Hypo Real Estate GROUP

Press release

Hypo Real Estate Group preparing consolidated financial statements 2008

- **Unaudited consolidated pre-tax loss: € 5.375 billion**
- **Special effects and one-off effects with considerable negative impact on results**
- **Dr. Axel Wieandt: Financial year 2008 was affected by the financial crisis and institution-specific problems**

Munich, 28 March 2009 – The German Financial Markets Stabilisation Fund (SoFFin) intends to take action to stabilise Hypo Real Estate Group, in the interest of stabilising the financial markets; specifically, SoFFin will implement measures to achieve a sufficient recapitalisation of Hypo Real Estate Holding AG, and will extend further guarantees. This was confirmed today by SoFFin in a declaration of intent issued to Hypo Real Estate Holding AG and Hypo Real Estate Bank AG.

This declaration of intent issued by the SoFFin enables the management boards of the companies in the Hypo Real Estate Group to make a positive going-concern assumption and to prepare the consolidated financial statements for 2008 on this basis. Hypo Real Estate Holding AG published the key figures for financial 2008 on 28 March 2009 (before audit by the auditor). Accordingly, the pre-tax loss is € 5.375 billion, compared with a pre-tax profit of € 862 million in the previous year (all figures for 2007 on a pro-forma basis, incl. DEPFA Bank plc (DEPFA) and its former subsidiaries). The net income is reported as € -5.461 billion. This result very much reflects the difficult situation on the capital and financing markets.

The loss is partially attributable to impairments on goodwill and DEPFA´s intangible assets totalling € 2.482 billion. The situation was exacerbated by numerous special effects and one-off effects.

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CEO Dr. Axel Wieandt: "The financial year 2008 reflects the impact of the general crisis on the international financial markets and the specific extremely difficult situation for the Hypo Real Estate Group. The result for the next years will also be considerably affected by costs for the liquidity support and the repositioning of the Group as well as further impairments in relation to receivables and securities which are expected as a result of the economic downturn. For at least the next two years we can anticipate a loss situation. We consider that the medium-term strategic prospects are positive."

Group development 2008

- Operating revenues (the sum of net interest income and similar income, net commission income, net trading income, net income from financial investments, net income from hedge relationships and the balance of other operating income/expenses) were negative (€ -585 million), and were accordingly considerably lower than the figure for the corresponding previous year period (2007: € 1.463 billion). This decline is mainly attributable to the sharply lower net commission income and the clearly negative net trading income and net income from financial investments.
- Net interest income and similar income increased from € 1.471 billion in the corresponding previous year period to € 1.633 billion. Net interest income was influenced by numerous factors: The non-payment and devaluation of some instruments of subordinated capital led to income of € 353 million. Also making a positive impact were: the infrastructure finance portfolio which showed an average increase for the year, the drawn liquidity lines by customers of DEPFA, the net interest income of the securities which were reclassified out of "trading" into "loans and receivables" (LaR) and high interest income in the money market field. These were opposed by negative effects: Firstly, net interest income comprised considerably lower one-off income from sales of receivables,

early repayment penalties as well as redemptions and repurchasing of financial liabilities than was the case in the previous year. Secondly, net interest income is significantly depressed by the costs of the liquidity support which has been provided.

- Net commission income fell appreciably to € 32 million (2007: € 234 million). This decline is attributable to the lower level of new business in commercial real estate financing, lower income from asset management, lower income from new business with customer derivatives and expenses following the liquidity support which has been provided.
- Net trading income declined to € -1.009 billion (2007: € -274 million). A valuation change of € -395 million was recorded in relation to synthetic CDOs (2007: € -198 million). There were also expenses of € -150 million mainly as a result of derivative positions with Lehman Brothers. The spread changes relating to other trading holdings also had a negative impact. For instance market value adjustments due to counterparty risks had a negative impact of € -433 million on net trading income. In accordance with the amendment of IAS 39 “Reclassification of financial assets” which was published by the IASB and endorsed by the EU in October 2008, the Hypo Real Estate Group reclassified assets with a carrying amount of € 3.5 billion out of “trading” into the category “loans and receivables” retrospectively as of 1 July 2008. In addition, the Hypo Real Estate Group reclassified further trading holdings with a carrying amount of € 0.7 billion as of 1 October 2008. Without these reclassifications, net trading income in 2008 would have been € 736 million lower.
- Net income from financial investments amounted to € -1.409 billion (2007: € 6 million) as a result of numerous impairments in relation to financial investments. The further impairment in relation to the cash CDOs included under this position amounted to € -762 million in the full year. MBS were impaired by € -528 million. In addition, net income from financial investments also includes the impairment of € -74 million

in relation to a shareholding in Babcock & Brown which is now written off entirely. In addition, in 2008, an impairment of € -25 million was recognised in relation to securities of the American investment bank Lehman Brothers, and an impairment of € -38 million was recognised in relation to securities of Icelandic banks; a portfolio-based impairment of € -24 million was also recognised in relation to assets which were reclassified into the category LaR in accordance with IAS 39.

- Net income from hedge relationships amounted to € 86 million (2007: € 11 million).
- The balance of other operating income/expenses amounted to € 82 million (2007: € 15 million), and resulted mainly from effects of foreign currency translation of € 96 million.
- The additions to provisions for losses on loans and advances increased to € 1.656 billion (2007: € -61 million) as a result of the considerable global economic downturn and the deterioration of the situation in some real estate markets. The addition to provisions for losses on loans and advances contain portfolio-based allowances of € 501 million. Individual allowances were also recognized particularly in relation to commercial real estate financing in Germany, Spain, Great Britain, and the USA, as well as certain exposures in the public sector and infrastructure finance segments.
- General administrative expenses fell to € 605 million compared with the previous year (€ 656 million). This reflects the reduced number of employees (1,786 compared with 2,000 in the previous year) as well as the non-payment of discretionary variable compensation. The general administrative expenses reflect consultancy fees which were incurred in connection with the stabilisation, restructuring and strategic refocusing of the Group (€ 44 million) and in connection with the acquisition of Hypo Real Estate Holding AG shares by the group of investors coordinated by JC Flowers.

- In consequence of the collapsed interbank market in mid-September 2008, it was no longer possible to conduct the business of DEPFA on the same basis as assumed at the acquisition date on 2 October 2007. Accordingly, an impairment on goodwill and DEPFA´s intangible assets totalling € -2.482 billion was recognised in the third quarter of 2008.
- The balance of other income/expenses of € -47 million (2007: € -6 million) is due firstly to the mandatory convertible bond issued for financing the DEPFA acquisition. Secondly, the balance of other income/expenses also includes additions to restructuring provisions incurred in connection with the strategic refocusing and restructuring of the Group.

Net assets and capital ratios

- The total assets of the Hypo Real Estate Group amounted to € 419.7 billion as of 31 December 2008, compared with € 400.2 billion as of 31 December 2007. The increase in total assets resulted mainly from higher financial investments and other assets.
    - The increase resulted from strong new business of the Public Sector & Infrastructure Finance segment in the initial quarters of the year as well as the liquidity facilities drawn by customers.
    - The other assets increased due to higher positive market values from derivative hedging financial instruments which increased as a consequence of the lower interest rate level.
- The total volume of lending as of the end of December 2008 amounted to € 267.3 billion compared with € 256.2 billion at the end of 2007. Lendings to banks declined appreciably as a result of significantly reduced investments in response to the crisis of the interbank market. On the other hand, lendings to customers rose for various reasons, including the increase in the portfolio of public sector and infrastructure financing.

- Shareholders' equity (excluding revaluation reserve) amounted to € 2.6 billion as of 31 December 2008 compared with € 7.9 billion as of 31 December 2007. This decline is attributable to the Group loss in 2008.
- Taking into account the negative net income for 2008, the regulatory minimum ratio requirements would not have been met by 31. December 2008. According to regulatory standards, the calculation of own funds for the due date 31. December 2008 had to happen without the year end results, due to the fact that at the time of the Solvency Reporting to the Supervisors, the approved annual financial statement was not yet existing. This would have been the pre-requisite to include the net result. On the basis of the declaration of intent of the SoFFin, the Company is assuming that it will again be able to meet the requirements relating to regulatory minimum ratios following the intended capital support even if the net loss for the year is taken into consideration.
    - Before the approved annual financial statements and before profit distribution, equity capital totalled € 8.172 billion (31 December 2007: € 12.162 billion). As per approved annual financial statements and after profit distribution, it is € 4.997 billion (31 December 2007: € 12.405 billion).
    - Before the approved annual financial statements and before profit distribution, the core capital ratio was 6.2 % as of 31 December 2008 (31 December 2007: 8.5 % in accordance with Principle I logic). As per approved annual financial statements and after profit distribution, the ratio is 3.4 % (31 December 2007: 8.7 %).
    - Before the approved financial statements and before profit distribution, the own funds ratio is 8.6 % (31 December 2007: 11.1%). As per approved annual financial statements and after profit distribution, the ratio is 5.7 % (31 December 2007: 11.4 %).

Results of subsidiary banks; servicing of profit-participation certificates and tier 1 and upper tier 2 instruments

As already announced, Hypo Real Estate Bank AG has posted a net loss for the year: the result before taxes (in accordance with German GAAP - 'HGB') was EUR -2.8 billion, with a net retained loss of EUR -2.6 billion. Interest on profit-participation certificates issued by Hypo Real Estate Bank AG after preparation of the 2008 financial statements and due for payment in 2009 will not be paid. Profit-participation certificates with final maturity on 31 December 2008 participate in the loss on a pro-rata basis; accordingly, they will not be repaid at par, but their nominal amount will be reduced by the amount of the pro-rata loss.

As a result of the net retained loss, Hypo Real Estate Bank AG will not make any distributions in 2009 on its Hypo Real Estate International Trust I tier 1 bond. Furthermore, within the scope of its corporate planning, the Management Board of Hypo Real Estate Bank AG envisages the bank to post losses for at least the next two years. Based on this assumption, the holders of profit-participation certificates and tier 1 bonds would not receive any distributions for the relevant periods, and the profit-participation certificates would share the pro-rata losses.

DEPFA Deutsche Pfandbriefbank AG posted a transferable profit of EUR 17 million after taxes, resulting in a breakeven net retained profit. Therefore, profit-participation certificates issued by DEPFA Deutsche Pfandbriefbank AG must be serviced in full for financial year 2008.

The Board of Directors of DEPFA BANK plc has decided that tier 1 instruments guaranteed by DEPFA BANK plc and upper tier 2 instruments of DEPFA BANK plc will not be serviced in 2009.

Important information:

The figures for Hypo Real Estate Holding AG and Hypo Real Estate Bank AG published in this document are based on annual financial statements prepared by the Management Board which have not been audited and have not yet been adopted by the Supervisory Board. At DEPFA Deutsche Pfandbriefbank AG, the Supervisory Board has adopted the annual financial statements; at DEPFA BANK plc, the Board of Directors has approved the annual financial statements.

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Overview of Group development (€ million)

Hypo Real Estate Group	Q4 2007 *	FY 2007*	Q3 2008	Q4 2008	FY 2008
Operating performance					
Operating revenues	33	1.463	-345	-660	-585
Thereof: Net interest income and similar income	440	1.471	354	676	1.633
Net commission income	56	234	35	-72	32
Net trading income	-252	-274	-349	-574	-1.009
Net income from financial investments	-206	6	-364	-881	-1.409
Provisions for losses on loans and advances	142	61	-177	-1.409	-1.656
General administrative expenses	-164	-656	-119	-181	-605
Pretax profit/loss **	32	889	-623	-2.248	-2.664
Impairments on goodwill and DEPFA´s intangible assets	0	0	-2.482	0	-2.482
Additions to restructuring provisions	-27	-27	0	-229	-229
Pretax profit/loss	**5**	**862**	**-3.105**	**-2.477**	**-5.375**
Net income	**--**	**--**	**-3.052**	**-2.569**	**-5.461**

* Pro forma; ** Before impairment on DEPFA goodwill and restructuring provisions

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