

Hypo Real Estate Bank AG is selling a portfolio worth EUR 3.6 billion and is completing its restructuring process

Munich, 16 September 2004 – The real estate financier Hypo Real Estate Bank AG – a member of the Hypo Real Estate Group – has sold a German real estate loan portfolio worth approx. EUR 3.6 billion in total. The portfolio is made up of a total of around 4,200 loans. The portfolio which has been sold comprises performing loans (EUR 0.66 billion), most of which had, however, been placed on a watch list. It also comprises sub-performing loans (EUR 0.46 billion) and non-performing loans (EUR 2.48 billion). Cumulative arrears (interest, costs, redemption payments) of approx. EUR 300 million are included in the overall volume. The buyer is the US investment company Lone Star; it has been agreed that the purchase price will not be revealed. The sale is to be effected by spinning off the loan portfolios to a new company whose shares will be taken on by the investor. The assignment of the loans by way of the spin-off in accordance with the Transformation Act, which is expected to be completed by the end of 2004, is, as far as the managing board is aware, the largest transaction of this type which has ever been carried out in the world.

As a result of the sale, the non-performing loans of the business segment Hypo Real Estate Deutschland in the Hypo Real Estate Group will be reduced by 75% from approx. EUR 3.32 billion (including costs and interest) to a remainder of approx. EUR 0.84 billion (of which EUR 0.11 billion in costs and interest). As a result of the transaction, Hypo Real Estate Bank AG will be able to complete its restructuring much earlier than originally planned. It will accordingly immediately resume new business in Germany and will be the center of competence for Germany within the group. It will employ a business model which combines the successful business models of the two other business segments in the group, namely Hypo Real Estate International and Württembergische Hypothekbank.

The sale will not have any impact on the earnings target of the Hypo Real Estate Group in the year 2004 (profit before taxes: EUR 205 to 225 million). If the financial year continues to proceed as planned, the group already envisages to pay a dividend for 2004. Nevertheless, additional costs of up to EUR 20 million might be necessary at Hypo Real Estate Deutschland as a result of the size and complex nature of the sale. For this reason, the managing board is forecasting profit before taxes of EUR 0 to EUR minus 20 million for this segment in 2004 instead of the previous forecast of EUR 0 to EUR minus 5 million.

The managing board expects that the transaction will significantly boost the profitability of the business segment Germany as well as the overall group next year. In consequence, the managing board currently expects that the group will be able already in 2005 to cover its cost of capital, which will fall to between 7.5 and 8% (after taxes) as a result of the portfolio sale, and that it will achieve a return on equity after taxes of between 10 and 11% in 2007.