

Press release

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Hypo Real Estate Group ready to roll: New real estate bank seeks broad geographical diversification of risk

- **Negotiations with HVB AG regarding acquisition of U.S. portfolio in final stages – memorandum of understanding signed**
- **Market entry in Japan and China under consideration**
- **Leading international provider of commercial real estate finance with strong springboard for success**

The new Hypo Real Estate Group, which is one of the leading international providers of commercial real estate finance, aims to broaden the regional diversification of its operations over the next few years. "We want to improve our risk spread and exploit opportunities in key markets," stated Georg Funke, Chairman of the Board of Managing Directors of Hypo Real Estate Holding AG (in formation), at a press conference today. The Hypo Real Estate Group will emerge from the spin-off of HVB Group's commercial real estate business, which is expected to take effect in the first few days of next month. The group consists of a listed holding company and three operating units acting independently of each other: Hypo Real Estate Bank International (international operations), Württembergische Hypothekenbank (Pfandbrief-based domestic and international operations), and Hypo Real Estate Bank AG (German operations).

At the present time, some two thirds of the total volume of the Group's real estate loans amounting to €67 billion (including HVB Group's U.S. portfolio potentially to be acquired) relate to Germany. Further focal points are the UK (12%), the United States, and France (6% each). The objective is to appreciably reduce the proportion of domestic loans in the long run. At the same time, the Group is looking to significantly expand the portfolios in Great Britain, the United States and other regions, giving rise to a balanced regional portfolio with a presence in all the key markets. The critical factor driving geographical diversification is the announced systematic reduction in loan portfolios in Germany, allowing the released funds to be invested to expand international operations.

With this in mind, the Board of Managing Directors has entered into exclusive negotiations with HVB AG with a view to acquiring the latter's existing commercial real estate portfolio in the U.S. (with a volume of circa €4.6 billion). "The way things stand today, we assume that we will acquire this profitable portfolio of commercial loans pretty soon after the spin-off, in all likelihood before the end of the year," commented Funke. A memorandum of understanding has already been signed. Furthermore, the Hypo Real Estate Group is currently seriously considering a possible market entry in Asia, with the focus primarily on Japan and the burgeoning Chinese market.

Right from the start, the new real estate bank enjoys significant market positions in key international markets. Funke continued: "Hypo Real Estate is a new type of real estate bank with a demonstrably profitable business model that works in weak markets as well. We are concentrating on medium- and large-volume transactions in terms of commercial loans. The new bank will be characterized by lean, transparent structures, proven risk management techniques, short decision paths, and a solid capital base. These are certainly not the worst foundations to build on."

As things currently stand, the Board of Managing Directors expects to report a net loss for 2003 on the domestic operations of Hypo Real Estate Bank AG, which are currently being restructured, in accordance with IFRS accounting rules, and taking into account the restructuring expenses. Already included in these projections is the risk cover under which HVB AG will cover any losses accruing at Hypo Real Estate Bank AG in 2003 and 2004 up to a maximum amount of €90 million. Hypo Real Estate Bank International and WürttHyp are expected to record solid net profits in 2003. All in all, the Hypo Real Estate Group is looking to report a consolidated net profit in 2003, based on the current situation.

About the Hypo Real Estate Group

The Hypo Real Estate Group (HREG), which is currently in the process of formation, is one of the biggest providers of commercial real estate finance in Europe. At the same time, neither private residential construction loans nor public sector finance (municipal loan operations) are part of its business. HREG will consist of a listed, non-operating holding company, Munich-based Hypo Real Estate Holding AG, and three operating units: *Hypo Real Estate Bank International* headquartered in Dublin, *Württembergische Hypothekenbank AG (WürttHyp)* headquartered in Stuttgart, and *Hypo Real Estate Bank AG Germany* (including Westfälische Hypothekenbank, which is to be absorbed into Hypo Real Estate Bank AG).

HREG is the result of the spin-off of HVB Group's commercial real estate business. The shares of the new Hypo Real Estate Holding AG will be listed in the Prime Standard segment of the Frankfurter Stock Exchange as soon as the holding has been formed. On the day the spin-off takes effect, the shareholders of HVB AG will automatically receive one share of the new Hypo Real Estate Holding AG for every four HVB shares they hold. Thus they will have a stake in both banks.

The new bank's business model has a cash flow orientation and is transaction-driven. This means that each transaction is considered and approved individually. There are no generalized statements about industries, sites, or locations. The focus is on yield and risk management, with market shares and volumes taking a backseat.

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Note to the editorial offices: the listing prospectus of Hypo Real Estate Group is available effective immediately on the company website.

This document does not constitute an offer to sell or a solicitation of an offer to purchase any securities. Shares of Hypo Real Estate Holding AG will be distributed only to existing shareholders of Bayerische Hypo- und Vereinsbank AG (HVB AG) in connection with the spin-off of the commercial real estate financing business of HVB AG into Hypo Real Estate Holding AG, and no shares of Hypo Real Estate Holding AG are for sale in connection with such spin-off or the listing of such shares on the Frankfurt Stock Exchange.

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