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Annual General Meeting
Hypo Real Estate Holding AG

Speech by the CEO

13 August 2009

Dr Axel Wieandt
CEO
Hypo Real Estate Holding AG, Munich

The spoken word is applicable!

Dear Shareholders,
Ladies and Gentlemen,

I would like to welcome you, on behalf of the Management Board, to the Annual General Meeting of HRE Holding. As you know, the Company's **entire Management Board was completely replaced** as from October 2008. Manuela Better, Kai-Wilhelm Franzmeyer, Frank Krings and I have all been appointed to our offices in extraordinarily difficult times. With effect as of the 1st of October, the Supervisory Board also appointed Alexander von Uslar-Gleichen as CFO.

Our task is a major challenge – but also an **extraordinary obligation**. We are placing all our energies at HRE's disposal, in order for the Group to once again meet the challenges of the future based upon our concept of fundamental strategic realignment. Despite the progress we have made in our first ten months, the strategic realignment of the Company will take several years.

The **cornerstone for the strategic realignment and further capitalisation**, namely the immediate stabilisation of HRE in the wake of the crisis that threatened its very existence, has now been laid. To this end, the Federal Republic of Germany, the Bundesbank and a consortium comprising members from the financial sector have provided comprehensive liquidity and capital support. This support was and is essential for the HRE Group to continue as a going concern and we are extremely grateful for this assistance.

I would also like to extend a special thanks to our staff members. They have put massive effort into accomplishing the extraordinary tasks the Group had to face for almost a year now. The threat to the Company's existence last October is in clear contrast to our employees' high level of commitment.

Ladies and Gentlemen,

Naturally, we fully understand that these are **extraordinary and difficult circumstances for all of us**. The Management Board and Supervisory Board continue to hold the view that there was and is no realistic alternative to the Federal State's participation in HRE. The capital increase resolved in June 2009 was only the first step to preserve the Company's very existence. Additional steps must follow. To stay afloat, the Company will continue to require the longer-term comprehensive support of SoFFin regarding liquidity guarantees and capital support.

I would now like to turn to my first topic, the report on the financial year 2008 and the outlook for the current financial year.

Financial Year 2008, and Outlook for 2009

The financial year 2008 was marked by the general **crisis on the financial markets**, and by the specific, extremely **difficult situation of the HRE Group which threatened its very existence**. This is also reflected in the consolidated financial statements: after years of reporting profitability, HRE reported high losses for the financial year 2008. The figures, however, also show the short period of time over which the situation of the Group dramatically changed course: The Group reported pre-tax profits of 207 million Euro for the first half year of 2008. In the second half year of 2008, the pre-tax result was negative at - 5.582 billion Euro, 2.482 billion Euro of which were related to amortisations on goodwill and other intangible assets of DEPFA.

The **business environment** for the current financial year **is equally difficult**. The crisis of the real economy persists. Accordingly, the condition of the real estate market has continued to deteriorate. We observe decreasing rents, significantly higher vacancy rates, heightened, risk-adequate yield expectations of investors and, as a result, reduced valuations and a rising number of loan defaults. As a result there was a significant increase in additions to provisions for losses on loans and advances, above all for real estate loans, which further depressed results (of operations) significantly in the 2nd quarter of 2009.

With your permission, I will now address the 2008 consolidated financial statements in more detail.

Consolidated Financial Statement 2008

A loss of € 5.375 billion was reported for **pre-tax profit**, compared with a profit of € 862 million reported in 2007. Please note that all figures for 2007 are on a pro-forma basis, incl. DEPFA BANK plc and its former subsidiaries. The net income was reported as € -5,461 billion.

- **Operating revenues** were negative at € -585 million; they 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 figure is accordingly considerably lower than the corresponding figure for the previous year period (€ 1,463 billion).
- The **additions to provisions for losses on loans and advances** increased to € 1.656 billion as a result of the considerable downturn in the global economy and the deterioration of the situation on some real estate markets. On the other hand, in 2007, provisions for losses on loans and advances of € -61 million were reversed. The addition to provisions for losses on loans and advances in 2008 contains portfolio-based allowances of € 501 million. Individual allowances were recognised in particular in relation to commercial real estate financing in the USA, Germany, Great Britain and Spain as well as selected exposures in the Public Sector & Infrastructure Finance segment.
- **General administrative expenses** declined to € 605 million, compared with € 656 million in the previous year. This reflected the lower number of employees, which declined from 2,000 to 1,786 in the course of the year. They also declined because no discretionary variable compensation was paid. General administrative expenses were affected by consultancy expenses incurred in connection with the stabilisation, restructuring and strategic refocusing of the group.

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 and also on the basis of assumptions made after that time. Accordingly, as mentioned above, an impairment totalling € 2.482 billion was recognised in the third quarter of 2008 in relation to the **goodwill and DEPFA's intangible assets**.

- The **balance of other income/expenses** of € -47 million (2007: € -6 million) is due firstly to the positive effects of the mandatory convertible bond issued for financing the DEPFA acquisition. Secondly, the balance of other income / expenses also includes **restructuring provisions** incurred in connection with the strategic refocusing and restructuring of the group. This refocusing, which I will address in detail shortly, was adopted by the new Management Board and the new Supervisory Board on 19 December. A restructuring provision of € 225 million was created for this purpose in the fourth quarter.
- The **total assets** of HRE 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 was mainly attributable to higher financial investments and other assets. This reflected the strong new business in the Public Sector & Infrastructure Finance segment in the first two quarters of 2008 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** amounted to € 267.3 billion at the end of December 2008, compared with € 256.2 billion at the end of 2007. Loans and advances to other banks declined appreciably as a result of significantly lower investments in response to the crisis on the interbank market. On the other hand however, loans and advances to customers increased due to various factors, including the growth in the portfolio of public sector and infrastructure financing. Considerable volumes of new business were still being written in this respect in the first half of 2008.
- **Total Group liabilities** amounted to € 421.2 billion as of 31 December 2008 compared with € 394.1 billion as of 31 December 2007.
- **Shareholders' equity** (excluding the 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 consolidated net loss in 2008.

The **revaluation reserve** declined by € 2.3 billion compared with the previous year to € -4.1 billion.

Shareholders' equity including the revaluation reserve was accordingly negative at € 1.5 billion as of 31 December 2008. It has to be considered that HRE reclassified available-for-sale assets with a carrying amount of € 76.1 billion with retroactive effect as of 1 July 2008, and now classifies these assets as loans and receivables. Without this reclassification, the AfS reserve after tax would have been € 7.1 billion lower on 31 December 2008.

Overall, the **hidden losses** in all our assets amounted to € 31.5 billion as of 31 December 2008, mainly in the items "Loans and advances to customers" and "Financial investments". Hidden losses of € 20.8 billion still remain even if the hidden reserves on the liabilities side of the balance sheet are included. These figures underline that it is not possible for our balance sheet to be substantially reduced at present without realising losses. Accordingly, we will have to adopt a measured approach for reducing our balance sheet.

I will now turn to the **regulatory indicators**:

- The Management Board manages capital on the basis of various factors, including the **German Solvency Regulation and the German Banking Act**. In line with regulatory requirements, the own funds were calculated as of 31 December 2008 without year-end results, due to the fact that, at the time of solvency reporting to the regulatory authorities, the approved annual financial statements did not exist. However, if the year-end results 2008 had been available, the **regulatory minimum ratios** of 4 percent for the core capital ratio and 8 percent for the own funds ratio would not have been satisfied as of 31 December 2008: The core capital ratio would have been 3.4 percent, and the own funds ratio would have been 5.7 percent.

On the basis of the letter of intent of the SoFFin, the Company assumed at the end of March, namely the time at which the annual financial statements 2008 were prepared, that it would soon be able to return to a position in which it would comply with the regulatory minimum ratios through the intended equity support, even if the negative net income were to be taken into consideration. This indeed occurred as a result of the capital increase carried out in June 2009.

- The analysis of **economic capital requirement**, i.e. the extent to which all quantifiable risks are backed by equity, indicates that considerable volumes of further capital will still have to be raised.

Outlook for the 2009 Financial Year

The first half of 2009 was still affected by the difficult situation on the markets and in particular on the real estate markets. HRE had to cope with additional charges in the form of costs for liquidity support which was received and also costs incurred in connection with the strategic refocusing and restructuring. Accordingly, **pre-tax profit** in the first half of 2009 amounted to € -1.070 billion, compared with € 207 million in the first half of 2008. According to the accounting standards, the first half of 2008 is the corresponding prior year period which has to be presented; however, in the first half of 2008, the effect of the deterioration of the real estate markets was not evident to such an extent.

- At € 268 million, **operating revenues** were lower than the corresponding figure for the first half of 2008, when they were reported as € 420 million. The first half of 2009 was very much affected by the costs of the external liquidity support, including the payments for guarantees of the Federal Government, which are reported in net commission income. Net commission income amounted to € -207 million, compared with € 69 million in the corresponding prior year period. Costs for the guarantees in connection with the liquidity support provided by the SoFFin and the German Federal Government amounted to € -257 million. Overall, the costs of liquidity support have amounted to € 349 million since the autumn of 2008. Of this figure, € 182 million has been paid to the SoFFin and € 167 million has been paid directly to the Federal Republic of Germany.
- **Additions to provisions for losses on loans and advances** increased to € 1.077 billion as a result of the considerable downturn in the global economy and the deterioration in the situation on real estate markets. The impairments recognised in the first half of 2009 related mainly to real estate loans (€ 1.048 billion) and, to a lesser extent, infrastructure and public sector financing (€ 29 million). This reflected the further deterioration in regional economic conditions, particularly in the markets of North America, Southern Europe and Great Britain, as well as in some segments in Germany, which have been considered to be critical for quite some time. Hotels are examples of sub-portfolios which are particularly at risk.
- We are monitoring the development on the markets with great concern and have seen a continuing increase in the number of **problem loans** in our real estate portfolio. If we consider all loans in the categories of Watchlist, Restructuring and Workout, problem loans have almost doubled to around € 9 billion at the end of June 2009 compared with around € 5 billion at the end of December 2008. For this reason, we are establishing a global Workout team which will be responsible for restructuring critical exposures. At the same time, we are specifying more stringent requirements applicable for new lending business. We will accordingly focus new business on countries in Europe eligible for Pfandbrief refinancing and core real estate markets; we are specifying even more stringent standards with regard to loan-to-value ratios and we have reduced the average size of new loans which are extended.
- **Total assets** declined by around 8 percent to € 386.4 billion as of 30 June 2009 compared with 31 December 2008. Two factors are responsible for this considerable decline:
 - Firstly, portfolios have been reduced because new business and drawings of existing commitments were lower than repayments.
 - Secondly, balance sheet holdings declined as a result of exchange rate factors and the impact of the low level of interest rates on the market values of derivatives.

- We are assuming **considerable charges on results** which will lead to a continuing loss situation. At present, we are not assuming that we will be able to return to profitability before the end of 2012. There are three main factors which will continue to depress results:
 - Impairments recognised in relation to receivables and securities, particularly with regard to real estate financing, as a result of the financial crisis and the economic slowdown
 - Costs of liquidity support which is received
 - Costs incurred in connection with the strategic refocusing and restructuring

In short summary: Against the background of the general crisis in the financial markets and HRE's extremely difficult situation – that threatened its very existence as a going concern – HRE concluded the financial year 2008 reporting very high losses. The situation will remain equally difficult in the near future. This situation entails high liquidity and capital requirements of the group. I will focus on this issue next.

Measures Regarding Liquidity and capital requirements

In September 2008, the crisis affecting financial markets, which had intensified significantly during 2008, resulted in the **partial or total collapse of individual capital and finance markets**. Following the collapse of the US investment bank Lehman Brothers, in particular the interbank market came practically to a standstill from mid-September 2008 onwards caused by the persistent loss of confidence between banks: the potential problems affecting borrowing banks meant that it was impossible to gauge the risk associated with lending on the interbank market.

In this situation, **the business model of HRE's Irish subsidiary, DEPFA BANK plc**, which HRE had acquired in October 2007, turned out **not to be crisis-proof**: the refinancing of its lending activities depended significantly on the interbank market and on other short-term, unsecured refinancing options. Long-term loans were funded on a short-term basis. The generation of liquidity through the sale of assets was hampered significantly during 2008 by illiquid markets and substantial spread widening. As a result, DEPFA BANK plc's very existence was threatened by liquidity problems. These developments then also threatened, by means of a domino effect, the existence of HRE Holding and Hypo Real Estate Bank due to intra-group relationships.

As a result of the persistent financial crisis which in particular also extended to the real estate markets, the company's capital situation deteriorated. Thus, the crisis of HRE was **not only a liquidity crisis but also turned into a solvency crisis**.

Ladies and Gentlemen,

With your permission, I would like to digress at this point, to address an issue that is also related to the origin of the crisis. Dr. Endres reported on the results of the investigation undertaken by the Supervisory Board to determine **the extent of the previous Management Board's responsibility for these developments**. He also commented on agenda item 2 of today's Annual General Meeting: the Supervisory Board proposes that the Annual General Meeting approve a special audit. The purpose of the audit is to explore the circumstances in connection with the acquisition of DEPFA BANK plc and regarding the liquidity management of HRE Holding AG, particularly with respect to the responsibility of the Management Board in office at that time.

In accordance with its responsibilities under stock corporation law, the HRE Management Board has now also retained a renowned law firm. The law firm investigates whether the **previous members of the Supervisory Board met their monitoring and control obligations under stock corporation law** in connection with these events. Due to the complexity of the matter, the investigation will take some time to be completed.

Following this digression, I will now describe the Company's current status: first, with regard to liquidity, and then with respect to solvency. I provided very detailed information on these topics at the Extraordinary General Meeting on 2 June. Today, I will, therefore, restrict myself to a short summary, complemented by recent developments.

Liquidity support

The Group remains dependent upon the liquidity support by a consortium of the financial sector as well as by SoFFin. The **total liquidity facility** amounted to **98.9 billion Euro** as at 30 June 2009, 80 billion Euro of which were drawn at such time, whereas 83 billion Euro were drawn at the end of March 2009. Liquidity requirements have recently slightly decreased due to market effects such as fluctuations of interest and exchange rates, and also as a result of reduced credit engagements due to the fact that repayments exceeded new lending and drawings under existing lines.

As per contractual agreement, the liquidity support made available by the **financial consortium** until the end of 2009 was further repaid during the second quarter in an amount of 1.4 billion Euro. Already during the first quarter, HRE had repaid 1.7 billion Euro. Thus, the facility as at 30 June of this year amounted to 46.9 billion Euro.

At the beginning of April 2009, **SoFFin** uniformly prolonged all of the guarantees it had issued until 19 August 2009. We expect that the guarantees will continue to be prolonged. At the end of March, SoFFin confirmed in principle in its Declaration of Intent its intention to issue further guarantees.

The investment by the Federal German State means that we regain access to the funding markets. Meanwhile, we have agreed **credit facilities** for Deutsche Pfandbriefbank with several banks: we are engaging in **bilateral repo transactions**, and we are conducting initial **private placements of Pfandbriefe**. We consider these developments to be positive and as a token of confidence in the road we have taken. We want and we must again make a name for ourselves in the capital markets.

The Group's existence as a going concern in the foreseeable future will remain contingent upon the availability of liquidity support. Our **future liquidity requirements** are highly dependent on market developments. Even in the event that funding conditions for the Group should gradually return to normal in future, the Management Board expects that it will certainly take several years to return the liquidity support.

I would like to take this opportunity to once again clarify that no money of the Federal State is being paid to HRE within the scope of this liquidity support. This is about guarantees for which HRE, as just explained, pays fees to the Federal State.

Aside from liquidity support, a further recapitalisation is still a mandatory prerequisite for the continuation of the Group as a going concern since we need to cover losses and secure the capitalisation level required. I will focus on this aspect now.

Recapitalisation

As stated above, the financial markets crisis also has a significant impact on HRE's capitalisation. Already at the end of 2008, we had entered into discussions in this regard with SoFFin and with the regulatory authorities, primarily with BaFin. Let me briefly outline the measures that have already been taken to recapitalise the Group.

With a view to the measures required for stabilisation, SoFFin, HRE Holding and Deutsche Pfandbriefbank (at that time still being Hypo Real Estate Bank), signed a **Declaration of Intent** on 28 March 2009. It provides a framework for the recapitalisation of the Group through capital contributions and through guarantees in favour of Deutsche Pfandbriefbank, in accordance with the requirements of the Financial Markets Stabilisation Act.

On this basis, and with the approval of the Supervisory Board, the Management Board resolved at the end of March to increase the issued share capital of HRE Holding. Within the scope of a **capital increase against cash contributions from authorised capital**, the issued share capital was increased by 60 million Euro, excluding the shareholders' subscription rights. As a consequence, SoFFin acquired an 8.65 per cent interest in HRE Holding's issued share capital. By means of a voluntary take-over offer, which SoFFin submitted to all shareholders of the Company at a price of 1.39 Euro per share in April/May, SoFFin's participation increased to approximately 47.3 per cent. Given the nature of the offer, it did not result in an inflow of funds to the Company.

On June 2, 2009, the Extraordinary General Meeting resolved upon a **further capital increase** proposed by the Management Board and Supervisory Board. SoFFin subscribed for 986.5 million shares from this capital increase, which also excluded shareholders' subscription rights. As a result of the capital increase, the Company received funds in the amount of 2.965 billion Euro. Thus, HRE as a group is once again in compliance with the minimum regulatory ratios based upon a determination that still excludes, in accordance with regulatory requirements, the accumulated losses for the year 2009. The tier 1 equity ratio for the Group as at 30 June was 6.9 per cent and the total equity ratio 9.5 per cent.

As a result of the capital increase, SoFFin now holds a 90 per cent participation in the Company's issued share capital. This enables SoFFin to pursue obtaining full control of HRE. As you know, this is a prerequisite for the Federal State for providing further adequate support. I must once again stress that we need this further support. Realistically, it can only come from the Federal State.

I already explained this in detail in my speech of 2 June. In my remarks today, I also already explained that we continue to expect significant strains on our results, and hence expect a persisting loss situation. From today's perspective, we do not envisage a return to profitability before 2012. The Company, therefore, needs **additional capital support**.

The **extent of the required capital inflow** depends on a number of external factors. The most important ones are:

- the required understanding with SoFFin regarding the target equity ratio;
- the factors I just mentioned, that have an adverse effect on our results;
- possible requirements within the scope of the EU state aid proceedings
- the time and conditions at which we will be able to dispose of non-strategic portfolios in a value preserving manner

I will in particular elaborate on this last point in the third part of my comments and will illustrate the fundamental strategic realignment of the Group.

Realignment of the Group

Ladies and Gentlemen,

In our capacity as new members of the Management Board we have invested all of our strength in countering the impending collapse of HRE. This entailed, on the one hand, considering whether the Company was under an obligation to file for insolvency. Based on detailed advisory opinions, we were able to answer this question in the negative as a result of the support provided by the financial sector and the Federal State. Since then, we naturally continue to review the situation and to closely monitor the capital ratios prescribed by the German Banking Act. We are in close dialogue with the supervisory authorities. On the other hand, as explained above, we have achieved the satisfaction of the immediate liquidity and capital needs of the Group.

We are at the same time, expediting the Group's realignment. The Group's business model, as well as its structures and processes, have to be changed fundamentally in order to secure a viable future for the Group. To be successful, the HRE bailout needs to result in a sustainable future for the Company. With the goal to achieving this objective, we have commenced our work.

This is also why our efforts – aside from the just explained aspect of continuing the business - has **two key strategic objectives** that we developed in close cooperation with the Supervisory Board:

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

The strategic realignment of the Group can naturally not be completed in the few months since the new Management Board assumed responsibility for the business. Rather, the **process is likely to take several years**. 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. We continue to refine the Group's business model, which will also be reviewed within the scope of the state aid control proceedings between the Federal Republic of Germany and the European Union.

This brings me to the key elements of our new strategy.

Outline of the new strategy

The Group's realignment has **two equally ranking objectives**: we firstly want to identify strategic lines of business with sustainable future prospects. This will be achieved by bundling strategic operations into a core bank which will be the basis of our future business. Secondly, we want to reduce non-strategic portfolios, preserving value – for which we have identified various options that we are currently examining.

- **The new core bank is legally in existence**: the planned merger of the Group's two mortgage banks, Hypo Real Estate Bank and DEPFA Deutsche Pfandbriefbank, became effective on 29 June of this year. This step was preceded by the merger of the Group's two real estate banks within the scope of the November 2008 merger of Hypo Real Estate Bank International into Hypo Real Estate Bank. The strategic core bank that was created from these mergers is Deutsche Pfandbriefbank AG, which is headquartered in Munich.

Deutsche Pfandbriefbank's operations will focus on real estate and public finance, and will primarily refinance its business through the issuance of covered bonds. Combining real estate and public finance under one roof enables us to benefit from synergies. We can reduce costs by capitalizing on economics of scale and economies of scope ensue for instance with respect to funding or customer relations.

We are currently developing a new brand and market presence for Deutsche Pfandbriefbank. HRE Holding will, in contrast thereto, operate in the background as a pure holding entity.

- A part of Deutsche Pfandbriefbank's existing real estate portfolio does not meet the requirements identified for the strategy of the bank. We are, therefore, examining – together with SoFFin – various possibilities including the transfer of **sub-performing loans, or loans not eligible for covered bond refinancing**, to a new public law institution having partial legal capacity under the Financial Market Stabilisation Agency (defined as a workout institution – Abwicklungsanstalt – by the Act). This could relieve the strategic core bank, since it would no longer have to back such assets with regulatory capital – which would also accelerate the bank's ability to be reprivatized.

The Group also holds **non-strategic portfolios** with a nominal value of approximately 210 billion Euro. These portfolios predominantly consist of assets pertaining to highly-rated public or public sector-related debtors; we call the assets collectively, the “value portfolio”. These assets are, however, burdened by a high level of hidden encumbrances due to the prevailing low market valuations. Only a small portion of the assets in these portfolios have an elevated risk of default, for which impairment losses were already recognised in past quarters. Value portfolio assets are primarily held by the DEPFA BANK plc subgroup. The value portfolio 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 while optimising funding costs. To this end, we have created dedicated teams within the scope of a fundamental reorganization of the Treasury/ Public Finance, and Risk departments. Thus, we have concentrated the necessary expertise to achieve our goal.

We are also examining the option of transferring parts of the value portfolio to the workout institution described earlier, with a view to optimising the capital support from SoFFin. The plan is for HRE Group staff to continue managing these portfolios.

- We expect that reducing the balance sheet in this manner will also meet with the approval of the EU authorities that review our business model as part of the state aid proceedings. Discussions between the Federal State and the EU are ongoing.

Changes to structures, processes, and systems

HRE's crisis has demonstrated the need to fundamentally reshape not just the business model, but also the structures, processes, and systems within the Group. Looking back, you will see that we have made considerable progress in these areas in recent months. Now that we have defined the required measures, we are ready for implementation. The measures we launched have already significantly boosted HRE's vigor, and will massively increase its vigor once fully implemented. Please permit me now to address the main points, some of which I also addressed at the Extraordinary General Meeting.

- We have started to establish **Group-wide processes for risk and liquidity management** – in this respect, there was a backlog. The credit process was examined, and new principles were developed.
- As part of the realignment, we are **resizing HRE in line with the new business model**. This has resulted in a – regrettably inevitable – need for significant headcount reduction and for the closure of numerous international but also German offices.
 - HRE in the meantime has come to an agreement with employee representative bodies for a social plan and reconciliations of interest, as required in connection with the headcount reduction. The reconciliations of interest for the year 2009 were agreed in June 2009 by the subsidiary banks and the relevant works councils for Germany. The recently finalised social plans cover the entire period of the headcount reduction until 2013. We have agreed to reduce staff levels across the Group by approximately 300 employees compared to November 2008, one third of which, as announced, are located in Germany.

- Fifteen Group locations have so far been closed, and another seven will follow in the second half of 2009. HRE will close a total of 26 Group offices, primarily outside of Germany, and it will thereby also centralise relationship management. Nine locations will remain: Dublin, Eschborn, Luxembourg, London, Munich, New York, Paris, Rome and Tokyo. In addition, offices will be consolidated in those locations where several buildings are occupied. This will improve cooperation amongst employees and further reduce our cost base. We are currently consolidating our offices in Munich, Dublin, Madrid and Paris, whereas this process was already completed in New York in the second quarter. Negotiations for the termination of leases, or for sub-leases of premises in these locations have commenced.

Munich employees will soon all move to the significantly less expensive office premises in Unterschleissheim. We will move into the new premises over this weekend and next two weekends. In addition to the cost reduction, we will achieve another material goal, the Munich team will work in one location.

- Profitable **subsidiaries**, which were, however, no longer a part of our future core business, such as Colli-neo, the asset manager for structured products, and the US broker-dealer DEPFA First Albany Securities **have been disposed of**. We have reduced the total number of HRE Holding's subsidiaries and participations by ten. A further reduction by 15 participations is planned for the immediate future, for example by way of merger or liquidation.
- We have also redefined the **management and organisational structure**, and reorganized the management team that reports to the Management Board.
- We are also investing in the Group's future. For that purpose, we are implementing a completely **new IT infrastructure**, which will lay the groundwork for mapping our new processes – consistently and highly efficiently – on an integrated platform that is in line with current market requirements.

This is the basis upon which we selectively originated new business during the first half of the year, primarily with existing clients. This was the case for both strategic lines of business, with approximately 1 billion Euro for Real Estate Finance and 0.2 billion Euro for Public Finance. When assessing the level of new business originated, you will need to consider that the overall real estate market has collapsed by as much as 80 per cent, and also that we are beginning to build our sales force in Public Finance. We have lined up a series of new transactions. We are now, and will remain, active market participants.

Ladies and Gentlemen,

Please permit me now to summarise my comments:

With the strategic realignment Deutsche Pfandbriefbank, as a **specialty bank for real estate and public finance, has clear strategic prospects**. The Supervisory Board, my fellow members of the Management Board and I are firmly convinced of this fact. The newly created Deutsche Pfandbriefbank will be established as the strategic core bank.

- Notwithstanding the fact that the full consolidation and realignment of the Group will take some more years, we have already **initiated the necessary steps** within a very short period of time. The results so far achieved encourage us to consistently pursue the steps initiated, in a sustainable manner.
- This, however, does not alter our continued need for **liquidity support** in the foreseeable future. Even if the funding conditions for the Group gradually return to normal in the future, the Management Board and the Supervisory Board expect that it will take several years before the liquidity support can be returned.
- **Important steps** have been taken to strengthen the **capital base**, particularly the capital increase of 2 June. Nevertheless, HRE will continue to rely on comprehensive capital support in view of the expected further strain on the results. Precise and final statements in respect of the amount of the required capital support can not yet be given, since the final amount of the required recapitalisation depends on a number of external factors.

Last, but not least, please allow me to express my **gratitude to the departing members of the Supervisory Board**. Today is the scheduled date of the new election of Supervisory Board members, and it is proposed that the size of the board shall be reduced from current twelve to six members. The current members of the Supervisory Board – Dr Michael Endres, Bernd Knobloch, Siegmur Mosdorf, Hans-Jörg Vetter, Dr Bernhard Walter and Manfred Zaß do not stand for re-election. Also in the name of my fellow Management Board members and all members of the HRE staff, I would like to extend our sincere thanks for the good and trustful cooperation. I also thank you, on behalf of the Management Board, for making yourselves available to HRE during the crisis that threatened the Group's existence.

This brings me to the conclusion of my comments. We have, together, achieved two objectives: the stabilisation of the HRE Group and the realignment towards a promising new direction. Continuing this path to achieve a sustainable stabilization and leading the Company into a sustainable future is our goal and foremost responsibility. Thank you very much for your attention.