

Press release

Hypo Real Estate Group publishing interim financial statements as of 30 September 2008

- **Reported quarterly pre-tax loss: € 3.105 billion**
- **Impairment of € 2.482 billion for DEPFA**
- **Further charges on earnings expected in Q4 and in 2009**

Munich, 17 November 2008 – Hypo Real Estate Group has today published its interim financial statements for the period ending 30 September 2008. As announced on 12 November on the basis of provisional figures, the Group is reporting a consolidated pre-tax loss of € 3.105 billion for the third quarter of 2008 in view of the fact that the financial crisis has become more severe, compared with a pre-tax profit of € 237 million in the corresponding previous year period. The quarterly loss is mainly attributable to the write-off of goodwill and other intangible assets attributable to the initial consolidation of DEPFA Bank Plc (€ 2.482 billion).

Effects of the financial crisis

The main events of the international financial crisis in the third quarter of 2008 had the following effects recognised in the income statement of the Hypo Real Estate Group:

- The impairments of € 2.482 billion relating to DEPFA Bank Plc includes an adjustment of € 2.223 billion for goodwill. Further amounts are attributable for instance to the correction of the brand value of DEPFA. Overall, the adjustments are impairments relating to carrying amounts, and have not resulted in outflows of cash.
- Further charges of € 307 million were recognised in the third quarter in relation to the CDO portfolio of the Group, following € 320 million in the first half of this year. A change in value of € -112 million relating to synthetic CDOs had a negative impact on net trading income, and an impairment of € 195 million relating to cash CDOs had a negative impact on net income from financial investments.

- Re-hedging measures, the revaluation of derivatives and the impairment of securities following the collapse of the investment bank Lehman Brothers had a negative impact of € 175million on net trading income and net income from financial investments.
- The exposure to Icelandic issuers resulted in impairments of € 43 million reflected in net trading income and net income from financial investments.
- A further impairment of € 39 million was recognised in the third quarter in relation to the holding in the Australian Babcock & Brown.

In addition to the above effects, the third quarter was the last time that a positive effect of € 19 million was recognised in relation to the market valuation of a derivative on shares of Hypo Real Estate Holding AG which is a mandatory requirement under IFRS. The derivative is embedded in the mandatory convertible bond issued for partially financing the DEPFA acquisition.

Group development Q3 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 operating income / expenses) amounted to € -345 million between July and September, compared with €412 million in the same quarter of 2007 (all figures for 2007 on a pro-forma basis, incl. DEPFA).
- Net interest income and similar income amounted to € 354 million, and was thus roughly unchanged compared with the corresponding previous year quarter (€ 357 million), and was also higher than the figures for the first and second quarters of this year.
- Net commission income amounted to € 35 million, and was accordingly only around half of the figure reported for the third

quarter of 2007 (€ 69 million). This is due to the fact that new business so far this year has been moderate and considerably lower than originally budgeted in all areas of operation.

- Net trading income of € -349 million (Q3 2007: € -73 million) were negatively affected by a number of factors: the widening of credit spreads, the revaluation of the synthetic CDOs reported under this item (€ -112 million), declines in the values of monoliners (€ -117 million) as well as the necessary re-hedging and revaluation of derivatives with regard to Lehman Brothers (€ -150 million). In accordance with the change to IAS 39 ("Reclassification of financial assets") adopted in October 2008 by the IASB and recognised by the EU, the Hypo Real Estate Group has reclassified assets in the category "held-for-trading" with a carrying amount of € 3.5 billion with retrospective effect as of 1 July 2008; these are now classified as "loans and receivables". Without this reclassification, net trading income would have been € 159 million lower.
- Net income from financial investments is reported as € -364 million (Q3 2007: € 49 million). The additional impairment relating to the cash CDOs recorded under this item amounted to € 195 million. In addition, net income from financial investments also includes the additional impairment in relation to Babcock & Brown as well as a portfolio-based allowance of € 70 million in relation to assets which were reclassified as "loans and receivables" in accordance with IAS 39.
- The net income from hedge relationships amounted to € -30 million, and was negatively affected by the change in credit spreads (Q3 2007: € -7 million).
- Provisions for losses on loans and advances amounted to € 177 million in the third quarter, and were considerably higher than the corresponding previous year figure (€ 17 million) as well as the figures reported for the first two quarters of 2008. The additions to provisions for losses on loans and advances also include an increase

of € 105 million in the portfolio-based allowances. The increase was mainly attributable to the Commercial Real Estate Financing segment, and reflects the deterioration in the climate on some real estate markets.

- General administrative expenses amounted to € 119 million, and were accordingly lower than the figure for the third quarter of 2007 (€ 162 million), due to a reduction in the number of employees (1,848 as of 30 September 2008 compared with 2,000 as of 31 December 2007) and also as a result of much lower accruals for bonuses.
- The balance of other income / expenses amounted to € 18 million (Q3 2007: € 0), and includes the income attributable to the change in value of the derivative embedded in the mandatory convertible bond for partially financing the DEPFA acquisition.
- The consolidated pre-tax loss amounted to € 3.105 billion, compared with a pre-tax profit of € 233 million in the previous year quarter.
- The reported consolidated net loss (including the DEPFA impairments) amounted to € 3.052 billion.

Assets and capital ratios as of 30 September 2008

- The total assets of the Hypo Real Estate Group amounted to € 392.5 billion as of 30 September 2008, compared with € 400.2 billion as of 31 December 2007. The reduction is mainly due to lower trading portfolios, lower intangible assets and a reduced cash reserve.
- As of the end of September 2008, the total volume of lending amounted to € 260.9 billion compared with € 256.2 billion at the end of 2007.
- At the end of September 2008, the Group reported financial investments of € 105.2 billion; this figure is € 16.4 billion higher than the corresponding figure at the end of 2007.

- The revaluation reserve in the consolidated balance sheet (AfS reserve and cash flow hedge reserve) was reported as € -3.28 billion at the end of September (31 December 2007: € -1.86billion).
- Shareholders' equity (excl. revaluation reserve) declined from € 7.9 billion to € 5.2 billion as a result of the loss reported for the first nine months. The core capital ratio of the Group (including market risks) declined to 6.8% in the third quarter. It is true that the DEPFA goodwill and the intangible assets resulting from the initial consolidation of DEPFA had been deducted in the past for reporting regulatory core capital, which is the reason why the loss attributable to the impairment of € 2.482 billion has not led to any reduction of the core capital ratio. However, in the third quarter, we have deducted the asset side difference of € 742 million attributable to the consolidation of the German subsidiaries of the Group from core capital on the basis of German GAAP (HGB) accounting. We have thus already anticipated the adjustment of the carrying amounts of the German subsidiaries to a figure equivalent to their shareholders' equity in accordance with HGB. Any additional losses from operations will be recognised in line with the regulatory requirements at the point at which the net income for the year is adopted. The own funds ratio amounted to 9.6% compared with 11.3% as of 30 June 2008 and 9.4% (according to Basel I) at the end of 2007.

Development of the operating segments in the third quarter of 2008

- The Commercial Real Estate segment has reported a pre-tax profit of € 3 million for the third quarter of 2008 (Q3 2007 pro-forma: € 193 million). The operating revenues amounted to € 226million compared with € 247 million in the same previous year quarter. Asset sales were only able to partially compensate for declines in net interest income and net commission income, mainly due to weak new business. Earnings were affected by the need to top up

provisions for losses on loans and advances by € 17 million (incl. portfolio-based provisions; Q3 2007: € 8 million).

- The Public Sector & Infrastructure Finance segment reported a pre-tax profit of € 16 million in the third quarter, which is accordingly considerably lower than the corresponding previous year pro-forma figure (Q3 2007: € 153 million). Net interest income increased from € 153 million to € 189 million, also due to the appreciable improvement in margins in new business. General administrative expenses declined from € 37 million in the previous quarter to € 25 million, also as a result of the strong Euro.
- The Capital Markets & Asset Management segment reported a pre-tax loss of € 58 million for the third quarter (Q3 2007 pro-forma: pre-tax loss of € 50 million). A net trading loss of € 83 million was reported (Q3 2007: a net trading loss of € 32 million), mainly due to a widening of credit spreads.

Dr. Markus Fell, CFO of Hypo Real Estate Holding AG: "The tremendous force which hit the Hypo Real Estate Group as a result of the unparalleled financial crisis can clearly be seen in the figures for the period ending 30 September. We are predicting an extremely negative consolidated result for the whole of 2008. The necessary restructuring of the Hypo Real Estate Group and the costs of the agreed or planned liquidity lines and capital assistance will continue to pose a major strain on consolidated result in 2009."

Measures for assuring liquidity

The Hypo Real Estate Group has reached agreement with a finance syndicate, the Deutsche Bundesbank and the German federal government for a liquidity facility of € 50 billion, which is partially backed by the government. The funds from the facility were made available on 13 November 2008. Subject to the government guarantee being extended beyond 31 March 2009, the liquidity facility will run until 31 December 2009. In line with the EU regulations, the government guarantee is initially limited until 31 March 2009. The Hypo Real Estate Group and the government will meet at an appropriate time to agree an extension of the guarantee beyond that time.

The Hypo Real Estate Group is providing collateral, i.e. loans and securities, worth € 60 billion for the liquidity lines. In addition, Hypo Real Estate Holding AG has also pledged its shares in the operating subsidiary banks of the Group as collateral for the government guarantee. The facility has replaced emergency liquidity assistance of € 35 billion provided by the Bundesbank, which was backed by the government, and also replaced a bridging arrangement of € 15 billion provided by the Bundesbank, which was backed by guarantees of the Financial Markets Stabilisation Fund ("SoFFin").

As a result of the liquidity lines and the further support measures to be requested from the Financial Markets Stabilisation Fund, the Management Board is drawing up plans for restructuring and repositioning the Hypo Real Estate Group. The aim is to establish a group which is more strongly integrated, less complex and equipped with improved asset/liability management of the balance sheet.

Dr. Axel Wieandt, CEO of Hypo Real Estate Holding AG: "Management of the Hypo Real Estate Group is currently devoting maximum priority to revising the business model of the Group in order to bring it into line with the fundamentally changed conditions. A restructuring and reorganisation resulting from this will demand difficult decisions from all parties involved in the Hypo Real Estate Group. The assistance from the German financial industry, the Deutsche Bundesbank, the German federal government and the Financial Markets Stabilisation Fund is essential. For the time being, the Hypo Real Estate Group will not be able to adequately refinance the company via the money and capital markets alone, even if this is of course our objective in the medium term."

Press contact:

Hans Obermeier
Tel.: +49 (0)89 203007 787
Fax: +49 (0)89 203007 772
Email: hans.obermeier@hyporealestate.com

Oliver Größ
Tel.: +49 (0)89 203007 781
Fax: +49 (0)89 203007 772
Email: oliver.gruess@hyporealestate.com

Group development, an overview (in € million)

Hypo Real Estate Group	3rd Quarter 2008	2nd Quarter 2008	3. Quarter 2007 (Pro forma)	1.1. – 30.9.2008	1.1. – 30.9.2007 (Pro forma)
Operating Performance					
Operating revenues	-345	236	412	75	1,430
Net interest income and similar income	354	304	357	957	1,031
Net commission income	35	34	69	104	178
Net trading income	-349	12	-73	-435	-22
thereof: Valuation result on synthetic CDOs affecting income	-112	-19	0	-218	0
thereof: Expenses relating to Lehman	-150	0	0	-150	0
thereof: Expenses relating to Icelandic counterparties	-11	0	0	-11	0
Net income from financial investments	-364	-135	49	-528	212
thereof: Valuation result on Cash CDOs affecting income	-195	-126	-4	-409	-4
thereof: Impairments relating to Babcock&Brown	-39	-37	0	-76	0
thereof: Impairments relating to Lehman	-25	0	0	-25	0
thereof: Impairments relating to Icelandic issuers	-32	0	0	-32	0
Net income from hedge relationships	-30	15	-7	-34	12
Balance of other operating income/expenses	9	6	17	11	19
Provisions for losses on loans and advances	177	37	17	247	81
General administrative expenses	119	160	162	424	492
Impairments on goodwill and DEPFA's intangible assets	2,482	0	0	2,482	0
Balance of other income/expenses (including effects from DEPFA acquisition)	18	-22		180	-
Pre-tax profit/loss ¹	-3,105	17	233	-2,898	857
Effects from DEPFA acquisition	19	-23		180	
Pre-tax profit/loss²	-3,124	40	233	-3,078	857
Net Income/loss IFRS	-3,052	12	-	-2,892	-

¹ including the effect from the embedded derivative relating to the Mandatory Convertible Bond

² excluding the effect from the embedded derivative relating to the Mandatory Convertible Bond