Press release

Hypo Real Estate publishes report for the first quarter

- **Pre-tax loss for the quarter: € -406 million**
- **Net loss after taxes: € -382 million**
- **Wieandt: "Good progress made in restructuring the Group "**

Munich, 5 May 2009 – As was the case in previous quarters, the results of the Hypo Real Estate Group in the first quarter of 2009 were characterised by the crisis on the international capital, financing and real estate markets as well as the costs of liquidity support. The pre-tax loss declined to € -406 million, compared with a pre-tax profit of € 190 million in the corresponding previous year period. The net loss after taxes for the period amounted to € -382 million.

The **CEO of Hypo Real Estate Holding AG, Dr. Axel Wieandt**, said: "As was the case in the previous quarters, the first quarter of 2009 again posed a major challenge for the Group and its employees in market conditions which continued to be difficult. We are however, making good progress with restructuring the Group. Moreover, we have written new business of € 0.6 billion in the field of real estate financing in the first quarter. For the most part this involved business with existing clients".

Group development in the first quarter of 2009

Market conditions are still difficult, and had a considerable impact on the development in results at the Group. The income statement is detailed in the following:

- <u>Operating revenues</u> were negative at € -80 million (Q1/2008: € 184 million). Operating revenues comprise 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 as well as the "balance of other operating income / expenses". The individual items are detailed in the following:
- <u>Net interest income</u> reported a positive performance, and increased to € 371 million compared with € 299 million in the first quarter of 2008. This increase is mainly attributable to strong income in the money

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market field, because lower interest rates at the beginning of 2009 resulted in lower refinancing costs whereas income from assets remained constant. Interest payments of customers who had drawn US liquidity facilities in 2008 also had a positive impact. On the other hand, one-off income from sales of receivables, prepayment penalties as well as returns and redemptions of financial liabilities declined to € 12 million (Q1/2008: € 57 million). The expenses for the liquidity support provided by the syndicate from the German financial sector, the Deutsche Bundesbank and the financial market stabilisation fund also had a negative impact on net interest income.

- Net commission income amounted to € -108 million (Q1/2008: € 35 million. The decline is primarily attributable to expenses of € 129 million for the guarantees relating to the liquidity support of the financial market stabilisation fund and the German federation. Net commission income was also affected by currently very low levels of new business and lower income from Capital Markets/ Asset Management.
- In the first quarter of 2009, net trading income was affected by the turmoil on the financial markets to an even greater extent than was the case in the corresponding previous year period. Overall, net trading income declined to € -162 million compared with € -98 million in the first quarter of 2008. Synthetic collateralised debt obligations (CDOs) accounted for a negative valuation result of € -30 million (Q1 2008: € -87 million). The spread changes also had a negative impact on other trading portfolios, and depressed net trading income. Accordingly, market value adjustments as a result of counterparty risks had a negative impact of € -85 million on net trading income (Q1 2008: 0 Mio. €).
- Net income from financial investments (€ -30 million) was depressed by impairments recognised in relation to securities. Most of this figure, namely € -20 million, was attributable to portfolio-based allowances created in relation to holdings of loans and receivables (LaR) reclassified in 2008, and a figure of € -3 million was attributable to individual allowances in relation to cash CDOs. No impairments were recognised in relation to MBS. The deconsolidation of DEPFA First Albany

Securities Inc., resulted in a profit of less than € 1 million.
At the previous year period (Q1/2008: € -29 million), impairments recognised in relation to cash CDOs (€ -88 million) were opposed by profits from the sale of financial investments (€ 28 million), a profit attributable to the initial consolidation of Quadra Realty Trust, Inc., New York, (€ 25 million) and a write-up in relation to a property (€ 10 million).

- The net income from hedge relationships amounted to € -110 million, and was thus lower than the corresponding previous year figure of € -19 million. Two effects are reflected in this regard. Hedge inefficiencies within the range of 80% to 125% permitted under IAS 39 resulted in expenses of € -75 million (Q1/2008: € -5 million); this expense is primarily an opposite effect resulting from the corresponding revenues in the fourth quarter of 2008. Secondly, a negative valuation result of € -35 million (Q1 2008: € -14 million) resulted from designated at Fair Value through Profit or Loss (dFVTPL) assets and related derivatives. The fair values of these positions hedged against interest risks have deteriorated as a result of credit spread changes.
- The balance of other operating income/expenses amounted to € -41 million (Q1 2008: € -4 million), and resulted primarily from currency translation effects (in particular US Dollar).
- Additions to provisions for losses on loans and advances increased to € 196 million (Q1 2008: € 33 million) as a result of the considerable deterioration of the global economy and also the deterioration in the situation on the real estate markets. Individual allowances have been created primarily in relation to real estate financing in the USA and, to a lesser extent, in relation to real estate financing in Germany, Spain and Great Britain. Portfolio-based allowances have also been increased by € 73 million (Q1 2008: € 0 million).
- General administrative expenses have declined to € 130 million, compared with € 145 million in the first quarter of 2008. The decline is attributable on the one hand to lower planned variable compensation. A further aspect was that pension provisions of € 5 million were reversed. As a result of the negative operating revenues, the cost-income ratio, in

other words the ratio between general administrative expenses and operating revenues, was more than 100% (Q1 2008: 78,8 %). The workforce declined to 1,656 employees, compared with 1,786 employees as of 31 December 2008.

- There were no other income and expenses in the first quarter of 2009. In the first quarter of 2008, the balance of other income/expenses (€ 184 million) was attributable to the mandatory convertible bond for financing the DEPFA acquisition which had been issued and which had been converted in the meantime.
- Pre-tax profit/loss amounted to € -406 million (Q1/2008: € 190 million).
- Current tax expenses of € 20 million were opposed by deferred tax income of € 44 million, thus resulting in total tax income of € 24 million for the first quarter of 2009 (Q1 2008: tax expense of € 42 million).
- Accordingly, the net loss after taxes amounted to € -382 million € (Q1/2008: € 148 million).

Asset and capital ratios as of 31 March 2009

- The total assets of the Hypo Real Estate Group fell to € 411.1 billion as of 31 March 2009, compared with € 419.7 billion as of 31 December 2008. On the one hand, loans and advances to other banks and loans and advances to customers were lower because holdings of municipal loans declined as a result of repayments in conjunction with a simultaneous only very low level of new business. And in financial assets, holdings of bonds declined as a result of maturities. On the other hand, there was an increase in trading assets and other assets, because the positive market values of the trading derivatives and hedging derivatives increased as a result of the further decline in interest rates.
- The total volume of lending as of 31 March 2009 amounted to € 258.5 billion compared with € 267.3 billion at the end of 2008.
- Shareholders' equity (excl. revaluation reserve) amounted to € 3.3 billion as of 31 March 2009, compared with € 2.6 billion as of 31 December 2008. Firstly, the hybrid issues of DEPFA Bank plc had to be recognised as equity instruments as of 31 March 2009 in accordance with IAS 32.16. Accordingly, the carrying amount of hybrid capital

instruments (€ 1,043 million) has been reclassified under shareholders' equity, and is no longer classified under subordinate liabilities. Secondly, subscribed capital has increased by € 60 million as a result of the first step of the financial market stabilisation fund for recapitalising the Hypo Real Estate Group. Thirdly, shareholders’ equity has been depressed by the loss reported for the Group for the first quarter of 2009.

- The revaluation reserve has increased by € 0.2 billion compared with 31 December 2008. Accordingly, the AfS reserve declined to € -3.2 billion as of 31 March 2009, compared with € -3.1 billion as of 31 December 2008. This development was attributable to widening of credit spreads. In the fiscal year 2008, in accordance with the IAS -39 amendment “Reclassification of financial assets”, which was adopted by the IASB in October 2008 and endorsed by the EU, the Hypo Real Estate Group reclassified available-for-sale assets with a carrying amount of € 76.1 billion to the category loans and receivables retrospectively as of 1 July 2008. Without this reclassification, the AfS reserve after taxes would have declined by € -0.8 billion in the first quarter of 2009. Including the effects from 2008, the AfS reserve after taxes would have been a total of € -7.8 billion without this reclassification.
- The cash flow hedge reserve amounted to € -0.7 billion, compared with € -1.0 billion at the end of last year. The change is mainly attributable to the lower level of interest rates in the first quarter of 2009.

Regulatory ratios

The own funds as of the reference dates 31 December 2008 and 31 March 2009 were each still calculated without including the net income / loss for 2008, as approved annual financial statements for the period ending 31 December 2008 were not available as of these reporting dates. This however is an essential requirement if the net income / loss is to be recognised.

The regulatory capital in accordance with the German Solvency Regulation (SolvV) of the Hypo Real Estate Group is as follows:

- The regulatory capital, before approved annual financial statements and before result distribution, amounted to a total of € 7.760 billion € (31 December 2008: € 8.172). As per approved annual financial statements and after result distribution, it is € 4.972 billion (31 December 2008: € 4.997 billion).
- Before approved annual financial statements and before result distribution, the core capital ratio was 6.3% as of 31 March 2009 (31 December 2008: 6.2 %). As per approved annual financial statements and after result distribution, it is 3.5% (31 December 2008: 3.4 %).
- Before approved financial statements and before result distribution, the own funds ratio is 8.3% (31 December 2008: 8.6%. As per approved annual financial statements and after result distribution, it is 5.8% (31 December 2008: 5.7 %).

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Summary of quarterly financial data

Hypo Real Estate Group	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY 2008	Q1 2009
Operating revenues	184	236	-345	-660	-585	-80
thereof: Net interest income and similar income	299	304	354	676	1,633	371
thereof: Net commission income	35	34	35	-72	32	-108
thereof: Net trading income	-98	12	-349	-574	-1,009	-162
thereof: Net income from financial investments	-29	-135	-364	-881	-1,409	-30
thereof: Net income from hedge relationships	-19	15	-30	120	86	-110
thereof: Balance of Other operating income/expenses	-4	6	9	71	82	-41
Provisions for losses on loan and advances	-33	-37	-177	-1,409	-1,656	-196
General administrative expenses	-145	-160	-119	-181	-605	-130
Impairments on goodwill and DEPFAs intangible assets	0	0	-2,482	0	-2,482	0
Other income/expenses	184	-22	18	-227	-47	0
Pretax profit	190	17	-3,105	-2,477	-5,375	-406
Taxes on income	-42	-5	53	-92	-86	24
Profit after tax	148	12	-3,052	-2,569	-5,461	-382

Key regulatory capital ratios

Key capital ratios in %

	31.3.2009[1)]	**31.3.2009[2)]**	**31.12.2008[1)]**	**31.12.2008[2)]**
Core capital ratio[3)]	6.3	3.5	6.2	3.4
Equity capital ratio[4)]	8.7	6.1	9.0	6.0
Own funds ratio (overall indicator)[3)]	8.3	5.8	8.6	5.7

[1)] Before approved annual financial statements 2008 and before result distribution

[2)] As per approved annual financial statements 2008 and after result distribution

[3)] Including risk-weighted credit risk positions as well as the capital requirements for market risk and operational risk scaled with the factor 12.5

[4)] Including risk-weighted credit risk positions as well as the capital requirements for operational risk scaled with the factor 12.5

Own funds[1)] in € million

	31.3.2009[2)]	**31.3.2009[3)]**	**31.12.2008[2)]**	**31.12.2008[3)]**
Core capital (Tier1)	5,836	3,015	5,897	2,928
Supplementary capital (Tier II)	1,924	1,957	2,275	2,069
Equity capital	**7,760**	**4,972**	**8,172**	**4,997**
Tier III capital	0	-	-	-
Total	**7,760**	**4,972**	**8,172**	**4,997**

[1)] Consolidated pursuant to section 10a German Banking Act (KWG)

[2)] Before approved annual financial statements 2008 and before result distribution

[3)] As per approved annual financial statements 2008 and after result distribution

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Balance sheet

Assets in € million

	31.03.2009	31.12.2008
Cash reserve	1,254	1,713
Trading assets	17,671	17,287
Loans and advances to other banks	47,347	49,409
Loans and advances to customers	215,933	222,048
Allowances for losses on loans and advances	-2,454	-2,277
Financial investments	105,480	108,740
Property, plant and equipment	28	32
Intangible assets	40	40
Other assets	20,124	17,396
Income tax assets	5,649	5,266
Current tax assets	125	132
Deferred tax assets	5,524	5,134
Total assets	**411,072**	**419,654**

Equity and liabilities in € million

	31.03.2009	31.12.2008
Liabilities to other banks	154,586	146,878
Liabilities to customers	13,967	15,936
Liabilities evidenced by certificates	182,201	197,978
Trading liabilities	18,374	17,236
Provisions	340	352
Other liabilities	34,227	33,835
Income tax liabilities	4,561	4,163
Current tax liabilities	125	161
Deferred tax liabilities	4,436	4,002
Subordinated capital	3,431	4,784
Liabilities	**411,687**	**421,162**
Equity attributable to equity holders	-615	-1,508
Subscribed capital	693	633
Hybrid capital instruments	1,043	-
Additional paid-in capital	6,352	6,352
Retained earnings	-4,372	1,085
Revaluation reserve	-3,949	-4,117
AfS reserve	-3,231	-3,115
Cash flow hedge reserve	-718	-1,002
Consolidated loss 1.1.-31.12.2008	-	-5,461
Consolidated loss 1.1.-31.03.2009	-382	-
Profit carried forward from prior year	-	-
Minority interest in equity	**-**	**-**
Equity	**-615**	**-1,508**
Total equity and liabilities	**411,072**	**419,654**