

**Embargo: Monday, 5 October 2009, 10.00 am**

Extraordinary General Meeting  
Hypo Real Estate Holding AG

**Speech by the CEO**

5 October 2009

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CEO  
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**Please, check against delivery.**

Dear Shareholders,  
Ladies and Gentlemen,

I would like to welcome you, on behalf of the Management Board of HRE Holding, to this Extraordinary General Meeting, and to thank you for turning out in such strength. I would also like to introduce you to Mr Alexander von Uslar-Gleichen, who was appointed to the Management Board at the beginning of this month, as our new Chief Financial Officer.

Over the past months we have devoted all our energy towards dealing with the manifold and varied challenges of our appointment. What we needed to focus on at the outset was to immediately stabilise the Company after its very existence had been threatened by a crisis. We now focus our attention upon implementing the concept of a fundamental strategic refocusing that is designed to restore the Company's competitiveness going forward. Despite the good progress we have made over the last months, we are all fully aware that it will take several years and continued State support to conclude the strategic refocusing process, and to see its full effect.

This is already the third General Meeting within a period of just a few months. This increased frequency is a visible sign of the extraordinary challenges HRE has been facing over the last twelve months.

As with the first Extraordinary General Meeting in early June, today's agenda comprises one single item. SoFFin, the German Financial Markets Stabilisation Fund that holds a 90 per cent stake in our Company, has submitted a demand to the HRE Management Board requesting that the General Meeting of HRE pass a resolution providing for the transfer of shares held by minority shareholders. I will focus on this issue in detail in my speech.

At this point, I would like to stress that we are, of course, aware of the fact that many amongst you would prefer to remain shareholders. This is evident not least in the numerous counter-proposals submitted after this General Meeting was convened. Some shareholders have also requested that in the event of a subsequent re-privatisation, SoFFin should once again grant them a shareholding in the Company. I will also discuss this in more detail later.

Ladies and Gentlemen,

After the stake held by the German Financial Markets Stabilisation Fund in our Company's issued share capital reached the level of 90 per cent, SoFFin submitted a demand to the HRE Management Board requesting that the General Meeting of HRE pass a resolution providing for the transfer of shares held by HRE's minority shareholders to SoFFin, against payment of an appropriate settlement payment, pursuant to sections 327a et seq. of the German Stock Corporation Act in conjunction with section 12 (4) of the German Act on the Acceleration and Simplification of the Acquisition of Shares in and Risk Positions of Enterprises in the Financial Sector by the Financial Market Stabilisation Fund ("Acceleration Act"). SoFFin specified its demand for transfer on 21 August, demanding that an Extraordinary General Meeting be convened for this purpose.

In our decision regarding a resolution to be proposed to the General Meeting, the Management Board and the Supervisory Board had to focus on how **best to secure the Company's sustainable continued existence and future competitiveness**. Against this background, three key aspects needed to be considered:

- Given HRE's current situation, is a squeeze-out of minority shareholders in the Company's best interests?
- Is the settlement payment determined by the main shareholder appropriate?
- Have the formal requirements been met for a General Meeting resolution on a squeeze-out of minority shareholders to be passed?

### **Justification of the squeeze-out of minority shareholders in the best interest of the Company**

As a basis for assessing the first issue, I would like to reiterate the **necessity of continued liquidity support, and the urgency of additional capital support**:

- For almost exactly one year now, the Group has only been able to avoid insolvency thanks to **liquidity support** provided by a consortium of the financial sector and Deutsche Bundesbank, and by SoFFin. Following another repayment of approximately EUR 0.9 billion to the financial consortium in the third quarter of 2009, in line with contractual agreements, the overall liquidity facility totalled around EUR 98 billion as at 30 September, of which approximately EUR 78 billion was drawn on that date. It should be noted that the drawdown at the end of the third quarter was influenced by a non-recurring effect that increased utilisation of the facility by more than EUR 2 billion for a short period of time. The current drawdown amounts to around EUR 76 billion, compared to around EUR 80 billion at the end of June and around EUR 83 billion at the end of March. Liquidity requirements have slightly decreased recently, due to market effects such as fluctuations of interest and exchange rates, and also reduced credit exposure due to the fact that repayments exceeded new lending and drawings under existing facilities.

The Group's existence as a going concern in the foreseeable future will remain contingent upon the continued availability of external liquidity support. SoFFin will determine the required aggregate liquidity facility in its own discretion, upon the Company's application. In this context, we are also in discussions with the financial consortium and the German Federal Government regarding the continuation or restructuring of the original EUR 50 billion liquidity support facility.

The actual **future liquidity requirements** will continue to depend significantly upon market developments, particularly regarding interest rates, foreign exchange rates, and risk premiums. Even in the event that funding conditions for the Group gradually return to normal in future, the Management Board currently expects that the Group will not be in a position to repay the liquidity support facility in full before the year 2015. The exact timing of repayment will essentially depend upon the opportunities of selling assets in a largely value-preserving manner – that is, at their book value or nominal value – as well as on HRE's access to refinancing markets.

- Aside from liquidity support, a **further recapitalisation** is still a mandatory prerequisite for the continuation of the Group as a going concern. The extent amount of the required capital inflow depends on a number of external factors. The most important ones are:
  - firstly, **factors having an adverse effect on our results**;
  - and secondly the agreement required with SoFFin regarding the **target equity ratio**. When determining this target equity ratio, one needs to bear in mind that the level of aggregate risk-weighted assets is subject to fluctuations, and that regulators will tend to demand that banks increase their equity capital base. Timing is just as important: the capital injection should be made in a manner that allows the Company to benefit on a longer-term horizon.
  - The third factor refers to potential **conditions that might be imposed within the framework of EU state aid control proceedings**; and finally,
  - the time and conditions at which we will be able to dispose of non-strategic **portfolios, in a value-preserving manner**.

We have always emphasised that we are reckoning with **significant burdens on results** over the next years, and hence, continuing losses. At present, we do not envisage a return to profitability before 2012. There are, predominantly, three factors that will continue to depress results:

- Firstly, **impairments on receivables and securities**, particularly with regard to real estate finance, as a result of the financial crisis and the economic slowdown. In this regard, our planning for the years 2009 to 2011 projects aggregate impairment charges on receivables of approx. EUR 4.9 billion, of which over 80 per cent is attributable to Real Estate Finance, and the remainder to Infrastructure Finance and Public Finance. The figures quoted for the period up until the end of 2011 include the EUR 1.1 billion in additional provisions for losses on loans and advances in the real estate finance portfolio recognised during the first half of 2009. In addition, we envisage impairments of around EUR 0.9 billion to burden the net result from financial investments during the same period.
- The second factor relates to the **costs of liquidity support received**: we have budgeted total expenses of EUR 1.5 billion up until the end of 2011 for this item. Net commission income was burdened by as much as EUR 257 million in guarantee fees during the first six months of this year.
- The third factor is **costs incurred in connection with the strategic realignment and restructuring**. We have budgeted approximately EUR 200 million for this purpose up until the end of 2011, having already recognised EUR 225 million in provisions in 2008.

Taking into account the losses realised so far, plus the expected losses for the remainder of this year and the following years, in our planning we have budgeted an aggregate additional capital requirement of approximately EUR 10 billion. This includes the two capital increases executed during the current year, in an aggregate amount of approximately EUR 3 billion.

Following these two capital increases, at present HRE as a group is once again in compliance with **minimum regulatory ratios**. The Group's tier 1 ratio was 6.9 per cent at 30 June 2009, and the total capital ratio 9.5 per cent.

Assuming that EUR 7 billion in additional capital support was provided on a short-term basis, the Group would **initially show a higher tier 1 ratio** compared to a support that would only compensate for losses sustained or expected in the years 2008 and 2009. However, this increased tier 1 ratio would decline over time as expected risks materialise in the Group's results; according to our plan, this would occur between now and the end of 2011.

Against this background, we consider the additional capital requirement of € 7 billion, as mentioned already – over and above the capital support already provided – to be not only appropriate, but necessary. With this recapitalisation, we would generally achieve a **minimum tier 1 ratio of 10%**, both at the Group level and at Deutsche Pfandbriefbank AG, the Group's strategic entity. Besides compliance with minimum regulatory requirements, the minimum target of 10% is derived from the necessity to also comply with the capitalisation standards required by rating agencies and the market – for instance, to be able to gain access to unsecured funding. In our view, this is essential for those Group entities active on the market. Several other institutions where the State also holds a significant stake, currently have total capital ratios in excess of 10%.

In this context **emerging regulatory capitalisation requirements** should be considered. Capitalisation will go up and Issued share capital will become increasingly important in the future.

The necessity of an additional capital injection of EUR 7 billion is also justified by considering the Company's **economic risk-bearing capacity**: the regulatory concept of ICAAP (short for "Internal Capital Adequacy Assessment Process"), which is used to determine the Company's economic risk-bearing capacity, indicates a gap in the Company's economic capital of € 4.2 billion for a one-year assessment period. An additional risk cushion is necessary – and in line with established market practice – to support future growth, which is necessary for the Company's long-term development, to ascertain sufficient capital for stress test scenarios, and to provide for types of risk that cannot be quantified. In accordance with our established guideline on this issue, we apply a risk cushion of at least 20% of risk capital. At present, this analysis of economic risk-bearing capacity indicates a minimum recapitalisation requirement of EUR 6-7 billion before potential future losses.

In summary, the continued existence of the Group and its entities as a going concern crucially depends upon the continued availability of liquidity support, and on additional capital support by SoFFin. As you know, SoFFin has made the **provision of future support for HRE** conditional upon **gaining full control** of the Company. As I explained in detail in my speeches at the last two General Meetings, there was and is no realistic alternative to the Federal Government's investment. The absence of any other sources of funding that could replace both the urgently-needed liquidity support and the capital support provided by SoFFin is sufficient on its own to justify the assessment that the squeeze-out of minority shareholders, is in the Company's best interests.

Furthermore, the **reasons for the squeeze-out of minority shareholders**, as outlined by SoFFin in its report, are **plausible and transparent**; this has been ascertained in detailed discussions with our legal advisors. This applies in particular to the aspects of legal certainty and flexibility regarding the future restructuring of HRE – issues which carry a lot of weight, considering the extraordinary scope of financial support provided by SoFFin.

### **Appropriateness of settlement payment**

Furthermore, the Management Board and the Supervisory Board were obliged to examine the **appropriateness** of the **settlement payment** of EUR 1.30, as determined by SoFFin.

- The first basis of this examination was the **expert opinion by auditors PricewaterhouseCoopers** (PwC) dated 18 August 2009, commissioned by SoFFin to prepare its report to minority shareholders. Acting in the capacity of a neutral expert in accordance with the Principles for Performing Company Valuations as set out in the corresponding Standard promulgated by the Institute of Public Auditors in Germany (IDW), PwC determined an objective valuation of the Company in accordance with this Standard. As you can see from PwC's published expert opinion, the **notional company value** of HRE as at the relevant valuation date of 5 October 2009 was **negative**.
  - PwC used a forecast-based profit valuation method to prepare its company valuation. Their calculations were based on the Company's planning for the financial years 2009 through 2019, which PwC qualified as ambitious but not implausible. The forecast data was used to derive net distributions expected after the valuation date.
  - Net distributions were discounted using a discount rate, to reflect the situation as at the valuation date. The discount rate was determined using a base interest rate of 4.5%, a market risk premium of 4.5% (after tax), and a beta factor of 1.5 for the planning period until 2014 and of 1.0 for the years 2015 through 2019. PwC used a sustainable beta factor of 1.0 for the perpetual annuity period starting with the 2020 financial year.
  - Based on these premises, the discount rates were determined at 10.1% for the planning years 2009 to 2014, and 7.8% for the planning years 2015 to 2019. The Company's expected net distributions for the period after the explicit planning phase – i.e. from the 2020 financial year onwards – were discounted using a discount rate of 6.8%. PwC assumed a sustainable annual growth rate of 1% for net distributions during that period.

Since PwC's valuation indicated a negative company value for HRE, the auditors based the determination of the appropriate settlement payment on the **share price**. In accordance with supreme court judgements, the share price generally represents the lower threshold for the appropriate settlement payment. The relevant three-month average price of HRE Holding shares prior to publication of the intention to effect a squeeze-out on 8 June 2009 was EUR 1.30. PwC therefore believe a settlement payment of EUR 1.30 per HRE Holding share to be appropriate.

Considering the clearly negative company valuation of HRE (incorporating HRE's validated planning data), together with the fact that HRE could not continue to exist as a going concern without capital injections and liquidity support provided by SoFFin and the Federal Republic of Germany, PwC does not currently envisage **any scenario that would indicate a positive value per share**, let alone a settlement payment above the weighted three-month average share price.

**SoFFin has fully adopted** the contents of the **valuation opinion**, and thus determined an amount of EUR 1.30 per share as settlement payment pursuant to sections 327a et seq of the German Stock Corporation Act.

- Likewise, Warth & Klein, the auditors selected and appointed by the District Court of Munich on 8 June 2009 to **examine the appropriateness** of the settlement payment submitted their Report on the Audit of the Appropriateness of the Settlement Payment on 25 August 2009, in which they **confirmed, without reservation**, that the settlement payment determined by SoFFin is appropriate. Warth & Klein's audit report was available to the Management Board and the Supervisory Board within the scope of their own examination of appropriateness of the settlement payment offered by SoFFin.
- In addition to the valuation opinion prepared by PwC and the audit report prepared by Warth & Klein, the auditors appointed by the District Court of Munich, the Management Board commissioned investment bankers **Rothschild** to prepare a statement on the financial appropriateness of the settlement payment, in order to provide the Management Board with an independent valuation basis. In their **fairness opinion**, Rothschild have concluded that the settlement payment offered by SoFFin is financially appropriate.
- In their **record date declaration** dated today, which is based on a detailed audit of the Company's interim development until today, auditors PwC have confirmed the objective company value of Hypo Real Estate to be EUR nil, hence confirming that the settlement payment determined by SoFFin to remain appropriate. Moreover, Warth & Klein, the auditors appointed to examine the appropriateness of the settlement payment, and Rothschild, the investment bank retained by the Management Board, affirmed in their respective record date declarations – dated today – that the amount determined at EUR 1.30 per no-par value share remains appropriate. The Management Board has provided PwC, Warth & Klein and Rothschild with all relevant current information and documents regarding HRE for the preparation of their respective record date declarations.
- Within the scope of their own examination, the **Management Board and the Supervisory Board** have verified the **plausibility of the procedures and audit results**. We are not aware of any other facts having occurred until the present day that would provide for a different assessment.

Ladies and Gentlemen, please allow me to refer to two **misconceptions** which are reflected in some of the **counter-proposals** submitted:

- Some shareholders have complained that SoFFin should have applied EUR 1.39, the level of the cash payment offer within the scope of the takeover offer dated 17 April 2009, as the lower threshold for determining the settlement payment. As much as we understand your view, it is not confirmed by established legal practice.
- The amount SoFFin had to pay as the statutory minimum within the framework of the capital increases in March and June 2009 – EUR 3.00 per share – is also irrelevant for determining the settlement payment.

Both prices are referred to as '**previous acquisition prices**' that have no relevance for determining the settlement payment for a squeeze-out of minority shareholders. In accordance with applicable company law, the sole basis for determining the appropriate settlement payment is the objective company value at the time the General Meeting passes the relevant resolution, with the three-month average share price as a lower threshold.

### **Formal requirements for a General Meeting resolution**

The third aspect examined by the Management Board and the Supervisory Board was whether the **formal requirements** for a General Meeting to pass a resolution on a squeeze-out of minority shareholders have been met.

- SoFFin has **demande**d the **squeeze-out of minority shareholders**, having held the **required stake in HRE's capital** of 90 per cent, as evidenced by a respective securities custody account statement.
- SoFFin also submitted a **report** which outlines the requirements for the transfer, explaining and substantiating the appropriateness of the settlement payment. The report of the court-appointed expert auditors was also submitted. These reports comply with legal requirements regarding their scope and content.

Finally, we commissioned a detailed examination of the **fairness** of the squeeze-out of minority shareholders **from a constitutional perspective**; this examination was carried out by Professor Joachim Wieland, one of the leading German experts on constitutional law. In his analysis, which also considered all related recent legal publications, Professor Wieland clearly and unambiguously determined that there are no constitutional objections.

Taking all these aspects into consideration, the Management Board and the Supervisory Board therefore propose to **pass the resolution on the transfer, as announced**, and in line with the information provided in the invitation to today's General Meeting.

At this point, as indicated earlier, I would like to come back to the requests made by some shareholders who would like to regain their position as shareholders, should HRE be re-privatised again in the future. We fully understand your request. The Management Board looked into this issue at a very early stage – in fact, we discussed this before DSW, a German investor protection association, voiced their corresponding demand. However, the Management Board of HRE Holding has no authority for taking a decision on this issue. The same applies to the authority of the General Meeting. Having discussed the issue with our legal advisors at length, we believe that the DSW proposal is not feasible. This is because German company law does not provide the basis for such a resolution. In contrast, the only way to ascertain a participation of shareholders in any re-privatisation is through a declaration in which SoFFin undertakes a corresponding obligation. Therefore, no vote on the proposal submitted by DSW is possible at today's General Meeting. However, I am certain that SoFFin will decide on this issue in due course, in a manner that is fair to shareholders.

Ladies and Gentlemen,

I would like to make some concluding comments.

- The Management Board and the Supervisory Board are confident that the HRE Group and Deutsche Pfandbriefbank have a clear strategic perspective. Yet it will take a period of several years before we will be in a position to repay the liquidity support provided. Also, from today's perspective we must assume that the Company will not be able to fully repay the capital provided – and to be provided – by SoFFin; some of that capital will probably be lost as a result of covering the Company's losses. Against this background, it is vital to bear in mind that the support provided to HRE was a **rescue** by the German Federal Government for a system-relevant bank. Therefore, it is hardly possible to apply the standards that you would normally apply to a voluntary investment.
- The restructuring of the Group will depend on a number of **external factors**:
  - Firstly, we need to consider market developments, which will have a significant impact on the value of our credit portfolio in particular, but at the same time on the intended portfolio reduction.
  - In addition, the type and scope – the 'whether' and 'how' – of the workout institution currently being discussed for the spin-off of some of the Group's portfolios will play a major role: the larger the volume of assets we would be able to transfer, the stronger the relief for the new core bank, and for DEPFA BANK plc.
  - Finally, the results of the EU state aid control proceedings will have a key impact: at present, we cannot exclude that the scope of conditions which may be imposed will exceed the measures we have planned within the framework of refocusing the Group.

The Management Board will, within the bounds of its possibilities, do its utmost to make the restructuring a success.

- The developments surrounding HRE have highlighted the necessity to create **a toolbox for handling banks of systemic relevance in crisis, both at a national and international level**. Now is the right time to define such a toolbox for the future: this would enhance clarity for all those concerned as to what measures can be taken, and under which conditions.

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Ladies and Gentlemen, this concludes my comments. Thank you very much for your interest and attention.