

Portfolio Sale  
**September 2004**

Hypo  Real Estate  
GROUP

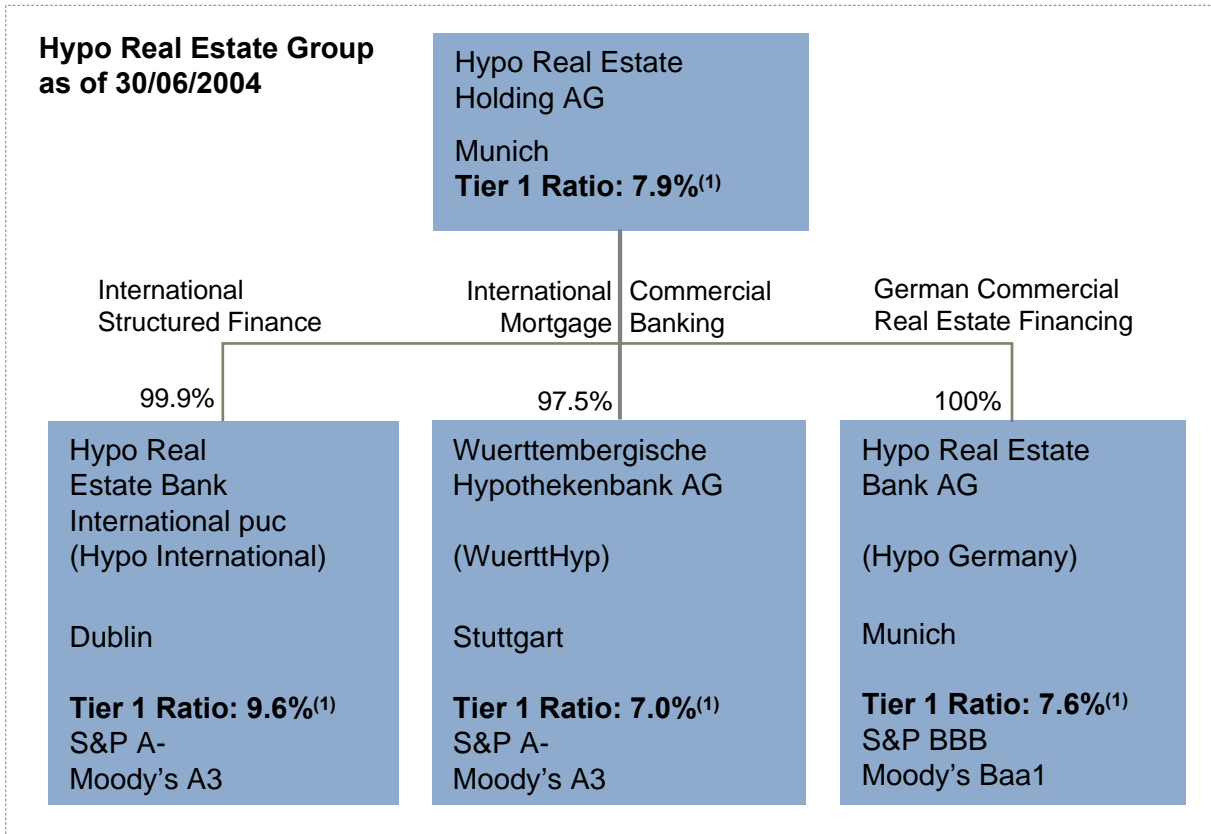


**“A Landmark Transaction offering new Perspectives for Shareholders”**

- I Introduction
- I Successful Restructuring of Hypo Real Estate Bank in Germany
  - Portfolio Sale completes Restructuring
  - Strategy and Outlook for the new Hypo Germany
- I Implications for Hypo Real Estate Group

# Hypo Real Estate Group

## Efficient structure with three operating banks focusing on commercial real estate financing



- | Highly transparent group structure
- | Holding provides access to equity capital markets and strategic steering of group
- | Three operating banks with clear defined business models
- | Independence from HVB after spin-off but benefiting from well-established operations
- | Holding structure enables transfers of equity

Equity transfer of € 150 MM via Holding in the last 6 months

| 3 | **Notes**

1. According to BIS  
Source: Interim Report as of 30/06/2004

### **Restructuring of Hypo Germany**

- | Significant portfolio reduction (€24.3 BN in 18 months<sup>(1)</sup>) and the resulting capital reallocation
- | Higher margins of >160 Bp through prolongations instead of about 50 Bp of portfolio margin
- | Significant headcount reduction of about 40% by the end of 2004

### **Foundation for growth in the international business**

- | New business volume in Hypo International of €3.7 BN in H1 2004
- | Close refinancing co-operation between Hypo International and WuerthHyp (e.g. US-portfolio) optimizing the funding resources
- | Enlarging our value chain through the “Credit Markets” division thereby raising synergy potential for our existing portfolio
- | Regional expansion (e.g. opening of new outlets) under way and continuing

# Hypo Real Estate Group

## On track to reach the business plan 2004

KEY FIGURES			
(€ MM)	2003	H1/04	Target 2004
Total Operating Income	738	399	~ 790 – 805
Risk Provisions	(252)	(146)	~ (285) – (275)
General Administrative Expenses	(260)	(149)	~ (310) – (300)
Profit before tax	121 <sup>(1)</sup>	114	~ 205 – 225
ROE after tax	2.0% <sup>(1)</sup>	4.0%	~ 3.5% – 4.0%
Hypo International – Profit before tax	87	94	~ 175 – 185
WuerttHyp – Profit before tax	54	32	~ 55 – 60
Hypo Germany – Profit before tax	(11)	(1)	~ (5) – 0

Including Portfolio  
Sale: ~ (20) – 0

▶ **Portfolio sale does not change the profit target of Hypo Group for 2004**

| 5 | **Note**

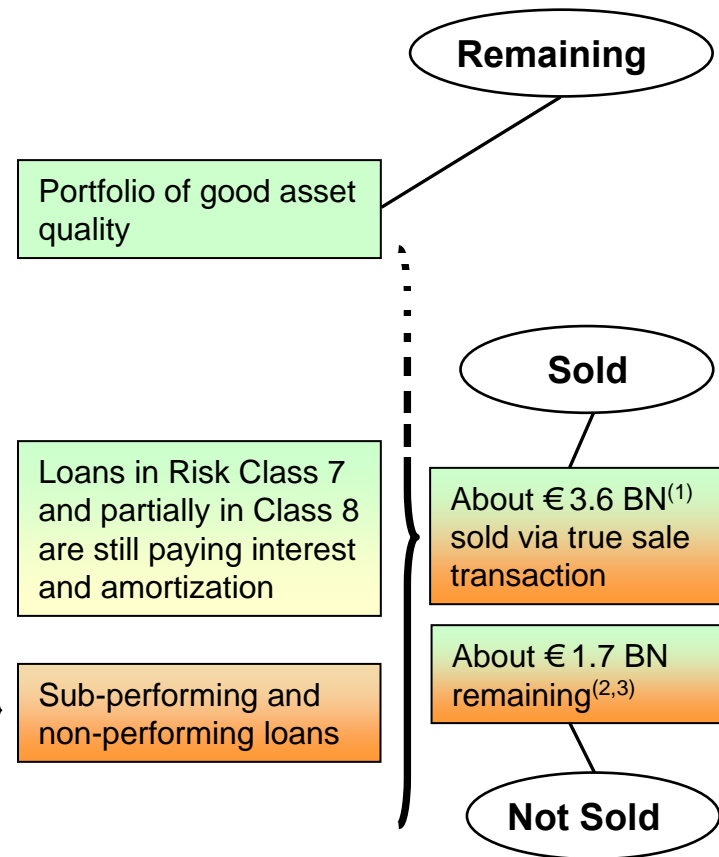
1. Without € 35 MM "Lucky-Buy" WestHyp

# Hypo Real Estate Bank in Germany

# Hypo Real Estate Bank in Germany

## Improving asset quality – last step in restructuring process

Risk Class	Definition
1	Excellent, borrower of highest quality
2	Very good, borrower of high quality with low risk elements
3	Good, borrower of good quality with some low risk elements
4	Above average, borrower of average quality with some risk elements
5	Average, borrower of average quality with average risk elements
6	Below average, borrower of below average quality with below average risk elements
7	Special mention, potential weaknesses that deserve management's close attention. No default. May result in deterioration of repayment prospects at some future date if left uncorrected
8	Substandard, inadequately protected by current sound worth and paying capacity of obligor or collateral pledged
9	Doubtful, loan loss reserve is appropriate, repayment in full is highly questionable. Probability of loss is extremely high, but some pending factors may still work to the strengthening of the credit
10	Loss, credit is considered uncollectable



### | 7 | Notes

1. Based on loans outstanding including about € 300 MM in accrued interest and costs
2. Based on loans outstanding without accrued interest
3. Volume of € 1.7 BN remains for various reasons specified on page 8

## Hypo Real Estate Bank in Germany

**2/3 of all watchlist, sub-performing and non-performing loans were sold to Lone Star**

I €3.6 BN<sup>(1)</sup> true sale transaction:

- Price not disclosed

I Sold portfolio comprises about:

- 2600 properties
- 4200 loans
- 1700 borrowers

I Remaining portfolio of € 1.7 BN<sup>(2)</sup>:

- €0.7 BN (40%) watchlist loans (RC 7)
- €0.3 BN (18%) sub-performing loans (RC 8)
- €0.7 BN (42%) non-performing loans (RC 9/10) }

Not sold due to economic, legal and tax reasons (i.e. ongoing foreclosure process, very low default probability, foreseeable repayment, restrictions of state sponsored loans, etc.)

Represents approx. 3% of the total loan volume leaving Hypo Germany with a high loan quality  
Sufficiently covered

**A landmark transaction which does make a difference**

| 8 | **Notes**

1. Based on loans outstanding including about €300 MM in accrued interest and costs
2. Based on loans outstanding without accrued interest

# Hypo Real Estate Bank in Germany

## Successful completion of the restructuring

All restructuring tasks have been fulfilled/are working out

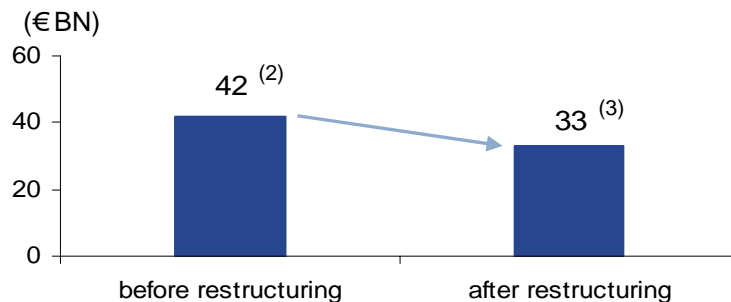
I Rigorous reduction of the loan portfolio

- No new business within the last two years<sup>(1)</sup> ✓
- Prolongation scenario with rates of 50% ✓
- Expiry of legacy state finance portfolio according to maturities ✓
- Enforced reduction via portfolio sales ✓

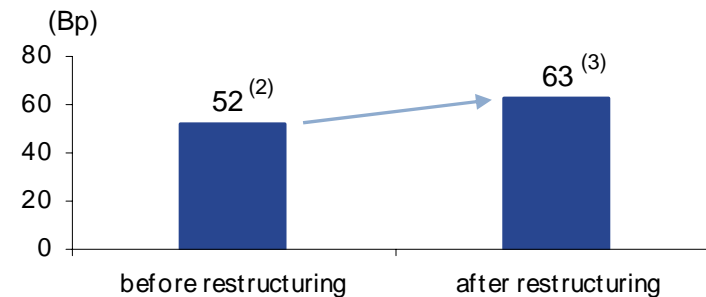
I Increase in profitability of the underlying loan book ✓

I Integration of WestHyp ✓

### Real Estate Loan Portfolio Development



### Margin Development of Total Portfolio



| 9 | **Notes**

1. Except for €422 MM done by WestHyp in H1 2003 prior to the merger into Hypo Real Estate Bank AG
2. Based on internal, unaudited figures as of 05/2003
3. Based on internal, unaudited figures 06/2004 corrected for the portfolio sale

# Hypo Real Estate Bank in Germany

## Successful completion of the restructuring (con't)

All restructuring tasks have been fulfilled/are working out

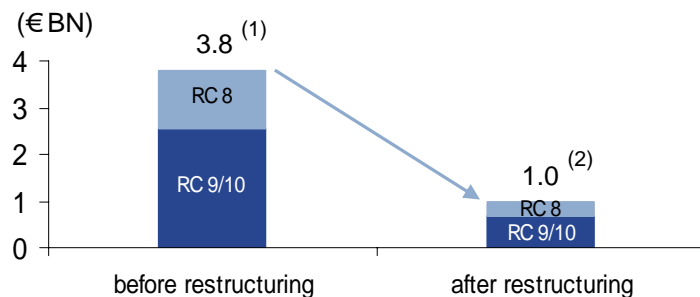
### I Disposal of

- Non-performing loans (RC 9-10) ✓
- Sub-performing loans (RC 8) ✓
- Watchlist and non-strategic loans ✓

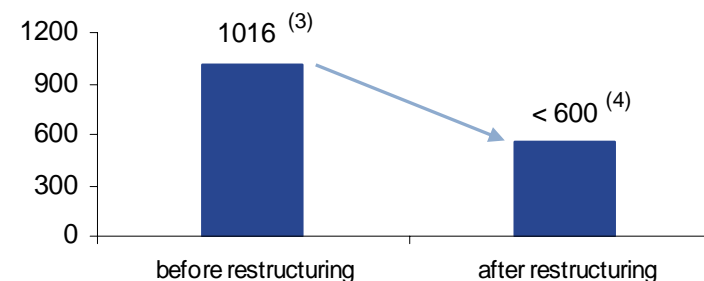
### I Significant reduction of the cost base

- Replacement of the IT-system ✓
- Closing down of branches ✓
- Headcount reductions ✓

### Development of Risk Classes



### Workforce Development



#### | 10 | Notes

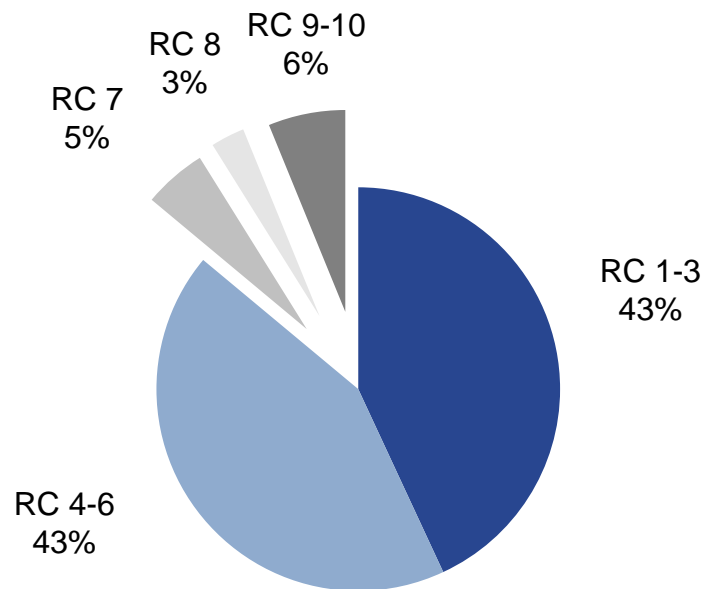
1. Based on internal, unaudited figures as of 05/2003
2. Based on internal, unaudited figures 06/2004 corrected for the portfolio sale
3. Based on 12/2002
4. Target for the end of 2004

# Hypo Real Estate Bank in Germany

## Remaining portfolio is of outstanding quality

### SPLIT BY RISK CLASS BEFORE RESTRUCTURING

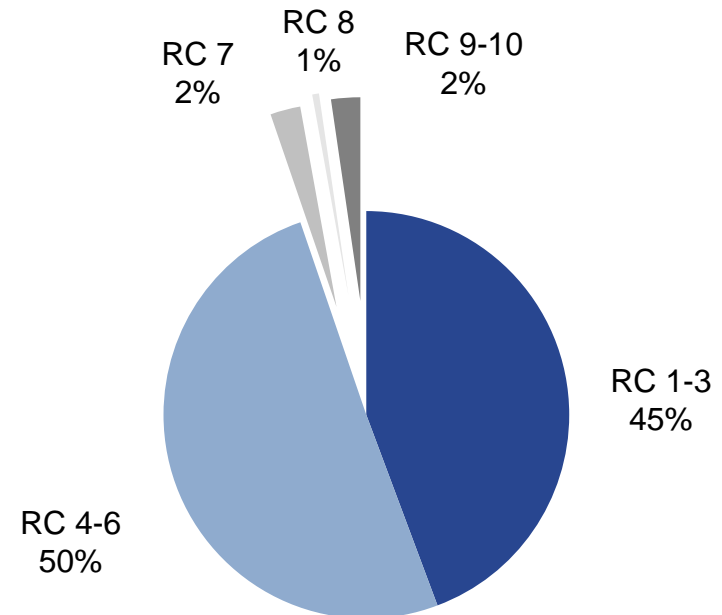
Real Estate Loan Portfolio 05/2003<sup>(1,2)</sup>



100% = € 42.2 BN

### SPLIT BY RISK CLASS AFTER RESTRUCTURING

Real Estate Loan Portfolio after Sale<sup>(1,3)</sup>



100% = € 33.2 BN

| 11 | **Notes**

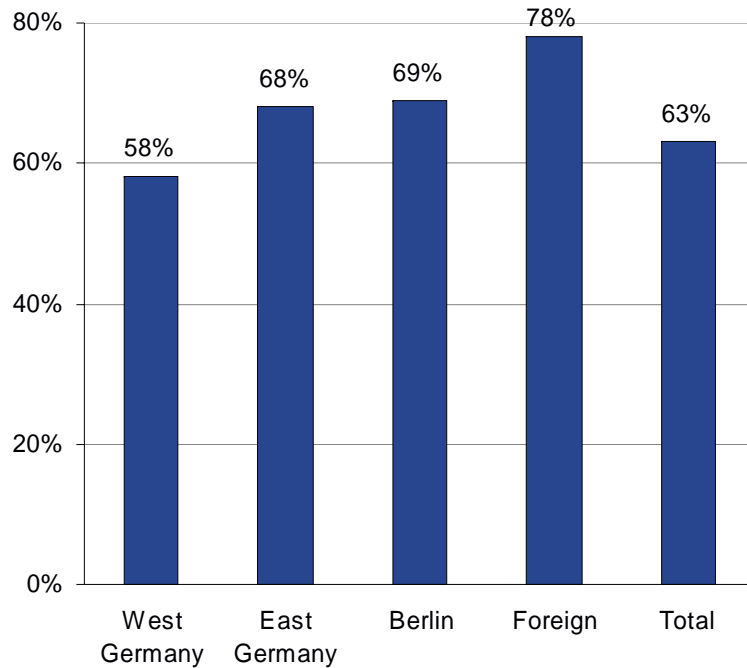
1. Based on loans outstanding
2. Internal, unaudited figures as of 05/2003
3. Internal, unaudited figures as of 06/2004 corrected for the portfolio sale

# Hypo Real Estate Bank in Germany

LTMV and DSC of remaining portfolio are very strong and prove the sound quality of the remaining portfolio

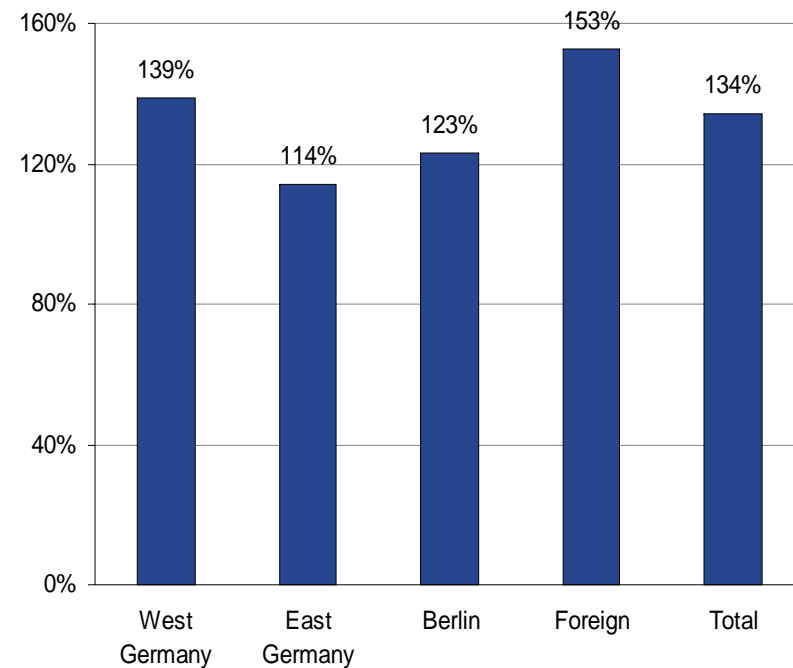
## LTMV (Loan To Mortgage Value) PER REGION

After restructuring<sup>(1,2)</sup>



## DSC (Debt Service Coverage) PER REGION

After restructuring<sup>(1,2)</sup>



Calculated on effective debt service on average of 7,75%

| 12 | **Notes**

1. 97% of loans to private and commercial investors as well as housing companies in rating class 1-8; selection was top down based (not included retail, internal rating 9-10 and property developers)
2. Internal, unaudited figures as of 07/2004

## Hypo Real Estate Bank in Germany

### High quality of the portfolio will be maintained in the future

- | German real estate market is bottoming out
- | New risk process in place similar to Hypo International, i.e. cash-flow based analysis, annual reviews of the portfolio and stress tests
- | The sale of watchlist and sub-performing loans has taken future negative potential off Hypo Germany's loan book, therefore 35-45 Bp of standard risk costs p.a. will be sufficient to cover eventual future risks

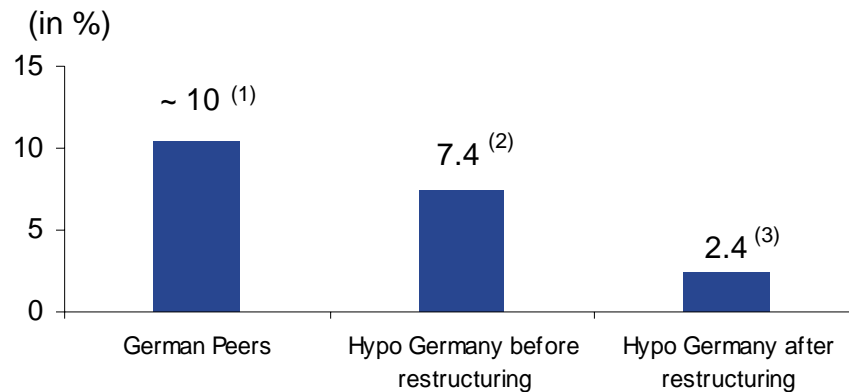
▶ **Hypo Germany is a modern real estate financing house with an excellent asset quality**

▶ **Cost of capital for Hypo Germany reduced to WuerttHyp's level of 6.9%**

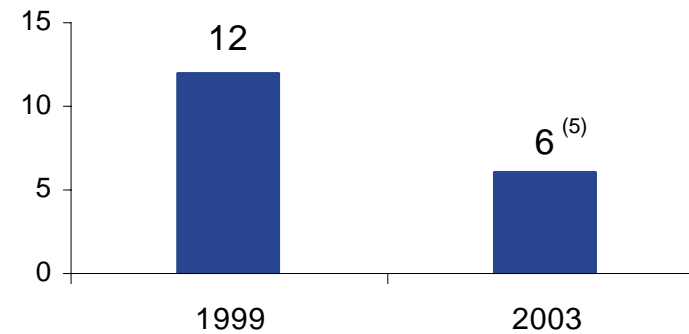
# Hypo Real Estate Bank in Germany

## Our competitive position has improved significantly

**NON PERFORMING LOANS AS PERCENTAGE CALCULATED ONLY ON GERMAN REAL ESTATE LENDING VOLUME**



**NUMBER OF ACTIVE BANKS IN THE GERMAN COMMERCIAL REAL ESTATE MARKET<sup>(4)</sup>**



▶ **Hypo Germany has one of the cleanest German portfolios and is therefore well positioned to write new business**

▶ **Due to reduced competition in commercial real estate lending, higher margins and fees can be achieved**

| 14 | **Notes**

1. Estimated average for German Peers based on various analysts' reports
2. Before restructuring based on data as of 12/2003
3. After sale based on internal, unaudited figures 06/2004 corrected for the portfolio sale
4. VDH members with new business volumes above €500 MM
5. AHBR, Deutsche Hypothekenbank Hannover, DG Hyp, Eurohypo, Hypothekenbank Essen, HypoVereinsbank

## Hypo Real Estate Bank in Germany

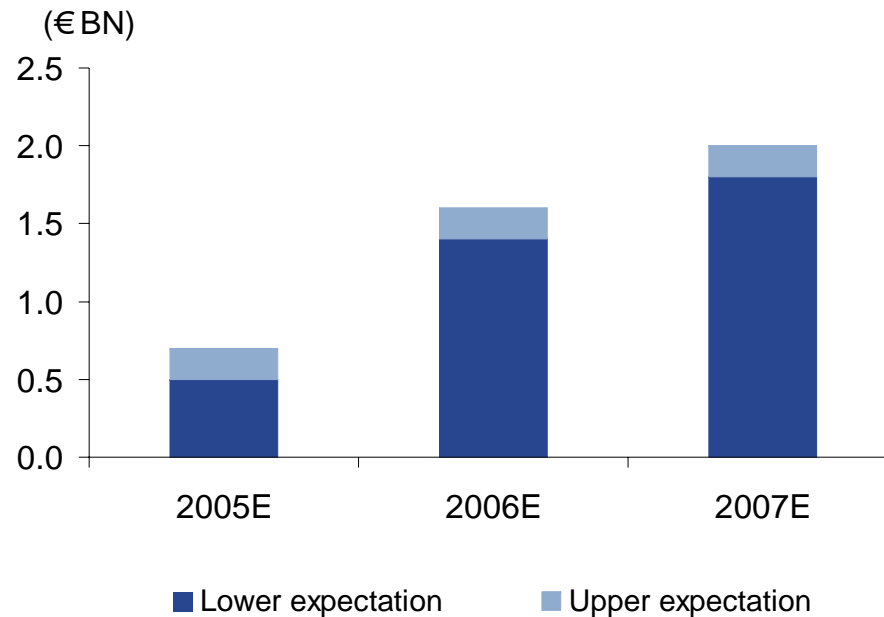
### Our approach to do new business...

- | Hypo Germany takes advantage of opportunities in the German commercial real estate market
- | Within Hypo Group, Hypo Germany is becoming center of competence for Germany
- | No relationship banking but transaction banking
- | Risk management procedures of Hypo International will be applied, in particular cash-flow based lending approach
- | No market share goals - strict commitment to risk adjusted pricing for each individual transaction
- | Lean and efficient corporate structure

 **Hypo Real Estate Bank in Germany will combine the business model of Hypo International and WuerttHyp under one roof**

# Hypo Real Estate Bank in Germany ...and the planned volumes

## PLANNED NEW BUSINESS VOLUMES

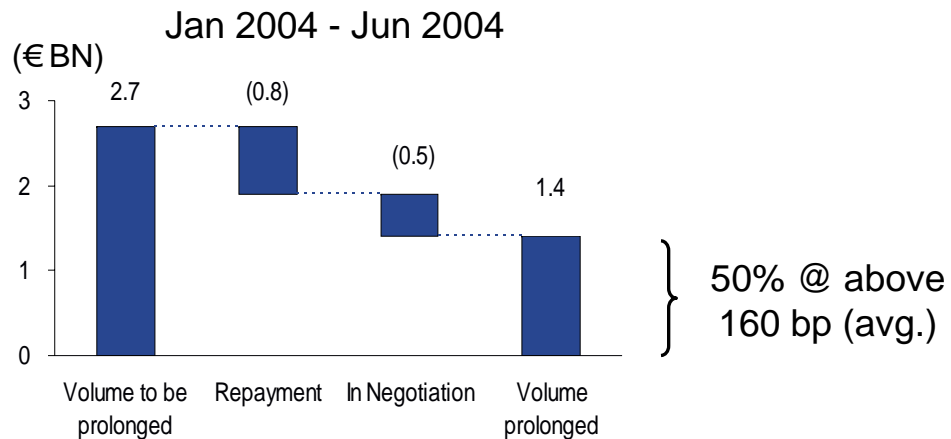
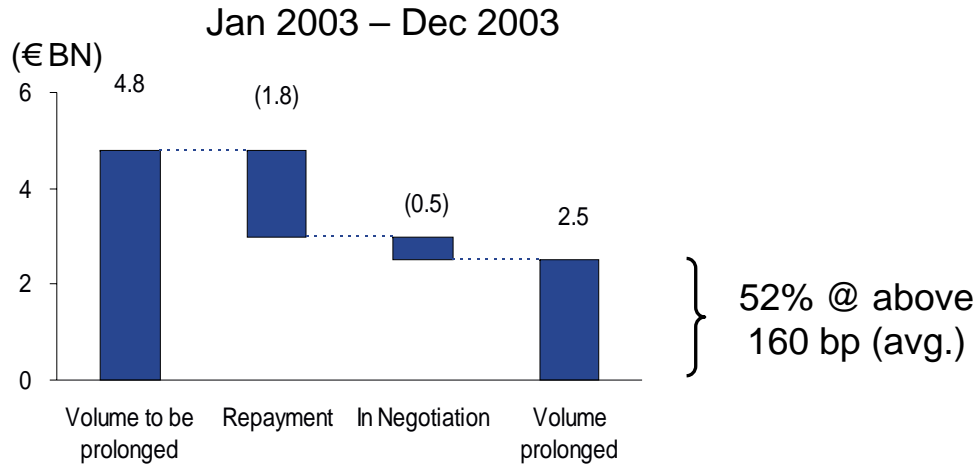


- I Modest new business volumes at the beginning (for comparison: 1999 the former entities together wrote €2.6 BN of new business)

# Hypo Real Estate Bank in Germany

## Additionally we will continue to increase the profitability of the existing book

### HISTORIC PROLONGATION EXPERIENCE



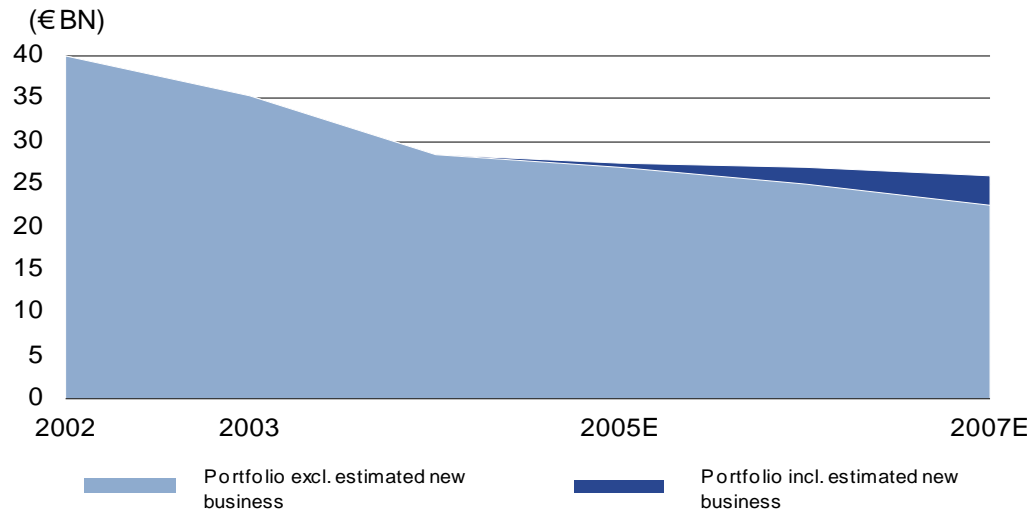
I The successful prolongation strategy will be continued

- Prolongation rate of 50 % in H1 2004 (vs. plan of 65 %)
- Net margin of more than 160 Bp (vs. plan of 125 Bp)

# Hypo Real Estate Bank in Germany

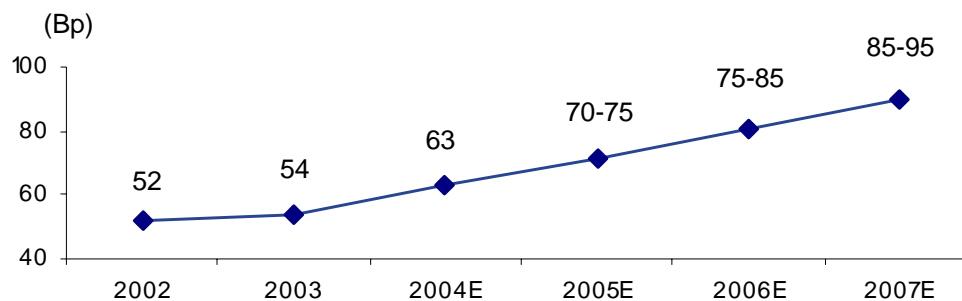
## This leads to a strong improvement of the total book's profitability

### RE PORTFOLIO DEVELOPMENT INCL. NEW BUSINESS<sup>(1)</sup>



- I The reduction of the underlying (historic) portfolio will continue
- I The underlying profitability increases by:
  - Highly profitable prolongations
  - New business at average margins of 130 Bp interest income plus fees

### MARGIN DEVELOPMENT OF THE RE PORTFOLIO<sup>(1)</sup>



# Hypo Real Estate Bank in Germany

## Hypo Germany is strongly ahead of its original business plan for 2005

KEY FIGURES			
(€ MM)	Revised Target 2004	Original Target 2005	Target 2005
Total Operating Income	~ 330		
Risk Provisions	~ (230) – (220)	~ 70 – 75 Bp	~ 35 – 45 Bp
General Administrative Expenses	~ (135) – (130)		
Profit before tax	~ (20) – 0	~ 0	~ 85 – 105
ROE after tax	~ (1) – 0%	~ 0%	~ 4 – 5%

- I 2005 will be the year of transition to regain profitability with a target ROE of 4-5%
- I 2007 Hypo Germany aims to exceed its cost of capital with a target ROE of 8-9%

▶ **12 months after the spin-off Hypo Germany has changed from a restructuring case into one of the best German real estate banks**

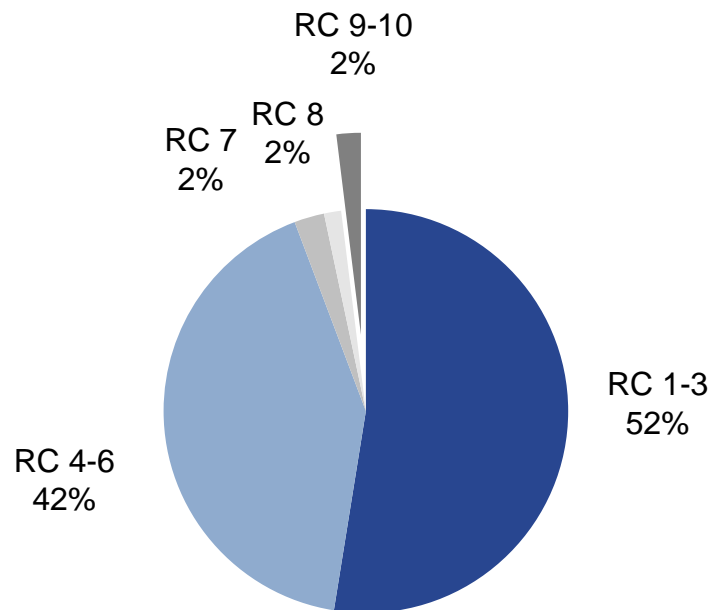
# Hypo Real Estate Group

# Hypo Real Estate Group

## Portfolio is of outstanding asset quality

### SPLIT BY RISK CLASS

Real Estate Loan Portfolio after Sale<sup>(1,3)</sup>



100% = € 60.6 BN

- I As of 05/2003<sup>(2)</sup>, 4% of the total portfolio were in risk classes 9-10 (equivalent to € 3.0 BN)
- I 13 months later the total portfolio contains only 2% of loans in risk classes 9-10 (equivalent to € 1.1 BN)
- I We have reached an asset quality where we can easily compete with amongst European Banks

#### | 21 | Notes

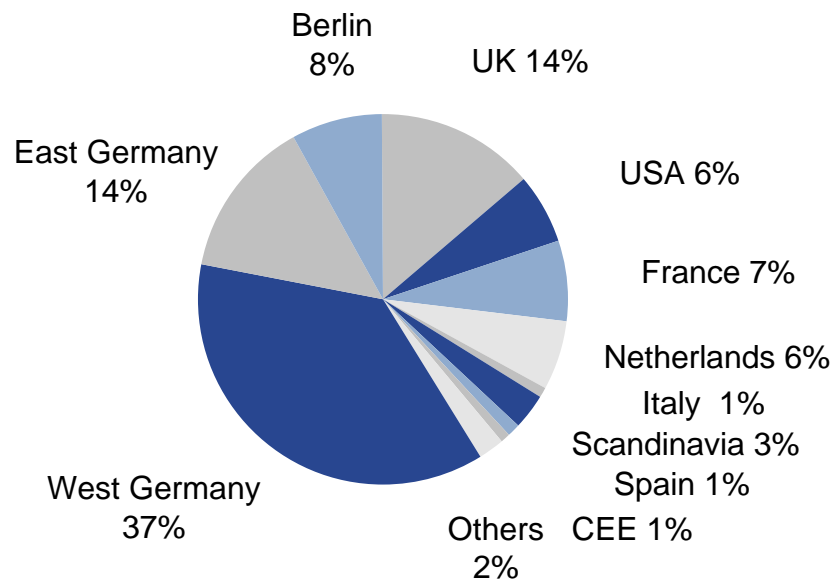
1. Based on loan commitments (Hypo Germany loans outstanding)
2. Internal, unaudited figures as of 05/2003
3. Internal, unaudited figures as of 06/2004 corrected for the portfolio sale

# Hypo Real Estate Group

## The regional diversification continues to increase...

### SPLIT BY REGION

Real Estate Loan Portfolio after Sale<sup>(1,3)</sup>



100% = € 60.6 BN

I Within 1 year our regional diversification has improved significantly

- As of 05/2003<sup>(2)</sup> we had a German exposure of 65%
- 13 months later the portfolio contains only 59% German based lending

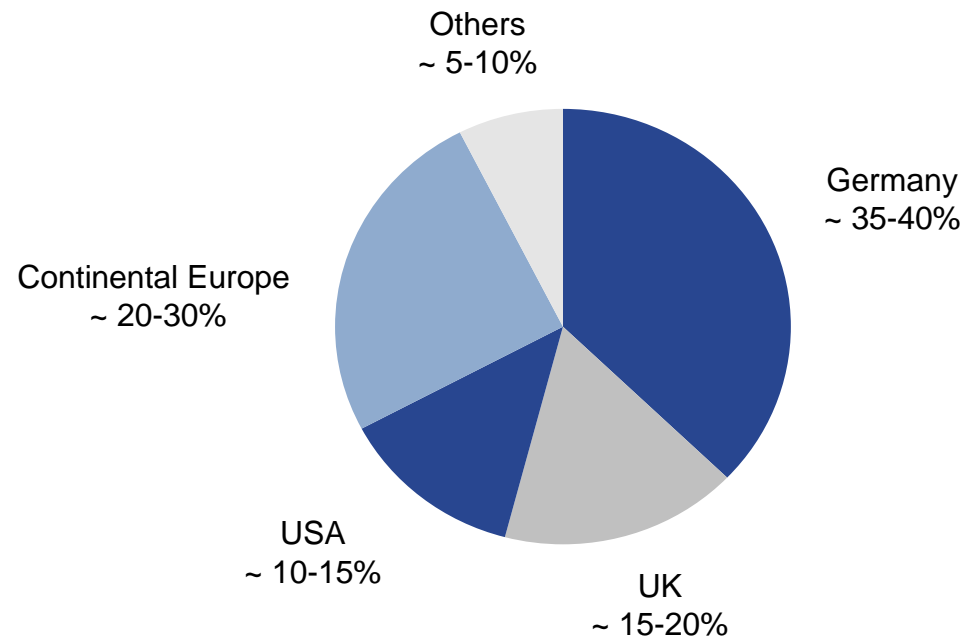
| 22 | **Notes**

1. Based on commitments (Hypo Germany loans outstanding)
2. Internal, unaudited figures as of 05/2003
3. Internal, unaudited figures as of 06/2004 corrected for the portfolio sale

# Hypo Real Estate Group

## ...and leads to a more balanced portfolio in the medium-term

### MEDIUM-TERM SPLIT OF THE REAL ESTATE PORTFOLIO ~ € 70 BN

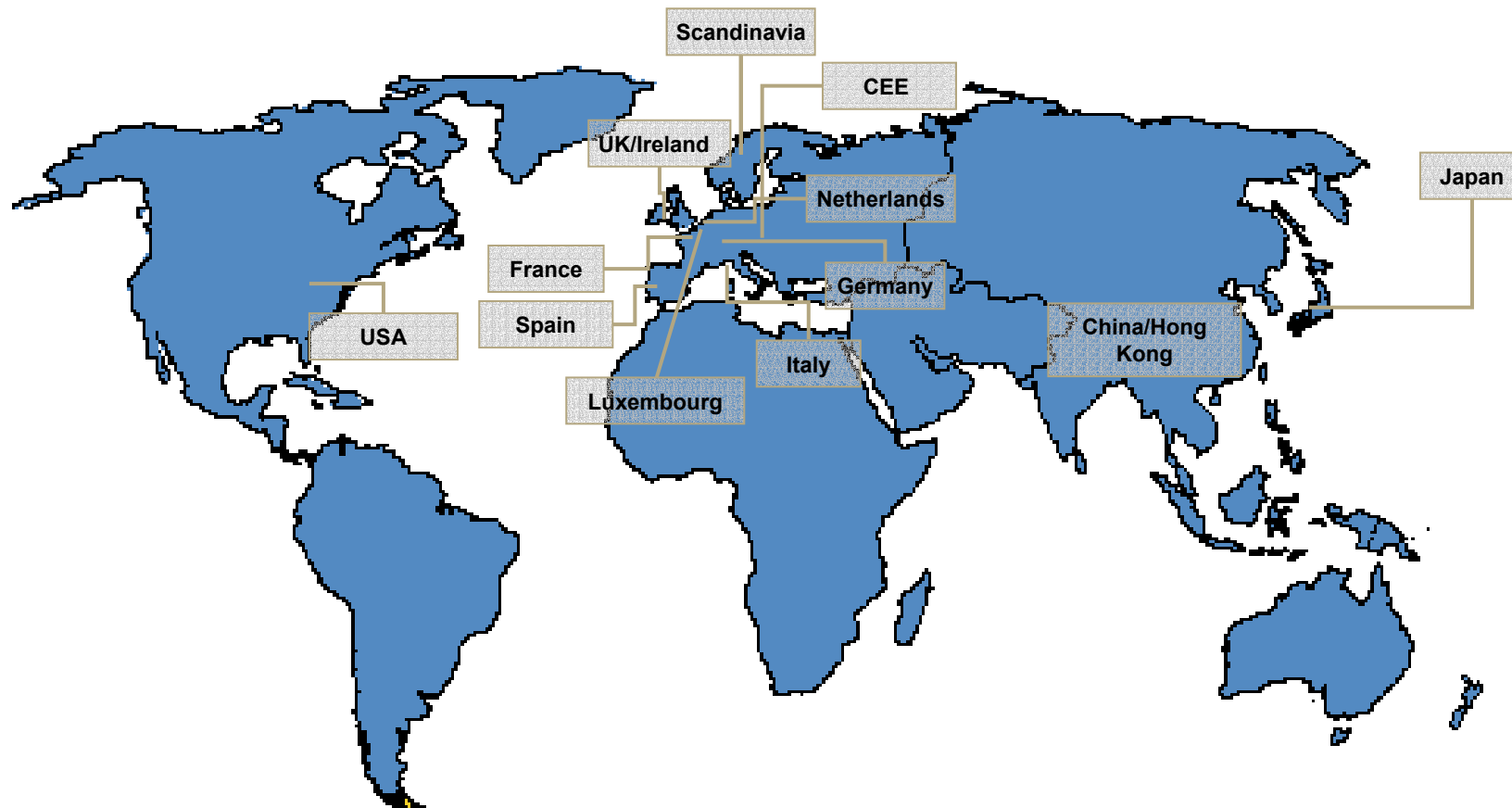


- I It is not our strategy to defend market shares
- I We invest our capital at the right time in markets where conditions meet our business requirements
- I With this approach we try to be as anti-cyclical as possible

► **Changes in market conditions may lead to changes in the target portfolio split**

# Hypo Real Estate Bank Group

## Global presence



Total global workforce by June 30, 2004: 1463  
International 464, Germany 784, Wuerththyp 174

# Hypo Real Estate Group

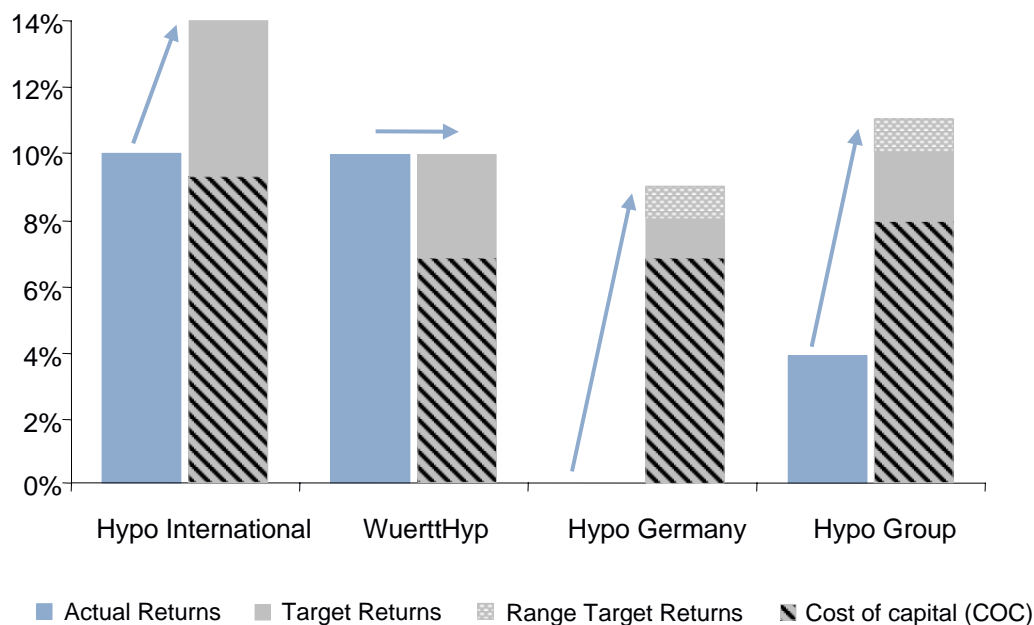
## We have a very attractive business case...

Key Parameters of the new business		
(€ BP)	Hypo International	WuerttHyp
Operating margin	> 200	~ 100
Risk Costs	~ 20	~ 15
Administrative Expenses	~ 60	~ 30
ROE	> 14%	10%

- I Target ROE of Hypo International of >14% still takes into account standard risk costs of 20 Bp
- I Lower risk costs at WuerttHyp due to international business at low LTVs

# Hypo Real Estate Group ...which will deliver double digit returns

## TARGET RETURNS AND COC ACROSS THE SEGMENTS



I As of 06/2004 WuerthHyp and Hypo International have already reached double digit returns

I Group's target return depends on

- Increase of HI's profitability to over 14%
- Regaining historic profitability of Hypo Germany of 8-9%
- Stable profitability of WuerthHyp of 10%

▶ **In 2005 Hypo Real Estate Group aims to earn its cost of capital (7.5-8%)**

▶ **Hypo Real Estate Group plans to achieve a ROE of 10-11% in 2007**

## Hypo Real Estate Group Perspectives for shareholders

- I Hypo Real Estate Group will remain well capitalized and can finance its own growth
- I Envisaged long-term growth rate in capital employed for the group should be approx. 5% per annum
- I Target ROE of 10-11% should allow to finance growth and to pay out a part of the profit to the shareholders
- I Dividend payment envisaged as early as for 2004 if no adverse effect during rest of the year <sup>(1)</sup>
- I Medium term we are aiming for a stable dividend policy and our business case should allow a pay-out ratio of 40-50%

 **Our underlying business model is strong enough to finance strong organic growth and to pay an attractive dividend to our shareholders**

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