

Campus for Finance 2010

The Financial Crisis - The Case of HRE Group

WHU – Otto Beisheim School of Management

Vallendar

January 15, 2010

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Agenda

Dealing with the Financial Crisis

Securing Liquidity and Recapitalizing HRE

Restructuring HRE

Implementing Value Management/Reducing Balance Sheet

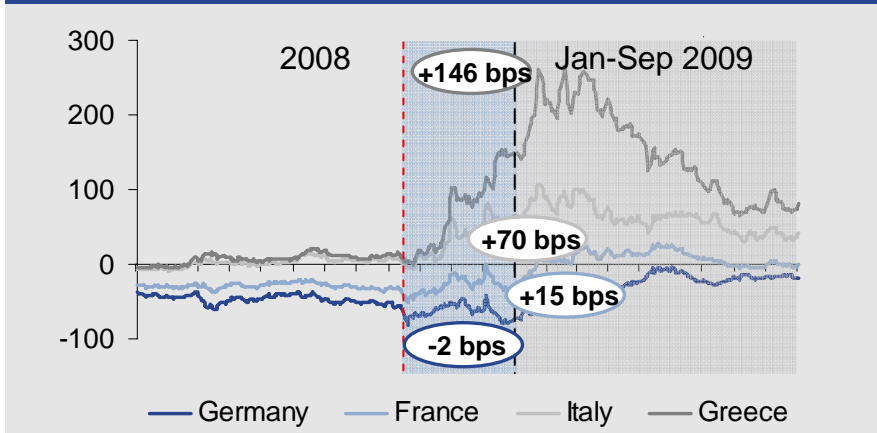
Establishing the Core Bank – New Business and Funding

Outlook

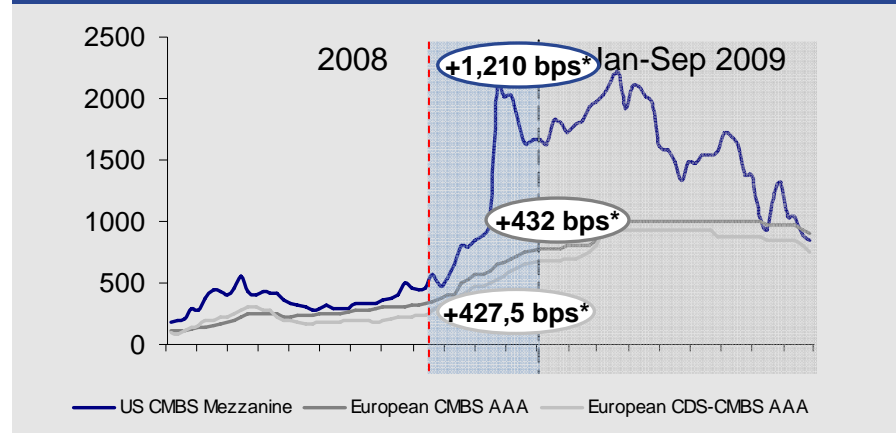
Selected Crisis Indicators and Crisis Response

Lehman default (September 15, 2008) (X) Change from Lehman default to year end 2008

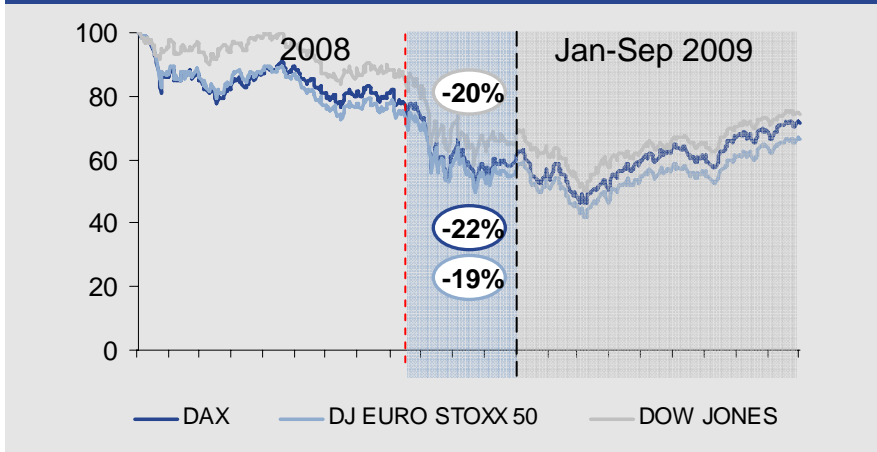
Government spreads (10Y), in bps



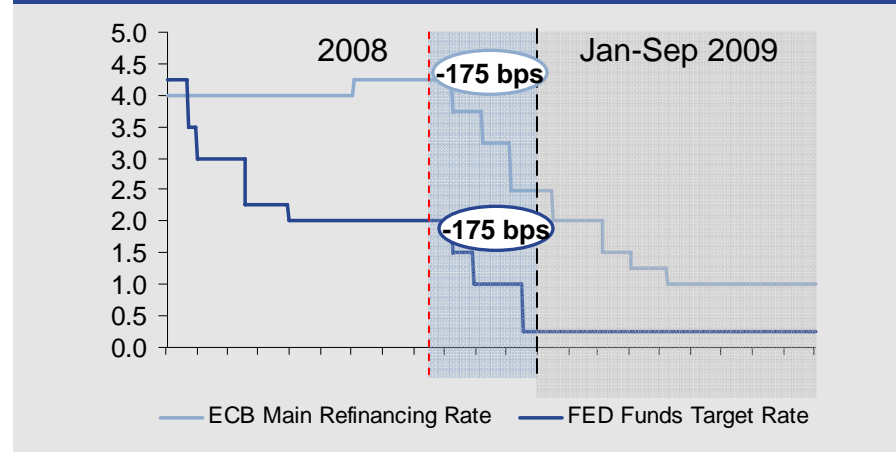
CMBS spreads, in bps



Equity indices, indexed



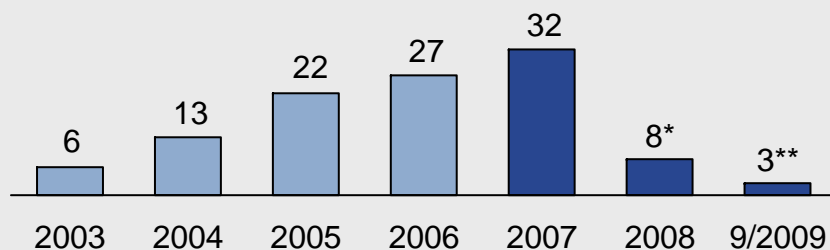
Main refinancing rate, in %



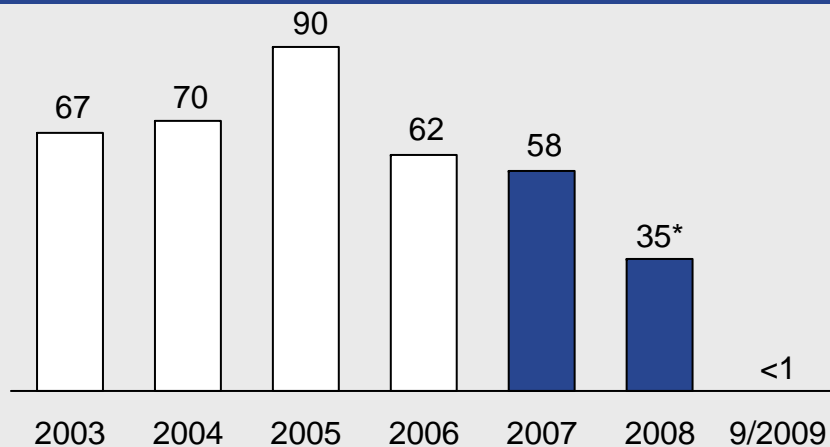
New Business Volumes and Balance Sheet of HRE Group

EUR billion

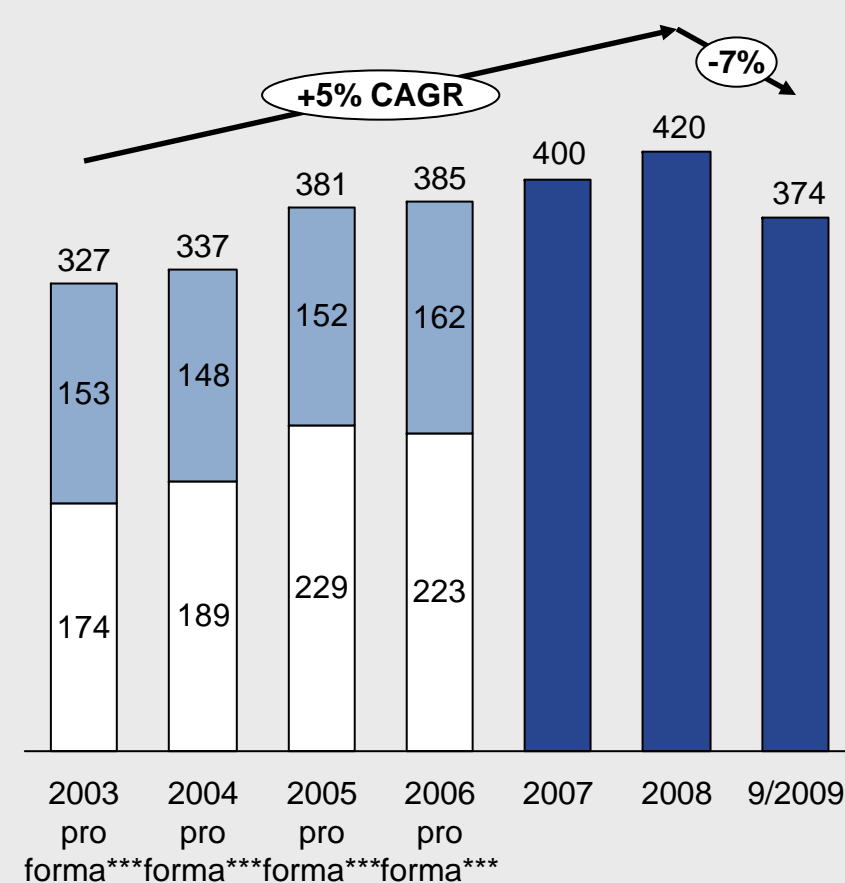
New business volume – Real Estate Finance



New business volume – Public Sector Finance



Balance sheet – IFRS

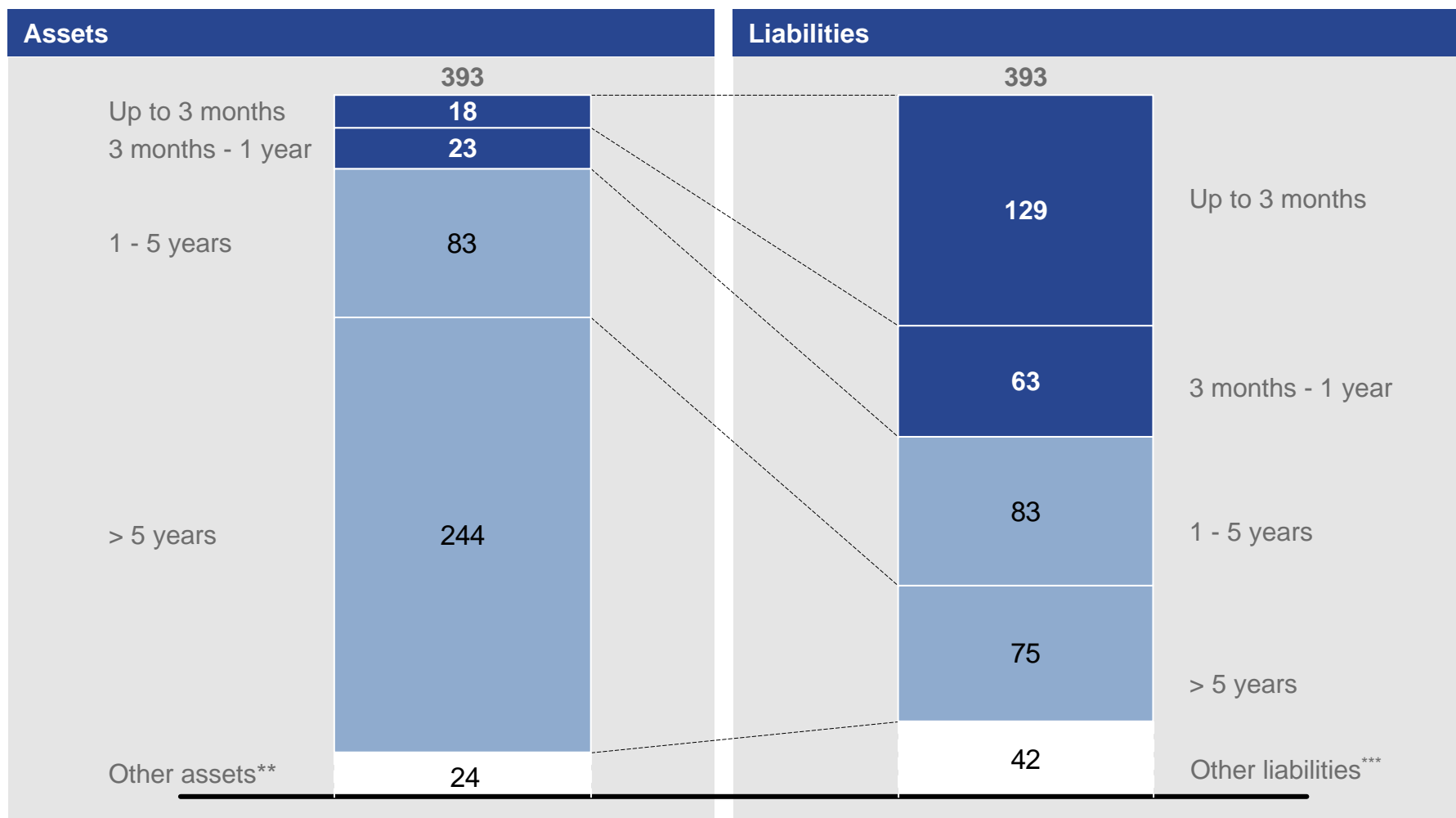


■ HRE Group before DEPFA acquisition
 DEFPA BANK before acquisition by HRE
■ HRE Group after DEPFA acquisition

Source: Hypo Real Estate Holding * EUR 7.3 billion of Real EstateFinance new business in Q1-Q3 2008 and EUR 0.5 billion in Q4 2008; EUR 34.1 billion of Public Sector Finance new business in Q1-Q3 2008 and EUR 0.4 billion in Q4 2008 ** Including prolongations *** Sum of DEPFA BANK balance sheet and HRE balance sheet non-consolidated

Maturity Structure of HRE Group's Balance Sheet*

EUR billion, IFRS, as of 30 September 2008



* Contractual maturities

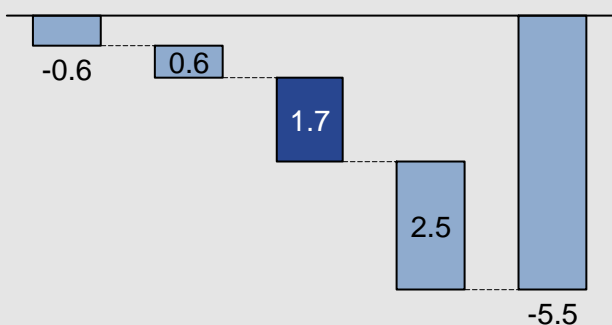
** Cash reserve, trading assets, allowances for losses on loans and advances, deferred tax assets, other assets

*** Equity, trading liabilities, provisions, deferred tax liabilities, other liabilities

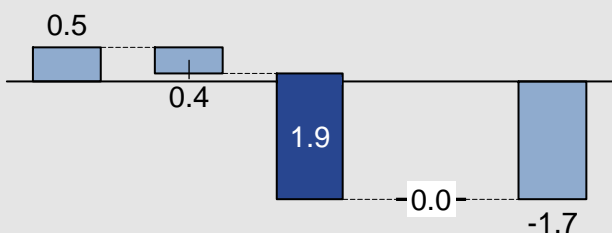
Profit and Loss, Capital and Regulatory Capital Ratios of HRE

EUR billion

P&L 2008 (IFRS)



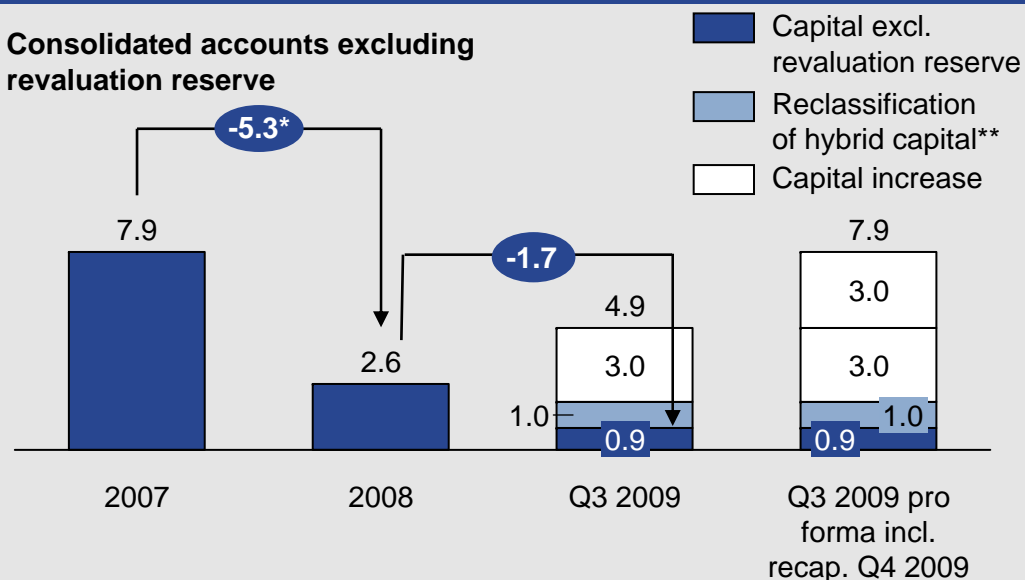
P&L 9M 2009 (IFRS)



Revenues Operating costs Loan loss provisions Goodwill depreciation Loss after tax***
 DEPFA

Capital of HRE Group (IFRS)

Consolidated accounts excluding revaluation reserve



Capital including revaluation reserve

6.1 -1.5 2.2

Regulatory ratios (HGB/SolV), in percent

Own funds ratio

11.4 5.7 8.0 11.6

Core capital ratio

8.7 3.4 6.1 9.7

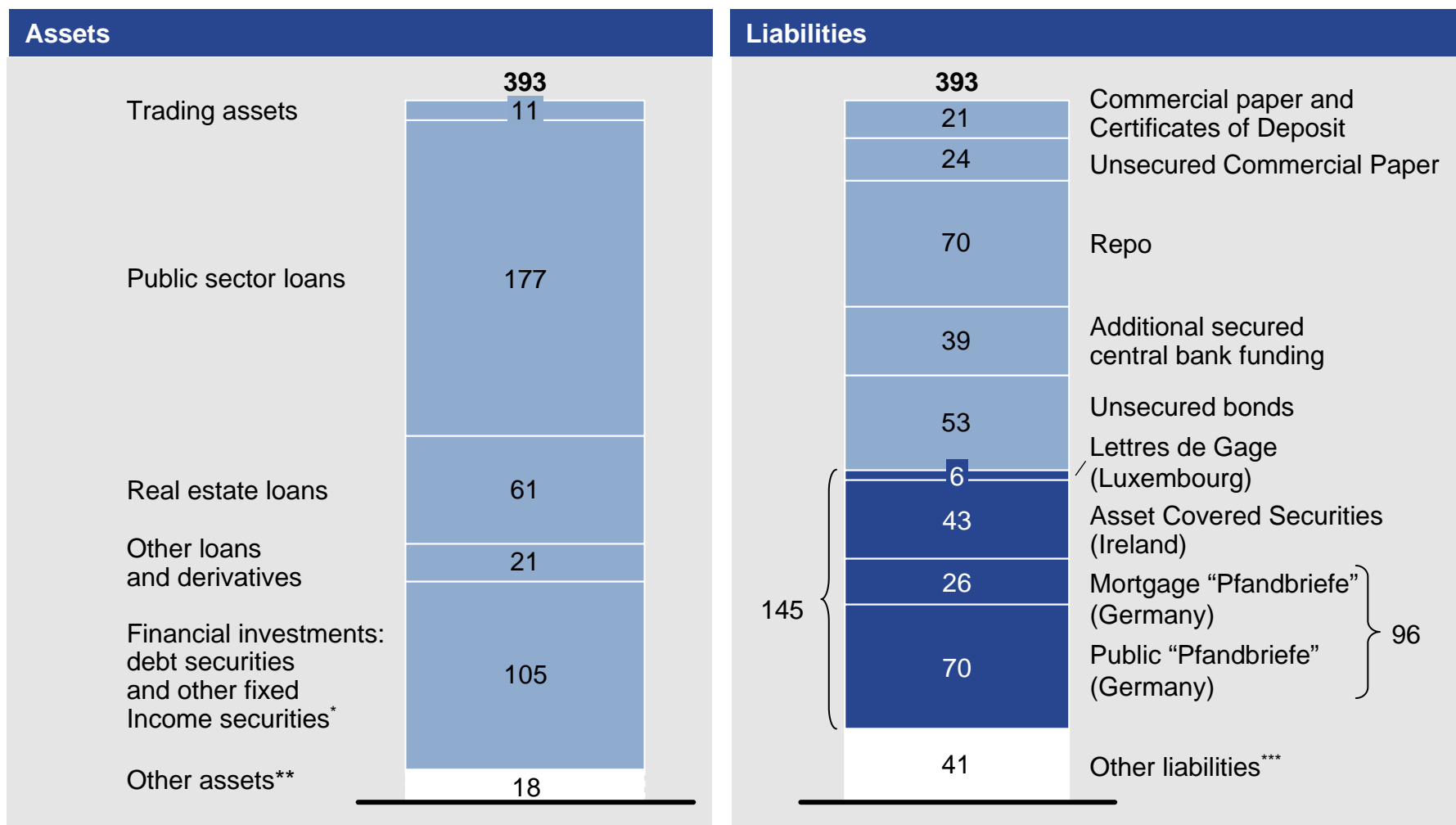
Source: Hypo Real Estate Holding * Including p&l neutral effects of mandatory convertible bond of EUR 174 million and other p&l neutral effects

** Reclassification from liability to equity according to IAS 32 due to cancellation of remaining reference debt instrument

| 5 | *** Incl. net other costs of EUR 47 million and income tax of EUR 86 million in 2008 and net other costs of EUR 11 million and income tax of EUR -73 million in 9M 2009

Structure of HRE Group's Balance Sheet

EUR billion, IFRS, as of 30 September 2008



* Including <0,1 billion other financial investments: shares in non-consolidated subsidiaries, participating interest, equity securities and other fixed-income securities

** Cash reserve, trading assets, allowances for losses on loans and advances, deferred tax assets, other assets

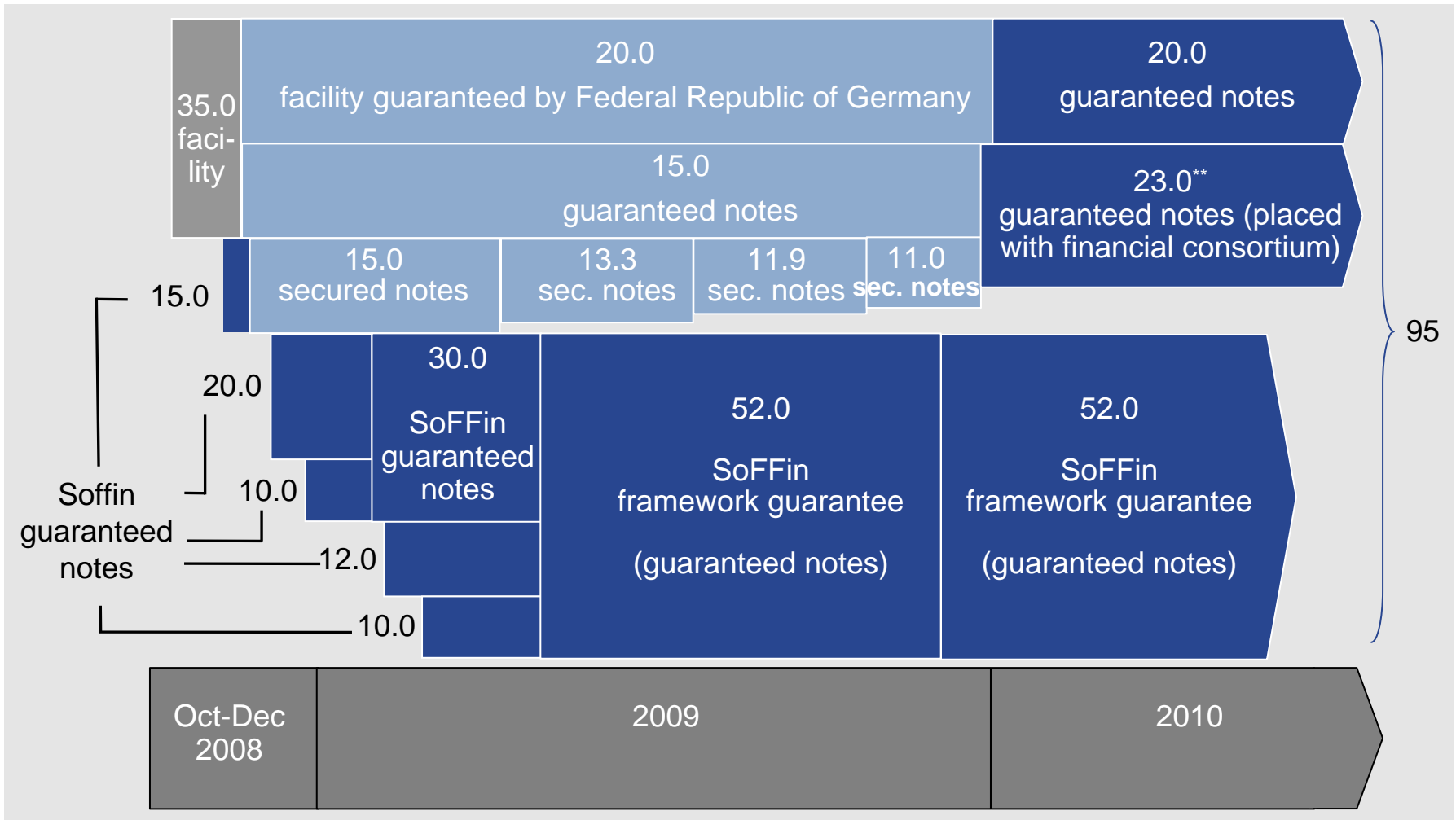
*** Equity, trading liabilities, provisions, deferred tax liabilities, other liabilities

Source: Hypo Real Estate Holding

Liquidity Situation of HRE Group

EUR billion

■ Bundesbank ■ Financial consortium ■ SoFFin*

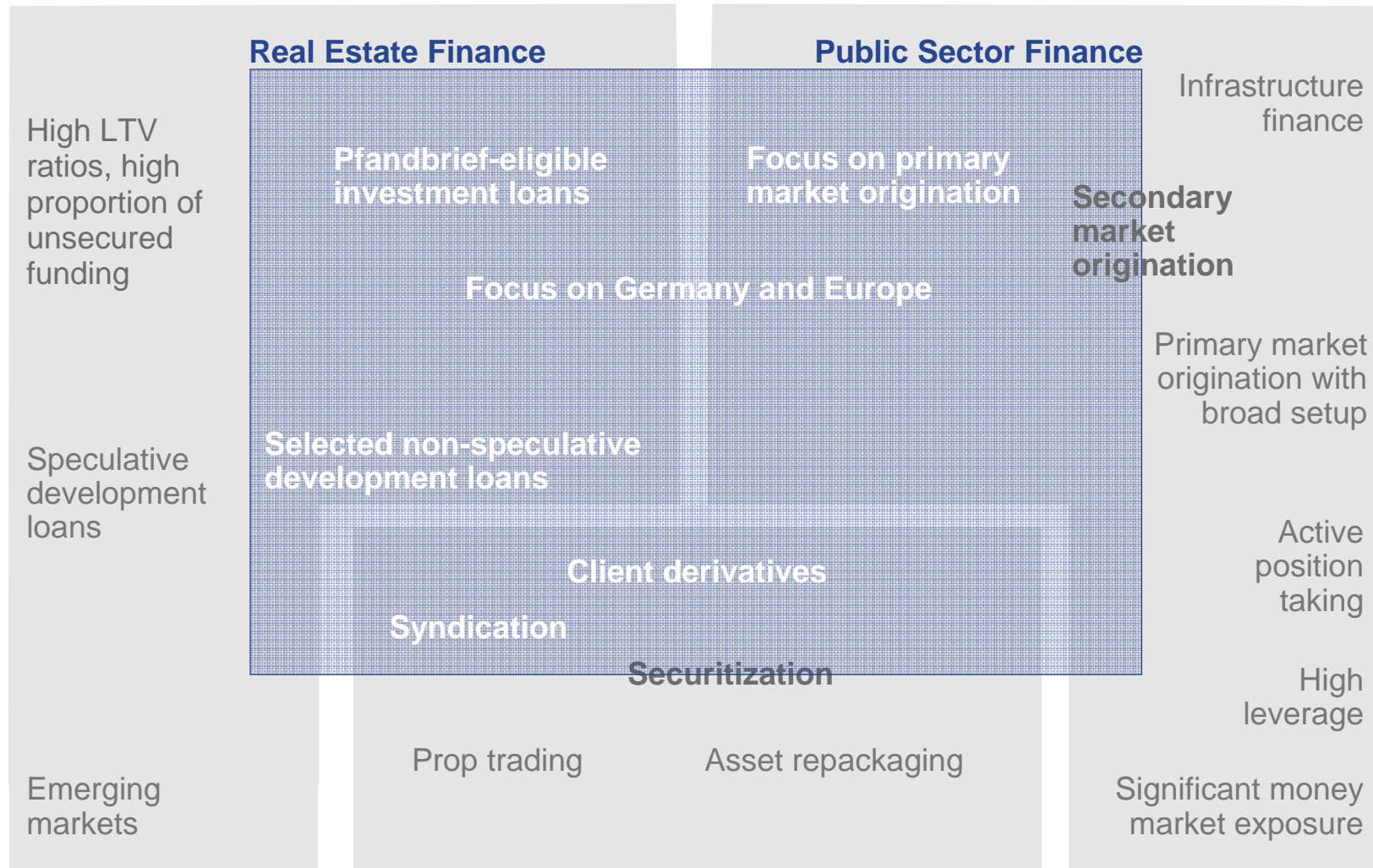


* SoFFin = Financial Markets Stabilisation Fund ** Further amortization scheduled

Strategy and Business Model

SIMPLIFIED

 "New Bank"



Changing Structures, Processes and Systems - Overview

New management team

New Group-wide organizational structure

Simplified legal structure

Streamlined processes

Integrated IT infrastructure

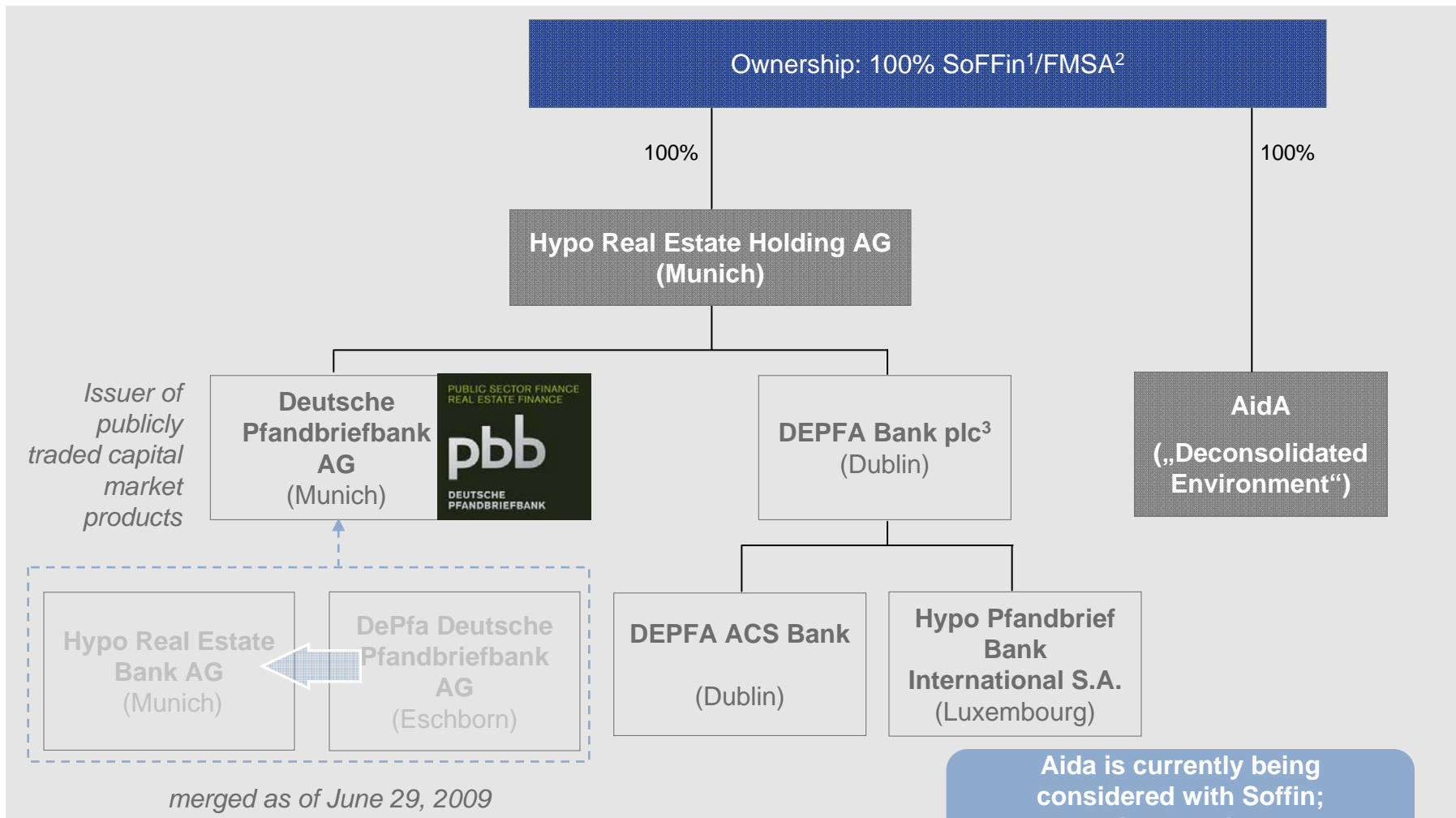
Head count reduction

Location closures

IT outsourcing

Rebranding

Framing the Option of Establishing a Deconsolidated Environment



Source: Hypo Real Estate Holding

[10] 1 SoFFin = Financial Markets Stabilisation Fund 2 FMSA = Financial Market Stabilization Agency 3 Incl. Hypo Public Finance Bank

Selected Regulatory Measures

() Possible bodies/involved parties

	Measures	Bodies/involved parties	Status
Crisis Prevention	<ul style="list-style-type: none"> • Capital requirements • Liquidity and funding ratios • Leverage ratio • Incentive structures 	<ul style="list-style-type: none"> • G20/Financial Stability Board/Basel Committee/ National Governments • G20/Financial Stability Board/national governments 	<ul style="list-style-type: none"> • Defined/Implication assessments (decided for market risk/re-securitization) • Introduction decided • First adjustments made
Crisis Management	<ul style="list-style-type: none"> • Stability fund • Insolvency law adjustments • “Living wills“ • Industry structure changes 	<ul style="list-style-type: none"> • (Industry/central banks/ national governments) • National governments • G20/Financial Stability Board/regulator • National governments/ regulator 	<ul style="list-style-type: none"> • Ongoing discussion • Proposals/ ongoing discussion • Ongoing discussion • Ongoing discussion

Lessons Learned

Vulnerable business models

Too big to fail/too interconnected to fail

Decisive crisis management

Coordinated regulatory response

Financial sector and the real economy

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