

Hypo Real Estate Holding AG



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Hypo Real Estate Holding AG: Hypo Real Estate Group decides upon strategic realignment and restructuring; Q4 results expected to be burdened further

Hypo Real Estate Holding AG / Strategic Company Decision/Quarter Results

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Munich, 19 December 2008 - Hypo Real Estate Holding AG: Hypo Real Estate Group decides upon strategic realignment and restructuring

- Sustainably aligning the business model to changed market conditions
- Group to reposition itself as a specialist for Real Estate Finance and Public Sector Finance, in Germany and Europe, funded through Pfandbrief issuance
- Reducing the Group's cost base, streamlining its structure
- Q4 results expected to be burdened further

The Management Board and Supervisory Board of Hypo Real Estate Group have decided upon the strategic realignment and restructuring of the Group. The company will adapt its business model to the profound changes in the capital markets environment, and to the growing challenges in the real estate business. This restructuring is also a prerequisite for the support measures already provided by the Federal Republic of Germany, and for further support to be extended by the German Financial Markets Stabilisation Fund (SoFFin), which is required for the company's continued existence.

The objective of the strategic realignment is to reposition Hypo Real Estate Group as a leading specialist for real estate and public-sector finance in Germany and Europe, with a funding strategy focused on Pfandbrief issuance. The structural cost base will be reduced, and the

balance sheet structure and risk profile enhanced. The Group plans to further simplify its structure. The corresponding measures will be implemented over the next three years.

Discussions with SoFFin regarding extensive support measures are continuing.

Business model and re-positioning

In the Commercial Real Estate Finance business segment, the Group will be positioned as a business partner to real estate investors in Germany, key European markets, and the US. New business in this segment will be generated from the Group's offices in Munich, London, New York, and Paris.

In the Public Sector Finance business, the Group will henceforth concentrate on the selective origination of primary business in Europe eligible for inclusion as cover assets for Pfandbriefe, and on managing the existing portfolio. The segment's office locations will be centralised to reflect this adjusted focus.

No new business is planned in infrastructure finance. Capital markets and trading activities that are no longer in line with the business model will be discontinued. A sale of non strategic-activities is being considered. The Group will continue its client-related derivatives business.

Cost base and Group structure

The changes to the business model will be accompanied by reductions in annual costs of approx. EUR 200 million by 2011, and approx. EUR 250 million by 2013.

The number of employees will be reduced over the next three years, from its current level of close to 1,800 to around 1,000. Two-thirds of affected positions will be located outside Germany. An additional 200 redundancies will occur until 2013, once the planned IT investment programme has been completed.

Following the merger of Hypo Real Estate Bank Internationale AG into Hypo Real Estate Bank AG, it is intended to merge DEPFA Deutsche Pfandbriefbank AG into Hypo Real Estate Bank AG as a next step.

Additional burdens on Q4 results

The realignment and restructuring of Hypo Real Estate Group will involve total non-recurring expenditure of approx. EUR 400 million, including approx. EUR 160 million attributable to IT investments. Around two-thirds of the aggregate EUR 400 million non-recurring expenditure is expected to be recognised in the Q4/2008 financial statements.

Business conditions on the international credit and real estate markets have deteriorated further in the course of the current quarter.

Accordingly, Hypo Real Estate Group expects significant additional burdens

to Q4 results, from net trading income and allowance for credit losses related to real estate finance and structured credit exposures. At least for the Group and Hypo Real Estate Bank AG a negative annual result is expected.

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