000
More than 3 months up to 1 year	1,100,000	—	29,001
More than 1 year up to 5 years	2,893,912	—	—
More than 5 years	376,576	50,000	—
Total	<u>4,460,788</u>	<u>50,000</u>	<u>140,001</u>

The securitised liabilities due in the following year amount to €1,330,301 thousand.

4.2 Amounts owed to affiliated companies or companies in which a participating interest is held

There were no amounts owed to affiliated companies.

4.3 Deferred income

This item consisted mainly of deferred interest, premiums, and discounts.

4.4 Provisions

The other provisions stated on the balance sheet consisted mainly of outstanding invoices relating to business conducted in the past fiscal year.

4.5 Subordinated liabilities

At 28 December 2000 the Bank accepted a “silent partner’s contribution” in the amount of €9,000 thousand. The term is indefinite and the interest is dependent on profits. For bank regulatory purposes, this silent partner’s contribution is classified as upper Tier II capital. Effective 1 January 2003 the silent partner’s contribution was converted into a subordinated debt issue. Interest is still dependent on profits, the term is indefinite and the regulatory classification is upper Tier II capital. In 2003, interest in the amount of €758 thousand was charged to the income statement.

On 18 May 2001 the Bank issued subordinated debt in the amount of €15,000 thousand. The final principal repayment on this subordinated debt, repayable in instalments beginning 18 May 2017, is scheduled for 18 May 2026. The interest rate is 6.8 per cent. p.a. At 30 January, 2002 the subordinated debt was

increased by €10,000 thousand to €25,000 thousand under identical loan conditions. In 2003, interest in the amount of €1,697 thousand was charged to the income statement. For bank regulatory purposes, the subordinated debt is classified as lower Tier II capital.

4.6 Equity

The subscribed capital totals €66,000 thousand and is divided into 66,000 non-par bearer shares. There is no authorised capital.

Pursuant to the Luxembourg Law of 10 August 1915 on Commercial Companies, the Bank must allocate at least 5 per cent. of its annual net income to a statutory reserve every year until such time as this reserve reaches 10 per cent. of the subscribed capital. No distributions may be made from the statutory reserve. At the balance sheet date, the statutory reserve totalled €375 thousand and retained earnings totalled €4,645 thousand.

The Bank exercises the capital tax credit option allowed under tax law. Retained earnings contain €2,700 thousand for the capital tax credit. For 2003, a similar allocation to this reserve will be effected.

In accordance with the profit appropriation proposal, an amount of €250 thousand will be allocated to the statutory reserve and €4,100 thousand to retained earnings.

4.7 Assets deposited as collateral for own liabilities

Assets with a nominal amount of €95,500 thousand have been deposited as collateral with the central bank.

5. Notes to off-balance sheet items

The Bank engages in transactions involving derivative financial instruments in the OTC market exclusively for hedging purposes as part of its asset-liability management programme. No trading activities involving derivatives were conducted. As a general rule, the Bank has entered into netting agreements with its trading partners in the derivatives business to reduce the associated risks.

In 2003, the Bank included a small number of interest rate and currency swaps in the cover pool. The Bank entered into contractual agreements with the respective counterparties to govern the relevant information and cooperation duties. The procedure has been approved by the regulatory authorities and trustee.

At year-end 2003, the notional volume of off-balance sheet transactions totalled €9,542 million, of which €58 million was with affiliated companies. The counterparty risk arising from derivatives was determined on the basis of gross replacement costs, among other factors. The counterparty risks resulting from derivatives were determined on the basis of gross replacement costs, among other factors. At year-end 2003, the counterparty risk (maximum default risk) defined in this way totalled €206 million, or 2.1 per cent. of the outstanding notional volume. Taking into account netting agreements, counterparty risk declines to €78 million.

When add-ons and risk weighting are additionally applied for potential future risks in accordance with bank regulatory standards, the counterparty risk according to the marked-to-market method amounted to €18 million at year-end-2003. In the future, the Bank will continue to pay strict attention to its counterparty risk, keeping it within narrow limits by means of active management. Its counterparties for derivative transactions are exclusively OECD banks.

	<i>Notional amount RM* up to 1 year</i>	<i>Notional amount RM* 1 to 5 years</i>	<i>Notional amount RM* more than 5 years (in millions of €)</i>	<i>Total notional</i>	<i>Positive market values</i>	<i>Counter- party risks</i>
Interest rate derivatives						
Interest rate swaps (same currency)	1,657	3,047	3,046	7,750	129	
Interest rate options — purchased	27	121	117	265	1	
Interest rate options — written	0	20	25	45	0	
Other interest rate contracts	0	0	0	0	0	
Currency derivatives						
Foreign exchange swaps	541	0	0	541	5	
Cross-currency swaps	75	488	378	941	71	
Total	2,300	3,676	3,566	9,542	206	18

* RM = remaining maturity

6. Notes to the income statement

6.1 Geographical origin of income

Most of the Bank's income is generated from business relationships with counterparties based in Europe.

6.2 Balance of expenses/income from financial transactions

This item contains the net income/expense from securities attributed to the liquidity portfolio (included the allocation to write-downs and income from the reversal of write-downs).

7. Other information

7.1 Personnel

The average number of employees during 2003 was as follows:

- Management: 3.0
- Other employees: 14.2

At the end of 2003, management comprised three people. Apart from this, there were 16 further employees.

7.2 Compensation and loans to managing directors and members of the Board of Directors (Verwaltungsrat)

No loans were extended to executive boards (managing directors) or other members of the Board of Directors.

Compensation totalling €567 thousand was paid to the managing directors in 2003.

7.3 Deposit insurance system

The Bank is a member of the "Association pour la Garantie des Dépôts, Luxembourg" (AGDL), which is the deposit insurance association for the banking sector in the Grand Duchy of Luxembourg. It was not necessary to establish a provision for this purpose.

7.4 Items not denominated in the reporting currency

The total amount of assets denominated in foreign currencies (excluding € currencies) was €1,382,486 thousand.

Liabilities denominated in foreign currencies totalled €1,643,877 thousand at the end of 2003.

8. Analysis of non-current assets

	<i>Acquisition cost</i>	<i>Additions 2003</i>	<i>Disposals 2003</i>	<i>Depreciation 2003</i>	<i>Depreciation disposals</i>	<i>Accumulated depreciation</i>	<i>Book value 31 December 2003</i>	<i>Book value 2002</i>
	<i>(in thousands of €)</i>							
Office and business equipment	2,270.7	86.8	53.9	114.9	53.9	2,103.6	200.0	227.5
of which: data processing equipment	1,976.9	65.4	53.9	53.3	53.9	1,902.7	76.7	64.0
Securities held as investments	4,713,913.6	268,304.5	420,278.3	0	0	0	4,561,939.8	4,713,913.6
Total	4,716,184.3	268,391.3	420,332.2	114.9	53.9	2,103.6	4,562,139.8	4,714,141.1

9. Other disclosures

Statement of cover assets for required cover pursuant to Sections 12-1 to 12-9 of the Law of 5 April 1993 on the Financial Sector

The information below is limited to public-sector Pfandbriefe. No mortgage-backed Pfandbriefe were issued. Derivative financial instruments with a total value of €19,015 thousand were used for cover at the balance sheet date.

9.1 Statement of cover assets for public-sector Pfandbriefe

																	€
Value of cover assets	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,873,876,184
Other items eligible as cover																	0
Securities	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0
Bank balances	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0
Total cover	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,873,876,184
Issues outstanding																	
Bearer securities	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,392,500,854
Registered securities	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	180,706,913
Total issues outstanding (requiring cover)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,573,207,767
Surplus cover	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	300,668,417

9.2 Other breakdowns

9.2.1 Cover assets

Standard cover assets

	€
Placements with, and loans and advances to, other banks	
Municipal loans or loans guaranteed by public-sector institutions	469,070,241
Loans and advances to customers	
Municipal loans or loans guaranteed by public-sector institutions	555,933,930
Debt securities of public-sector issuers or guaranteed by public-sector institutions	3,133,049,523
Covered public-sector Pfandbriefe	696,807,541
Derivative products	19,014,949
Subtotal	4,873,876,184
Other eligible cover assets	
Other placements with, and loans and advances to, other banks.. .. .	0
Debt securities pursuant to Section 42 (3) UCITS Act	0
Cash.. .. .	0
Total	4,873,876,184

9.2.2 Cover pool for municipal loans

Breakdown by size

	Number	€
up to €10 million	31	164,508,248
up to €25 million	28	506,114,357
more than €25 million	126	4,203,253,579
Total		4,873,876,184

9.2.3 Cover pool for municipal loans

Breakdown by country

	€
Germany	1,616,733,511
Italy	756,291,141
Canada	312,764,558
Switzerland	301,855,072
Int. Organisations	300,257,602
Japan	298,093,934
Spain	245,078,992
Austria	201,442,778
Belgium	169,441,641
Finland	136,376,556
USA.. .. .	131,225,071
Portugal.. .. .	125,000,000
France	117,458,244
Sweden	69,621,704
Luxembourg	52,000,000
UK	27,279,264
Netherlands	9,998,605
Denmark	2,957,511
Total	4,873,876,184

9.2.4 Statement of cover assets by net present value

Beyond the statutory and regulatory requirements, the Bank also calculates the cover assets in terms of net present value. This calculation yields the following result:

		<i>Public- sector Pfandbriefe requiring cover (lettres de gage publiques) (in millions of €)</i>	<i>Surplus cover</i>	<i>in %</i>
Nominal	4,874	4,573	301	6.6
Net present value	5,325	4,690	635	13.5
Net present value if yield curve shifts				
+ 100 bp	5,121			
– 100 bp	5,579			

9.3 Accruals and deferrals

	€
Assets: Prepayments and accrued income	
Accrued interest	228,096,989
From issuing and lending activities	19,382,322
Other	12,971,808
Total	260,451,119
Liabilities: Accruals and deferred income	
Deferred interest	187,279,668
From issuing and lending activities	4,129,613
Other	16,116,947
Total	207,526,228

9.4 Own public-sector Pfandbriefe repurchased

In 2003, the Bank did not repurchase any of its own public-sector Pfandbriefe for price maintenance purposes. On the other hand, the Bank placed €60 million of its own debt securities back in the market. At the balance sheet date, the book value of the portfolio was €65,942 thousand (nominal €65,000 thousand). Further replacements are planned in the future whenever market conditions warrant such an action.

9.5 Interest arrears

The interest due on loans and securities in 2003 was paid in full.

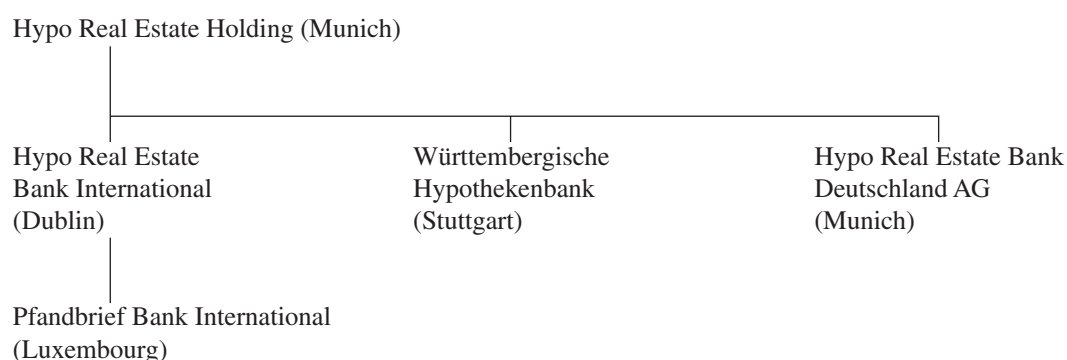
No arrears exist and no write-downs or allowances were established for interest payable.

Report of the Board of Directors

Management Report

Pfandbrief Bank International was heavily affected by HVB Group's transformation process last year. All of the shares in Pfandbrief Bank International were transferred to Hypo Real Estate Bank International, Dublin, as part of the spin-off of the commercial real estate business, which also included all the mortgage banking activities of HVB Group. At the same time, Pfandbrief Bank International was incorporated in the strategy of Hypo Real Estate Bank International. Even though the Bank's strategic direction was not clearly communicated at times, we succeeded in almost completely replacing the funding resources falling due, boosting reported net income by around 95 per cent., and completing the tasks associated with the spin-off on schedule. Not only does this include the necessary adjustments to the IT infrastructure, it also encompasses the introduction of a new trading system and active involvement in the creation of Hypo Real Estate Bank International.

The following chart shows the new corporate structure:



It remains our function and our objective to press ahead with the further development of both our Bank and the “Luxembourg Pfandbrief” product. In this respect, we view the new corporate group as an enhanced platform for exploiting the corresponding chances and legal opportunities arising from the international presence of the group members. In addition to the existing function of funding public-sector entities, we are working on being able to issue mortgage-backed Pfandbriefe (“lettres de gage hypothécaires”) in the near future, this making available to the new Hypo Real Estate Group a further instrument for funding the operations of Hypo Real Estate Bank International.

Apart from these fundamental realignments, we have largely achieved our targets in our day-to-day operations.

We have updated our existing Programme for the Issuance of Debt Instruments as scheduled. This programme is used to handle longer-term issues.

Standard & Poor's has confirmed the triple-A rating for our public-sector Pfandbriefe.

As in the past, we have used every opportunity to enhance relationships with our business partners. We held conferences and presentations to explain the quality of the Pfandbrief known as “lettres de gage.” A further central issue was of course to outline the planned strategy and division of responsibilities in the new corporate group. Both we and our shareholder are convinced that this will open up tremendous opportunities to develop the Luxembourg Pfandbrief.

The Board of Directors of PBI met four times during the year to discuss and make decisions on matters that fall under the Board's competence in accordance with our Articles of Association and Management Regulations. In particular, such matters include decisions regarding credit limits and staff changes. The Board also considered the strategic positioning and development of PBI as well as market trends.

In addition to the capital-raising measures effected in 2002, we continue to pursue a policy of organically reinforcing our capital base with a view to implementing the ambitious goals we have for the future and creating the equity base required to do this. Consequently, this year's profits will be reinvested in full.

All in all, we have made good progress on the development of Pfandbrief Bank International and toward achieving our long-term objectives, even during a time of deep restructuring on the part of our shareholders.

Lending operations

We acquired placements, loans and advances worth €1,055 million (2002: €1,484 million) in 2003, including €915 million (2002: €1,037 million) of securities issued by public-sector borrowers. Where appropriate, we employed derivative financial instruments to hedge the exposure arising from market changes. Securities totalling €923 million fell due for scheduled redemption (2002: €405 million). Loans and advances in the amount of €135 million (2002: €31 million) were redeemed on schedule. As in 2002, no loans or advances were pledged as collateral and no unscheduled redemptions were made.

Funding operations

Covered bearer and registered public-sector Pfandbriefe ("lettres de gage publiques") were issued with a total amount of €1,138 million (2002: €2,325 million). As in 2002, no loans were taken out. Bearer debt securities not requiring cover were issued in an amount of €50 million (2002: none). Subordinated debt instruments were issued in the form of the transformation of a silent partner's contribution totaling €9 million (2002: new issues of €10 million).

Alongside drawings denominated in euros, we also used securities denominated in Swiss francs and Japanese yen. The bearer issues were launched within the framework of our MTN programme (Programme for the Issuance of Debt Instruments).

Of the issues outstanding, seven issues with a total amount of €826 million (2002: 15 issues with a total amount of €1,213 million) fell due for scheduled redemption in 2003, while no issues were redeemed in advance of maturity (2002: three issues with a total amount of €84 million).

As in 2002, we did not repurchase any of our own issues for price maintenance purposes. Of the own issues we held, we placed €60 million (2002: €50 million) back in the market.

At year-end 2003, we had used €140 million (2002: €615 million) out of the limit on our commercial paper programme. The average maturity of the CP issues during the year was 86 days. We issued commercial paper denominated in euros and U.S. dollars.

Assets and earnings

Total assets amounted to €6,391 million, representing a 2.5 per cent. decline compared with 2002 (€6,553 million).

Loans and advances, including securities, amounted to €6,096 million, reflecting a 2.7 per cent. fall compared with 2002 (€6,267 million).

Funding (refinancing) resources totalled €6,056 million, 2.2 per cent. down on 2002 (€6,193 million).

Income statement in report form

	2003	2002
	<i>(in thousands of €)</i>	
Net interest income	7,700	6,024
Net commission income	(39)	(245)
Net income from financial transactions	1,113	514
Personnel expenses	1,758	1,139
Other administrative expenses	2,014	1,824
Depreciation of property, plant and equipment	115	586
Current expenses	3,887	3,549
Balance of other operating income and expenses	23	105
Operating result before risk provision	4,910	2,849
Balance of write-downs and write-ups on securities	917	233
Risk provision	100	50
Operating result after risk provision	5,727	3,032
Taxes	1,377	807
Net income for the year	4,350	2,225

Earnings did well against the backdrop of the developments and market conditions described. By exploiting the liquidity profile of our lending portfolio efficiently, we were able to boost net interest and commission income by 33 per cent. over the prior year. At the same time, the beneficial interest environment in the first months of this fiscal year helped us to generate additional income from financial transactions while applying a very conservative risk policy.

We intend to transfer the reported complete net income to reserves in order to reinforce our equity base.

Net income and appropriation of profit

We earned net income after taxes of €4,350 thousand (2002: €2,225 thousand), corresponding to a 95.5 per cent. increase over the prior year.

At the Annual General Meeting of Shareholders, we will propose transferring €250 thousand to the statutory reserve and €4,100 thousand to retained earnings.

Risk Report

Our Risk Control unit, which reports directly to management, has kept pace with the Bank's growth and continually refined its risk measurement and management systems in response to the constantly evolving internal and external demands. The core functions of this unit are:

- to measure and monitor risk on a daily basis, employing the value-at-risk approach for market, credit, counterparty, and liquidity risk;
- to calculate economic performance on a daily basis;
- to independently monitor the parameters used to measure risk and performance; and
- to refine and execute our control strategies.

Effective risk control is assured by continually improving the risk measurement and management tools we use and by integrating our systems into the risk-control system of Hypo Real Estate Group International.

We have instituted appropriate reporting paths and control measures to monitor and manage individual risks. The following measures are listed by way of example:

Liquidity risk

We maintain relationships with a number of capable banks to ensure that short-term liquidity needs can be met. A list of all future cash flows and cumulative balances, broken down by individual currency, is generated every day to facilitate the management of short-term payment obligations. To assure short-term management and limitation of liquidity risk, as well as medium-term and long-term planning, we analyse our assets and liabilities every day on the basis of so-called liquidity classes and time buckets.

Counterparty risk (credit and country risk)

Our exposure to counterparty and credit risk is exclusively with public-sector borrowers and OECD banks. The counterparty default risk arising from our derivative operations is assessed regularly on the basis of gross replacement costs. These are positive net present values determined on the basis of the marked-to-market method. The utilisation levels of all credit facilities are available for review online, both for each individual counterparty and aggregated on an intraday basis, based on market values.

Market risk

As part of our asset-liability management, we assess the interest rate risk for the Bank's total position on a daily basis. The Risk Control unit assesses the risk position and economic performance, and verifies compliance with the pre-established limits. Management is informed about these risks and results every day. To manage and quantify interest rate risk, we employ risk sensitivities and the value-at-risk concept in use throughout the corporate group, which is based on a 99 per cent. confidence level for an assumed ten-day holding period. The average exposure to interest rate risk amounted to €4,484 thousand.

There were no significant currency risks. All assets, liabilities and off-balance sheet transactions are included in the risk calculation.

In addition to the Risk Control unit, which focuses on market risk, counterparty risk, liquidity risk, and operational risk, our Public-Sector Credit Research unit constantly analyses credit quality in the public sector, the attractiveness of potential public-sector borrowers on the basis of criteria that go beyond mere creditworthiness considerations, as well as region-specific and level-specific financing solutions in the OECD area.

Creditworthiness is assessed on the basis of a scoring model, which takes into account political, economic and budgetary factors as well as regulatory conditions and qualitative aspects of the borrower unit. The internal assessment of the (potential) borrowers is supported by continuous monitoring of credit-relevant information in order to identify potential risks and credit trends at an early stage.

Thus the Credit Research unit supplies information about the potential credit risks in the Bank's portfolio. At the same time, it also provides a good basis for pricing possible new credit commitments by the Treasury unit on the level of countries, government tiers, and products as part of portfolio management. The organisation of our credit, information, and decision-making processes has been set up to comply with the Minimum Requirements for the Credit Business of Credit Institutions that have been introduced in Germany.

Other information

Hypo Real Estate Bank International has provided a letter of comfort for Pfandbrief Bank International. We are fully consolidated in the consolidated financial statements of Hypo Real Estate Holding prepared in accordance with IAS through Hypo Real Estate Bank International.

Outlook

Given the communicated strategic orientation of Hypo Real Estate Bank International, Pfandbrief Bank International represents an important pillar of the corporate group. It rounds out the funding tools available to the new banking group. Since the underlying statutory framework provides perfect conditions for funding part of the international real estate finance business, Pfandbrief Bank International will make use of its privilege of issuing Pfandbriefe to fund the portion of the business eligible for cover. Furthermore, a seamlessly coordinated capital market presence will be ensured for the two banks by close collaboration with the new parent. At the same time, we will continue to provide funding for public-sector borrowers in line with our expectations in terms of credit quality and contribution to earnings.

No events of particular significance for the assets, liabilities, and earnings situation of the past fiscal year have occurred after the balance sheet date.

Business activities and earnings have continued to develop according to expectations since 31 December 2003.

13 February 2004

AUDITOR'S REPORT

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Hypo Real Estate Holding AG for the business year from 1 January 2003 to 31 December 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Hypo Real Estate Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from 1 January 2003 to 31 December 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January 2003 to 31 December 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, 19 March 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Paskert
Wirtschaftsprüfer

Techet
Wirtschaftsprüfer

HYPO REAL ESTATE HOLDING AG

Income Statement for the period from 1 January 2003 to 31 December 2003

	<i>Notes</i>	<i>2003 (in € millions)</i>
INCOME/EXPENSES		
Interest income	25	8,738
Interest expense	25	8,064
Net interest income	25	674
Provisions for losses on loans and advances	26	252
Net interest income after provisions for losses on loans and advances		422
Commission income		110
Commission expense		65
Net commission income	27	45
General administrative expenses	28	260
Balance of other operating income and expenses	29	19
Operating result		226
Net income from investments	31	(1)
Balance of other income and expenses	32	(69)
Result of ordinary activities/result before taxes		156
Taxes on income	33	40
Net income		116
Minority interests		1
Consolidated net income		115

	<i>Notes</i>	<i>2003 (in €)</i>
EARNINGS PER SHARE		
Earnings per share (excl. amortisation of goodwill)	34	0.86
Earnings per share	34	0.86

HYPO REAL ESTATE HOLDING AG

Balance Sheet as at 31 December 2003

	Notes	31 December 2003	1 January 2003	Change	
		(in € millions)		(in € millions)	(in %)
ASSETS					
Cash reserve	36	489	79	410	> 100.0
Placements with, loans and advances					
to other banks	6,37	24,981	31,655	(6,674)	(21.1)
Loans and advances to customers	6,38	85,505	90,514	(5,009)	(5.5)
Allowances for losses on loans and					
advances	7,39	(1,896)	(1,475)	(421)	28.5
Investments	8,41	36,471	40,214	(3,743)	(9.3)
Property, plant and equipment	9,42	29	133	(104)	(78.2)
Intangible assets	10,43	13	54	(41)	(75.9)
Other assets	44	5,029	5,951	(922)	(15.5)
Tax assets	15,45	2,256	2,775	(519)	(18.7)
Total assets		152,877	169,900	(17,023)	(10.0)

	Notes	31 December 2003	1 January 2003	Change	
		(in € millions)		(in € millions)	(in %)
LIABILITIES					
Deposits from other banks	11,49	19,351	18,830	521	2.8
Amounts owed to other depositors	11,50	7,844	6,725	1,119	16.6
Promissory notes and other					
liabilities evidenced by securities	11,51	110,153	127,539	(17,386)	(13.6)
Provisions	12,52	210	158	52	32.9
Other liabilities	13,53	8,786	9,605	(819)	(8.5)
Tax liabilities	15,54	1,273	1,944	(671)	(34.5)
Subordinated capital	55	2,476	1,979	497	25.1
Minority interests	56	14	126	(112)	(88.9)
Shareholders' equity	57	2,770	2,994	(224)	(7.5)
Subscribed capital		402	402	—	—
Additional paid-in capital		3,310	3,310	—	—
Retained earnings		358	368	(10)	(2.7)
Changes in valuation of financial					
instruments		(1,415)	(1,086)	(329)	30.3
Revaluation reserve	5	48	80	(32)	(40.0)
Measurement of cash flow hedges	5,64	(1,463)	(1,166)	(297)	(25.5)
Consolidated net income		115	—	115	> 100.0
Total liabilities		152,877	169,900	(17,023)	(10.0)

HYPO REAL ESTATE HOLDING AG

Statement of changes in shareholders' equity

	<i>Subscribed capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Change in valuation of financial instruments</i>		<i>Consolidated net income</i>	<i>Shareholders' equity</i>
				<i>Revaluation reserve⁽¹⁾ (in € millions)</i>	<i>Cash flow hedge reserve⁽¹⁾</i>		
Shareholders' equity at							
1 January 2003	402	3,310	368	80	(1,166)	—	2,994
Change in value of financial instruments not affecting income	—	—	—	(19)	(125)	—	(144)
Change resulting from net income	—	—	—	—	—	115	115
Changes in group of consolidated companies	—	—	(5)	(13)	(172)	—	(190)
Reserve arising from currency and other changes	—	—	(5)	—	—	—	(5)
Shareholders' equity at							
31 December 2003 ..	<u>402</u>	<u>3,310</u>	<u>358</u>	<u>48</u>	<u>(1,463)</u>	<u>115</u>	<u>2,770</u>

Note:

(1) cf. also the comments in Note 5.

Changes in minority interests are shown in Note 56.

Evaluation of cash flow hedge reserve is shown in Note 64.

HYPO REAL ESTATE HOLDING AG

Cashflow Statement

	2003 (in € millions)
Net income	116
Write-downs, provisions for losses on, and write-ups of, loans and advances and additions to loan-loss provisions	253
Write-downs and depreciation less write-ups of long term assets	112
Change in other non-cash-positions	(31)
Result from the sale of investments, property, plant and equipment	(106)
Other adjustments	(709)
Subtotal	<u>(365)</u>
Change in assets and liabilities from operating-activities after correction for non-cash components	
Increase in assets/decrease in liabilities (–)	
Decrease in assets/increase in liabilities (+)	
Placements with, and loans and advances to other banks	6,674
Loans and advances to customers	5,009
Other assets from operating activities	1,816
Deposits from other banks	521
Amounts owed to other depositors	1,119
Promissory notes and other liabilities evidenced by securities	(17,386)
Other liabilities from operating activities	(1,395)
Interest received	8,758
Interest paid	(8,063)
Commission received	110
Commission paid	(66)
Dividends received	34
Taxes on income paid	(41)
Cash flow from operating activities	<u>(3,275)</u>
Proceeds from the sale of property, plant and equipment	5,805
Payments for the acquisition of property, plant and equipment	(3,082)
Proceeds from the sale of investments	466
Cash flow from investing activities	<u>3,189</u>
Proceeds from capital increases	108
Subordinated capital, net	498
Other financing activities, net	(269)
Cash flow from financing activities	<u>337</u>
Cash and cash equivalents at the end of the previous period	79
+ / – Net cash provided/used by operating activities	(3,275)
+ / – Net cash provided/used by investing activities	3,189
+ / – Net cash provided/used by financing activities	337
+ / – Effects of exchange rate changes on cash and cash equivalents	159
Cash and cash equivalents at the end of the period	<u>489</u>

Information on the items in the cash flow statement is contained in Note 62.

HYPO REAL ESTATE HOLDING AG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Exempting Consolidated Financial Statements in accordance with IFRS

As an international company we prepare our accounts in accordance with the requirements of the International Accounting Standards Board (IASB).

Our shareholders and all other interested parties are therefore provided with a reliable, internationally comparable basis for evaluating the Hypo Real Estate Group and its net assets, financial position and results of operations.

The consolidated financial statements for 2003 have been prepared by us in accordance with the International Financial Reporting Standards (IFRS) as exempting consolidated financial statements pursuant to section 292 a of the German Commercial Code [HGB]. The IFRS consist of the existing International Accounting Standards (IAS) and Interpretations of the Standing Interpretations Committee (SIC) as well as all standards and interpretations that may be issued by the IASB in the future. The financial statements provide information of the same kind as would be given in statements drawn up in accordance with the HGB.

The declaration on the Corporate Governance Code that Hypo Real Estate Holding AG is required to issue under section 161 of the Stock Corporation Act [AktG] has been published on the Internet. Our listed subsidiary Württembergische Hypothekenbank AG has also published a declaration of compliance on its Internet website.

In addition to meeting the requirements of section 315 paras. 1 and 2 of the German Commercial Code [HGB], the Group Management Report also complies with the requirements for financial reviews pursuant to IAS 1. The Group Management Report also contains the risk report pursuant to section 315 para. 1 of the German Commercial Code [HGB].

The exemption permitted under section 292a German Commercial Code requires the main differences between IFRS accounting and consolidation policies and the German accounting legislation to be mentioned. These differences are as follows:

PROHIBITION TO CREATE RESERVES IN A WAY THAT REDUCES INCOME

In contrast to sections 340 f and 340 g of the German Commercial Code [HGB], IAS 30.44 does not allow the formation of reserves for general banking risks to be deducted from income.

DISCLOSURE OF FINANCIAL INSTRUMENTS AT FAIR VALUE

Whereas section 340 c para. 1 in conjunction with section 252 para. 1 No. 4 of the German Commercial Code [HGB] does not allow the disclosure of unrealised gains, IAS 39.69 provides in principle for the valuation of financial instruments at fair value on the reporting date. In contrast to German accounting principles, this means that depending on classification, the reserves relating to these financial instruments are either declared as affecting income or shown under shareholders' equity as not affecting income.

FAIR-VALUE HEDGE

With a fair-value hedge, an existing asset or existing liability (or parts thereof) is secured against changes in fair value that result from a certain risk and that will affect net profit or loss.

According to the general accounting principles set forth of adequate and orderly accounting contained in the German Commercial Code [HGB], only the hedged item has to be disclosed. The netted gains or losses from the hedged item and hedging derivative are shown as affecting net profit or loss in accordance with the imparity principle — in other words unrealised gains are not taken to the income statement. In contrast, fair-value hedge accounting pursuant to IAS 39 requires that changes in value relating to the hedging instruments that is to be stated with its fair value to be taken to the income statement. The value of the underlying hedged item is adjusted by changes in fair value, and these changes in fair value are taken to the income statement.

CASH FLOW HEDGE

A cash flow hedge serves to secure against the risk of volatility in cash flows relating to a recognised asset, a recognised liability or an anticipated transaction that will affect the net profit or loss.

According to the principles of adequate and orderly accounting contained in the German Commercial Code [HGB], neither the hedged items nor the derivatives used to hedge against changes in interest rates are valued in terms of the hedged risk. The German Commercial Code [HGB] does not contain any special provisions regarding the disclosure of the hedging of forecasted transactions in the balance sheet. By contrast, in the case of cash flow hedge accounting pursuant to IAS 39, the hedging item is shown at fair value. Changes in fair value must be divided into an effective portion relating to the hedge, and an ineffective portion not relating to the hedge (see also comments in Note 5). The effective portions must be shown under shareholders' equity without affecting income. The ineffective portions in the case of hedging derivatives are recognised in net income, and in the case of other financial instruments are either booked against shareholders' equity or against the results, depending on how the hedging transaction is classified. Depending on category, the hedged item is shown at amortised cost or — in the case of available-for-sale assets — at fair value.

CAPITALISATION OF INTERNALLY-GENERATED INTANGIBLE ASSETS

According to IAS 38, both intangible assets that are acquired without consideration and internally created intangible assets may have to be declared under certain circumstances. By contrast, section 246 para. 1 in conjunction with section 248 para. 2 of the German Commercial Code [HGB] does not permit the recognition of internally created intangible fixed assets.

PROHIBITION TO DEDUCT FROM RETAINED EARNINGS THE EXCESS OF COST OVER NET ASSETS ACQUIRED WHEN CONSOLIDATING INVESTMENTS

Offsetting of the difference between the higher carrying amounts and the lower prorated shareholders' equity of the consolidated company (goodwill) against the retained earnings in accordance with section 309 para. 1 sentence 3 of the German Commercial Code [HGB] is not possible pursuant to IAS 22.41 et seq. Goodwill is capitalised as an intangible asset and, in principle, is subject to scheduled amortisation over its expected useful economic life.

PROHIBITION TO TAKE DEPRECIATION THAT DOES NOT CORRESPOND TO ACTUAL LOSS OF VALUE

Owing to the principle contained in section 5 para. 1 of the German Income Tax Act [EstG] that any particular method of treatment for tax purposes has to be reflected in the commercial accounts, depreciations under German commercial law are in some cases determined by fiscal provisions that do not reflect an actual economic impairment in value. Special depreciation allowances and carrying values permitted under tax law provisions are not included in IFRS financial statements, since depreciation and amortisation are to be computed, independently of tax considerations.

PROVISIONS

In principle, the IFRS allows provisions to be set up only for external obligations. Exceptions under the IFRS concern provisions relating to company acquisitions pursuant to IAS 22.31 and restructuring provisions pursuant to IAS 37.72, which may have to be entered on the liabilities side under certain circumstances. Under section 249, however, the German Commercial Code [HGB] contains broader requirements and options regarding the recognition of provisions for expenses.

ACCRUALS

In contrast to the German Commercial Code [HGB], IAS 37 distinguishes between provisions and accruals. The uncertainty regarding the timing or amount of future necessary expenditures is generally lower in the case of accruals than in the case of provisions.

INCORPORATION OF FUTURE DEVELOPMENTS AND PLAN ASSETS WHEN CALCULATING PENSION OBLIGATIONS

In contrast to the more static method of calculation under German law (tax-based discount value method pursuant to section 6 a para. 3 of the German Income Tax Act [EstG]). IAS 19 requires, the determinants for pension obligations to be adjusted constantly adapted to reflect the economic and demographic trends. This means, for example, that future increases in salaries and career trends are taken into consideration, as is a current capital market rate for discounting pension obligations.

RECOGNITION OF DEFERRED TAX ASSETS AND LIABILITIES

According to section 274 and/or section 306 of the German Commercial Code [HGB], deferred taxes are only shown for differences between net income in the financial statements and net income under tax regulations that are expected to be equalised in future fiscal years (timing concept).

By contrast, IAS 12.15 and 12.24 require that in principle deferred taxes be recognised for all temporary differences between the carrying values in the IFRS balance sheet and the taxable values (temporary concept). According to IAS 12.34, the obligation to recognise deferred tax assets also applies to the recognition of sufficiently probable benefits from the carried forward of tax losses or other tax credits.

Accounting and Valuation

1. Uniform Group accounting policies

The individual financial statements of the consolidated domestic and foreign companies that are incorporated into the consolidated financial statements of Hypo Real Estate Holding AG, Munich, are based on principles of accounting and valuation principles.

2. Consistency

Due to the fact that the spin-off did not result in a change in assets for HVB shareholders (for their shares in HVB, shareholders also received shares in Hypo Holding in accordance with the split ratio), the carrying amounts for assets and liabilities that had been previously applied by HVB were continued in the IFRS opening balance sheet as at 1 January 2003 (the reporting date for the spin-off). This procedure is in accordance with the financial approach pursuant to Framework 35, which states that such a restructuring of assets is to be classified as a pure shareholders' equity transaction; the continuation of carrying amounts is therefore appropriate.

We consistently apply the reporting, valuation and recording methods based on the IFRS framework concept and IAS 1, IAS 8 and SIC 18. As a general rule, where it is deemed appropriate to change reporting and valuation methods, any resulting impact is shown in the income statement. If reporting and valuation errors from earlier periods need to be corrected, the resulting effects are in principle offset against the revenue reserves.

3. Companies included in consolidation

The results of six companies are included in the consolidated accounts. This does not include any special purpose entities that have to be consolidated pursuant to SIC 12. The following companies are included in the consolidation:

- Hypo Real Estate Bank AG, Munich
- Hypo Real Estate Bank International puc, Dublin
- Hypo Real Estate Capital Ltd., London (subgroup) with eight companies
- Pfandbrief Bank International S.A., Luxembourg
- WestHyp Immobilien Management GmbH & Co. KG, Dortmund
- Württembergische Hypothekenbank AG, Stuttgart.

All companies are fully consolidated. Materiality criteria have been used to determine which companies are to be included. All fully consolidated companies have prepared their annual financial statements with a reporting date of 31 December 2003.

The following companies included in the consolidation were involved in corporate mergers during fiscal 2003:

- Westfälische Hypothekenbank AG, Dortmund, was absorbed by Hypo Real Estate Bank AG, Munich with retrospective effect from 1 January 2003. The merger was registered in the Commercial Register of the District Court of Munich (No. HRB 41054) on 3 November 2003.
- By entry in the Commercial Register of the District Court of Munich (No. HRB 149393), DIA Vermögensverwaltungs-GmbH, Munich, was merged into Hypo Real Estate Holding AG, Munich, on 10 March 2004. The closing balance sheet of the transferred entity as at 29 December 2003 was used as a basis for the merger.

A total of 37 companies have not been included in the consolidated financial statements, either because they are not of material significance to the Group or because consolidation is prohibited.

The balance sheet impact of contractual relationships between the Group companies and the companies that have not been included in the consolidation is shown in the consolidated financial statements. The aggregate net income of subsidiaries that have not been included in the consolidation as they are not of material significance to the Group amounted to 4.6 per cent. of consolidated income; such companies accounted for around 1.7 per cent. of the consolidated assets. Our shares in these companies are shown as available-for-sale investments.

	2003
Total number of subsidiaries	50
Consolidated companies	13
Non-consolidated companies	37
Other participating interests	28

Our list of investment holdings categorises subsidiaries according to whether or not they are included in the consolidated financial statements. It also states other shareholdings. As an integral part of these financial statements, this list is filed with the District Court of Munich.

4. Principles of consolidation

In capital consolidation, the purchase price of subsidiary is offset against the Group share in the newly recalculated shareholders' equity at the time of acquisition. This shareholders' equity results from the difference between the assets and liabilities of the company that has been purchased, valued at prorated fair values. The difference between the higher purchase cost and the newly calculated shareholders' equity is shown as goodwill in the balance sheet under intangible assets and is amortised over the estimated useful economic life.

Business relations between the companies included in the consolidation are offset against each other. Intermediate results from intragroup transactions are eliminated.

5. Financial instruments

A financial instrument is a contract that results in a financial asset for one enterprise and a simultaneous financial liability or equity instrument for the other enterprise. According to IAS 39, all financial instruments are to be recorded in the balance sheet, classified in specific categories and valued on the basis of the following classification:

- Loans and receivables originated by the entity are financial assets that arise through the direct provision of money, goods or services to the debtor and that do not serve a commercial purpose. Originated by the entity are measured at amortised cost and capitalised under loans and advances to other banks and loans and advances to customers.
- Held-to-maturity investments are financial assets with fixed or determinable payments and a fixed maturity. An enterprise must intend and be able to hold these financial instruments to maturity. Held-to-maturity instruments are valued at amortised cost and are included under investments.

- (c) All other financial assets are classified as available-for-sale securities and receivables. These are valued at fair value. Changes in value arising from valuations are shown without affecting net profit or loss in a separate item under shareholders' equity (available-for-sale reserve) until such time as the asset is sold or an impairment in value is to be recorded pursuant to IAS 39.109. The impairment is reversed, affecting net income, if the fair value of the available-for-sale financial instrument increases in objective terms. Available-for-sale portfolios are not reclassified into any of the categories that are valued at amortised cost.

In principle, participating interests are valued at fair value if control, joint management or a significant influence is exercised but the companies are not fully consolidated because of materiality considerations. However, this does only apply to those participating interests for which stock exchange prices or market prices are available (e.g. listed public limited companies or financial holdings that only hold public limited companies). In general, the fair value for listed participating interests can be reliably determined. Unlisted participating interests for which fair values cannot be determined are valued at amortised cost.

Available-for-sale financial instruments are mostly included under investments; only a small number are shown under loans and advances to other banks and loans and advances to customers.

In principle, the purchase/sale of financial instruments is recognised at the trade date. Premiums and discounts are included in amortised costs. They do not count as transaction costs; as an interest component, they appear instead in the interest result for the accounting period in question. In general, the fair value for financial instruments can be reliably determined. Unlisted investments for which fair values cannot be determined are valued at amortised cost.

According to IAS 39.111, impairments in value must be taken into consideration for all financial assets that are valued at amortised cost. Where subsequent measurement of financial assets is based on fair value, an impairment test is implicit in the fair value.

Hedging effects between financial instruments are recognised in accordance with the two types of hedge described in IAS 39 — fair-value hedges and cash flow hedges.

Fair-value hedge accounting is applied for derivatives that are used to hedge the fair value of assets and liabilities recognised in the balance sheet. In fair-value hedge accounting the hedging instrument is valued at its fair value. Changes in value are recognised in the income statement. The carrying amounts of the hedged items are adjusted by the valuation results relating to the hedged risk, in a way that affects the income statement.

Cash flow hedge accounting is applied for derivatives used to hedge future cash flows. Cash flow hedge accounting is applied in the case of derivatives that are used in the context of asset liability management to hedge interest rate risk. In cash flow hedge accounting according to IAS 39, future variable interest payments for receivables and liabilities with variable interest rates are in most cases converted to fixed payments by means of an interest swap. In cash flow hedge accounting, hedging instruments are valued at their fair value. The valuation result must be divided into an effective and an ineffective portion. A hedge is regarded to be effective if, both at the inception and throughout the life of the hedge, the changes in the cash flow of the hedged item are almost fully compensated for by a change in the cash flow of the hedging instrument. To prove effectiveness, at the end of each quarter or on the balance-sheet date the future variable interest cash flows from the variable receivables and liabilities being hedged are shown alongside the variable interest payments from interest derivatives in detailed maturity bands. The effectively hedged portion of the hedging instrument is recognised in a separate item under shareholders' equity (cash flow hedge reserve). The cash flow hedge is reversed and taken to the income statement in the periods during which the cash flows of the hedged items effect the net income for the period. Depending on classification of the hedged instrument, the ineffective portion is recognised either in the income statement or in the balance sheet.

When calculating the figures for profitability ratios the equity items "available-for-sale reserve" and "cash flow hedge reserve" that are specific to IAS 39 are not taken into consideration.

6. *Placements with, loans and advances*

Loans and advances to other banks and customers are carried at amortised cost provided they are not available-for-sale loans and advances or hedged items from a recognised fair-value hedge. Loans and

advances are put on a non-accrual basis when an inflow can no longer be expected, irrespective of the legal position.

7. *Allowances for losses on loans and advances*

Measurement of the risk provisions is in particular determined by expectations as to future loan losses, the structure and quality of the loan portfolio and macroeconomic influences.

For all identifiable counterparty risks under lending operations, specific bad debt charges or provisions have been formed in the amount of the expected losses, these being released if the credit risk no longer applies or utilised if the loan or advance has been classed as irrecoverable and written off.

All risk provisions for foreign currency lendings are set up on a matched currency basis and are therefore not affected by exchange rate fluctuations.

Potential credit risks are taken into account by forming general loan loss provisions; these are calculated on the basis of historic loan loss rates, taking into account the economic environment and current circumstances. General loan loss provisions are utilised where loan losses occur for which insufficient or no specific loan loss provisions have been formed.

8. *Investments*

Investments include held-to-maturity and available-for-sale financial instruments as well as land and buildings held as investments (investment properties).

Held-to-maturity financial instruments are valued at amortised cost, with premium and discount amounts being considered on a pro-rata-basis. Write-downs are taken when there is an impairment in value caused by a change in credit-worthiness. If the underlying reasons for write-downs no longer apply, a subsequent write up is taken to the income statement; the amount of subsequent write up must not increase the level of the carrying amounts.

Fair-value hedge accounting is used to recognise investments that are effectively hedged against market price risks.

Land and buildings that we hold as long-term investments with a view to receiving rental income and/or capital gains are valued at their market value, in accordance with IAS 40. As with refinancing expenses, the rental income from these investments is shown under net interest income. All other income and expenses from land and buildings not used on an owner-occupied basis are shown in the net income from investments.

9. *Property, plant and equipment*

In principle, property, plant and equipment are valued at acquisition or production costs and, provided the assets are depreciable, scheduled straight line depreciation is calculated based on their expected useful economic life. For fixtures in rental buildings calculations are based on the term of the contract, taking into account any extensions options if this term is shorter than the normal useful economic life. Buildings are valued at current market value in accordance with IAS 16; no scheduled depreciation is therefore applied.

*Useful
economic
life*

PROPERTY, PLANT AND EQUIPMENT

Fixture in rental buildings	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	10-25 years
IT equipment (broad sense)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	3-5 years
Other office and plant equipment	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	3-25 years

Non-scheduled depreciation is taken on items of property, plant whose value is additionally reduced. If the reasons for unscheduled depreciation cease to exist, write-ups are applied up to a maximum of the amortised acquisition or production costs.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised, provided an additional economic benefit ensues for the Company. Measures relating to the maintenance of property, plant and equipment are recorded as expenses in the fiscal year in which they occur.

10. *Intangible assets*

Intangible assets mainly comprise software. Software is valued at amortised cost and written down over an expected useful economic life of 3 to 5 years.

11. *Liabilities*

Liabilities that are not hedged items of an effective fair-value hedge are reported as liabilities at amortised cost, taking into account deferred premiums and discounts on a *pro rata* basis. Interest-free liabilities are shown at their present value.

12. *Provisions*

When determining provisions for uncertain liabilities and anticipated losses relating to incomplete contracts we use the best possible estimate pursuant to IAS 37.36 *et seq.* In principle, long-term provisions are discounted.

Provisions for pensions and similar obligations are formed on the basis of expert actuarial reports pursuant to IAS 19. Calculations are based on the “projected unit credit” method; in addition to the present value of the vested pension entitlements, they also include unrealised actuarial gains and losses. Among other things, these arise as a result of irregularities in risk patterns (e.g. more or fewer cases of disability or death than expected based on the actuarial principles applied) or as a result of changes in the parameters used for calculation.

Actuarial gains and losses are recognised with in accordance with the “corridor” method. Under this approach, gains and losses are not recognised as income or expense in subsequent years unless the cumulative gains or losses at the balance sheet date exceed the “corridor” of 10 per cent. of the maximum sum of the present value of the defined benefit obligations and the assets of any external retirement benefit scheme.

The interest rate assumed for calculations is based on the long-term interest rate for first class fixed-yielded corporate bonds on the balance-sheet date. The amount of the provision recognised in the balance sheet is based on the provision for the previous year plus the pension expense determined at the start of the fiscal year less any payments during the current fiscal year affecting liquidity.

13. *Other liabilities*

Other liabilities comprise, among other things, accruals pursuant to IAS 37. This includes future expenses of uncertain timing or amount but whose level of uncertainty is less than that for provisions. Accruals include liabilities for goods or services received or delivered that were neither paid for, invoiced by the supplier nor formally agreed. It also includes short-term liabilities to employees, e.g. flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

Liabilities listed here must be shown under provisions if they still cannot be precisely quantified on the balance-sheet date and if the requirements of IAS 37 on the recognition of provisions are met.

14. *Foreign currency translation*

Currency translation is based on the principles of IAS 21. According to this standard, non-euro monetary assets and liabilities as well as cash transactions that have not been executed on the balance-sheet date are in principle translated into euros using the market rates ruling on the balance-sheet date. Non-monetary assets and liabilities carried at historical cost are reported using the exchange rate on the date of the acquisitions.

Individual components of shareholders' equity are in principle translated at historic exchange rates; the revaluation reserve is translated using the exchange rate prevailing on the balance-sheet date.

In principle, income and expenses arising from currency translations by the individual Group companies are shown under the corresponding items in the income statement.

Average exchange rates are used for translating income and expenses, in accordance with IAS 21.30 (b) and IAS 21.31.

15. Taxes on income

Taxes on income are accounted for and valued in accordance with IAS 12. Apart from a few exceptions specified in the Standard, deferred taxes are calculated for all temporary differences between the carrying amounts under the IFRS and the amounts on fiscal statements and also for the differences resulting from uniform valuation within the Group and differences from the consolidation (balance-sheet method). Deferred tax assets arising from unused tax loss carryforwards are calculated to the extent that this is permitted under IAS 12.34 *et seq.*

As the concept of deferred taxes is based on the presumption of future tax assets/tax liabilities (liability method), measurement is based on the respective national tax rates expected to apply when the differences are settled. Changes in tax rates decided on the reporting date are taken into consideration.

For reasons of proportionality and in view of the special fiscal positions of the German companies, we refrained from applying the increased tax rate of 26.5 per cent. in accordance with the Flood Victim Solidarity Act [Flutopfersolidaritätsgesetz] that was only applicable for tax year 2003.

Segment Reporting

16. Notes to segment reporting by business segment (primary segmenting)

The Hypo Real Estate Group (HREG) is divided into three business segments, which are referred to as primary segments:

HYPO REAL ESTATE INTERNATIONAL (HREI)

This segment pools our international business in structured real estate financing. It includes the earnings contributions of the following fully consolidated companies:

- Hypo Real Estate Bank International puc, Dublin
- Hypo Real Estate Capital Ltd., London (subgroup)
- Hypo Property Investment (1992) Ltd., London
- Hypo Real Estate Investment Banking Ltd., London
- Hypo Property Investment Ltd., London
- The Greater Manchester Property Enterprise Fund Ltd., London
- Hypo Property Participation Ltd., London
- Hypo Property Services Ltd., London
- Zamara Investments Ltd., Gibraltar
- Pfandbrief Bank International S.A., Luxembourg.

WÜRTTEMBERGISCHE HYPOTHEKENBANK (WürttHyp)

Constitutes the business segment WürttHyp. It specialises in real estate financing that is eligible as cover pool in Germany and other countries; refinancing is mainly through the issue of mortgage bonds.

HYPO REAL ESTATE GERMANY (HREGe)

Essentially, this segment comprises the German real estate financing business that is to be restructured. It includes the earnings contributions of:

- Hypo Real Estate Bank AG, Munich
- WestHyp Immobilien Management GmbH & Co. KG, Dortmund

In addition to consolidation processes, the column “Other/consolidation” for the Hypo Real Estate Group also includes the earnings contributions of Hypo Real Estate Holding AG, Munich.

17. *Income statement, broken down by business segment*

	2003				
	<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i> (in € millions)	<i>Other/ consolidation</i>	<i>HREG</i>
Net interest income	137	110	420	7	674
Provisions for losses on loans and advances	37	25	190	—	252
Net interest income after provisions for losses on loans and advances	100	85	230	7	422
Net commission income.. .. .	55	(4)	(6)	—	45
General administrative expenses ..	64	31	152	13	260
Balance of other operating income/ expenses	1	(2)	22	(2)	19
Operating result	92	48	94	(8)	226
Net income from investments	(5)	6	(2)	—	(1)
Balance of other income/expenses thereof:	—	—	(103)	34	(69)
Restructuring expenses	—	—	86	—	86
thereof:					
Additions to restructuring provisions	—	—	33	—	33
Result of ordinary activities/result before taxes	87	54	(11)	26	156
Taxes on income	30	2	5	3	40
Net income	<u>57</u>	<u>52</u>	<u>(16)</u>	<u>23</u>	<u>116</u>

18. *Key ratios, broken down by business segment*

	2003			
	<i>HREI</i>	<i>WürttHyp</i> (in %)	<i>HREGe</i>	<i>HREG</i>
Cost-income ratio (based on operating revenues)	33.2	29.8	34.9	35.2
Return on equity before taxes	6.6	8.5	(0.5)	3.8
Return on equity after taxes (net of amortisation of goodwill)	4.3	8.2	(0.7)	2.8
Return on equity after taxes	4.3	8.2	(0.7)	2.8

19. *Balance-sheet figures, broken down by business segment*

	<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i> (in € millions)	<i>Other/ consolidation</i>	<i>HREG</i>
TOTAL VOLUME OF LENDING					
31 December 2003	17,777	19,460	76,489	—	113,726
1 January 2003	4,158	19,480	89,125	102	112,865

	<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i> (in € millions)	<i>Other/ consolidation</i>	<i>HREG</i>
BALANCE SHEET FIGURES					
Placements with, loans and advances to other banks					
31 December 2003	1,829	4,965	19,411	(1,224)	24,981
1 January 2003	927	4,819	24,028	1,881	31,655
thereof:					
Real estate financing					
31 December 2003	—	40	213	—	253
1 January 2003	—	40	338	—	378
Municipal loans					
31 December 2003	561	2,557	14,309	—	17,427
1 January 2003	404	3,105	17,349	—	20,858
Loans and advances to customers					
31 December 2003	7,091	16,829	61,585	—	85,505
1 January 2003	3,290	16,274	70,950	—	90,514
thereof:					
Real estate financing					
31 December 2003	1,587	11,582	38,577	—	51,746
1 January 2003	359	10,302	43,290	—	53,951
Municipal loans					
31 December 2003	620	5,236	22,633	—	28,489
1 January 2003	841	5,968	27,601	—	34,410
Deposits from other banks					
31 December 2003	7,911	1,445	11,209	(1,214)	19,351
1 January 2003	3,959	2,339	12,532	—	18,830
Amounts owed to other depositors					
31 December 2003	242	1,575	6,019	8	7,844
1 January 2003	1	1,678	5,046	—	6,725
Promissory notes and other liabilities evidenced by securities					
31 December 2003	4,978	24,177	80,998	—	110,153
1 January 2003	5,479	23,752	98,308	—	127,539
thereof:					
Mortgage bonds					
31 December 2003	—	4,838	27,093	—	31,931
1 January 2003	—	4,215	28,387	—	32,602
Public-sector bonds					
31 December 2003	4,837	15,095	47,839	—	67,771
1 January 2003	4,580	15,255	59,350	—	79,185

		<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i> (in € millions)	<i>Other/ consolidation</i>	<i>HREG</i>
CONTINGENT LIABILITIES AND OTHER COMMITMENTS						
Contingent liabilities						
31 December 2003	.. .. .	8,858	27	120	—	9,005
1 January 2003	.. .. .	—	44	86	—	130
Other liabilities						
31 December 2003	.. .. .	1,033	891	673	—	2,597
1 January 2003	.. .. .	—	782	1,091	—	1,873

20. Risk provision rates, broken down by business segment

										2003			
										<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i> (in %)	<i>HREG</i>
Net addition rate										0.21	0.13	0.85 ⁽¹⁾	0.63 ⁽¹⁾
Loan loss rate										0.11 ⁽²⁾	0.06	0.45	0.32
										2003			
										<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i>	<i>HREG</i>
Total provisions for losses on loans and advances (in € millions)													
31 December 2003	.. .. .									37	291	1,574	1,902
1 January 2003	.. .. .									21	266	1,194	1,481
Provision rate (in %)													
31 December 2003	.. .. .									0.21	1.50	2.06	1.67
1 January 2003	.. .. .									0.51	1.37	1.34	1.31

Notes:

(1) Including risk shelter of HVB AG.

(2) The loan loss ratio relates exclusively to loan losses in connection with Hypo Real Estate International's portfolio sale to HVB Luxembourg prior to the spin-off.

21. Loans put on a non-accrual basis, broken down by business segment

		<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i> (in € millions)	<i>Other/ consolidation</i>	<i>HREG</i>
Loans put on a non-accrual basis						
31 December 2003	—	325	2,568	—	2,893

The item loans put on a non-accrual basis shows the volume of all loans and advances where the payment of interest has been agreed, but where the corresponding interest payments have not been received. This portfolio contains not realised interest income in amount of €102 million that was not shown as interest income in the Income Statement. The “non-interest-bearing loans” for which we have refrained from charging borrowers interest are included herein.

22. Capital

Calculated in accordance with the Basel Recommendation on Equity, the equity funds of the business segments as at 31 December 2003 were comprised as follows (based on approved annual financial statements):

										2003			
										<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i>	<i>HREG</i>
										<i>(in € millions)</i>			
CAPITAL, BROKEN DOWN BY BUSINESS SEGMENT													
Core capital	..	..	..	..	..	..	..	..	..	1,300	646	2,262	4,122
Supplementary capital	..	..	..	..	..	..	..	..	..	834	340	1,142	2,126
Equity capital	..	..	..	..	..	..	..	..	..	2,134	986	3,404	6,248
Tier III capital	..	..	..	..	..	..	..	..	..	—	—	—	—
Total equity funds	..	..	..	..	..	..	..	..	..	2,134	986	3,404	6,248

The resulting ratios for the business segments as at 31 December 2003 were as follows (based on approved annual financial statements):

										2003			
										<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i>	<i>HREG</i>
										<i>(in %)</i>			
CAPITAL RATIO, BROKEN DOWN BY BUSINESS SEGMENT													
Core capital ratio	..	..	..	..	..	..	..	..	..	8.9	6.9	7.4	7.6
Equity capital ratio	..	..	..	..	..	..	..	..	..	14.7	10.5	11.1	11.6
Equity funds ratio	..	..	..	..	..	..	..	..	..	14.6	10.5	11.1	11.5

23. Employees, broken down by business segment

										31 December 2003				
										<i>HREI</i>	<i>WürttHyp</i>	<i>HREGe</i>	<i>Other</i>	<i>HREG</i>
Employees	..	..	..	..	..	..	..	..	..	242	182	904	38	1,366

24. Segment reporting by region (secondary segmenting)

Different regions are referred to as secondary segments. Essentially, we currently differentiate between Germany and the rest of Western Europe. The column headed “Other/consolidation” includes all other regions and also consolidation effects. Allocation of values to regions is based on the location of the registered office of the group companies and/or their branches.

	2003			
	Rest of Western Europe	Germany	Other/ consolidation	Hypo Group
	(in € millions)			
INCOME STATEMENT, BROKEN DOWN BY REGION				
Operating income	191	541	6	738
Provisions for losses on loans and advances	37	215	—	252
General administrative expenses	61	186	13	260
Operating result	93	140	(7)	226
Result of ordinary activities/result before taxes ..	88	41	27	156

										2003		
										<i>Rest of Western Europe</i>	<i>Germany (in %)</i>	<i>Hypo Group</i>
COST-INCOME RATIO, BROKEN DOWN BY REGION												
Cost-income ratio (based on operating revenues)										31.9	34.4	35.2

										<i>Rest of Western Europe</i>	<i>Germany consolidation (in € millions)</i>	<i>Other/ Hypo Group</i>
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VOLUME OF LENDING, BROKEN DOWN BY REGION

Volume of lending												
31 December 2003										17,776	96,025	(75)
1 January 2003										4,158	108,605	102

										31 December 2003		
										<i>Rest of Western Europe</i>	<i>Germany</i>	<i>Other Hypo Group</i>
EMPLOYEES, BROKEN DOWN BY REGION												
Employees										195	1,133	38

Notes to the Income Statement

25. *Net interest income*

										2003 (in € millions)		
Interest income from												8,738
Lending and money-market business												6,989
Fixed-income securities												1,703
Equity securities and other variable-yield securities												8
Subsidiaries												34
Investment properties												4
Interest expense for												8,064
Deposits												3,174
Promissory notes and other liabilities evidenced by securities												4,773
Subordinated capital												114
Other												3
Total												674

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26. Provisions for losses on loans and advances

	2003 (in € millions)
Additions	284
Allowances for losses on loans and advances	282
Loan-loss-provisions	2
Releases	(30)
Allowances for losses on loans and advances	(29)
Loan-loss-provisions	(1)
Recoveries from write-offs of loans and advances	(2)
Total	<u>252</u>

Provisions for losses on loans and advances amounting to €252 million are shown as a net amount after offsetting HVB AG's risk shelter in favour of Hypo Real Estate Bank AG of €460 million. No specific provisions for losses on loans arose within the business segment Hypo Real Estate International in 2003. Nevertheless, we applied a general loan loss provision in a precautionary measure. In the case of Württembergische Hypothekenbank AG, an amount of €25 million was allocated to provisions for losses on loans and advances.

27. Net commission income

	2003 (in € millions)
Securities and custodial services	21
Foreign trade/money transfer operations	(1)
Lending operations.. .. .	22
Other service operations	3
Total	<u>45</u>

28. General administrative expenses

	2003 (in € millions)
Personnel expenses	134
Wages and salaries	101
Social security costs	17
Pension expenses and related employee benefits costs	16
Other general administrative expenses	107
Depreciation/amortisation and valuation adjustments	19
on property, plant and equipment	6
on software and other intangible assets excluding goodwill.. .. .	13
Total	<u>260</u>

No stock option schemes involving shares in Hypo Real Estate Holding AG or similar forms of remuneration were granted to Executive Board members, Supervisory Board members or employees in 2003.

29. *Balance of other operating income and expenses*

	2003 (in € millions)
Other operating income	47
Other operating expenses	28
Balance of other operating income and expenses	19

The largest individual items under other operating income are represented by gains on the sale of land and buildings amounting to €28 million. In addition, rental income of €7 million was recorded from land and buildings that are not classed as investments. Income from the writeback of provisions that are not related to lending business amounted to €2 million.

Losses from the sale of land and buildings amounted to €8 million. Depreciation on current assets amounted €10 million. Expenses from allocations to accruals and provisions that are not related to lending business amounted to €1 million. Apart from the above, the other operating income and expenses do not contain any individual amounts of major significance.

30. *Operating income*

	2003 (in € millions)
Net interest income.. .. .	674
Net commission income	45
Balance of other operating income and expenses	19
Total	738

31. *Net income from investments*

The net income from investments shows income from the sale of held-to-maturity and available-for-sale financial instruments and also changes in the valuation of such instruments that are to be recorded as affecting net income. It also shows expenses relating to and gains from the sale of investment properties. The income from held-to-maturity assets amounted to €26 million. Overall, a net expense of €99 million was recorded from available-for-sale investments.

Investment properties accounted for expenses of €6 million. The sale of such land and buildings resulted in gains of €4 million.

32. *Balance of other income and expenses*

	2003 (in € millions)
Other income	35
Other expenses	104
thereof:	
Other taxes	1
Restructuring costs:	86
thereof:	
Additions to restructuring provisions	33
Balance of other income/expenses	(69)

Restructuring costs amounting to €86 million arose in connection with the restructuring of the business segment Hypo Real Estate Germany. These expenses comprise personnel expenses of €29 million, special IT write-offs of €34 million and other general administrative expenses of €23 million. Restructuring provisions amounting to €33 million were recognised pursuant to IAS 37 for further restructuring measures within the segment.

33. Taxes on income

Taxes on income are divided as follows:

	2003
	(in € millions)
TAXES ON INCOME	
Current taxes	36
Deferred taxes	4
Total	<u>40</u>

As a result of the spin-off, Hypo Real Estate Holding AG incorporates the market values recorded by HVB AG in the fiscal transfer balance sheet as of 31 December 2002 into its fiscal balance sheet. Therefore the spin-off takes place neutral for income tax purposes.

As part of the spin-off process, HVB AG's loss carryforward for corporation tax and trade tax purposes that exists on the transfer record date was transferred to Hypo Real Estate Holding AG on a prorata basis, in accordance with the apportionment ratio (77:23) announced in the spin-off report (approximately €390 million according to HVB AG's extrapolation of March 2003). Both the amount of the available loss carryforward and also the apportionment ratio still have to be confirmed by the fiscal authorities at HVB AG. In view of the fact that Hypo Real Estate Holding AG has no influence on this tax audit procedure or its results and that the restrictions of section 8 para. 4 of the German Corporation Tax Act [KStG] have to be taken into account regarding the continued existence of the loss carryforward that has been transferred, no deferred tax assets have been applied as at 31 December 2003 because the accounting criteria pursuant to IAS 12.34 *et seq.* are not met.

Accompanying to the spin-off, HVB AG granted the Hypo Real Estate Group an income equalisation that was intended to follow the retroactive effect caused by the spin-off. HVB AG also deducted the taxes owed for the retroactive period; amounting to €15 million. These have been taken into consideration in the item current taxes and also as an aperiodical effect within the reconciliation.

A key influencing factor in reducing current taxes was the profit and loss pooling agreement concluded between Württembergische Hypothekenbank and DIA Vermögensverwaltungs-GmbH, which has now been merged into Hypo Real Estate Holding AG. We are of the opinion that the agreement is effective, as we do not believe that the challenges pending in this connection have any chance of success. It was possible to offset the loss carryforwards resulting from the spin-off against the profits transferred to Hypo Real Estate Holding AG, resulting in a reduction of tax burden of €19 million for the Hypo Real Estate Group.

The differences between the expected (computed) taxes on income and the taxes on income actually shown are outlined in the following reconciliation, which takes consolidation measures into account:

	2003
	(in € millions)
RECONCILIATION	
Result of ordinary operating activities/result before taxes	156
Applicable (legal) tax rate	26.38%
Expected (computed) tax expense	41
Tax effects	
arising from foreign income	(1)
arising from tax rate differences	2
arising from losses	(11)
arising from tax-free income	(140)
arising from non-deductible expenses	13
arising from valuation adjustments and the non-application of deferred taxes	125
arising from the write-up of deferred taxes	(5)
arising from prior years and other aperiodical effects	16
Accounted taxes on income	<u>40</u>
Group tax ratio	<u>25.6%</u>

The applicable tax rate to the year under review was 26.38 per cent.

The effects from foreign income relate to differences in tax rates of foreign tax jurisdictions. They arose because foreign income was taxed at different tax rates.

The item effects from tax rate differences includes deviations arising due to different municipal trade tax percentages, the trade tax burden itself (deferred and current) pursuant to IAS and also the reducing effect resulting from the deductibility of trade tax when calculating corporation tax and solidarity surcharge as well as the effects of the Flood Victim Solidarity Act [Flutopfersolidaritätsgesetz] that are taken into consideration.

Offsetting by Hypo Real Estate Holding AG against the corporation tax and trade tax loss carry-forwards resulting from the spin-off is shown in the item tax effects from losses.

The item tax effects from tax-free income includes the tax effects of the risk shelter provided by HVB AG and also the effects of the income equalisation granted to Hypo Real Estate Holding AG by HVB AG in connection with the spin-off. This item also includes effects from tax-free income from participations, dividends and gains/losses on sale.

The effects from non-deductible expenses primarily relate to expenses that cannot be deducted for tax purposes and that are not to be shown as deferred taxes due to the permanent nature of the difference.

The effects from valuation adjustments and the non-application of deferred taxes mainly resulted from fiscal loss carry forwards that, irrespective of the spin-off-related loss carryforward of Hypo Real Estate Holding AG, did not meet the criteria for showing deferred tax assets pursuant to IAS 12. For an amount of €458 million, no deferred tax assets were taken into consideration as the criteria for recognising them pursuant to IAS 12.34 *et seq.* were not met. At €4 million, valuation adjustments produced an increase in expenses.

The item tax effects from the write-up of deferred taxes resulted from the recognition of deferred tax assets relating to temporary differences that had not yet been included in deferred taxes. This resulted in deferred tax income of €5 million.

The item tax effects from prior years and aperiodical effects includes current taxes from preceding years amounting to €4 million that arose due to fiscal audits or new information on fiscal obligations. Effects not relating to the period under review largely related to income equalisation with HVB AG.

The Group tax ratio is the ratio between the tax on income shown (current and deferred taxes) and the net result for the year before taxes. It was affected by the Group's tax policy, which is reflected in the aforementioned effects.

The deferred tax liabilities/deferred tax assets relate to the following items:

DEFERRED TAX LIABILITIES/DEFERRED TAX ASSETS

	31 December 2003	1 January 2003
	(in € millions)	
Deferred tax liabilities		
Loans and advances to other banks/customers including provisions for losses		
on loans and advances	1	52
Investments	154	55
Property, plant and equipment/intangible assets	—	3
Other assets/liabilities	1,064	1,761
Recognised deferred tax liabilities	<u>1,219</u>	<u>1,871</u>
Deferred tax assets		
Investments	4	7
Property, plant and equipment/intangible assets	2	4
Provisions	14	13
Other assets/liabilities	2,175	2,716
Placements with, loans and advances to other banks/customers including provisions for losses on loans and advances	4	—
Recognised deferred tax assets	<u>2,199</u>	<u>2,740</u>

For the domestic companies within the Group, deferred taxes were measured using the uniform rate of corporation tax including the solidarity surcharge of 26.38 per cent and the rate of trade tax, which depends on the applicable municipal rate fixed by the municipality. Because trade tax can be deducted when calculating corporation tax, Hypo Real Estate Holding AG's overall rate for valuing deferred taxes was 40.86 per cent.

As at the reporting date, unused tax loss carryforwards — excluding the loss carryforwards transferred as part of the spin-off that are now expected to amount to €349 million — totalled €459 million. Deferred tax assets relating to an amount of €1 million were shown as the criteria for recognition pursuant to IAS 12.34 *et seq.* were met. There is no time limit regarding utilisation of the loss carryforwards.

During the year under review, the available-for-sale reserve was reduced by deferred taxes amounting to €66 million. During the current year, deferred tax assets of €142 million were offset against the cash flow hedge reserve.

34. Earnings per share

	2003
Net income adjusted for minority interests, in € millions	115
Net income adjusted for minority interests and before amortisation of goodwill, in € millions	115
Average no. of shares	134,072,175
Earnings per share (excl. amortisation of goodwill), in €	<u>0.86</u>
Earnings per share, in €	<u>0.86</u>

As no conversion or option rights in respect of contingent capital were outstanding for the year 2003 on the balance sheet date, no calculation was made showing diluted earnings per share.

35. *Statement of value added*

	2003 (in € millions)
CREATION	
Operating income	738
Net income from investments	(1)
Total income	737
Provisions for losses on loans and advances	252
Other general administrative expenses	107
Depreciation/amortisation on property, plant and equipment and intangible assets	19
Other expenses (excluding taxes) and additions to restructuring provisions	69
Value added	<u>290</u>

	2003 (in € millions)
USE	
Value added	290
Employees (personnel expense)	134
Public authorities (taxes)	40
Minority interests	1
Companies	115

Notes to the Balance Sheet

36. *Cash reserve*

	31 December 2003 (in € millions)	1 January 2003
Cash on hand and central bank balances	489	79
Total	<u>489</u>	<u>79</u>

37. *Placements with, loans and advances to other banks*

	31 December 2003 (in € millions)	1 January 2003
LOANS AND ADVANCES TO OTHER BANKS BROKEN DOWN BY TYPE OF BUSINESS		
Placements with, loans and advances	19,216	22,221
Municipal loans	17,427	20,858
Real estate loans	253	378
Other placements, loans and advances	1,536	985
Investments	5,765	9,434
Total	<u>24,981</u>	<u>31,655</u>

																			31 December 2003 (in € millions)	1 January 2003
LOANS AND ADVANCES TO OTHER BANKS BROKEN DOWN BY MATURITIES																				
Repayable on demand	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1,616	1,011
With agreed maturities	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	23,365	30,644
up to 3 months	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,932	8,125
from 3 months to 1 year	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1,675	4,881
from 1 year to 5 years	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	9,274	8,634
from 5 years and over	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	7,484	9,004
Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	<u>24,981</u>	<u>31,655</u>

																			31 December 2003 (in € millions)	1 January 2003
LOANS AND ADVANCES TO NON-CONSOLIDATED SUBSIDIARIES																				
Non-consolidated subsidiaries	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	<u>1</u>	<u>—</u>
Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	<u>1</u>	<u>—</u>

38. *Loans and advances to customers*

																			31 December 2003 (in € millions)	1 January 2003
LOANS AND ADVANCES TO CUSTOMERS, BROKEN DOWN BY TYPE OF BUSINESS																				
Loans and advances ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	85,505	90,514
Municipal loans ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	28,489	34,410
Real estate loans ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	51,746	53,951
Other loans and advances ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	5,270	2,153
Total ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	85,505	90,514

																			31 December 2003 (in € millions)	1 January 2003
LOANS AND ADVANCES TO CUSTOMERS, BROKEN DOWN BY MATURITIES																				
Unspecified terms	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	254	97
With agreed maturities	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	85,251	90,417
up to 3 months	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	3,812	4,452
from 3 months to 1 year	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	5,110	4,491
from 1 year to 5 years	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	22,655	26,082
from 5 years and over	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	53,674	55,392
Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	85,505	90,514

	31 December 2003 (in € millions)	1 January 2003
LOANS AND ADVANCES TO NON-CONSOLIDATED SUBSIDIARIES AND COMPANIES⁽¹⁾		
Non-consolidated subsidiaries	1,687	77
Companies in which a participating interest is held	499	245
Total	2,186	322

Note:

(1) in which a participating interest is held.

39. Allowances for losses on loans and advances

	<i>Individual lending risks</i>	<i>Latent risks</i> (in € millions)	<i>Total</i>
DEVELOPMENT			
Balance at 1.1.2003	1,398	77	1,475
Changes affecting income.. .. .	149	103	252
+ Gross additions.. .. .	178	103	281
– Releases	(29)	—	(29)
Changes not affecting income.. .. .	237	(68)	169
– Use of existing loan-loss allowances	(303)	(68)	(371)
+ / – Effects of currency translations and other changes not affecting income	540	—	540
Balance at 31 December 2003.. .. .	1,784	112	1,896

In particular, the changes not affecting net income show the amounts received under HVB AG's risk shelter.

	31 December 2003 (in € millions)	1 January 2003
BREAKDOWN OF ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES		
Loans and advances to customers	1,784	1,398
General loan-loss allowances	112	77
Total	1,896	1,475

40. Analysis of loan default risk

	31 December 2003 (in € millions)	1 January 2003
VOLUME OF LENDING		
Placements with, loans and advances to other banks	19,216	22,221
Loans and advances to customers	85,505	90,514
Contingent liabilities	9,005	130
Total	113,726	112,865

Note:

(1) Total provisions for losses on loans and advances/volume of lending.

NET ADDITION RATE	
Provisions for losses on loans and advances ⁽¹⁾	712
Volume of lending	113,726
Net addition rate⁽¹⁾ (in %)	0.63

Use of existing loan-loss allowances	371
— Recoveries from written off	2
Loan losses	369
Volume of lending	113,726
Loan loss ratio⁽¹⁾ (in %)	0.32

THE ITEMS DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES AS WELL AS OTHER VARIABLE-YIELD SECURITIES COMPRISE THE FOLLOWING:

	31 December 2003	1 January 2003
	<i>(in € millions)</i>	
Debt securities and other fixed-income securities	36,186	39,509
Money market securities	—	101
Bonds and debt securities	34,415	37,610
by public issuers	15,245	16,540
by other issuers	19,170	21,070
Debt securities issued by group companies	1,771	1,798

There were no debt securities and other fixed-income securities of non-consolidated subsidiaries and companies with whom a participatory relationship exists.

FAIR VALUES OF INVESTMENTS

On the balance-sheet date, the fair value of investment properties amounted to €36 million.

42. Property, plant and equipment

	<i>Land and buildings used for operational purposes and buildings under construction</i>	<i>Plant and operating equipment (in € millions)</i>	<i>Plant under construction</i>	<i>Total</i>
Acquisition/production costs				
Balance at 1 January 2003	97	47	30	174
Additions	—	11	13	24
Disposals	(83)	(8)	(43)	(134)
Balance at 31 December 2003	14	50	—	64
Amortisation/depreciation and write-ups				
Balance at 1 January 2003	6	35	—	41
Scheduled depreciation/amortisation	—	6	—	6
Unscheduled depreciation/amortisation	1	—	—	1
Disposals	(6)	(7)	—	(13)
Balance at 31 December 2003	1	34	—	35
Carrying amounts				
Balance at 31 December 2003	13	16	—	29
Balance at 1 January 2003	91	12	30	133

43. Intangible assets

Development of intangible assets

		Software of which acquired (in € millions)	Software of which internally generated
Acquisition/production costs			
Balance at 1 January 2003	.. .. .	29	45
Additions	.. .. .	5	2
Disposals	.. .. .	(9)	(47)
Balance at 31 December 2003	.. .. .	25	—
Amortisation/depreciation and write-ups			
Balance at 1 January 2003	.. .. .	17	3
Scheduled amortisation/depreciation	.. .. .	4	9
Disposals	.. .. .	(9)	(12)
Balance at 31 December 2003	.. .. .	12	—
Carrying amounts			
Balance at 31 December 2003	.. .. .	13	—
Balance at 1 January 2003	.. .. .	12	42

Amortisation/depreciation of software and other intangible assets is shown under amortisation/depreciation of intangible assets within general administrative expenses.

44. Other assets

		31 December 2003 (in € millions)	1 January 2003
Positive fair values from derivative financial instruments	.. .. .	4,659	5,233
Other assets	.. .. .	195	404
Deferred charges and prepaid expenses	.. .. .	175	314
Total	.. .. .	<u>5,029</u>	<u>5,951</u>

Positive fair values from derivative financial instruments

The positive fair values from derivative financial instruments include in particular the derivatives used to hedge against the risk of changes in market interest rate risk.

45. Tax assets

The item tax assets is classified into tax assets relating to current taxes and deferred tax assets:

		31 December 2003 (in € millions)	1 January 2003
Current tax assets	.. .. .	57	35
Deferred tax assets	.. .. .	2,199	2,740
Total	.. .. .	<u>2,256</u>	<u>2,775</u>

During the year under review, deferred tax assets fell by €542 million. Deferred tax assets on tax loss carryforwards were only applied if the criteria pursuant to IAS 12 were met (see also Note 33).

46. *Subordinated assets*

The following balance sheet items contain subordinated assets:

	31 December 2003 (in € millions)	1 January 2003
Investments	153	72
Total	<u>153</u>	<u>72</u>

47. *Repurchase agreements*

As pledgor of genuine repos, we have pledged assets with a carrying amounts of €4.7 billion. These assets remain as part of our assets, and the countervalues received are shown under liabilities.

48. *Securitisation*

Securitisation involves the full or partial passing on to the capital market of lending risks for selected loan portfolios that have been precisely defined in advance. The prime aim of our Bank's own securitisation programmes is to reduce our loan portfolio risk. In the case of so-called synthetic securitisation, the risk is transferred and the pressure on equity reduced through the provision of collateral in the form of guarantees or credit derivatives; in the traditional forms of securitisation risk is transferred and the pressure on equity reduced through the sale of balance-sheet assets.

In 2003 the Hypo Real Estate Group set up a securitisation programme with a term of 20 years. As at 31 December 2003, the volume of lending placed in this way amounted to €592 million and this resulted in a €487 million reduction in the pressure relating to BIS risk weighted assets.

At the year-end, the volume of lending of all current securitisation programmes of the Hypo Real Estate Group amounted to €10.1 billion, and the reduction in the pressure relating to BIS risk weighted assets amounted to €7.1 billion.

Securitisation programmes usually provide for a small part of the risks being retained in the form of a first loss piece or interest subparticipation on the part of the pledgor.

For the programmes listed below, no first loss pieces are held. The interest subparticipations total €191 million:

Securitisations

<i>Assignee</i>	<i>Transaction name</i>	<i>Maturity years (in years)</i>	<i>Type of asset securitised</i>	<i>Volume of lending (in € millions)</i>	<i>Reduction in BIS weighted risk assets as per BIS rules</i>
Westfälische Hypothekenbank AG	European Dream 2000	5	European MBS	600	480
Württembergische Hypothekenbank AG	WürttHyp 2000-1	41	Private mortgage loans	409	171
Total 1998 to 2000.. .. .				1,009	651
HVB Real Estate Bank AG	HVB Real Estate 2001-1	55	Private mortgage loans	1,013	427
HVB Real Estate Bank AG	NürnbergHyp 2001-1	55	Private mortgage loans	240	185
Westfälische Hypothekenbank AG	Dutch Dream 2001-1	7	Commercial mortgage loans	785	690
Westfälische Hypothekenbank AG	European Dream 2001-1	5	European MBS	855	684
Württembergische Hypothekenbank AG	WürttHyp 2001-1	11	Commercial mortgage loans	762	579
Total 2001				3,655	2,565
HVB Real Estate Bank AG	Provide Comfort 2002-1	52	Private mortgage loans	2,326	1,227
Westfälische Hypothekenbank AG	Duke 2002	6	Commercial mortgage loans	774	737
Westfälische Hypothekenbank AG	Geco 2002	7	Commercial mortgage loans	937	818
Württembergische Hypothekenbank AG	WürttHyp EU-1	26	Commercial mortgage loans	783	653
Total 2002				4,820	3,435
Württembergische Hypothekenbank AG	WürttHyp F-1	20	Commercial mortgage loans	592	487
Total 2003				592	487
Total				10,076	7,138

49. Deposits from other banks

Deposits from other banks by maturities

	<i>31 December 2003</i>	<i>1 January 2003</i>
	<i>(in € millions)</i>	
Repayable on demand	770	135
With agreed maturities	18,581	18,695
up to 3 months	8,144	10,169
from 3 months to 1 year	4,779	5,610
from 1 year to 5 years	4,461	1,755
from 5 years and over	1,197	1,161
Total	19,351	18,830

Amounts owed to non-consolidated subsidiaries

	<i>31 December 2003</i>	<i>1 January 2003</i>
	<i>(in € millions)</i>	
Non-consolidated subsidiaries	1,195	—
Total	1,195	—

50. Amounts owed to other depositors

Amounts owed to other depositors by maturities

	31 December 2003 (in € millions)	1 January 2003
Repayable on demand	325	262
With agreed maturities	7,519	6,463
up to 3 months	653	357
from 3 months to 1 year	722	884
from 1 year to 5 years	2,857	3,136
from 5 years and over	3,287	2,086
Total	7,844	6,725

Amounts owed to non-consolidated subsidiaries

	31 December 2003 (in € millions)	1 January 2003
Non-consolidated subsidiaries	9	3
Total	9	3

51. Promissory notes and other liabilities evidenced by securities

Promissory notes and other liabilities evidenced by securities⁽¹⁾

	31 December 2003 (in € millions)	1 January 2003
Debt securities in issue	85,170	100,172
Mortgage bonds	18,075	17,089
Public-sector bonds	56,644	67,331
Other debt securities	10,276	14,603
Money-market securities	175	1,149
Registered notes in issue	24,983	27,367
Mortgage bonds	13,856	15,513
Public-sector bonds	11,127	11,854
Total	110,153	127,539

Note:

(1) broken down by type of business.

Promissory notes and other liabilities evidenced by securities⁽¹⁾

	31 December 2003 (in € millions)	1 January 2003
With agreed maturities up to 3 months	6,294	11,888
from 3 months to 1 year	17,556	21,370
from 1 year to 5 years	61,844	65,512
from 5 years and over	24,459	28,769
Total	110,153	127,539

Note:

(1) broken down by maturities.

Promissory notes and other liabilities evidenced by securities⁽¹⁾

	31 December 2003	1 January 2003
	(in € millions)	
Companies in which a participating interest is held	—	21
Total	<u>—</u>	<u>21</u>

Note:

(1) companies with whom a participatory relationship exists.

52. Provisions

Analysis of provisions

	31 December 2003	1 January 2003
	(in € millions)	
Provisions for pensions and similar obligations	140	131
Restructuring provisions compliant with IAS 37	35	11
Loan-loss provisions	6	6
Other provisions thereof:	29	10
Long-term liabilities to employees	7	7
Total	<u>210</u>	<u>158</u>

Pension provisions

Provisions for pensions and similar obligations include in-house employer's pension direct commitments for company pensions payable to employees of the Hypo Real Estate Group.

In-house employer's pension commitments are partly dependent on final salary, and partly based on modular plans with dynamic adjustment of vested rights. In addition, group companies pay contributions for commitments by external institutions. The pension obligations financed via pension funds or retirement benefit corporations with matching cover are either contribution-based (defined contribution plan) or can be treated as contribution-based pension obligations in material terms pursuant to IAS 19.58 and IAS 19.104. Expenses in respect of contribution-based pension obligations amounted to €3 million.

The following interest rates and valuation parameters were applied when calculating the provision for in-house pension entitlements:

Interest rates and parameters

	31 December 2003	1 January 2003
	(in %)	
Interest rate	5.5	5.5
Rate of increase in pension obligations	1.5	1.5
Rate of increase in future compensation and vested rights	2.5	2.5
Rate of increase over career	0–1.5	0–1.5

The present value of earned in-house pension obligations amounted to €137 million.

Unrealised actuarial losses amounted to €3 million; the 10 per cent corridor was not exceeded.

The change in the liabilities-side provision for pension obligations was as follows:

Analysis of the pension obligations

	2003 (in € millions)
Balance at 1 January 2003	131
+ Pension expenses	12
– Payments affecting liquidity	5
+ / – Changes not affecting income	2
Balance at 31 December 2003	140

Pension expenses comprise €4 million representing the present value of pension entitlements earned during the fiscal year as well as interest expenses of €7 million.

Restructuring and other provisions

	Restructuring provisions pursuant to IAS 37	Loan-loss provisions (in € millions)	Other provisions
Balance at 1 January 2003	11	6	10
Transfers to provisions	33	2	23
Reversals	—	(1)	(2)
Reclassifications	—	(1)	(1)
Amounts used	(9)	—	(1)
Balance at 31 December 2003	35	6	29

In particular, restructuring provisions were formed pursuant to IAS 37 for the restructuring of the business segment Hypo Real Estate Germany. The provisions largely relate to manpower reduction programmes that have already been agreed.

Other provisions include provisions for litigation expenses, payment of damages, provisions for anticipated losses and long-term liabilities towards employees such as provisions for anniversary payments, early retirement or part-time jobs for older employees.

53. Other liabilities

	31 December 2003 (in € millions)	1 January 2003
Negative fair values from derivative financial instruments	8,294	8,852
Other liabilities	397	546
Deferred income.. .. .	95	207
Total	<u>8,786</u>	<u>9,605</u>

Negative fair values from derivative financial instruments

The item negative fair values from derivative financial instruments includes in particular derivatives used to secure against changes in market interest rates.

Other liabilities

Other liabilities mainly include liabilities from the offsetting of results and also interest deferrals and accruals pursuant to IAS 37. Accruals include in particular trade accounts payable in respect of invoices still outstanding, short-term liabilities to employees and other accruals in respect of commission, interest, operating expenses, etc.

54. Tax liabilities

The item tax liabilities comprises tax liabilities relating to current taxes and deferred tax liabilities:

		31 December 2003	1 January 2003
		(in € millions)	
Current tax liabilities	.. .. .	54	73
Deferred tax liabilities	.. .. .	1,219	1,871
Total	.. .. .	1,273	1,944

The item current tax liabilities contains both provisions for taxes on income and also income tax liabilities. There was a reduced need for provisions due to the profit and loss pooling agreement concluded between Württembergische Hypothekenbank AG and DIA Vermögensverwaltungs-GmbH, which has now been merged into Hypo Real Estate Holding AG (see also Note 33).

Compared with 1 January 2003, the item deferred tax liabilities was reduced by €652 million.

55. Subordinated capital

Analysis of subordinated capital

		31 December 2003	1 January 2003
		(in € millions)	
Subordinated liabilities	.. .. .	1,727	1,225
Participating certificates outstanding	.. .. .	749	754
Total	.. .. .	2,476	1,979

Subordinated capital, broken down by maturities

		31 December 2003	1 January 2003
		(in € millions)	
With agreed maturities	.. .. .	
up to 3 months	.. .. .	32	99
from 3 months to 1 year	.. .. .	96	83
from 1 year to 5 years	.. .. .	1,281	614
from 5 years and over	.. .. .	1,067	1,183
Total	.. .. .	2,476	1,979

In fiscal 2003, in accordance with bank regulatory requirements based on the provisions of section 10 paras. 5 and 5a of the German Banking Act [Kreditwesengesetz, KWG] and also in accordance with the Recommendation on Equity issued by the Basel Committee on Banking Supervision in July 1988, the subordinated capital was shown as core capital, supplementary capital and/or tier III capital.

Subordinated liabilities

Subordinated liabilities do not contain any individual items accounting for more than 10 per cent of the overall amount.

With all subordinated liabilities, there can be no early repayment obligation on the part of the issuer. In the event of bankruptcy or liquidation, such liabilities may only be repaid once all non-subordinate creditors have been satisfied.

Interest expenses of €114 million arose in respect of subordinated liabilities. The subordinated liabilities contain pro rata interest of €40 million.

There were no subordinated liabilities to non-consolidated subsidiaries and companies with whom a participatory relationship exists.

Issued participatory capital mainly comprises the following issues:

Participating certificates outstanding

<i>Issuer</i>	<i>Year of issue</i>	<i>Type</i>	<i>Nominal amount (in € millions)</i>	<i>Interest rate (in %)</i>	<i>Maturity</i>
		Bearer participation			
Hypo Real Estate Bank AG	1995	certificates	26	8.25	2006
Hypo Real Estate Bank AG	1995	certificates	38	8.00	2006
Hypo Real Estate Bank AG	1995	certificates	64	variable interest rate	2006
Hypo Real Estate Bank AG	1999	certificates	70	7.00	2010
Hypo Real Estate Bank AG	1993	certificates	38	7.00	2009
Hypo Real Estate Bank AG	1998	certificates	38	variable interest rate	2010
Hypo Real Estate Holding AG	1997	certificates	102	6.75	2007
Württembergische Hypothekenbank AG	1994	certificates	51	7.90	2004
Württembergische Hypothekenbank AG	1997	certificates	102	6.75	2008
Württembergische Hypothekenbank AG	2001	certificates	50	7.00	2012
Württembergische Hypothekenbank AG	2002	certificates	50	7.00	2013

The interest entitlement is reduced to the extent that a payout would result in the respective issuer recording an annual deficit or net loss for the year. Holders of participating certificates outstanding participate in any net loss for the year recorded by an issuer through a reduction in their repayment entitlements; this is based on the ratio between the repayment entitlements and the subscribed capital as shown in the balance sheet plus revenue reserves and additional paid-in capital as well as participatory capital.

Net profits for subsequent years must be used to bring repayment entitlements back up to their nominal value. The participating certificates outstanding certify subordinated creditor rights; they do not guarantee any share in liquidation proceeds.

56. *Minority interests*

	<i>2003 (in € millions)</i>
Balance at 1 January 2003	126
Changes in valuation financial instruments not affecting income	1
Transfer from net income	1
Changes in consolidated group	(72)
Changes arising from foreign currency	(42)
Balance at 31 December 2003	14

57. *Shareholders' equity*

On 31 December 2003, Hypo Real Estate Holding AG's subscribed capital of €402 million was divided into:

Analysis of shareholders' equity

	2003 Number
Shares of common bearer stock	130,433,775
Shares of registered non-voting preferred stock	3,638,400

Authorised capital increase

<i>Year resolution adopted</i>	<i>Available unit</i>	<i>Original amount</i>	<i>Balance as at 31 December 2003 (in € millions)</i>
2003	13 May 2008	120	120

Analysis of retained earnings

	<i>31 December 2003 (in € millions)</i>	<i>1 January 2003 (in € millions)</i>
Legal reserve	—	—
Reserve for treasury stock	—	—
Other retained earnings	358	368
Total	358	368

Cash flow hedge reserve

During the year under review, the cash flow hedge reserve rose by €297 million from € – 1,166 million to € – 1,463 million. This rise is largely (€172 million) due to the acquisition of the minority interests in the mortgage bank participating interests as this led to a corresponding reduction in the minority interest relating to the cash flow hedge reserve.

58. *Treasury stock*

Neither we nor any of our dependent companies or companies in which we have a majority holding held shares (own shares) in Hypo Real Estate Holding AG.

59. *Foreign-currency assets and liabilities*

Translated into euros, the total amount of assets in foreign currencies on the balance sheet date was €16.7 billion and the total amount of foreign-currency liabilities was €11.9 billion. Of these, our most important foreign currencies accounted for the following amounts:

	31 December 2003	1 January 2003
	(in € millions)	
Foreign-currency assets	16,718	9,558
of which		
USD.. .. .	6,353	2,463
JPY	1,045	592
CHF.. .. .	2,594	2,094
Foreign-currency liabilities	11,936	14,367
of which		
USD.. .. .	3,372	8,898
JPY	954	794
CHF.. .. .	3,168	1,922

There are considerable differences between assets and liabilities in foreign currencies as only balance-sheet items have been taken into account here. The off-balance-sheet volume — which also includes the volume to secure transactions concluded — is not shown.

60. *Trust business*

The following tables show the volume of fiduciary business not shown in the consolidated balance sheet.

Trust assets

	31 December 2003	1 January 2003
	(in € millions)	
Loans and advances to customers	1,182	110
Total	<u>1,182</u>	<u>110</u>

Trust liabilities

	31 December 2003	1 January 2003
	(in € millions)	
Deposits from other banks	678	109
Other liabilities	504	1
Total	<u>1,182</u>	<u>110</u>

61. *Assets assigned or pledged as security for own liabilities*

These are analysed as follows:

	31 December 2003	1 January 2003
	(in € millions)	
Deposits from other banks	6,926	5,214
Contingent liabilities	521	—
Total	<u>7,447</u>	<u>5,214</u>

Analysis of assets pledged

The assets pledged as security for own liabilities can be broken down as follows:

	31 December 2003 (in € millions)	1 January 2003
Placements with, loans and advances to other banks	533	—
Loans and advances to customers	529	559
Investments	6,385	4,655
Total	7,447	5,214

Notes to the Cash Flow Statement

62. Notes to the items in the Cash Flow Statement

The cash flow statement shows the payment flows for the fiscal year, classified according to “operating activities”, “investing activities” and “financing activities”. Operating activities are given a wide basis of definition with differentiation based on operating results.

The item shown as cash and cash equivalents corresponds to the balance sheet item “cash reserve” and contains cash at hand and central bank balances.

The item entitled change in other non-cashflow-related items contains the changes in the valuation of financial instruments, the net additions to deferred taxes, the change in provisions, the change in prorated and deferred interest, the reversal of share premiums and share discounts, as well as minority interests in the result for the year.

The item other adjustments contains the results shown in the financial statements insofar as the corresponding payments are shown separately after the relevant sub-totals, i.e. interest and dividend income, interest expense, extraordinary income and expenses and expenses in respect of taxes on income (IAS 7.29 *et seq.*). This item contains both the non-cash-flow-related and cash-flow-related result components. Cash-flow-related results are added back (inflows) or deducted (outflows) after the subtotal and before the total cash flow from operating activities.

	Carrying amounts 2003 (in € millions)	Fair value 2003
Assets		
Cash reserve	489	489
Placements with, loans and advances to other banks	24,981	29,105
Loans and advances to customers	85,505	87,972
Investments	36,471	36,773
Other assets	5,029	5,029
Liabilities		
Deposits from other banks	19,351	20,862
Amounts owed to other depositors	7,844	8,249
Promissory notes and other liabilities evidenced by securities	110,153	112,681
Other liabilities	8,786	8,786
Subordinated capital	2,476	2,518
Other items		
Contingent liabilities	9,005	9,005
Irrevocable loan commitments	2,571	2,571

Information on Financial Instruments compliant with IAS 32

63. Fair values of financial instruments

The recognised fair values of financial instruments pursuant to IAS 32 correspond to the amounts at which, in our opinion, an asset could be exchanged on the balance-sheet date between willing, independent expert business partners or at which a liability could be settled between such business partners.

The fair values were determined as at the balance sheet date based on the market information available and using the Company's own methods of calculation.

The fair values of certain financial instruments reported at nominal values are almost identical to their carrying amounts. These include, for example, the cash reserve and receivables and liabilities without a specific maturity or interest tie-up. For other receivables and liabilities, the future expected cash flows are discounted to the present value using current interest rates.

Quoted market prices are applied for market securities and derivatives as well as for quoted debt instruments. The fair value of other securities is determined as the present value of future expected cash flows.

The fair values of interest and currency interest swap agreements and also interest rate futures are determined on the basis of discounted future expected cash flows. The market interest rates applicable to the remaining maturity of the financial instruments are used for the purpose of this calculation.

The fair value of forward exchange transactions is determined on the basis of current forward rates. Options are valued using exchange rate quotations or recognised models for determining option prices.

The fair values of irrevocable loan commitments and contingent liabilities correspond to their carrying amounts.

For assets, the difference between fair values and carrying amounts to €6.9 billion and for liabilities €4.5 billion. The balance of these amounts is €2.4 billion. The development of this parameter over time depends on changes in market prices and the valuation parameters applied in calculating fair values, including in particular changes in interest rates and changes in financial instrument portfolios.

64. Economic assessment of the cash flow hedge reserve

Control of our mortgage banks is based on ensuring extensive hedging against interest rate risks so that future income is protected against interest rate risks at an early stage. These hedging measures take place at portfolio level — in other words, corresponding, homogenous portfolios are hedged, rather than individual loans.

At present, these hedging transactions that are justified in economic terms and referred to as macro fair value hedges are not recognised under the current provisions of IAS 39. Although in principle the current draft "Recognition and Measurement — Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk" will in future enable the recognition of such portfolio-based hedging transactions, it will not be possible to make the effectiveness test prescribed for this commensurate with a Bank's control systems. It is therefore unlikely that corresponding reporting will be possible even after the new standard enters into effect.

In financial terms, it is not appropriate to show only fluctuations in the market values of derivatives via the current income statement and not the opposing fluctuations in the market values of the underlying transactions; it has therefore been decided to apply cash flow hedge accounting and show the fluctuations in the market values of derivatives as not affecting net profit or loss. However, this means that the corresponding effect must be shown under shareholders' equity.

Taking the above into consideration, the following section outlines the effects on our financial statements for the year ending 31 December 2003.

According to current IAS provisions (IAS 39.10), loans and advances must be classified into the following categories:

1. Originated loans and receivables
2. Available for sale
3. Held to maturity

As our loans and advances mainly relate to loans and advances to customers or financial institutions within the real estate or municipal sector, the majority of our loans and advances are classified under “originated loans and receivables” or “held to maturity”. According to IAS 39.68 and IAS 39.73, these categories must be shown at amortised cost. According to IAS 39.69, the derivatives used for hedging purposes must be shown at their market price. This means that because of the development of interest rates, a negative cash flow hedge reserve is determined even in the case of an effective cash flow hedge.

In order to evaluate the economic significance of this deducting item in the shareholders’ equity pursuant to IAS 39.158 a, the balanced hidden reserves [difference between carrying amounts and market value (fair value)] must be considered in the interest-bearing assets and liabilities as at 31 December 2003 (cf. Note 63 on IAS 32). On the balance-sheet date, the cash flow hedge valuation result amounted to € – 1,463 million, whereas the balanced hidden reserves amounted to €2,407 million. The hidden reserves are therefore clearly higher than the negative valuation result relating to the cash flow hedge.

Additional Information

65. Significant concentrations of assets and liabilities

The Group’s assets and liabilities exhibit a balanced structure and do not contain any significant areas of concentration.

Share of loan volume

	31 December 2003	1 January 2003
	(in %)	
Municipal loans	40.4	49
Mortgage loans	45.7	48.1
Other loans and advances	6.0	2.8
Contingent liabilities	7.9	0.1
Total	100.0	100.0

Similarly, the balanced maturities structure of our liabilities does not reveal any significant concentrations of risk.

Detailed information on the risks associated with our business is contained in the Risk Report.

66. Key capital ratios (based on the German Commercial Code)

According to the Recommendation on Equity issued by the Basel Committee for Banking Supervision in July 1988, the core capital ratio (core capital/risk weighted assets) may not fall below 4.0 per cent and the equity capital ratio (shareholders’ equity/risk weighted assets) may not be less than 8.0 per cent. At the same time, the equity funds ratio calculated on the basis of the relationship between equity funds and total risk weighted assets plus 12.5 times the weighting amount for items subject to market price risk (including options transactions) must be at least 8.0 per cent.

Equity funds consist of core capital and supplementary capital (shareholders’ equity) plus tier III capital and are comprised as follows, according to approved annual financial statements as at 31 December 2003:

Equity funds⁽¹⁾

																			31 December 2003 (in € millions)
Core capital	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,122
Supplementary capital	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2,126
Equity capital	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	6,248
Tier III capital	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	—
Total equity funds	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	6,248

Note:

(1) Consolidated pursuant to Section 10 a German Banking Act [KWG].

Risk weighted assets

The risk weighted assets and positions subject to market risk were as follows:

																			31 December 2003 (in € billions)
On-balance-sheet assets	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	47
Off-balance-sheet assets	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	7
Total risk weighted assets	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	54
Positions subject to market risk in € millions																			
Currency risks	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	8
Total positions subject to market risk	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	8

Key capital ratios

Calculated in accordance with the Basel Recommendation on Equity, the following ratios applied as at 31 December 2003 (based on approved annual financial statements):

																			31 December 2003 (in %)
Core capital ratio	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	7.6
Equity capital ratio..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	11.6
Equity funds ratio (overall indicator)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	11.5

According to sections 10 and 10a of the German Banking Act [KWG] equity funds amount to €6,366 million. The liable shareholders' equity, which comprises core capital and supplementary capital less the deductible item, also amounts to €6,366 million. Supplementary capital does not include any unrealised reserves pursuant to section 10 para. 2b sentence 1 nos. 6 and 7 of the German Banking Act [KWG].

67. *Contingent liabilities and other commitments*

	31 December 2003 (in € millions)	1 January 2003
Contingent liabilities⁽¹⁾	9,005	130
From guarantees and indemnity agreements	9,005	130
Performance guarantees and indemnities	9,005	130
Other liabilities	2,597	1,873
Irrevocable loan commitments	2,571	1,871
Book credits	36	—
Mortgage and municipal loans	2,535	1,871
Other commitments	26	2
Total	<u>11,602</u>	<u>2,003</u>

Note:

(1) In principle, the amount of contingent liabilities equates to the amount of contingent claims.

The contingent liabilities from performance guarantees and indemnities include guarantee obligations of Hypo Real Estate Bank International vis-à-vis HVB AG in an amount of €5.2 billion; these were issued as part of the synthetic transfer of the “Western Europe” real estate finance portfolio.

The other contingent liabilities and other liabilities do not contain any individual items of significant importance.

Hypo Real Estate Holding AG has issued the loss indemnity declaration for the deposit protection fund established by the Bundesverband deutscher Banken e. V. Berlin as prescribed by the applicable Articles of Association.

68. *Information on relationships with related parties*

Remuneration paid to Members of the Company’s organs

	Fixed components ⁽¹⁾	Profit-related components ⁽¹⁾	Long-term incentive components	Total
	2003 (in €)			
To members of the Executive Board of Hypo Real Estate Holding AG	2,104,500	3,450,000	—	5,554,500
Georg Funke, Chairman	750,000	1,350,000	—	2,100,000
Johann Berger	300,000	450,000	—	750,000
Dr. Paul Eisele	249,500	620,000	—	869,500
Dr. Markus Fell	400,000	450,000	—	850,000
Frank Lamby	405,000	580,000	—	985,000
To members of the Supervisory Board of Hypo Real Estate Holding AG for Supervisory Board activities	243,600	—	—	243,600

Note:

(1) Profit-related remuneration for 2003 but only paid in 2004.

In 2003, the members of the Supervisory Board did not receive any remuneration for personal services.

On the balance-sheet date, there were no receivables or contingent liabilities in respect of members of the Supervisory and Executive Boards of Hypo Real Estate Holding AG.

Shares and share derivatives of Hypo Real Estate Holding AG purchased or sold by members of the Executive and Supervisory Boards since the first quotation of Hypo Real Estate Holding AG shares, in

	Type of transaction	Name of the security or derivative	Securities identification number/ ISIN number	Completion date	Price per share	No. of securities	Nominal amount of the security/ derivative
Kurt F. Viermetz	Purchase	Ordinary bearer shares of Hypo Real Estate Holding AG	WKN: 802770 ISIN: DE 0008027707	6.10.2003	€11.2725	10,000	€3. — per share total €30,000. —

69. *Employees*

																					<i>2003</i>
Employees (excluding trainees)	1,515
Full-time employees	1,339
Part-time employees	176
Trainees	28
Total	1,543

	1. Quarter 2003	2. Quarter 2003	3. Quarter 2003	4. Quarter 2003
	(in € millions)			
Income/expenses				
Net interest income	168	150	181	175
Provisions for losses on loans and advances	63	67	59	63
Net interest income after provisions for losses on loans and advances	105	83	122	112
Net commission income	2	12	—	31
General administrative expenses	57	59	71	73
Balance of other operating income and expenses	(3)	(2)	6	18
Operating result	47	34	57	88
Net income from investments	(7)	9	(15)	12
Balance of other income/expenses	(5)	(12)	(18)	(34)
Result of ordinary activities/result before taxes ..	35	31	24	66
Taxes on income	7	8	28	(3)
Net income.. .. .	28	23	(4)	69

71. *Summary of annual financial data*

	2003	2002 ⁽¹⁾ (in € millions)	2001 ⁽¹⁾
Income/expenses			
Net interest income	674	670	733
Provisions for losses on loans and advances	252	505	282
Net interest income after provisions for losses on loans and advances	422	165	451
Net commission income	45	11	17
Trading result	—	—	(1)
General administrative expenses	260	235	227
Balance of other operating income and expenses	19	17	52
Operating result	226	(42)	292
Net income from investments.. .. .	(1)	62	66
Balance of other income and expenses	(69)	(4)	(13)
Result of ordinary activities/result before taxes	156	16	345
Taxes on income	40	27	103
Net income	116	(11)	242

Note:

- (1) The financial data as at 31 December 2002 and also the comparative figures for the fiscal year ending 31 December 2001 are based on the segment data for HVB AG's "Hypo Group" segment contained in the consolidated financial statements of HVB AG for fiscal 2002 (including the comparative figures for fiscal 2001); they have been enhanced in terms of depth of detail and the figures for FGH Bank have been excluded.

72. *Members of the Supervisory Board and of the Executive Board*

SUPERVISORY BOARD

Kurt F. Viermetz, Chairman
Dr. Ferdinand Graf von Ballestrem
Dr. Götz Wricke

EXECUTIVE BOARD

Georg Funke, Chairman
Johann Berger
Dr. Paul Eisele
Dr. Markus Fell
Frank Lamby

Munich, 12 March 2004

Hypo Real Estate Holding
Aktiengesellschaft

The Executive Board
Funke Berger Eisele Fell Lamby

REGISTERED OFFICE OF THE ISSUER

Hypo Real Estate Bank International

(Irish head office)
3 Harbourmaster Place
International Financial Services Centre
Dublin 1

(Luxembourg branch)
4 rue Alphonse Weicker
2099 Luxembourg
Luxembourg

REGISTERED OFFICE OF THE GUARANTOR

Hypo Real Estate Holding AG

Unsöldstraße 2
80538 Munich
Germany

ARRANGER

Morgan Stanley & Co. International Limited

25 Cabot Square
Canary Wharf
London E14 4QA

DEALERS

ABN AMRO Bank N.V.

250 Bishopsgate
London EC2M 4AA

Bayerische Hypo- und Vereinsbank AG

Arabellastrasse 12
D-81925 Munich

Deutsche Bank AG London

Winchester House
1 Great Winchester Street
London EC2N 2DB

Dresdner Bank Aktiengesellschaft

Jurgen-Ponto-Platz 1
6030 Frankfurt am Main

HSBC Bank plc

8 Canada Square
London E14 5HQ

Hypo Real Estate Bank International

(Luxembourg branch)
4 rue Alphonse Weicker
2721 Luxembourg
Luxembourg

Morgan Stanley & Co. International Limited

25 Cabot Square
Canary Wharf
London E14 4QA

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

DZ BANK AG

Deutsche Zentral-Genossenschaftsbank,
Frankfurt am Main
Platz der Republik
60265 Frankfurt am Main

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB

Hypo Real Estate Bank International

(Irish head office)
3 Harbourmaster Place
International Financial Services Centre
Dublin 1

J.P. Morgan Securities Ltd.

125 London Wall
London EC2Y 5AJ

UBS Limited

1 Finsbury Avenue
London EC2M 2PP

**ISSUE AND PAYING AGENT, PRINCIPAL REGISTRAR,
PAYING AND TRANSFER AGENT**

Citibank, N.A.
5 Carmelite Street
London EC4Y 0PA

**PAYING AND TRANSFER AGENTS,
ALTERNATIVE REGISTRARS**

Citibank International PLC (Ireland)
1 North Wall Quay
Dublin 1
Ireland

Pfandbrief Bank International S.A.
4 rue Alphonse Weicker
2099 Luxembourg

LISTING AGENTS

A&L Listing Limited
25-28 North Wall Quay
Dublin 1

Pfandbrief Bank International S.A.
4 rue Alphonse Weicker
2099 Luxembourg

AUDITORS

To the Issuer
KPMG Ireland
(Chartered Accountants)
1 Harbourmaster Place
International Financial Services Centre
Dublin 1

To the Guarantor
KPMG Deutsche
Treuhand-Gesellschaft
Ganghoferstraße 29
D-80339 München

LEGAL ADVISERS

*To the Issuer and the Guarantor
in respect of Irish law*
A&L Goodbody
International Financial Services Centre
North Wall Quay
Dublin 1

in respect of Luxembourg law
Arendt & Medernach
14, rue Erasme
L-2010 Luxembourg

To the Guarantor in respect of German law

Cleary, Gottlieb, Steen & Hamilton
Neue Mainzer Strasse 52
D-60311 Frankfurt am Main

*To the Dealers
in respect of English law*

Linklaters
One Silk Street
London EC2Y 8HQ

