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Extraordinary General Meeting
Hypo Real Estate Holding AG

2 June 2009

Dr Axel Wieandt
CEO
Hypo Real Estate Holding AG, Munich

The spoken word is applicable.

Dear shareholders,
Ladies and Gentlemen,

On behalf of the Management Board, I would like to welcome you to this really **Extraordinary General Meeting**. The reason for the meeting stems from the developments that took place in autumn 2008, which threatened the very existence of the bank – a crisis that led to very far-reaching changes within the company that also affected the Management Board. As the Chairman of the Supervisory Board, Dr Michael Endres, already explained, an entirely new Management Board was appointed. I am therefore speaking to you today on behalf of the new Management Board.

I would like to take this opportunity to present my **colleagues in the Management Board** to you:

- Manuela Better is responsible for Risk Management.
- Dr Kai Wilhelm Franzmeyer is responsible for Treasury and the Public Finance business.
- Frank Krings is our Chief Operating Officer; in addition, he also acts as interim Chief Financial Officer.
- As the Supervisory Board has appointed Alexander Freiherr von Uslar-Gleichen as Chief Financial Officer as of 1 October 2009, he does not attend today's General Meeting.
- In addition to my duties as Chief Executive Officer, I am also temporarily responsible for Real Estate Finance.

We have all taken over our new **offices in a very difficult situation**. Although this undoubtedly poses a major challenge – and I speak for all members of the Management Board – it also represents a particular obligation and motivation at the same time. We are placing all our energies at the disposal of Hypo Real Estate in order to steer our company back into calmer waters. Even so, we would of course have preferred to deliver our presentation to you under different circumstances.

The extraordinarily difficult situation in which the company finds itself at present not only affects the Management Board, but equally our **employees**. It is at this point, therefore, that I would like to particularly thank and acknowledge all of our employees for the contribution they have made to the company – which has been a key factor in realigning Hypo Real Estate. The high level of commitment from all members of staff has been, and remains, impressive.

The extremely critical situation forced Hypo Real Estate in recent months to accept **extensive support** from the Federal Republic of Germany, the Bundesbank and a consortium of German financial institutions. This was, and is, the only way of ensuring the continued existence of the company and the Group as a whole. We are extremely grateful for this assistance.

The Federal Republic of Germany has meanwhile become our **largest shareholder** by far, through the **German Financial Markets Stabilisation Fund** – SoFFin. SoFFin currently holds a 47.3 per cent stake in Hypo Real Estate Holding AG and aims to achieve full control. SoFFin's current participation is the result of two measures:

- firstly, the fund underwrote a € 60 million capital increase from authorised capital at the end of March. This represented a first contribution towards recapitalising the company.
- Secondly, the fund submitted a takeover offer in mid-April to the company's shareholders.

SoFFin will reach a **90 per cent stake**, subject to your approval of the capital increase proposed for resolution today, as set out in the joint proposal put forward by the Management Board and the Supervisory Board. SoFFin announced that it wants to subsequently conduct a squeeze-out, meaning that all of the remaining shareholders would lose their shareholdings in due course – in return for an appropriate cash settlement payment.

We are very much aware that this represents an extraordinary situation for you as shareholders of our company. We know that some shareholders would have **preferred to have participated** in the **capital increase** proposed for resolution today. Furthermore, many would have favoured **retaining their status as shareholders in the company**.

Nevertheless, the Management Board and the Supervisory Board kindly ask you – in all urgency – to approve the capital increase proposed for resolution. There is only one reason for this action: Hypo Real Estate has **no realistic alternative to the government's participation**. This is the only way – and I must reiterate this – to secure the continued existence of the company and the Group.

Following this introduction, I now want to focus in detail on the following **three central issues**:

- firstly, the developments that led to the crisis affecting the bank, and which therefore constitute the reason for today's Extraordinary General Meeting;
- secondly, the already initiated strategic restructuring of the bank that can only be continued and implemented with the help of the capital increase proposed for resolution today; and
- thirdly, the necessity of support measures, including in particular, the government's recapitalisation measures.

Please understand that I will only refer to the financial statements for the 2008 financial year to the extent that they are relevant for the only agenda item of today's Extraordinary General Meeting. The financial statements will of course constitute a subject matter for the ordinary Annual General Meeting, to be held in August.

1. Hypo Real Estate – crisis and implications

Hypo Real Estate crisis

This, Ladies and Gentlemen, brings me to my first point – the crisis affecting Hypo Real Estate. In September 2008, the **existence of Hypo Real Estate was threatened** by the international financial crisis, and by the subsequent liquidity problems faced by our Dublin-based Irish subsidiary DEPFA BANK plc in particular. As you are well aware, the crisis in the sub-prime segment of the US mortgage market that emerged in 2007 triggered turbulence on the global financial markets. This not only affected Hypo Real Estate, but virtually all banks.

However, from today's perspective, what were the reasons why the crisis affecting financial markets impacted so severely on Hypo Real Estate?

The crisis affecting financial markets, which heightened significantly during 2008, resulted in the **partial or total collapse of individual capital and finance markets** in September 2008. After the US investment bank Lehman Brothers was forced to file for bankruptcy, in particular the interbank market – in other words, the market in which banks lend to one another – practically came to a standstill as from mid September 2008. The collapse was attributable to the continued loss of confidence between the banks: potential problems affecting borrowing banks meant that it was impossible to gauge the risk associated with lending on the interbank market. The behaviour of market participants changed considerably:

- firstly, money and interbank market transactions, or secured financing, were no longer rolled over.
- Secondly, very short-term credit lines were suspended.
- Thirdly, banks including Hypo Real Estate were required to pledge higher levels of cash collateral.

As a consequence, the existence of the Irish DEPFA BANK plc, which has been a wholly-owned subsidiary of Hypo Real Estate Holding AG since 2 October 2007, was threatened by **liquidity shortages**. DEPFA BANK plc had extended its volume of business considerably in the past, and had continued to do so in 2008 as well. The refinancing of its activities depended significantly on the interbank market and on other short-term, unsecured refinancing options. Significant volumes of long-term lending were refinanced by short-term funds. This business model did not prove to be crisis-proof. The generation of liquidity through the sale of assets was hampered significantly during 2008 by illiquid markets and substantial spread widening. These developments spread domino-like through intra-group relationships such as receivables, guarantees and letters of comfort, to also threaten the existence of Hypo Real Estate Holding and Hypo Real Estate Bank.

This news, which was disclosed in autumn 2008, shocked the public and – understandably – you, as shareholders of our company. It was **no longer possible to take corrective measures** in this phase.

Against this background, the Supervisory Board launched the corresponding enquiry into the actions of the corporate bodies that were responsible at that time. The ordinary General Meeting will address the result of this enquiry when it convenes in mid-August. Today and at this meeting we need to focus on the future of the company.

Measures to secure liquidity

The crisis affecting Hypo Real Estate is not just a liquidity crisis, but also a solvency crisis. I will cover this in more detail later – first, I would like to address the measures taken to secure the bank's liquidity.

As the new Management Board, we have invested every effort towards countering the threatened collapse of Hypo Real Estate. We have focused on a variety of duties and problems within a short space of time. Our first duty was to examine whether there was an obligation for the company to file for insolvency. For this purpose, we obtained expert opinions and continuously reviewed the grounds for insolvency. We also closely monitored the capital ratios in accordance with the German Banking Act.

We also had to use extensive measures to secure Hypo Real Estate's short- and medium-term liquidity requirements. These involved cooperating closely with the German Federal Finance Ministry, SoFFin, BaFin, the Bundesbank and a consortium of financial institutions. Hypo Real Estate could not have been saved without the level of open communication and pragmatism of all the parties involved. I would therefore like to take this opportunity to express my **sincere thanks to all of the parties named for the aforementioned support and cooperation that has been extended to date.**

The volume of the liquidity support comprised a maximum of € 102 billion; we repaid € 1.7 billion of this amount at the end of March in accordance with contractual agreements. All of the measures taken have been explained in the joint statement issued by the Management Board and the Supervisory Board in relation to SoFFin's recent public tender offer, as well as in our 2008 Annual Report, and the interim report as at 31 March 2009. I will therefore limit my comments here to an overview:

- In order to secure Hypo Real Estate's short-term liquidity requirements, Deutsche Bundesbank on 28 September 2008 initially granted Hypo Real Estate Bank a **special € 35 billion liquidity support facility** guaranteed by the Federal Republic of Germany. In October 2008, this amount was increased to € 50 billion by means of an interim financing facility guaranteed by the Federal Republic of Germany.
- On 13 November 2008, Deutsche Bundesbank and a consortium of German financial institutions provided Hypo Real Estate with a **liquidity facility of € 50 billion** in order to redeem these credit lines. € 1.7 billion of this amount was repaid in March 2009. The government has guaranteed € 35 billion of this liquidity facility. The Federal government guarantees that were originally set to expire at the end of March 2009 were extended – during the course of that month – to the end of December 2009.

For this purpose, we have pledged unsecured assets in the amount of € 60 billion as well as interests in the operating subsidiaries of Hypo Real Estate Holding.

- Furthermore, Hypo Real Estate Bank took steps as of November 2008 to secure its liquidity situation by taking advantage of further stabilisation measures in accordance with the German Financial Markets Stabilisation Act. This affects guarantees totalling € 52 billion that were granted by SoFFin in several stages. In April 2009, the entirety of the guarantee facilities was extended until 19 August 2009.

However, these short-term liquidity support measures restrict our room for manoeuvre and entail significant additional costs, compared with the costs that were incurred for short-term refinancing on the interbank market before the outbreak of the crisis.

- Following restructuring of the facility to suit our requirements, the current costs for the liquidity facility still exceed the Euribor reference rate by roughly 70 basis points or 0.7 percentage points. Additional payments may be incurred through a so-called debtor warrant.

- For the short-term SoFFin guarantees, we pay a commitment fee of 0.1 per cent per annum on the undrawn portion of the guarantees, and 0.5 per cent for those that are drawn on. Long-term guarantees will be more expensive.

All in all, the costs are therefore considerably higher than the margins in DEPFA BANK plc's public finance portfolio, which accounts for a substantial share of our balance sheet.

Our future liquidity requirements are highly dependent on market developments. Even in the event that the terms of funding available to Hypo Real Estate gradually return to normal in the future, the Management Board and the Supervisory Board envisage that it will take many years before the liquidity support has been repaid.

Recapitalisation measures taken to date

The **capital situation has also deteriorated dramatically**, as a consequence of the ongoing financial crisis that has also extended in particular to affect the real estate markets. Earlier in my comments, I already explained that the crisis affecting Hypo Real Estate is not just one of liquidity, but also a solvency crisis. We also entered into discussions at the end of 2008 in relation to this issue with SoFFin and the regulatory authorities – primarily with the BaFin. Please let me outline briefly the measures that have already been taken to recapitalise Hypo Real Estate – however, these measures alone are not sufficient to ensure that Hypo Real Estate remains afloat – I will go into this in more detail later.

In view of the necessary stabilisation measures, SoFFin, Hypo Real Estate Holding and Hypo Real Estate Bank signed a **Declaration of Intent** on 28 March 2009, whereby the parties involved agreed to the framework for recapitalising Hypo Real Estate Holding through providing capital contributions and by providing guarantees to Hypo Real Estate Bank, in accordance with the provisions of the Financial Markets Stabilisation Act.

On the basis of this Declaration of Intent, and with the approval of the Supervisory Board, the Management Board resolved at the end of March to increase the issued share capital of Hypo Real Estate Holding.

Within the scope of a **capital increase against cash contributions from authorised capital**, the issued share capital was increased by € 60 million, to the exclusion of the shareholders' pre-emptive subscription rights. SoFFin underwrote the new shares at the statutory minimum issuing amount of € 3 per share. The capital increase was finalized in March. Thereby, SoFFin acquired an 8.65 per cent interest in the issued share capital of Hypo Real Estate Holding.

2. Strategic restructuring of the company – establishing a new bank

Ladies and Gentlemen,

I initially outlined the crisis affecting Hypo Real Estate and the measures that have already been taken to secure liquidity and for purposes of recapitalisation. The third part of my speech will deal with the additional support measures that are necessary to ensure its survival. First of all however, I want to explain the key issue of our efforts to ensure the continued existence of Hypo Real Estate, namely the restructuring of the Group. It was, and is, paramount for us to chart out Hypo Real Estate's future. A bailout plan must lead to a sustainable future, especially if substantial sums of taxpayers' money are invested to this end.

In addition to the aspects outlined above – specifically, the continuation of operating activities and averting insolvency – our work is focused on **two key strategic initiatives** that we have developed in close cooperation with the new Supervisory Board:

- firstly, developing a strategy for a re-organised bank with a future ahead of it; and
- secondly, fundamentally overhauling the Group's internal structures, processes, and systems.

It is of course impossible to conclude these complex processes surrounding the strategic realignment of Hypo Real Estate within a few months. In fact, it is expected to take a number of years. The continuation of this work will be given the utmost priority. SoFFin reserves the right to subject the business model we have drawn up to another review. And the European Commission may still find it necessary to carry out certain modifications, within the scope of the assessment of compliance of the government's support measures with subsidy law.

Ladies and Gentlemen, we are nonetheless convinced about the fundamental realignment and will therefore pursue it – there are no alternatives to the measures that have already been implemented or initiated.

Company strategy and business model

The crisis made one thing quite clear: **Hypo Real Estate's business model** had to be adjusted, and will need to be adjusted further, in line with the changes in capital market conditions and the growing challenges in the real estate business. We had already drawn up the new strategy and business model in December 2008. Implementation began straight away, and will continue in several phases. We aim to have largely completed this consolidation and realignment process by the end of 2011. This brings me to the key elements of our new strategy:

- We will concentrate on our **core business of customer-focused real estate finance and public sector finance**.
- In our **real estate finance** business, we will cooperate with professional real estate investors, largely concentrating on financings and markets that are eligible for Pfandbrief cover assets, predominantly in Germany and Europe. We want to focus on taking smaller financing projects on our books in the future.
- Our **public finance** business will also focus on assets eligible for Pfandbrief cover, with a greater emphasis on Germany than in the past.
- Even though in the short term we are planning for only moderate **volumes of new business**, the key issue here is to become active now.
- As already mentioned, we will fund our operations **predominantly – but not exclusively – through Pfandbriefe**. This concept not only matches our strengths but offers us market opportunities as well: German Pfandbriefe have proven their reliability as refinancing vehicles, even during times of crisis, and are also attracting new issuers.
- However, the new business model also means that we will **withdraw from emerging markets and end our exposure to infrastructure finance**.

We will also withdraw from **capital markets activities that are not customer-focused**. Infrastructure financing no longer suits our funding approach, while Capital Markets & Asset Management business entails risks that are too high.

- Additionally, our entire **portfolio will be split into two parts**, which we will manage separately:

One portfolio will comprise assets that are – following the realignment - considered to be in line with our strategy – here, we will in future take on new business, i.e., **in real estate finance as well as in public finance**. The legal entity for this business shall in future be Hypo Real Estate Bank AG, which is to merge with DEPFA Deutsche Pfandbriefbank AG; in due course, the merged entity is set to operate under a new name.

The other portfolio, which at € 210 billion accounts for the lion's share of our balance sheet, comprises mainly assets of public debtors with high credit quality. However, some of these assets are also exposed to a high level of risk. This portfolio is held for the most part by DEPFA BANK plc and does not constitute a part of our bank's future core business. As a so-called '**value**' portfolio, it should and must be reduced over time, depending on market developments, in such a way that it retains its value and impacts as little as possible on the market. Fundamentally, our strategy here is to hold the high-quality assets, optimise the refinancing costs and reduce the assets systematically over time. On the other hand, we want to manage riskier portfolios more intensively and dispose of them where possible, when the market environment improves.

In summary, this means that we believe the future of the Group in terms of strategy lies in being a specialist bank for real estate finance and public finance. The plan is to refinance loans extended in future with a focus on Pfandbriefe. My fellow members of the Management Board and I are convinced that this orientation will provide Hypo Real Estate Group with a **clear strategic outlook**.

Changes to structures, processes, and systems

Hypo Real Estate's crisis has also shown that the Group's internal structures, processes, and systems require a fundamental overhaul.

- We have therefore started, as one of our initiatives, to establish **viable processes for risk management and liquidity management** – in these areas there was backlog demand. The credit process is also under scrutiny.
- We have also employed a series of measures to simplify and harmonise structures and have thereby reduced **complexity**.
 - We have for example, merged Hypo Real Estate Bank International with Hypo Real Estate Bank. We are also working towards a merger of Hypo Real Estate Bank with DEPFA Deutsche Pfandbriefbank.
 - The Management Boards of Hypo Real Estate Holding and Hypo Real Estate Bank are meanwhile occupied by the same persons; moreover, all members of the Management Board of Hypo Real Estate Holding are represented as non-executive directors on the board of DEPFA BANK plc in Dublin.
- We are also closing **locations** that no longer suit our future regional structure. Five locations have already been closed, and another 15 will follow this year.
- **We have disposed of subsidiaries** that are no longer a part of our future core business, such as Collineo, the asset manager for structured products, and the US broker-dealer DEPFA First Albany Securities.
- We are also working towards a **reduction in staff numbers** – a move that is unfortunately unavoidable. A reduction by around 300 to some 1,500 employees is already secured. Further steps will be implemented until the end of this year.
- We have also redefined the **management and organisational structure**, and restructured the management team that reports to the Management Board.
 - Our organisational and management structure is now based for the first time on a consistent, functional and divisional approach across all legal entities. In this way we have created functional clarity and abolished overlaps, as well as sustainably strengthened governance within the Group.

- The reduction of hierarchical levels and the introduction of shorter reporting lines facilitate the work across different organisational entities – thus allowing us to counter any issues more swiftly.
- We have also created or expanded functions that are crucially important to the bank's success: As an example, I can mention Global Workout and a centralised, Group-wide treasury.
- And finally, we are investing in the Group's future. The first module of a completely **new IT infrastructure** was rolled out over the Easter weekend. This new information technology lays the groundwork for mapping our new processes – across the board and highly efficiently – on an integrated platform that is in line with current market requirements. We are not only on an equal footing here with our competitors, but are leveraging an advantage.

3. Recapitalising the Company

Dear shareholders,

The restructuring process we have introduced is an important step towards restoring the Group to profitability. However, restructuring alone cannot secure its existence as a going concern. The Group is dependant on extensive **liquidity and capital support** in order to survive. I set great personal store by highlighting this to you in a transparent and plausible manner, in light of the far-reaching effects this has for you as shareholders.

A key component of the overall recapitalisation – albeit one that does not however suffice to recapitalise the company completely to the degree necessary – is **today's resolution proposing a capital increase**. As a consequence of the capital increase from authorised capital already carried out, and the government's takeover offer, SoFFin currently holds roughly 47.3 percent of our shares. The subject matter of the capital increase proposed for resolution today is to increase the issued share capital by up to approx. € 5.64 billion. The new shares from the capital increase shall be subscribed by SoFFin only; existing shareholders' legal pre-emptive subscription rights are excluded.

Through the capital increase, SoFFin plans to underwrite as many new shares that are necessary to procure a 90 per cent share in the company's issued share capital. Given SoFFin's current shareholding of approximately 47.3 percent, this entails that SoFFin will subscribe to approx. 986.5 million shares. With an issue price of € 3 per share, this results in an amount of approx. € 2.96 that will flow to the company.

Individual shareholders have in some instances expressed concerns that the exclusion of their subscription rights does not conform to applicable law. Having carried out a detailed review, we cannot agree with these concerns. The German Financial Markets Stabilisation Acceleration Act specifically provides for such exclusion of pre-emptive subscription rights. SoFFin has informed us that any further capital support will be conditional upon the exclusion of pre-emptive subscription rights. Acting in the interest of the company's continued existence, the Management Board and Supervisory Board have complied with this requirement.

Necessity to recapitalise, and presentation of support requirements

I now want to go on to the necessity – and the effects – of a recapitalisation, together with the effects this action will have on you, the shareholders.

- Hypo Real Estate Group suffered a **severe loss after taxes** of € 5.5 billion in the 2008 financial year. The loss is attributable in part to write-downs of goodwill and other intangible assets from the first-time consolidation of Irish subsidiary DEPFA BANK plc, totalling € 2.5 billion. Added to this is a series of special or non-recurring effects. At € –585 million, net operating income and expenses was strongly negative, impacted by approximately € 1.5 billion in write-downs on securities. As a consequence of the significant global economic downturn and - especially - the related impact on the real estate markets, net allowance for credit losses totalled € 1.7 billion.

The results for the **first quarter of 2009** in accordance with IFRS continued to be impacted by the crisis on international capital, financing and real estate markets, as well as by the costs of liquidity support, which I already mentioned. The pre-tax loss fell to € –406 million, while the net loss after taxes was € –382 million. By comparison, the Group reported a pre-tax profit of € 190 million in the first quarter of 2008, and a profit after taxes of € 148 million.

- The losses incurred in the 2008 financial year have reduced **consolidated equity in accordance with IFRS** (excluding the revaluation surplus) to € 2.6 billion as at 31 December 2008. Taking into account the revaluation surplus, consolidated equity as at 31 December 2008 was in fact negative, at € –1.5 billion.
- The remaining equity is less than the **economic capital required** to manage the Group; this is stated in the 2008 Risk Report. In other words: we do not have sufficient capital to continue to run the Group, given its current risk exposure. Key risk drivers in this context have been a widening of credit spreads which affected our Public Finance business during the last year as well as additionally credit risk exposure in the Commercial Real Estate finance business, as a result of increased probabilities of default and lower real estate market values.
- Additionally, there were **hidden encumbrances** of around € 31.5 billion on the assets side of the balance sheet as at 31 December 2008, mainly due to impairment (expected to be temporary) of the public finance portfolio of the Irish DEPFA BANK plc. There are additional hidden encumbrances of € 1.7 billion in other asset items. On the other side, there are hidden reserves of only some € 10.7 billion on the liabilities side of the balance sheet. This means that there are net hidden encumbrances of around € 22.5 billion.
- Hypo Real Estate Holding AG's **equity in accordance with German commercial law** fell to € 0.7 billion as at 31 December 2008. This figure was affected in particular by write-downs on the carrying values of its operating subsidiaries. If we had not assumed state support when determining the write-down, the equity would more than likely have been negative.
- For regulatory purposes, total capital as at the reference dates of 31 December 2008 and 31 March 2009 was calculated excluding the result for 2008. This is due to regulatory requirements, since no confirmed financial statements as at 31 December 2008 were available yet on these reporting dates. This is however a prerequisite in order to take into account the results.. Taking into account the result for 2008, the **minimum regulatory capital requirements** would not have been met, as at 31 December 2008. The € 60 million capital increase from authorised capital as at 31 March 2009 did not lead to any material change in this respect.

The financial statements for 2008 are meanwhile confirmed, and the capital ratios have clearly fallen below the regulatory minimum levels.

- KPMG, as auditors, issued an **unqualified audit opinion** for Hypo Real Estate Holding for the 2008 financial year. KPMG, however, points out that there are continued threats to the continued existence. As KPMG pointed out as a result of its audit, series of requirements must be met in order to secure the continued existence of the Holding and the Group. Specifically, the survival of the Group is conditional upon sufficient equity support from SoFFin, the continued liquidity support from the financial sector consortium, plus additional liquidity support by SoFFin if necessary.

Even if the capital increase proposed for resolution today will have been adopted in accordance with the joint proposal of the Management Board and the Supervisory Board, we will require **additional capital support** in order to manage the company and the Group through the years ahead.

- On the one hand, a continuous guarantee of liquidity support by the government is only possible – for subsidy law reasons – provided that the core capital ratio does not fall below 7 per cent. Yet this continuous liquidity support is vital to secure the continued existence of the company and the Group.
- On the other hand, our competitors have core capital ratios of 10 per cent and more. This is our benchmark to be competitive, and to return to a position where we can independently refinance our operations again in the medium term.
- Furthermore, we must retain extra capital to cushion against probable recession-driven rating migrations, which would increase the risk weighting of our assets and would burden the regulatory capital ratios.
- Finally, and importantly, we also require capital to cover future anticipated and unanticipated losses. We expect to see a high burden on earnings in the 2009 and 2010 financial years too. This is due mainly to three factors:
 - expenditure for liquidity support received; in other words, the aforementioned liquidity costs;
 - expenditure in relation to the strategic realignment and restructuring; and

- further write-downs on receivables and securities that are expected in the course of the financial crisis and economic downturn; we are very concerned about developments on the commercial real estate market. The aggregate volume of exposures on the watch list and problem loans stood at around € 7.3 billion at the end of the first quarter of 2009.

As a result, a pre-tax loss is expected for the 2009 and 2010 financial years at least.

We are in ongoing talks with SoFFin about the precise amount, timing and mix of instruments for capital injections still required.

One thing is already certain today: as in the past, realistically, this **additional capital support** can only be provided **by the government**.

- The Management Board and the Supervisory Board do not have any proposals from third parties that would secure an appropriate recapitalisation of the Group.
- In view of the enormous dimensions of the capital requirement, individual measures such as the sale of assets cannot secure the continued existence of the Group. The hidden encumbrances on the balance sheet also show that the disposal of assets at current prices would wipe out significant amounts of capital.
- Above all, no third party buyer is in a position to provide the necessary liquidity support that has been guaranteed by SoFFin up to now, and that might have to be extended if necessary.
- To date, the Irish government has not yet shown any readiness to support Dublin-based DEPFA Bank plc, and we are not aware of any changes to this position in the future.
- The consortium comprising financial institutions and insurance companies initially provided a liquidity facility of € 50 billion only in conjunction with substantial collateral and on the basis of a government guarantee. A partial recapitalisation – involving a stake in the Group's equity, and one that would have been exposed to higher risks – was not within the consortium's intentions.

- Furthermore, the government is a high-quality shareholder: its involvement is vitally important to Hypo Real Estate's eligibility for capital market funding. The rating agencies see it that way, too.
- A capital increase, via the capital markets and in the exceptionally large amount necessary, cannot be realised within the scope of Hypo Real Estate's current situation. Only top-class profitable banks with diversified business and funding models can access the capital markets during the crisis.
- In view of the situation that threatens the bank's very existence, debt-for-equity swaps are not a practical alternative either. No bank has undertaken such a measure during this crisis of the markets.
- A 'bad bank' solution that is currently being discussed, albeit not yet ratified, might constitute a supporting measure at best. Given the current structure of our balance sheet, the effect of such a spin-off would be minimal since the share of so-called 'toxic debt' on our balance sheet is well below average. The carrying amount of such instruments on our balance sheet is approximately €3.7 billion – 61 per cent of their nominal amount of around € 6 billion.

I just want to reiterate here that there is no alternative to government support in order to secure the continued existence of the Group.

I would also like to point out that the inflow of funds from the capital increase to be resolved today must happen very quickly. As I already explained, the Group already falls short of minimum regulatory capital requirements right now. Expectation of the immediate implementation of government support measures is the only factor preventing the responsible regulatory authorities from intervening. The new Management Board is cooperating very closely with the relevant authorities.

In this context, it is worth noting that the European Commission has just launched a **formal review in relation to the subsidy measures by the German Federal Government**, as expected. We are also working closely and constructively with the Commission on this matter and are confident that the Commission's review will come to a positive conclusion. However, any decisions reached by the EU Commission could result in further burdens or require certain modifications to the business model. The antitrust review in relation to the government takeover of Hypo Real Estate has already been successfully concluded.

Government conditions for a capital increase

I would now like to talk about the issue of 'gaining control' by the government, which is naturally of great interest to you all. By way of introduction, I would like to recall the following: the company does not have any entitlement to receive government support. However, given its size and integration with other institutions in the financial industry, the Group is very **relevant to the system**. It would be extremely difficult to predict the direct and indirect consequences of a collapse. The government therefore wants to support us and provide us with the necessary capital. Nevertheless, you can easily answer the following question: where would the company be, if it were not supported by the government on account of its relevance to the system – and what would this mean to its shareholders? Without government support – and this must be made clear to all parties involved – there would be no basis for the continuation of the company and the Group. In fact, we would already have had to file for insolvency.

You are aware that the government has made further liquidity and capital support conditional upon **obtaining full control over Hypo Real Estate**. It has already outlined a series of reasons in its takeover offer. In view of the dimension of the funding required, the government believes that, from a budgetary perspective, it can only justify extending additional funds for stabilisation purposes provided that the necessary restructuring measures can be implemented with legal certainty, sustainably, in a cost-efficient manner, and without delay. The government thus ensures that the substantial amounts of taxpayers' money it is investing for the recapitalisation of the bank are being used prudently and carefully.

However, what this means is that a **capital increase in the form of a rights issue** that would prevent any dilution of existing shareholders' interest is **not an option**, since it does not fulfil the government's conditions for the planned sufficient recapitalisation. This is why a capital increase featuring a subscription right – expressly requested in many counter-proposals – is comprehensible, albeit unrealistic. This also applies to the proposals featuring the inclusion of creditors in the recapitalisation. All such considerations fail given the circumstances whereby quick and effective stabilisation can only be achieved with the help of the government.

Added to this are significant **opportunities for cutting costs**, which the government believes arise from its acquisition of full control: once the company is nationalised, this can facilitate a speedy return to refinancing via the capital markets, thus reducing funding costs.

Appropriateness of the issue price of € 3 per share in the event of the capital increase

The issue price for the new shares is derived in accordance with the German Stock Corporation Act: shares must not be issued at a lower price than the proportional nominal value of the issued share capital attributable to each individual no-par value share. This amount equates to € 3 for Hypo Real Estate Holding. It is therefore considerably higher than the current share price traded on the stock exchange. In particular, it is higher than the **intrinsic value of the shares**, which would be zero without the recapitalisation, as also affirmed by our advisors. This is a consequence of the following factors:

- Without SoFFin's recapitalisation measures, Hypo Real Estate Holding's **equity** would more than likely be negative.
- Without this recapitalisation, the current shortfall in the regulatory minimum requirements of core capital **and total capital ratios** could not be cured. This would in any event lead to regulatory procedures and to a moratorium or similar measures being imposed by the regulatory authorities – as well as to the subsequent liquidation of the company if necessary. Each of these measures would be materially damaging to the bank's business activities and therefore to its enterprise value – and to the carrying amount on Hypo Real Estate Holding's balance sheet.
- Finally, it must be taken into account that the Group's **liquidity** is currently guaranteed by two measures only:
 - firstly by the aforementioned liquidity facility (of which € 35 billion is government-guaranteed) that was originally € 50 billion and is now € 48.3 billion, maturing at the end of 2009;
 - and secondly, the € 52 billion framework guarantee facility extended by SoFFin, maturing on 19 August 2009.

The government has made the further extension of guarantees conditional upon gaining full control of the company.

Not extending these liquidity support measures would more than likely trigger the insolvency of key Group entities. Although we did not calculate the liquidation value, we assume that no liquidation proceeds would remain for you as shareholders, in the event of insolvency.

Further government measures

The government already announced additional measures within the scope of its public takeover offer that are set to follow the capital increase. After the capital increase, the government will have reached a shareholding that allows it to initiate a so-called **squeeze-out**. The government has already declared its intention to pursue such a squeeze-out, in which case applicable law provides for an appropriate settlement payment to be paid to shareholders.

However, this settlement payment is not on the agenda for discussion today. SoFFin will determine the **amount of the settlement payment**: it is outside the control of the Management Board. The settlement payment will be reviewed in detail by a court-appointed auditor. The squeeze-out will be on the agenda of a later General Meeting.

The government's assumption of full control will be associated with the loss of your position as shareholder. I appreciate it if you do not feel enthusiastic about this fact. However, please remember that **the continued existence of the Group** can only be secured with **substantial support from the Federal Republic Germany**. The fact is that there is no alternative even close to appear realistic.

The Management Board is obliged to act in the company's best interests. My colleagues and I take this obligation very seriously. Besides the interests of the shareholders, we must also take into account the interests of the employees and the public interest. I must reiterate the fact that it is essential we ensure the **continued existence of the company as a going concern** as a primary objective, with **its sustained profitability** a secondary goal.

The Management Board remains confronted with an exceptional situation that threatens the company's existence. This situation leaves us no alternative but to utilise the extensive support provided by the government, as proposed, if we want to meet the requirements of the company's wellbeing and secure its continued existence. The capital increase is necessary to extend the liquidity support measures, and to reach the necessary capital ratios to ensure we can continue to operate our business. In light of the situation described above, the Management Board believes that the immediate implementation of the capital increase proposed today for resolution – plus the support guaranteed by the government over and above this amount – is indispensable and without alternative. The Management Board and the Supervisory Board therefore urgently ask you to **support the capital increase** – in the company's best interests.

Thank you very much for your attention.
