

Investor Relations Information

Ulrich Kern, Head of Investor Relations

ulrich.kern@hyporealestate.com

Phone: +49-89-203-007-780

Frank Ertz

frank.ertz@hyporealestate.com

Phone: +49-89-203-007-776

Robert Hörberg

robert.hoerberg@hyporealestate.com

Phone: +49-89-203-007-778

Hypo Real Estate Bank AG sells real estate loan portfolio worth EUR 3.6 billion – restructuring process in Germany has been completed

- **Largest transaction of this kind which has ever been carried out in the world**
- **Considerable positive impact for the group's profitability**
- **Restructuring of German business completed much earlier than originally planned**
- **Hypo Real Estate Bank AG to commence new business with immediate effect**

Munich, September 16th 2004 - Hypo Real Estate Bank AG, which belongs to the Hypo Real Estate Group, has sold a German real estate loan portfolio worth a total of around EUR 3.6 billion to an institutional investor. As far as the managing board is aware, this is the largest transaction of this type which has ever been carried out in the world. The sale has meant that the volume of non-performing loans in the business segment Hypo Real Estate Germany has been reduced by 75% in a single transaction. The portfolio which has been sold also comprises performing loans. The transaction means that the restructuring of the German business will be completed much earlier than originally planned. Hypo Real Estate Bank AG will start new business in Germany with immediate effect. As a result of the sale, the profitability of the business segment Hypo Real Estate Germany as well as the entire group will improve significantly next year.

Transaction structure

The real estate loan portfolio has been bought by the US investment company Lone Star. The investor will take on around 4,200 loans extended to 1,700 customers, as well as the securities provided to Hypo Real Estate. The portfolio which has been sold comprises performing loans (EUR 0.66 billion), most of which had 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) amounting to approx. EUR 300 million are included in the overall volume of EUR 3.6 billion. The portfolio consists of commercial loans (56 %) and residential real estate loans (44 %). The arranger of the transaction is HVB Real Estate Structured Products/M&A.

It has been agreed that the purchase price will not be revealed. The transaction has been effected by spinning off the loan portfolio in accordance with the Transformation Act to a new company whose shares have been acquired by the investor. The transaction is expected to be completed by the end of 2004.

One of the best portfolio qualities among German real estate financiers

The sale has significantly improved the quality of the real estate loan portfolio of the business segment Hypo Real Estate Germany as well as the overall group. The volume of non-performing loans of the business segment will be reduced by 75%, from approx. EUR 3.32 billion (including costs and interest) to a residual amount of approx. EUR 0.84 billion (of which EUR 0.11 billion in costs and interest). For various reasons, a sale is not possible or would not make financial sense, whereas an adequate loan-loss allowance has been set aside for all remaining loans. Hypo Real Estate Bank AG will have one of the best portfolio qualities of all real estate financiers in Germany: In total, only around 3% of the remaining portfolio worth EUR 33.2 billion comprise sub-performing loans and non-performing loans, and only around 2% comprises non-performing loans.

Restructuring completed in record time

As a result of the transaction, restructuring of the German business will be completed much earlier than originally planned. This restructuring process commenced in the spring of 2003, in other words, even before the process of spinning-off the commercial real estate financing business of HypoVereinsbank to the Hypo Real Estate Group which took place at the end of September. Within around 18 months, all planned restructuring measures have been fully or almost fully completed:

- The real estate loan portfolio in Germany has been reduced by EUR 9 billion to EUR 33.2 billion (after the sale)
- Significant improvement in margins upon prolongation
- Structures and processes have been significantly streamlined, e.g. as a result of the merger of WestHyp with Hypo Real Estate Bank AG, branch closures, headcount reduction and modernization of the IT platform.

Hypo Real Estate Bank to become the group's centre of competence for Germany

With immediate effect, Hypo Real Estate Bank AG will resume new business in Germany, which was suspended about two years ago. It will accordingly be the centre of competence for Germany for the entire Hypo Real Estate Group. It will employ a strategy combining the successful business models of the two other business segments in the group, namely Hypo Real Estate International and Württembergische Hypothekbank. The main features of this business model will be:

- Cashflow-oriented transaction banking (every transaction is considered on its own merits, no fixed rulings on locations and markets)
- Strict focus on profitability and risk management, market share considerations and volume do not play a role.

Profitability targets will be met much more quickly

The transaction will not have any impact on the profit target of the Hypo Real Estate Group in 2004 (consolidated profit target before taxes between EUR 205 and 225 million), which have again been confirmed. Nevertheless, the size and complex nature of the sale might require additional costs of up to EUR 20 million at the business segment Hypo Real Estate Germany. For this reason, the managing board is predicting 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 improve profitability of the business segment Hypo Real Estate Germany and also the overall group already in 2005. In consequence, it will be possible for the original plans of the Hypo Real Estate Group drawn up at the time of the spin-off from HypoVereinsbank to be significantly exceeded.

In the business segment Hypo Real Estate Germany, the strong improvement in the portfolio quality and the new business which is starting up again mean that return on equity after taxes of 4 to 5% is expected for the year 2005.

At the group level, it is expected that the Hypo Real Estate Group will next year for the first time cover its cost of capital, which the portfolio sale will reduce to between 7.5 and 8%. At the point at which the spin-off of the group took place, this aim had been budgeted for 2007. For that year, the managing board is now predicting return on equity after taxes of between 10 and 11% for the group. A return of between 3.5 and 4% (after taxes) is planned for the current year 2004 – as announced on several occasions. If the current financial year continues as planned, the group already aims to pay a dividend for the year 2004.

Conference Call of Hypo Real Estate Holding AG

Thursday, September 16, at 2:00 p.m. CET

Hypo Real Estate Holding AG invites you to the conference call on the publication of the Portfolio Sale on Thursday, September 16 at 2:00 pm (CET).

The dial-in numbers are:

+49 (0) 69 22222 0408

+44 (0) 20 7098 0703 (for participants from the UK)

+1 718 354 1157 (for participants from the US)

During the conference George Funke - CEO, Markus Fell - CFO and Johann Berger - Speaker of the Board of Managing Directors of Hypo Germany will give you an insight into the Portfolio Sale, its implications, Hypo Real Estate Group's outlook and will answer your questions afterwards.

Following the conference call, there will be a replay available until Sunday September 18, 2004. The replay can be accessed under:

+49 (0) 69 22222 0418

+44 (0) 20 7984 7578 (for participants from the UK)

+1 718 354 1112 (for participants from the US)

The required pin code is: 897686